AGRICULTURAL COMMODITY PROGRAMS

by

Kenneth L. Robinson

August 1971 No. 42

KLR:71:6

AGRICULTURAL COMMODITY PROGRAMS*

K. L. Robinson

Since the depression of the 1930's, nearly every industrialized nation has sought to protect farmers from low prices. The United States is no exception. Over the past four decades, this country has created and maintained an extremely complex agricultural price-support system. Commodity programs have demonstrated a remarkable ability to survive despite widespread criticism, and a marked reduction in the political influence of agriculture in Congress.

Price-Support Programs of the 1920's

Falling farm prices, high indebtedness, and a wave of foreclosures set the stage for direct government intervention in pricing farm products in the period between the two world wars. By the mid-1920's, a majority of those in Congress were convinced that government intervention was essential to improve farm prices, but it was not until 1929 that Congress and the President could agree on a program.

This first attempt to support prices indirectly, by making loans to cooperatives and quasi-government corporations so that they might buy farm products and hold them off the market, ended in failure. Within two years, the resources provided by Congress were exhausted.

The amount of money made available simply was not sufficient to cope with a major world-wide depression. It became apparent in the early 1930's that any further attempt to hold up prices would be prohibitively expensive or ineffective unless some means were employed to limit production.

The Agricultural Adjustment Acts of 1933 and 1938

This experience was not lost on those who drafted the Agricultural Adjustment Act of 1933. In this act, Congress gave the U.S. Department of Agriculture the authority, not only to support prices through a loan and storage program, but also to curtail the acreages planted to certain crops.

While the original Agricultural Adjustment Act was later declared unconstitutional, the principle of supply control was carried over into subsequent legislation including the Agricultural Adjustment Act of 1938. This act, although much amended, has provided the legal authority for price-support and supply-control programs for such commodities as wheat, cotton, rice, tobacco, and peanuts over most of the past three decades.

---

* Reproduced with minor modifications from a statement entitled "Commodity Policies and Programs" which appears in the <u>1970 Yearbook of Agriculture</u>, pp. 117-123.

Reasons for Selective Supports

The decision to support or not to support the price of a particular commodity is inescapably influenced by political as well as economic considerations. Votes cannot be ignored in deciding which commodities to support and what means should be used to make supports effective.

Partly for political and partly for economic reasons, the United States has created a highly selective support system. Commodities which account for about half the total cash receipts of farmers have been supported directly, although at widely varying levels, while the remainder have not.

Major commodities supported have been grains, cotton, tobacco, peanuts, soybeans, wool, sugar, and dairy products. Other livestock products including beef, pork, poultry and eggs, as well as fruits and vegetables, have received little if any direct support. Nor has any attempt been made to control production of the latter group of commodities. However, prices of the "non-supported" commodities have been influenced indirectly by support programs on grains and, in some cases, by government purchase programs or marketing orders.

The farm products supported initially, sometimes referred to as "basic commodities" (wheat, corn, cotton, rice, tobacco, and peanuts), were among those most adversely affected by the loss of markets in the 1930's. These commodities also are the ones which account for a high proportion of the total cash receipts of farmers in areas most strongly represented in the House and Senate committees which traditionally have dealt with agricultural matters.

Supports have been maintained almost continuously over the past 30 years on wheat, cotton, rice, tobacco, and peanuts, in part because a large proportion of growers have accepted the principle of limiting the acreage which could be planted to these crops. In contrast, the majority of farmers selling livestock products have been strongly opposed to controls on production.

No attempt has been made in recent years to maintain support prices for perishable commodities other than dairy products. The reluctance of both Congress and the Secretary of Agriculture to become involved in attempting to support the prices of commodities which are difficult or costly to store can be traced in part to the brief experience with support programs on eggs and potatoes in the 1940's.

Support prices were sufficiently attractive at that time to encourage producers to increase output. The Government was forced to store eggs, and some of these eventually spoiled. At times, the Government also found it necessary to destroy part of the potato crop. The high cost and adverse publicity that accompanied these programs led Congress to abandon supports on eggs and potatoes just prior to the Korean War.

While the prices of most of the items that go into the home refrigerator (other than milk and dairy products) have not been supported directly by the Federal Government during the past two decades, the prices of such commodities

as beef, pork, eggs, turkeys, apples, and citrus fruit probably have been influenced to a very modest degree at times by Government purchase programs. These purchases have occurred mostly in years when supplies have been excessive and prices relatively low.

The "Section 32" Program

In some cases, subsidies also have been paid to assist marketing firms in diverting part of the surplus to secondary markets, especially overseas. Funds used for this purpose are often called "Section 32" funds. The designation refers to the relevant section of an act passed in 1935 which commits Congress to set aside each year an amount of money equal to 30 per cent of all customs receipts for use by the Secretary of Agriculture in removing surplus commodities.

The amount of money which the Secretary of Agriculture has available to make direct purchases or to assist exports of perishable commodities is not sufficient to influence prices very significantly. If all the funds were used, no more than about 2 per cent of the total value of all perishable commodities could be purchased in any one year.

The Secretary also is prohibited by law from spending more than 25 per cent of the money on any one commodity. Furthermore, he cannot initiate a purchase program unless there are outlets available which will not compete with normal commercial sales. Commodities purchased with Section 32 funds are most often donated to schools and other public institutions or to families receiving public assistance.

Changes in Support Programs in the 1950's and 1960's

Since the Korean War, four major changes have been made in commodity programs: First, price-support loan rates (which strongly influence market prices in years of large production) have been reduced in order to make U.S. farm products more competitive with substitutes and to avoid the need for export subsidies; second, surplus disposal programs have been liberalized, third, land retirement programs have been introduced in order to reduce the total area planted to crops; and finally, payment programs have been added -- especially for wheat, cotton, and feed grains -- in order to compensate farmers for lower market prices and to induce farmers to participate in land-retirement programs.

At the beginning of World War II, support prices were raised to provide incentives for farmers to increase production. Relatively high support prices were maintained all during the 1940's and early 1950's for grains, cotton, and dairy products. During the war and for a brief period immediately thereafter, prices remained above support levels. But in the early 1950's, surpluses began to accumulate at support prices. This was due in part to rapid changes in agricultural technology. At the same time, export markets began to sag as production in Europe recovered.

This forced the Secretary of Agriculture to reimpose acreage allotments on wheat, corn and cotton. However, increases in crop yields continued to offset a substantial part of the effects of reduced acreages. In addition, some of the land taken out of allotment crops was planted to noncontrolled crops like soybeans, barley, and grain sorghum, which led to surpluses of these commodities.

The problem might have been solved by further cuts in acreage (to compensate for higher yields), but the Secretary of Agriculture was denied this authority by Congress which imposed a lower limit on national allotments for wheat and cotton. Eventually, however, Congress did accede to the request of Secretary Benson for authority to reduce support prices on the major surplus commodities.

Efforts were made in the mid-1950's to halt the buildup of surpluses, not only by imposing acreage allotments, but also by encouraging exports through various forms of government assistance, including export subsidies. Beginning in 1954, the sale of surplus commodities for foreign currencies as well as donations for relief were authorized under Public Law 480, later known as the "Food for Peace Act." But even with this additional assistance, exports failed to rise by enough to eliminate surpluses.

It became apparent in the 1950's that the United States was faced with the problem of excess capacity for agriculture as a whole, not simply too much wheat and cotton.

To cope with this problem, Congress authorized a series of voluntary land retirement schemes, beginning first with the Soil Bank program in 1956. Under this and succeeding programs, including the Feed Grain and Cropland Adjustment programs of the 1960's, farmers have been paid to keep idle between 40 and 60 million acres of land that otherwise might have been planted to crops.

The United States is unique among major agricultural exporting nations in having made a determined effort to reduce the area planted to grains and cotton during the decade of the 1960's.

The use of direct government payments to augment the incomes of farmers, especially those producing wheat, cotton, and feed grains, rose dramatically in the 1960's. Towards the end of the decade, these payments amounted to nearly $3 billion annually and contributed approximately 7 per cent to the cash receipts of farmers.

The decision to rely more on payments from the treasury to maintain the incomes of farmers rather than high price-support loan rates was based on two considerations: First, by pursuing a more moderate price policy, the government hoped to make U.S. farm products more competitive on world markets; and second, by offering cash payments, it hoped to induce substantial numbers of farmers to participate in the voluntary wheat, cotton, and feed grain programs that had been adopted in the mid-1960's.

These programs were introduced after attempts to enact compulsory supply-adjustment programs had been rejected either by Congress or by growers. Price-support payments under the wheat, cotton, and feed grain programs have been made only to those farmers who agree to keep a certain proportion of land idle.

Acceptance of price-support payments has made it possible to maintain much lower market prices for grains and cotton in recent years. As a result of the shift to payment programs, export subsidies have been reduced or eliminated. Market prices of grains and cotton in the United States during the late 1960's were very competitive with those of other major exporting countries. One of the objectives of reducing the loan rate for cotton has been to help regain markets lost to synthetic fibers. Farmers have been compensated for cuts in loan rates by direct government payments.

The Economic Effects of Support Programs

The historical record of the past third of a century indicates clearly that is is possible to use agricultural commodity programs as a means of transferring income from the nonfarm sector of society to agriculture. But it has not been possible to guarantee farmers full price parity, at least as defined in legislation adopted in the early 1930's. The parity standard is based on the relationship between the prices received and those paid by farmers in the period just preceding World War I.

Despite widespread government intervention in production and pricing farm products in the 1960's, farm prices during the decade averaged slightly below 80 per cent of parity. Even with adjustments for price-support payments the ratio averaged in the low eighties.

Agricultural commodity programs have helped to stabilize as well as to raise the average level of farm prices over much of the past two decades. At times consumers have been forced to pay more for food because of our support policies, but at other times they have benefited from lower prices due to the presence of large reserves.

Society as a whole has gained from support programs insofar as they have helped to create an environment favorable to innovation and investment in agriculture. Some of the additional money pumped into agriculture through commodity programs has been used to finance improvements which ultimately have led to larger farm output and lower market prices. Some of these benefits have been passed on to agribusiness firms who produce and distribute fertilizer, agricultural chemicals, and farm machinery.

A number of food deficit countries, likewise, have shared, at least indirectly, in the benefits of our support programs. It is doubtful if Congress would have been so generous in providing food aid if large surpluses of agricultural commodities had not first been accumulated. These, of course, were largely a by-product of the price-support loan and storage program maintained during the 1950's.

Gains from commodity support programs have been very unequally distributed among farmers and regions. Most of the direct benefits have gone to those producing grains, cotton, tobacco, peanuts, and dairy products.

Regionally, the direct or "first-round" benefits have been concentrated in the Great Plains, the South and the Corn Belt. These clearly are the areas that would be most vulnerable if support programs were to be eliminated. In the late 1960's, between 10 and 15 per cent of gross farm income in such states as Texas, Oklahoma, Kansas, Arkansas, and Mississippi came from government checks.

The top third of all farmers have obtained a large fraction of the benefits of support programs. This has occurred, not because programs were deliberately "rigged" to assist large farmers, but simply because these are the farms which account for over 80 per cent of the value of all farm products sold. Gains from price-support and payments programs have been distributed among farmers roughly in proportion to sales.

Small farmers, especially those producing cotton and tobacco, have shared slightly more than proportionately in government price-support and payment programs during the past decade. But the additional amount of money made available to low-income farmers has been limited primarily because they have so little to sell.

Over a period of years, the gains from farm programs have had a tendency to become capitalized into the value of farms with allotments or bases. Farms with tobacco or cotton allotments, for example, have generally sold for much more than similar farms without allotments.

The original owners of farms with allotments have been the primary beneficiaries of commodity programs insofar as possible future gains have become capitalized into the price of farmland. New owners have been forced to pay for the privilege of continuing to receive higher prices or government payments.

The capitalization of farm program benefits makes it difficult to reduce the degree of support. Those purchasing farms with allotments or bases have been reluctant to accept changes which would result in low prices or reduced land values.

Producers of non-support commodities such as beef, pork, fruits, and vegetables often claim that they have been adversely affected by the programs that have been adopted to maintain the prices of grains, oilseed crops, and cotton. But it is not clear precisely what the net effects have been on producers of perishable commodities. To the degree that cropland has been kept idle rather than diverted to nonsupported crops, they probably have gained indirectly from support programs.

In the absence of such programs, some additional land undoubtedly would have been shifted to the production of beef, but it is unlikely that very much of the land kept idle under the wheat, cotton, and feed grain programs would have been used to produce fruits or vegetables.

The prices of livestock products probably have been enhanced somewhat as a result of support programs on grains. Whether or not this has been sufficient to compensate for higher feed costs which have been a byproduct of such programs is more difficult to determine.

In the absence of support programs on grains and oilseed crops, there is no doubt that more of these crops would have been available to feed livestock in the 1960's. This, in turn, would have led to increased production and lower prices for meat animals, milk, eggs, and poultry.

Agricultural commodity programs have had only a modest influence on the rate at which farmers have left agriculture. Apparently benefits from support programs have not been sufficient to keep many small farmers in business.

Without commodity programs, the squeeze on incomes in the 1950's and 1960's undoubtedly would have been more severe and this might have forced additional farm operators to leave. However, studies which have been made of migration from agriculture show clearly that the pull of nonfarm jobs is a much more critical variable affecting off-farm movement than the push of low incomes.

An increasing proportion of the income of small-scale farmers comes from off-farm jobs and many of them produce non-supported commodities, which means that changes in commodity programs have only a marginal effect on their net incomes. The farms most vulnerable to changes in commodity programs are the large scale producers of such crops as wheat, cotton, and corn.

Some additional consolidation of farms might have occurred in the absence of commodity programs, but it is unlikely that this would have materially reduced the total number of farm families.

Agricultural commodity policies adopted during the 1950's and 1960's had both a positive and negative effect on total output and efficiency. Support programs during this period undoubtedly encouraged farmers to apply more fertilizer and to adopt other practices which resulted in higher yields per acre. But the effect of higher prices on both total output and efficiency was offset in part by allotment and land retirement programs.

In some areas, such programs delayed land use adjustments. For example, in the absence of acreage allotments, the area planted to cotton undoubtedly would have declined more rapidly in the Southeastern States and increased in the irrigated areas of the West. On the fringes of the Great Plains and parts of the South, commodity programs also provided incentives for farmers to keep land in supported crops that otherwise might have been shifted to grass or forestry.

Whatever the effects on individual commodities, it is clear that agricultural commodity programs have not seriously interfered with overall gains in productivity in agriculture over the past two decades. Between 1950 and 1968, for example, output per man-hour in agriculture rose more than twice as fast as in manufacturing. The acreage harvested over this 18-year period declined about 13 per cent while total output increased nearly 40 per cent.

Conclusions

The U.S. experience with commodity programs over the past 40 years suggests the following conclusions:

First, price and income-support programs, once introduced, are easier to retain than to eliminate. Despite widespread criticism, Congress has

shown great reluctance to abandon commodity programs. Such changes as have occurred usually were precipitated by some sort of crisis, such as the outbreak of war, severe drought, the build-up of excess storage stocks or the sudden loss of markets.

Second, the amount by which farm prices can be raised through government intervention is, in practice, quite limited, especially for export crops. In attempting to raise farm prices, the government is constrained by consumers who object to paying more for food, by farmers who strongly oppose effective supply-control measures, by agribusiness firms who would like to sell more supplies, machinery or services to farmers, and by Congressmen who are unwilling to appropriate additional funds for support programs.

Third, farm prices can be maintained above those that could be expected to prevail in the absence of government intervention over a period of years only if production can be curtailed. The most politically acceptable method of limiting crop production is some kind of voluntary land retirement program under which farmers are paid to keep cropland idle.

Fourth, commodity programs can do little to alter the distribution of income among farmers unless divorced from historical patterns of production. A high proportion of the benefits of price and income support programs go to the larger commercial farmers who produce most of the farm commodities offered for sale.

Finally, the net benefits of commodity programs tend to diminish with succeeding generations of farmers as gains become capitalized into the value of farms. The original owners of farms with allotments or bases receive most of the benefits if new owners are forced to pay for the privilege of receiving higher prices or government payments.