



**CRISIS BY DESIGN:
A BRIEF REVIEW OF U.S. FARM
POLICY**

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Origins of the Crisis

From the earliest days of European colonization, America's commercial agriculture (meaning food production beyond immediate family needs) was dominated by large-scale agriculture. This included the slave plantations of the South, huge Spanish haciendas in the Southwest, and the bonanza wheat and cattle farms of the West. Most of our commercial agricultural production was in the hands of wealthy individuals or foreign investors.¹

By the mid-1800s this condition had changed. The federal government intervened, establishing policies that altered the structure of commercial farming by putting family farmers on much of the land. The military defeat of slavery in the South and the opening of the Midwest by the Homestead Act are examples of federal government intervention that created conditions favorable to family-farm agriculture.

But from the moment farm families took possession of land, whether they were freed slaves or immigrant families, they found themselves caught in a classic cost/price squeeze. Skyrocketing prices for the items they needed—such as seeds, credit, and transportation—could not be covered by the prices the grain monopolies were willing to pay for their crops. Freight rates were controlled by the railroads, while interest rates were set by the big city banks.

This squeeze between rising costs and falling prices caused a series of rural depressions and panics in the late 1800s and early 1900s. Seeing these economic crises as a

threat to their survival, family farmers organized political movements to protect themselves and to lobby for changes in the government policies that were creating the crisis. In North Dakota, for example, farmers formed the Nonpartisan League, which took over the state legislature in 1916. To break the monopoly of the Minneapolis-controlled banks, they established the nation's first and only state-owned bank; to protect themselves from exploitation by grain monopolies, they established a state-owned wheat mill.² Farmers, working with labor, played a key role in winning progressive control over state legislatures in almost a dozen states.³

The political efforts at the state level, however successful, did not affect the national crisis of falling prices and the huge surpluses created by these low prices. State governments, without help from Washington, could not control the price-fixing of multinational grain monopolies; nor could they help farmers balance supply with demand. By the 1920s farmers recognized the need to set prices and control production at the national level. The most important early U.S. federal farm legislation, the McNary-Haugen Bill, was passed by Congress three times in the 1920s, but vetoed twice by President Coolidge and once by President Hoover.

It took almost a decade to win the necessary federal legislation. Often referred to as the parity farm program, this legislation successfully placed a floor under prices, and also balanced supply with demand through effective surplus management.

The parity program had three central features:⁴ (1) It established the Commodity Credit Corporation (CCC), which made loans to farmers whenever prices offered by the food processors or grain corporations fell below the cost of production. This allowed farmers to hold their crops off the market, eventually forcing prices back up. Once prices returned to fair levels, farmers sold their crops and repaid the CCC with interest. By allowing farmers to control their marketing, the CCC loan program made it possible for them to receive a fair price from the marketplace without relying on subsidies. (2) It regulated farm production in order to balance supply with demand, thereby preventing surpluses. Since government

storage of surpluses was expensive, this feature was crucial to reducing government costs. (3) It created a national grain reserve to prevent consumer prices from skyrocketing in times of drought or other natural disasters. When prices rose above a predetermined level, grain was released from government reserves onto the market, driving prices back down to normal levels.

From 1933 to 1953 this parity legislation remained in effect and was extremely successful. Farmers received fair prices for their crops, production was controlled to prevent costly surpluses, and consumer prices remained low and stable. At the same time, the number of new farmers increased, soil and water conservation practices expanded dramatically, and overall farm debt declined. What is even more important is that this parity program was not a burden to the taxpayers. The CCC, by charging interest on its storable commodity loans, made nearly \$13 million between 1933 and 1952.⁵

Although this parity legislation was crucial for saving family farm agriculture, it conflicted with the economic interests of a number of powerful corporations and banks. For example, government intervention to stabilize grain prices hurt grain corporations and speculators who benefited from large fluctuations in the market. Effective supply management meant that fewer acres were planted, reducing the potential for increased sales of pesticides and fertilizers by chemical and oil companies. Finally, farmers with stable, secure incomes were less likely to borrow large amounts from insurance companies or banks.

As early as 1943, corporate policymakers, along with planners from both the government and academia, began planning for the postwar economic and social structures. Their economic objective was to encourage the expansion of energy- and capital-intensive methods of production; their political objective was to achieve greater control over agriculture by the industrial and financial sectors of the economy. To accomplish this, millions of farmers, especially poor Southern blacks, would have to be forced out of agriculture. Not only would this mass relocation encourage the expansion of

industrial-type agriculture, it would also free a huge labor force to fuel the industrial boom planned for the North.

The primary strategy developed by the corporate planners to force farmers off their land was to lower their commodity prices to levels below the cost of production.⁶ To enforce lower prices, however, they first had to repeal the parity legislation won by farmers in the 1930s.

In the early 1950s the corporate planners launched an all-out political war against the parity legislation. They labeled supply management programs as "socialism," an effective tactic made popular by Senator Joe McCarthy. University professors were drafted into a national propaganda effort to convince both farmers and the general public that America needed fewer farmers, and that the parity legislation was standing in the way of "modernizing" agriculture.

Corporate-funded "think tanks" churned out hundreds of reports and recommendations to support their positions. One of these groups, the Committee for Economic Development (CED), published a report, *An Adaptive Program for Agriculture*,⁷ that is still one of the most articulate statements of the corporate view. (Though published in 1962, it represents many of the key arguments that were made in the 1950s.)

The Choices Before Us: (a) leakproof control of farm production or (b) a program, such as we are recommending here, to induce excess resources (primarily people) to move rapidly out of agriculture.⁸

The first option recognized by the CED, "control of farm production," was rejected out of hand as too much "government in agriculture" and as contrary to the "free market." Instead, the CED recommended the second option, the forced removal of a number of families from the land.

...the program would involve moving off the farm about two million of the present farm labor force, plus a number equal to a large part of the new entrants who would otherwise join the farm labor force in the next five years.⁹

To accomplish this forced removal, they recommended that

...the price supports for wheat, cotton, rice, feed grains, and related crops now under price supports be reduced immediately.¹⁰

The CED argued that the displaced farmers could be more "productively used" in other sectors of the economy, and that pushing them out would open the way for greater capital investment in agriculture. This would require more mechanization and greater reliance on petroleum-based products such as pesticides and fertilizers. In addition, the report cited other "real benefits" of enforced lower prices.

Also, the lower prices would induce some increased sales of these products both at home and abroad. Some of these crops are heavily dependent upon export markets.¹¹

The CED proposed the elimination of approximately one-third of our farm families. Its strategy was to replace medium-sized family farmers with a small number of huge superfarms and several million small farms supported mostly by off-farm income or welfare. The large corporate-type farms would align themselves politically with agribusiness; the remaining small farmers would be dependent on government subsidies and low-paying off-farm jobs, which would weaken them economically and politically.

There were dozens of similar policy reports on the "farm problem." Groups ranging from the U.S. Chamber of Commerce to the American Bankers Association all made the same recommendations—which is not surprising since many of the same people served as authors, researchers, and advisors on a number of different reports.

By 1954, the corporations had won. CCC loan levels were reduced; the Secretary of Agriculture was given discretionary power by Congress to lower farm prices to "market-clearing" levels in order to get "government out of agriculture." This marked the beginning of the most recent cycle of

the farm crisis, culminating in the depression we are now facing.

Almost immediately, farm prices began to fall, and they have continued to decline in real terms, with the exception of two years in the early 1970s, since the repeal of the parity legislation. As prices fell, many farmers were forced out. Farm population dropped by nearly 30 percent between 1950 and 1960, and another 26 percent between 1960 and 1970.

In response to political unrest, Congress passed a new farm program in the early 1970s. It was decided that the farmers who had managed to survive would be maintained on a direct income subsidy program from the federal government. Under this program, Congress set a target price for farm products that was somewhat higher than the dramatically reduced CCC loan levels. If prices fell below this target level, participating farmers received a check—a “deficiency payment”—directly from the government to make up the difference.

Let's look at corn as an example. The current CCC loan rate (early 1987) is around \$2.00; the target price is about \$3.00. This means that taxpayers are forced to make deficiency payments for the difference between the target price and the loan rate—roughly \$1.00 per bushel on corn. But since it costs more than \$3.00 for the average farmer to grow a bushel of corn, most farmers are still losing money on every bushel harvested.

The result of this deficiency payment system is that grain traders, corporate feedlots, and foreign buyers are allowed to buy grain at prices more than \$1.00 below cost of production. We spend huge sums of taxpayers' money to compensate farmers for part of their losses caused by this subsidy to the grain trade; then we force farmers to borrow enormous sums of money to cover the rest of their losses.

This new farm program set the stage for the second phase of the farm crisis cycle—the infusion of massive amounts of credit to cover annual losses caused by the low prices set by federal policy. As long as inflation was pushing up the paper

value of farmland, farmers could keep operating on borrowed money from lenders who believed land values would continue to rise indefinitely.

In the winter of 1978/79, over 40,000 protesting farmers went to Washington with a prophetic message: they warned Congress that agriculture based on paper values for land could not be sustained, and that farm prices needed to be raised to avert a rural collapse.

This message was ignored by most policymakers. As predicted, farm debt continued to rise, finally peaking at over \$225 billion in the early 1980s—an increase of almost 1000 percent over the \$20 billion total farm debt before the introduction of the target price program in the early 1970s. Interest payments on this debt now exceed net farm income, amounting to almost 30 percent of the production costs for many farmers. As more and more capital was drained from agriculture through interest payments, the conditions were created to set in motion the third and most devastating phase of the farm crisis cycle—the forced liquidation of family farms with the transfer of ownership into the hands of corporations, banks, speculators, and the federal government.

In 1981 the bubble finally burst. The high real interest rates of Reaganomics forced the most vulnerable farmers into bankruptcy or foreclosure. As their land and machinery went to auction, values were forced down for everyone else, causing a downward spiral of falling land values throughout the nation. Farmland prices have fallen over 50 percent since 1981; during the same period almost 20 percent of the farming population has already been displaced. Farm prices are lower than during the worst years of the Great Depression.

