FARM COMMODITY PROGRAMS AS INCOME TRANSFERS

Bruce Gardner

Farmers have substantial political clout. We have two kinds of evidence for this. One is that elected officials are united in praising the farmer and things rural generally. You will not find, in politicians' statements about farming and farmers, the quasi-ideological divisions that pervade political discussions of labor unions, chemical companies, and sanctions against South Africa. The second, more powerful evidence is the money spent to support farmers' incomes. This paper examines the transfers to agriculture in the 1980s and attempts to explain why they occur.

Income Transfers to Agriculture

Data on federal agricultural expenditures are shown in Table 1. The agricultural economy at the end of the 1970s was in reasonably good shape, although some commodity markets had weakened considerably since the 1973–75 boom in prices. When the Agriculture and Food Act of 1981 was passed, its anticipated budgetary costs were $1–2 billion. As commodity markets weakened, however, program costs soared. The $9 billion spent on Commodity Credit Corporation (CCC) stock acquisitions in 1982 was especially alarming because the prospective market for these commodities was weak, and 1983 promised further surpluses. Consequently, the Payment-in-Kind (PIK) program was introduced in 1983. This program paid farmers up to 80 percent of the gross value of output they could have produced in return for holding their land idle. The payment was in the form of CCC commodities—for example, if a farmer's established

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TABLE 1

FEDERAL OUTLAYS ON FARM PROGRAMS
(IN MILLIONS OF DOLLARS)

	Calendar Year					
	1979	1980	1981	1982	1983	1984
Deficiency Payments						
Wheat	36	0	393	633	618	1,202
Rice	58	0	0	156	260	171
Feed Grains	290	65	45	529	461	296
Cotton	0	0	0	683	588	250
Subtotal	384	65	538	2,001	1,927	1,919
Diversion Payments[a]	150	3	0	139	6,390	5,718
Disaster Payments	318	699	652	182	75	1
Wool, Conservation, and Grain Storage Payments	565	518	841	1,169	902	807
CCC Dairy Purchases	1,008	1,519	2,182	2,562	2,611	1,521
CCC Commodity Loan Costs	−885	451	2,034	9,082	−749	−816
Total	1,539	3,256	6,148	15,136	10,264	9,150

[a]Includes Payment-in-Kind (PIK) commodities.

SOURCE: Department of Agriculture, *Economic Indicators of the Farm Sector* (annual editions).

yield were 100 bushels per acre, he would receive 80 bushels per acre in the PIK program. This was an attractive offer and 77 million acres—about a fifth of U.S. cropland—was idled. PIK involved an even more massive effort to control production than had occurred in the 1930s and 1950s. Farmers benefited both from PIK payments and higher prices on their output. Although it is difficult to separate the effects of PIK from the effects of the 1983 drought, it was estimated that PIK caused about a 20 percent price increase, generating a $10 billion gain to producers (Gardner 1984).

The sugar program does not involve substantial budget outlays but nonetheless makes producers better off by driving up market prices. This is readily accomplished for sugar, because up to the 1980s about half of U.S. sugar consumed was imported. Therefore, import controls could raise the U.S. price as desired. By the summer of 1985 the New

York landed price was 21 cents per pound while the New York offshore (world market) price was 3 cents per pound. This level of support was sufficient to maintain a new industry of high-fructose corn syrup (HFCS) as a substitute for sugar. With costs estimated at 8 to 16 cents per pound, HFCS could not exist in competition with sugar at world market prices. The costs of the sugar program to consumers amount to about $3 billion per year (Ferguson 1985). Taxpayers could regain part of this sum if the program restricted imports by means of a tariff. But the restrictions have taken the form mostly (and now solely) of import quotas. Moreover, these quotas are not sold or given to domestic sugar importers but are allocated free of charge to exporting countries. Therefore, exporters reap the quota rents, which are worth several hundred million dollars per annum.

The tobacco and peanut programs also do not involve substantial budget outlays, but rely on production/marketing quotas to restrict output and drive up prices. These commodities are heavily exported, and the demand for them has been quite elastic. In tobacco the export market has been considerably eroded in the past decade, so that substantial quota reductions have been necessary (Sumner and Alston 1984). The cost to consumers of these programs is about $1 billion.

In addition to the budgetary and consumer costs of the farm programs, the Department of Agriculture spends considerable resources to administer the programs. The administrative agency, the Agricultural Stabilization and Conservation Service, has 3,000 full-time and 13,000 part-time employees, offices in some 3,000 counties, and a $400 million annual budget.

A full assessment of the costs of farm programs to U.S. consumers and taxpayers requires an estimate of what all commodity prices and outputs would be in the absence of the commodity programs. Judgments about this counterfactual situation are so conjectural that any overall estimate cannot be held with much confidence, although plausible orders of magnitude are easy to obtain using budgetary outlays, support prices, and estimates of supply and demand elasticities found in the literature. One overall estimate is that for 1985, there was a $19 billion loss to consumers and taxpayers from the grain, rice, cotton, tobacco, peanut, wool, and dairy programs (Gardner 1985).

The gains to producers are more difficult to estimate. Producer gains are necessarily smaller than consumer and taxpayer losses for several reasons: (1) producers must hold land idle in order to receive program benefits, thereby forgoing the rental returns that could have been earned on that land; (2) taxpayers spend money to store commodities that will never be resold at their acquisition and storage

costs; (3) funds spent on administration do not accrue to producers; and (4) since producers and consumers face different prices for the same commodity, and relative prices for different commodities are distorted from unrestricted market equilibrium values, there are efficiency losses in resource allocation. Using the same supply and demand parameters and program assumptions that generated the $19 billion in consumer and taxpayer costs, I estimated a $14 billion net gain in producers' surplus. The overall deadweight loss to the United States is therefore estimated at $5 billion per annum, or about 6 percent of GNP originating in agriculture.

The producer gains as estimated are overstated. They are based on supply and demand elasticities for short-term (annual) price changes. Long-run elasticities are more pertinent to simulation of a market-oriented policy regime that permanently replaces current programs. The distinction between short-run and long-run elasticities has been found particularly important in empirical studies of supply responses. The interpretation of short-run and long-run losses to producers is that in the short-run producers forgo quasi-rents, as well as write-offs on investment in capital equipment and perhaps human capital. In the long run, however, capital is invested at the economy-wide rate of return, so there are no long-run losses to farmers from eliminating the commodity programs (and no long-run benefits from keeping them). Empirical evidence developed by Phipps (1985) shows that the rate of return on investment in agriculture has not been affected by post–World War II farm programs.

Even using long-run elasticities, U.S. farm programs at 1985 levels generate an $8–10 billion increase in producers' rents (Gardner 1985). Evidence on long-run factor supply functions in agriculture is insufficient to determine which inputs earn these rents. The usual presumption among agricultural economists is that the rents must accrue predominantly to land, because in agriculture no other factor of production is plausible as a specific factor in the long run (see Gertel 1985).

With long-standing programs it is necessary to identify landowners by date of acquisition of their land, since purchasers of land that already has a stream of anticipated program-created rents attached to it will have to pay for the rents. We should expect, however, that current purchasers would not pay the discounted present value of current program rents extended in perpetuity. There will be some expectations that the program will end or depreciate in value (although the program also could increase in value). If each year the program has a non-zero probability of ending, then that probability will be reflected in the value of land. And if the program in fact continues,

the purchaser will have received a windfall gain. He will have had income at a rate higher than the normal rate of return, without the capital loss that ending the program would have caused.

The flue-cured tobacco program provides a good example of program rents because it operates by issuing farmers marketing rights ("quota") that can, within geographical limits, be rented on an annual basis as well as bought and sold with land. Sumner and Alston (1984) estimate that in 1984 North Carolina's tobacco quota had an average rental value of about 45 cents per pound. They cite evidence that at this same time tobacco quota sold for $1.35 to $1.80 per pound, or 3 to 5 times its rental value. Using the mean of 4 times, these figures indicate that quota (with or without land) could be purchased and rented for a 25 percent annual rate of return. Given a 10 percent economy-wide rate of return, the expected rate of depreciation of tobacco quota value would be about 15 percent. This sort of calculation is important in designing a policy reform that avoids windfall losses. A program that gradually reduced the value of tobacco quota by 15 percent per year would, in this example, provide the economy-wide average rate of return to quota owners.

A long-standing program, moreover, will gradually transfer original rent-earning assets to former farmers, retired farmers, or their descendants. Sumner and Alston (1984) estimated that by 1981 only 24 percent of the flue-cured tobacco quota was owned by the tobacco farmers. Hence, the effect of farm programs on income distribution can be quite different from what might be inferred from examining the population of farm operators.

The Food Security Act of 1985 establishes the main features of the farm commodity programs for the next five years. Many interest groups that were harmed or not helped by the 1981 act tried to influence the 1985 legislation. The 1985 reform movement was given a substantial boost by the 1983 PIK program, the largest acreage-idling program ever. The PIK program imposed losses on some input suppliers whose business declined, penalized livestock producers who had to pay more for feed, and harmed marketing firms who had fewer products to handle. Many from these industries wanted a 1985 act that would be "market-oriented" in eschewing future massive production control programs. A wide range of academic and other so-called disinterested observers were recommending quite thoroughgoing market orientation, with cuts in target prices (producer price guarantees achieved by "deficiency" payments) and loan prices (support levels achieved by CCC acquisition of commodities). This approach was recommended by the Reagan administration and was

consistent with a general thrust toward less governmental intervention in the economy.

In the end, the 1985 act achieved one important objective, lowering commodity loan prices. However, target prices remained frozen and acreage-idling machinery remained in place. Hence, producer incentive prices and income redistribution to producers were essentially unchanged. Lower loan prices meant that CCC stocks would fall, or at least accumulate less rapidly. Consumer prices in the United States and world prices of supported commodities would also fall, perhaps by as much as 20 percent for grains, a prospect not welcomed abroad. Federal budgetary costs promise to rise from about $12 billion per year in 1982–85 to $20 billion in 1986–88, because the gap between target prices and market prices will increase. Essentially this means that some redistribution from domestic and foreign commodity users to U.S. farmers now will be replaced by transfers from U.S. taxpayers to farmers.

There is much scope for debate on both general and specific elements of estimated income transfers to U.S. agriculture. It has even been argued that farmers have not benefited at all in the long run because program-generated overproduction, inefficiencies in resource allocation, loss of foreign markets due to overpricing U.S. commodities, and the diversion of farmers, managerial skills, and effort into "farming the programs" have resulted in costs that outweigh the apparent gains from government payments and higher market prices.[1] This view can be taken as an instance of the Posner-Tullock idea that the resource costs of monopoly or an income transfer program equal the monopoly rents or income transfer.

Consider the dairy program. It should be considered a success story in that support prices increased in the 1960s when support prices for other commodities were declining in real terms. By the 1980s, however, repeated annual acquisition of about 10 percent of U.S. milk output, in the form of butter, cheese, and powdered milk, led to a situation in which the program's costs outweighed the political influence of dairymen. While target prices for grains have been increased in the 1980s, the milk support price has been cut from $13.10 per hundredweight to $11.60, with further cuts scheduled in 1986 and 1987. This backtracking does not mean that the dairy program was an economic mistake on the part of dairy producers, or even overreaching based on their political influence. Long-run elas-

[1]See, for example, the "Joint Statement on Agricultural Policy by former Secretaries of Agriculture Freeman, Hardin, Butz, and Bergland" (Department of Agriculture, July 1985).

ticities of supply and demand are greater than short- and intermediate-run elasticities, so it may have been optimal from the viewpoint of producers to boost support prices substantially for a few years, then scale them back as longer-term supply responses were forthcoming. In short, current problems in the commodity programs do not mean that farmers should regret their past political successes, or that the producers who lobbied for them did not gain real wealth as a result.

Why Income is Transferred to Agriculture

A natural starting point in the consideration of income transfers to the agricultural sector is to suppose that protective economic regulation is chiefly the result of the industry's political pursuit of its economic interests. However, there are several reasons for considering alternative possibilities, including evidence of belief in market failure in agriculture, and the political realities of farm numbers.

Non-farmers might acquiesce in farm programs because they see the programs as guarantor of food availability and reliable prices—the idea of farm programs as consumers' insurance or stabilization programs. Unstable prices with risk averse consumers and producers can be viewed as a market failure that farm programs can rectify to the benefit of the economy as a whole. Programs aimed at curing instability are often difficult to distinguish from price support programs. The former seek to reduce the occurrences of either high or low prices (in relation to trend), while the latter seek only to reduce the occurrences of low prices. So merely observing attempts to prop up low prices is insufficient to sustain a judgment on the type of program we are observing. This ambiguity exists even if a floor price and no ceiling price is specified. Buffer stock rules for stabilizing prices often are specified in terms of both acquisition (floor) prices and release (ceiling) prices, but neither is necessary. What is necessary is that over time the program involves selling back on the market the quantity taken off the market to support the price. Any policy that over time places as much produce on the market as it removes from the market will to a first approximation have no effect on the mean price.

The evidence against U.S. farm policy being aimed at stabilization as opposed to support is that programs centered on buffer stocks have proved to be either unviable, as in the case of the 1929 Federal Farm Board, or have been modified to prevent stocks from re-entering the market and thus converted to a price support program. For example, in the 1950s the United States developed the P. L. 480 program to

dispose of surplus stocks abroad. In the late 1970s the Farmer-Owner Reserve Program, initiated in 1977 as the purest stabilization program since the Federal Farm Board, was converted to a price support program by raising its entry price well above the CCC loan rate and by supplementing it with acreage controls. Even more telling politically was the reaction to the extraordinarily high prices of the mid-1970s. Brief attempts to hold farm prices down via beef price ceilings and export limitations in 1973–75 earned such opprobrium that candidates for office ever since have been virtually unanimous in promising never to attempt such a thing again.

Another purported form of market failure is the monopoly or monopsony power of nonfarm industry and of agricultural middlemen, processors, retailers, and input suppliers. Farm price supports could be thought a second-best policy given such distortions. However, the fact that the farm programs rely so heavily on production controls is inconsistent with the usual type of second-best argument. Monopolistic and monopsonistic exploitation result in too little farm output—monopolists sell less and monopsonists buy less than would occur in a competitive industry. Therefore, production controls magnify the distortion rather then counteract it. Still, farmers could support commodity programs simply as income distributional measures.

In the past, specific U.S. policies could be seen as directed against middlemen. The ban of trading agricultural commodity options in 1936, the abolition of futures markets in onions and potatoes, the taxation of emerging supermarket chains in the 1930s, the regulation of rail freight rates, the Agricultural Marketing Agreement Act of 1937—all these policy measures undoubtedly had complex origins, but an evident source of support for them was a belief that they would weaken farmers' powerful economic adversaries and hence aid farmers. Again, however, the notion of farm policy as a correction for market failure is not convincing. In recent years there has been little such legislation, and harassment, such as the ban on option trading, has ceased, in part in response to testimony that middlemen in agriculture by and large provide socially useful services and are more nearly competitive than monopolistic industries.

Assuming that farm policy is in fact aimed principally at supporting farm incomes, the question of why these policies are successful politically is even more difficult. After all, the farm population of 5.4 million (Bureau of the Census estimate for 1984, down 7 percent from 1983) is less than 3 percent of the U.S. population. Even if we include 2 million farm laborers, most of whom obtain by far the majority of their incomes from nonagricultural employment, and retired farmers with descendants in farming, it is still the case that some 90

percent of the electorate has to acquiesce in farm programs that reduce their real incomes. Why does this occur if farm policy is aimed at redistributing income from the 97 percent to the 3 percent?

It is no answer, but nonetheless aids the search for an answer, to note that the same question can be raised about U.S. policy toward the merchant marine, owners of yachts and vacation homes, oil-well drillers, and even partly noneconomic subjects like closing military bases or aid to Israel. The most pertinent discussions of the role of interest group size are in Peltzman (1976) and Olson (1982). Both agree that there is no reason to expect large groups to be politically more successful than small groups, essentially because it is more costly for large groups to handle free-rider problems of collective action on behalf of the group, which may be as simple as joining in hiring a lobbyist.

If we get too comfortable with the idea of the government's inherent desire to aid agriculture, the existence of farm programs may pass from a puzzle to an inevitability. But then how do we explain the absence of effective price supports before 1933? Acquiescence of the interests who successfully opposed farm programs before the New Deal had to be won—at least to the extent necessary to form congressional majorities—to get these programs enacted. It seems evident that the proximate cause of this acquiescence was the perceived economic hardships of farmers in the Great Depression (just as the perception of farm crisis blunts the opposition to farm programs today).

A generalization of this notion is a revealed government preference for the alleviation of undeserved hardship, a publicly expressed altruism that Peltzman (1976) formalized as a system of political indifference curves in which a person's income increases in social value—that is, political willingness to transfer income to him increases—as his income falls.

I have attempted to explain the extent of protection of different U.S. agricultural commodities at different times, using various measures of factors relating to the costs of generating political pressure (Gardner 1983). Seventeen commodities were studied for the period 1910–80.[2] Some have been consistently protected at low levels since 1933 (beef cattle), some at high levels (sugar, cotton, tobacco), some have received accelerated attention in recent years (milk, peanuts), and some have never had significant protection (hogs, eggs). As might

[2]The commodities in order of economic importance are: beef cattle, milk, corn, soybeans, hogs, wheat, cotton, eggs, tobacco, rice, sugar cane and beets, potatoes, sorghum, barley, peanuts, oats, and wool.

be expected, most of the pooled cross-sectional/time series variation in protection cannot be explained by the variables measured. But the number of producers, the geographical instability of production, the concentration of producers and output per producer do reveal themselves as significant political factors. As mentioned above, farm commodities receive more protection when farm income falls, and in addition particular commodities do better when their markets weaken relative to other commodities.

The preceding factors all affect the government's desire, under political pressure, to aid a commodity group. But it is also important how much it costs—in terms of deadweight loss per dollar transferred—to aid a particular group. This is obvious in some instances. Sweet potatoes, which do not use significant quantities of specialized land, are so elastic in long-run supply that a subsidy program would generate large surpluses without generating much in rents. Also, sweet potatoes are sufficiently elastic in demand so that a production control program would generate a large deadweight loss per dollar transferred. This reasoning suggests that having an inelastic supply or demand function increases the chances that a commodity will be protected, given political pressures, because it is less costly to society to provide such protection. Existing evidence is consistent with this reasoning: relatively inelastic commodities do receive greater protection, ceteris paribus.

More important than the particular results of government intervention in agriculture, is the general outlook on causes of intervention. The general outlook is that redistribution is explained by economic characteristics of the industry determining its ability to lobby and the costs of aiding it. Accordingly, there is no scope for the voters or Congress suddenly to see things in a new light and drastically reform the programs.

Conclusion

The order of magnitude of transfers to agriculture is $9 billion (in rents) at a cost of $19 billion, given 1985 farm programs. This amounts to a gain of $4,000 per farmer at a cost of $190 per nonfarm member of the labor force. Some reasons were given why this transfer occurs, based on comparison of the relative political success of different commodity groups. This sort of explanation may seem (and be) unsatisfactory because it does not explain why farmers get something rather than nothing (or why U.S. farmers are subsidized rather than taxed, as happens commonly in poor countries). In defense, however, it can be said that the type of explanation here is not very different from that used in such mainstream areas of economic research as

estimating demand functions. We are usually satisfied being able to show how consumption of Tabasco Sauce varies with price, income, and other variables, although we cannot really explain why anybody eats the stuff at all. Granted, there is a burden of puzzlement about why people we generally assume to be utility maximizers acquiesce in giving money to other much less numerous groups. But we have some general public choice theorizing to help with that. I conclude that explaining redistribution by the social cost of intervention and related variables ought to be just as intellectually satisfying as explaining individual consumption by price and income.

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RENT SEEKING AND FARM COMMODITY PROGRAMS: IS EDUCATION THE SOLUTION?

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Professor Gardner (1986) presents a good description of the magnitude of the income transfers associated with farm commodity programs. It is ironic that the network of frequently conflicting farm programs instituted during the Great Depression is still in place—and more costly to consumers and taxpayers than ever before. I find little to disagree with in Gardner's paper, and therefore my comment is more an extension than a critique of his points.

Gardner is right about the farm sector's surprising political clout. There is some evidence, however, of an increasing awareness that the protectionist system of agricultural price supports is ineffective or counterproductive in achieving its ostensible objective of promoting the family farm. Willard Cochrane, a long-time supporter of farm commodity programs and former farm adviser to President Kennedy, recently concluded that these programs should be terminated. In his view, the urban revolt necessary to do so can be hastened "by disseminating the right information in the right places" (Cochrane 1986, p. 14).

It is argued below that as the chasm between expectations and the actual effects of farm programs is more widely perceived, there is likely to be a continuing erosion in political support for these programs. Moreover, further increases in agricultural productivity throughout the world will make protectionist domestic farm programs increasingly costly to taxpayers and consumers. It is not clear to what extent changes in economic conditions in world agriculture and "dissemination of the right information in the right places" will affect farm commodity programs in the near term. At the minimum,

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however, a wider recognition of the inconsistencies inherent in farm programs and the concomitant harmful effects of redistribution activities by groups using the political process for their own ends is a necessary first step in bringing about fundamental changes in increasingly anachronistic U.S. farm policies.

Some Inconsistencies of Farm Programs

Farm programs redistribute income to higher income farmers. In 1984 nearly one-third of all government payments went to farmers with average net family income of $97,000—about four times the income level of the average American household (Lyons and Collins 1985). Thus, farm program payments, although rationalized as measures to assist low-income farmers, frequently represent a transfer of income from the nonfarm population to farm operators who enjoy higher incomes on average than do those who finance the programs. I agree with Cochrane (1986, p. 11) that there is no defensible reason why the nonfarm sector should be called on to pay higher taxes and food prices to finance these programs.

Other inconsistencies inherent in current U.S. farm programs (Pasour 1986, forthcoming) deserve brief mention here. First, costly price support programs raise consumer prices of milk, butter, cheese, peanuts, tobacco, sugar, and other products. At the same time, billions of dollars are also being spent on food stamps and other food assistance programs to reduce food prices to low-income consumers.

Second, there is a conflict between farm commodity programs and subsidized credit programs in agriculture. Gardner clearly depicts how the billions of dollars spent each year on price support programs *raise* product prices. At the same time, subsidized loans by the Commodity Credit Corporation and Farmer's Home Administration increase the supply and output of farm products, which means *lower* product prices. Thus, by reducing product prices, subsidized credit not only harms producers who do not borrow at subsidized rates but also makes it more costly to support agricultural product prices at any given level.

Third, income boosts from farm commodity programs are transitory because benefits are rapidly incorporated into higher prices of land, allotments, and other specialized resources. The result, as emphasized by Tullock (1975), is that farm programs increase production costs and produce a "transitional gains trap." Once farm programs are initiated, either their elimination or a reduction in price support levels imposes losses on all owners of specialized resources, regard-

less of whether the affected resource owners benefited from past windfalls.

Fourth, farm programs have little effect on the economic returns to farm labor because the agricultural labor supply is quite responsive to changes in employment opportunities in the nonfarm sector. Thus, human capital and the real return to labor in the rest of the economy are the most important factors determining returns to labor in agriculture. Consequently, as shown by Johnson (1985), changes in farm commodity programs bring about short-run changes in the wealth of owners of land and other specialized inputs, but the programs have little effect on long-run incomes of farm laborers.

Finally, farm commodity programs have been a perennial albatross in U.S. efforts to liberalize trade. Price supports are incompatible with free trade because import restrictions are a necessary component of farm programs that hold domestic prices of dairy products, tobacco, peanuts, sugar, and other products above world price levels. Section 22 of the Agricultural Adjustment Act of 1933, as amended, requires that the U.S. government impose quantity restrictions whenever imports would "materially interfere" with the operation of U.S. farm programs (Dam 1970). This conflict between domestic farm programs and free trade has been obvious since the General Agreement on Tariffs and Trade (GATT) was established in 1947 to liberalize and expand international trade. At the insistence of the United States, agricultural and other "primary products" were not bound by GATT principles that generally prohibit import quotas and export subsidies.

There are increasing pressures to make U.S. farm programs more consistent with an open economy. The 1985 farm bill, unless changed, will be the most expensive in the history of U.S. farm programs. Pressures to make changes in the bill are likely to increase both because of dissatisfaction with farm programs and an increasing concern about budget deficits. At a time when there is widespread concern about budget deficits, rising global farm productivity is increasing the budget outlays required to maintain farm commodity price supports at current levels (Avery 1985). An increased awareness of the unintended effects of farm commodity programs and continuing pressures to reduce federal spending lend more urgency to the question of why these programs persist.

Why do Farm Programs Persist?

As Gardner suggests, "market failure" is not a convincing reason for the continuation and growth in expenditures on government farm

programs. A public choice explanation based on the highly concentrated benefits and widely diffused costs of the programs is more plausible. For example, the 10,000 to 15,000 domestic sugar producers may receive program benefits averaging $45,000 per year (Gardner 1981, p. 70). Thus, domestic producers have an economic incentive to devote a great deal of time and money to maintain the sugar program. On the other hand, there is little reason for the individual consumer to devote a great deal of money or time to opposing the sugar program because the average consumer spends less than $50 per year on sugar.

This public choice explanation for the growth of farm programs appears more credible than various "market failure" explanations concerned with monopoly power, public goods, or the increased complexity of modern industrial society (Higgs 1984). However, one is still left with the question of why the amount of rent-seeking activity in agriculture and other areas has increased dramatically over time.

In addition to the standard "market failure" explanations, Higgs (1984) suggests two other reasons for the growth of government agricultural programs: economic crisis and ideology. Economic crisis appears to be an important factor in explaining the growth of these programs since most of the current U.S. agricultural programs were instituted during the economic chaos of the Great Depression. Moreover, farm program expenditures have been at all-time highs during recent years when economic stress in U.S. agriculture was (and is) at the highest level since the 1930s.

Ideology also appears to be important in explaining the persistence and growth of government in agriculture (and other areas). There has been a change in public opinion over time about the appropriate role of the state. Since the 1930s more and more people have come to view government as the problem solver of last resort. At the same time, inhibitions have weakened about receiving income transfers through the aegis of the state. Thus, ideology appears to have played an important role as "transfer activity, originally quite limited, has come to play a much more significant role in the lives of all Americans" (Anderson and Hill 1980, p. 91).

Economic Analysis and Public Policy

Why have the many economic analyses pinpointing the counterproductive nature of government intervention had so little effect on public policy in agriculture? The situation in agriculture is not unique. Stigler (1982) concludes that economic analysis often is disregarded

by policymakers because economists are uninformed about the political desires of the community. This explanation is not very convincing. There is a wide gulf between the operation of the political process in the real world and an ideal polity where participants in the political process are not constrained by incentive and information problems in promoting the public good. The existence of uncertainty and the subjective nature of economic data mean that the economist cannot determine "optimal" public policies in agriculture (or in other areas). Moreover, even if most people recognize the desirability of eliminating harmful transfer programs, there is a "you-first" problem. Farmers, like all other recipients of government largesse, have economic incentives to favor reductions in transfers for other groups while maintaining their own. Wide recognition of some government transfer programs in agriculture as bad public policy is but one example of a more fundamental problem, namely, "how to place limits on the *number* and *kinds* of intrusions in which government may engage and how to ensure that it will confine itself to these limits" (Hamowy 1982, p. 143).

There remains an ethical question concerning efforts to achieve wealth transfers through the political process. Gardner concludes that although commodity programs are now in trouble, this fact does "not mean that farmers should regret their past political successes, or that the producers who lobbied for them did not gain real wealth as a result" (p. 257). Although farmers may not regret wealth increases derived from rent-seeking activities, there are important questions about the legitimacy and effects of these activities on the political process.

Mancur Olson (1982) argues that as specialized pressure groups increase, the effect is to gradually strangle the economy. His conclusion is consistent with Hayek's (1979) thesis that the chief threat to the decentralized market order is from the selfishness of individuals acting as members of organized groups.

Ethical questions arise when organized groups use the power of the state to restrict competition as a means of achieving income transfers. Income redistribution through government price support programs inevitably involves coercive restrictions on free exchange. If one accepts Bork's (1984, p. 228) view that there is no principled philosophic difference between economic freedom and individual freedoms of other kinds, individuals have the *right* to engage in mutually beneficial exchange. Arguing that economic freedom is no less important than First Amendment rights, Milton and Rose Friedman (1980, p. 287) have proposed the equivalent of the First Amendment to limit government power in the economic and social areas—

an "Economic Bill of Rights." The restrictions on competition implicit in commodity price support programs are clearly inconsistent with the right of people to buy and sell legitimate goods at mutually acceptable terms.

Both "human rights" and economic education can play important roles in changing public attitudes about the desirability of income transfers achieved through farm commodity programs. People are more likely to transcend the quest for special privilege necessary to reduce rent-seeking activities through constitutional or other means if the similarity of economic rights and First Amendment rights is widely recognized and acknowledged. However, it is not clear whether education or constitutional change is more important in reducing rent-seeking behavior in agriculture (and other areas).

Conclusions and Implications

Gardner presents an excellent summary of the magnitude of income transfers derived through farm commodity programs. I fully agree with him that there is no simple answer to why income transfers per farmer have increased over time, even as the numbers of farms and farmers decreased and farm income, on average, increased relative to nonfarm income. It is quite likely, as Higgs (1984) implies, that the persistence of government farm programs can be traced to a number of sources.

Economists might make a greater impact on public policy in agriculture (and other areas) if it were recognized that public policy cannot be based on marginal efficiency rules because, as Hayek (1948) stresses, the necessary information cannot be obtained to implement the rules. The effort to develop the knowledge necessary to control behavior through the use of efficiency rules is typical of that used in what Buchanan (1982) calls the "morally indifferent" science of economics. In contrast, Buchanan considers the goal of the "morally relevant" science of political economy to be the development of an institutional framework that maximizes the scope for mutually beneficial behavior. In the absence of government intervention, group activities in agriculture (or elsewhere) that seek to restrict competition generally are unsuccessful. Thus, limiting the role of the state is an essential step in minimizing the harmful effects of rent-seeking activity.

It may well be, as Buchanan (1977) and the Friedmans (1980) contend, that a revision of the constitutional contract will be necessary to limit the scope of government and expand the scope for individual choice. Regardless of the method used to increase the

scope of voluntary, mutually beneficial behavior, however, a necessary first step is increased public awareness of the effects of redistribution activities in agriculture and other areas.

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