Agricultural Policy Reform in an Historical Context

by Daniel A. Sumner

Agricultural policy in the United States is being reconsidered. Despite significant reforms, commodity programs remain controversial both within and outside the farm community. This article provides some historical perspective on farm policy reform. The aim is to show historical lessons that may be useful in considering a farm program for the new millennium.

Agricultural policy in what is now the United States actually began well before there was a United States. In the early days, when most people were farm people, most economic policy was agricultural policy. Of course, the American Revolution itself was driven largely by agricultural land and trade policy imposed from England.

In the 19th century, policy specifically targeted toward agriculture encompassed mainly tariffs, the distribution of government land and efforts to encourage agricultural science. But even during this period, many major historical events were largely agricultural. For example, one cause of the Civil War, in part, was a struggle over the organization of agriculture and access to farm labor.

In 1862, the year before the Emancipation Proclamation, Lincoln signed the Homestead Act and created the United States Department of Agriculture. But these acts did not lead to farm programs as we now know them. In the latter 19th century several agricultural depressions created great political ferment on farms, but did not lead to direct subsidy from the government.

Farmer unrest over high interest rates and low prices in the post-bellum period often focused on political struggles over money and banking policy. The famous "Cross of Gold" speech presented by Williams Jennings Bryant at the 1896 Democratic convention was but one example of how farmers' concerns were reflected in the national debate, if not in national policy.

Until the early 1930s, when farming had fallen to less than 20% of the economy, there was still almost nothing of what we now call farm programs. But, within a few years, the federal government, and, in the case of dairy, the State of California, developed an array of programs that have lasted ever since. Important among these programs were import barriers and export subsidies. In addition, marketing orders created at that time continue to govern milk and several other commodities. Federal crop insurance and disaster assistance were also initiated or expanded. Table 1 (next page) shows the recent program composition of agricultural support in California in terms of policy instruments. Most of the government support indicated in Table 1 originated in the 1930s.

Figure 1 shows a timeline of major federal farm legislation over the past six decades. It indicates the regular reforms made to a core set of programs. The quintessential farm programs, misleadingly named "price and income support," developed as a part of Roosevelt's New Deal and apply to rice, cotton, feed

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Figure 1. U.S. Agricultural Policy Timeline - 1933 to 1998

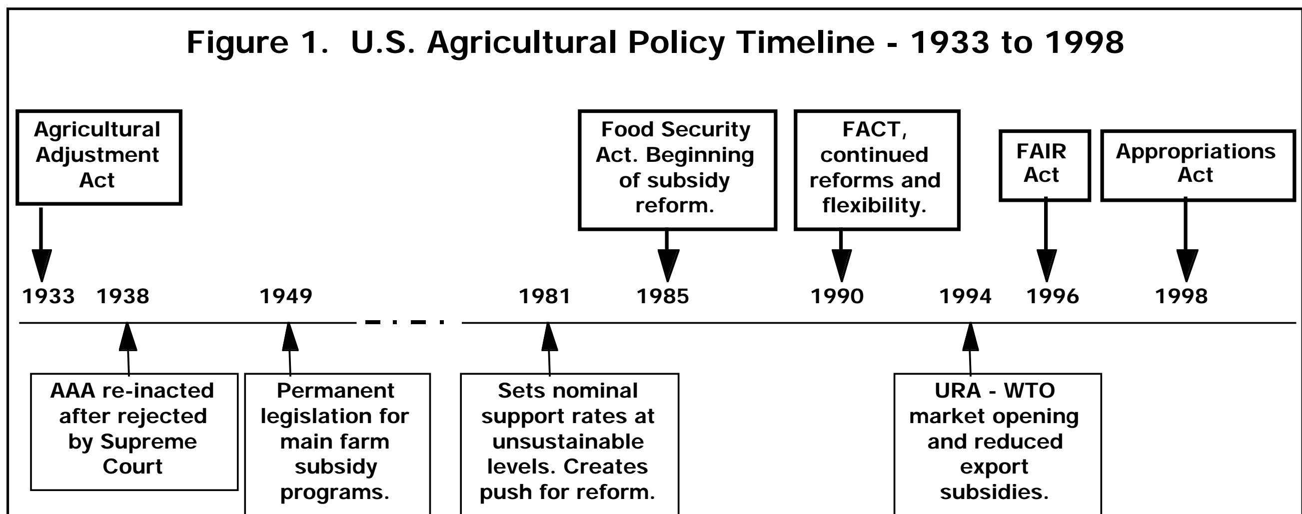

Table 1. California Producer Subsidy Equivalent Contributed by Each Policy Tool

Policy Tool	Value Million Dollars	Percent
Import Barriers (*mainly dairy*)	857	37
Export Assistance	88	4
Direct Government Payments	237	10
Input Assistance	456	19
Water Subsidies	*236*	*10*
Other Inputs	*220*	*9*
Other Marketing Support	265	11
Research	161	7
Dairy Marketing Order	154	7
Infrastructure/ Land Improvements	34	1
Economy-wide Policies	92	4
TOTAL	**2,254**	**100**

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grains and wheat. These programs are less dominant in California than in some major agricultural states but, even here, they are important for many farmers and rural regions. These programs underwent significant changes in recent years, and their evolution affects the reform path of all agricultural policy in the United States and, indeed, around the globe.

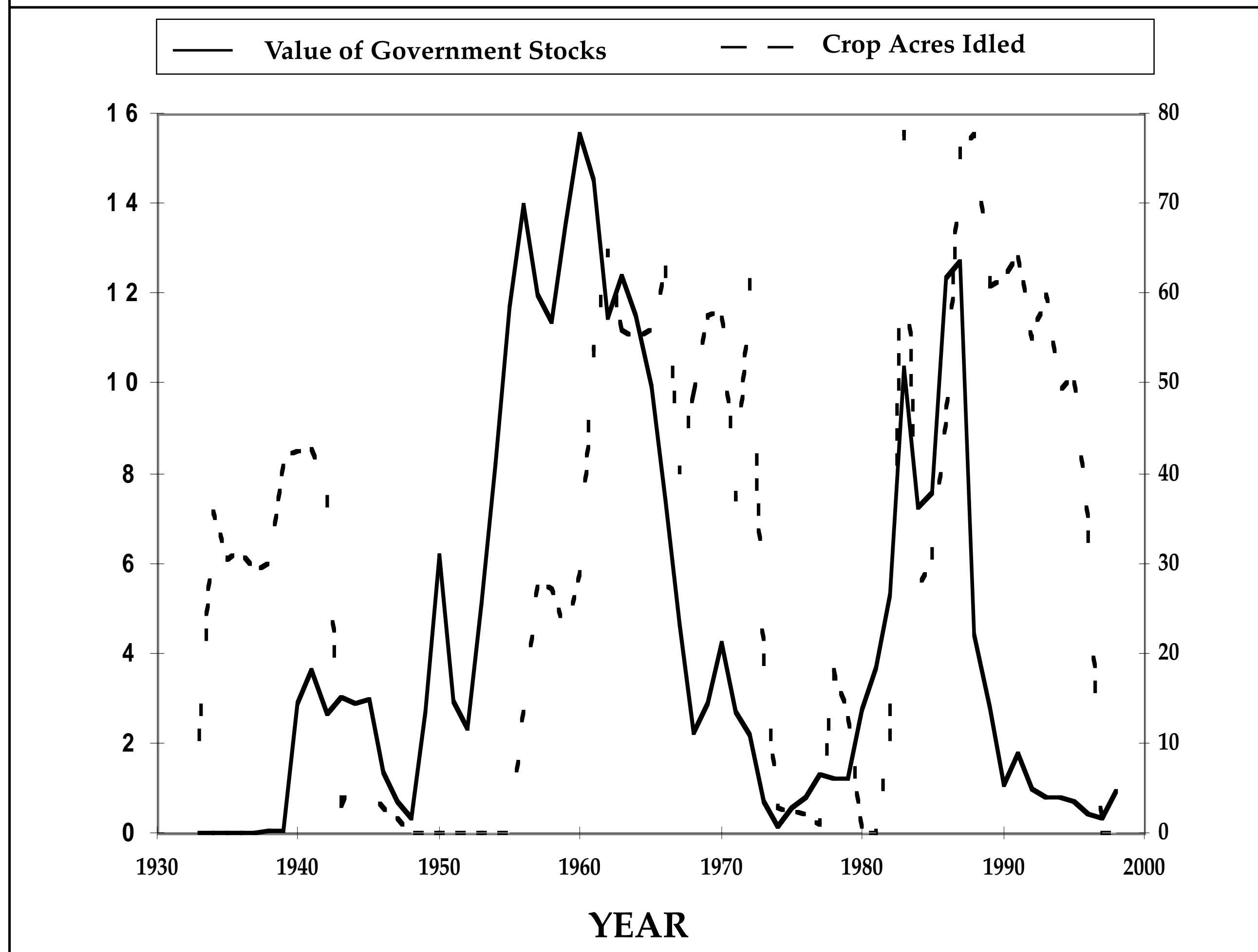
The prime mover behind the development of price and income support programs and their evolution has always been farm commodity prices. In the 1930s, farm prices were intolerably low and the government mandated higher prices through a series of complex programs. For example, in 1932 the price of wheat was only 44% of what it had been in the 1910 to 1914 period, which farmers considered a benchmark. Of course, low prices themselves were the consequence of the existing supply/demand balance (or imbalance). Government efforts to raise prices encouraged production and discouraged consumption, strengthening the market pressure on prices.

This tension between the wish that prices would be higher and the realities of the market remains the core intellectual conflict of farm policy. Beginning in the 1930s, a series of supplementary instruments were developed to deal with the contradiction created by required minimum prices. Supply controls included output quotas, limits on planted acres, mandated or subsidized land idling, and restrictions on which crops were permitted on farms receiving payments. The government also used domestic food subsidies, export subsidies, international food aid and storage programs to deal with excess supply created by minimum prices.

Figure 2 shows cropland left idle and the accumulation of surplus commodities caused by farm programs from the 1930s through the 1990s. For sixty years, farm policy evolved in a series of increasingly complex arrangements to deal with contradictions in the attempt to set prices above market clearing levels. By the 1980s and early 1990s, programs included an incredibly complex mix of all previous instruments. These policies did not solve financial problems for farmers, continued to disrupt markets, and became intolerably expensive for the taxpayers.

During the 1980s and 1990s, a broad consensus emerged that many of the policy tools used for five decades or more had not worked or were outmoded. From the Food Security Act of 1985 through the Federal Agricultural Improvement and Reform (FAIR) Act of 1996, a series of reforms were enacted. Government-set price floors were lowered and then eliminated, government stockpiles were gradually eliminated, mandatory land idling was limited and then terminated, planting flexibility was increased and deficiency payments were converted to contract payments, which were supposed to be disconnected from market prices.

A rapid rise in grain prices in 1995 and 1996 facilitated the enactment of the FAIR Act. Continued high prices in 1997 meant that in the first two years under the new legislation, farmers received far higher government payments than they would have received under the old program. But in 1998 many farm prices collapsed at the same time poor weather cut some crop yields. Under "marketing loan" provisions of existing legislation, the low prices generated substantial payments to grain and oilseed producers, but economic distress was a reality in some regions. As in the past, the drop in prices and the prospect of low farm incomes triggered a policy response.



In October 1998, contract payments, which had been set in advance for seven years by the FAIR Act, were raised by 50 percent. Further, in direct conflict with reforms of 1994, disaster payments were made available to growers who had low yields but who had chosen not to buy subsidized crop insurance, or for whom insurance was deemed inadequate. In all, the new one-year subsidy package cost more than six billion dollars.

The question now facing farmers, taxpayers and farm policy makers is which path to follow: move back to regular ad hoc disaster programs and production subsidies for selected crops, or move forward to an open-market approach of phased down subsidies with emphasis on technology, investments and domestic and export market growth. Central on the policy agenda is the government's role in agricultural risk management. The policy question is the extent to which the government can help growers manage risks inherent in agricultural production and markets. There is no question that farming is a tough and risky business. The challenge is to devise a role for government that does not create side-effects that are worse than the problems the policy is designed to cure. Policy analysis requires careful consideration of the full set of consequences. This important issue is also a current topic of research and outreach at the University of California.

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