a brief history of de-coupling farm policy proposals in the united states

BY MARK RITCHIE

Institute for Agriculture & Trade Policy

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The concept that farmers should receive a significant portion of their income from direct government payments, rather than from the buyers of their products, has long been debated among economists and farm policy analysts. Ever since the implementation of national farm policy legislation by President Roosevelt in the 1930's, there have been at least four major efforts to replace the Roosevelt laws in favor of total free market policies, commonly referred to today as "de-coupling".

The first effort was towards the end of the Second World War, in 1945 when the American Agriculture Economics Association provided financial prizes to the authors of the top papers written on the topic "A Price Policy for Agriculture Consistent with Economic Progress That Will Promote Adequate and More Stable Income From Farming." And of the eighteen economists who won prizes in this contest, there was unanimous agreement on the need to replace the Roosevelt era programs, where farm income came from the marketplace, with policies whereby farm income came from the government.

In their article summarizing the content of the winning submissions, D. Gale Johnson and W. H. Nicholls cited the following areas of agreement among these economists.

- The main function of agricultural prices should be the reflection of "consumer choices in the allocation of agricultural resources among individual farm products," not to provide adequate farm income.

- The parity formula was judged by these economists as unable to meet the requirements of a properly functioning pricing system.

- They agreed that minimum income commitments should be made by direct price or income payments rather than through price supports.

This wave culminated with a formal "de-coupling-type" of "de-coupling-type" proposal made by President Truman's Secretary of Agriculture Charles Brannan. A recent Canadian Farm Economics Journal article summarized the controversy surrounding this proposal.

"The Brannan Plan, named after former U.S/ Secretary of Agriculture Charles F. Brannan, was proposed to Congress in April 1949. The plan provided for the stabilization of farm income, not by price supports, but by direct federal payments to farmers. This plan created an enormous amount of economic and political controversy within Congress and among farm organizations.

"The Brannan Plan essentially called for an "income support formula" (calculated on the basis of a high level of designated price supports) under which formula income support would be provided by direct cash payments to farmers whenever their incomes fell below some predetermined level. The plan also provided that large-scale commercial farmers would share the program's benefits only on that part of their production that an efficient "family farm" could produce. To qualify for the program's benefits, farmers would have to abide by approved conservation practices and necessary production or marketing controls (Christenson 1959).

"The Brannan Plan was denounced by many congressmen and several farm organizations, primarily the American Farm Bureau Federation, on several grounds:

- the relatively high income support under the plan would stimulate production and lead to surpluses (or production controls), in spite of the fact that the payments to farmers were not tied to an explicit form of commodity-based price supports;

- the plan would not in fact be neutral in terms of resource allocation; that is, while the direct payment program would in theory permit prices to clear the market, it would impair the capacity of the price system to allocate resources in an efficient manner;

- income payments under the Brannan Plan would be capitalized into higher land values - a windfall gain in the short run for people who own farmland - but would in the long run increase the capital costs of farm production;

- the income payments would be seen as subsidizing farm product exports, which represent distortion and interference in foreign trade;

- the income payment approach would make farmers dependent on congressional appropriations for their net income, and in effect it would put farmers on the government payroll without civil service status;

- the direct income payment program would be providing farm products to food consumers at less than their true value; and

- the program would inevitably lead to greater and greater public intervention in the agricultural industry.

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Although the de-coupling concept was thoroughly discredited at this time, it was only a few years before it was resurrected again. The next major attempt to replace market-oriented farm policies with direct government payments came in 1957, when the Joint Economic Committee of the U.S. Congress undertook a full-scale review of various proposals for price and income supports for agriculture. They covered an extremely wide range of proposals, including supply management proposals, marketing orders, rural economic development and adjustment, competitive pricing systems, direct payments, and ways to expand domestic and foreign demand.

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Again, the Gilson article in the Canada Farm Economic Journal does an excellent job of summarizing the arguments made for and against various de-coupling plans.

Several submission to the Joint Economic Committee underlined the need to de-couple price supports from specific commodities through some form of direct payment program.

The proposals for direct payments to producers involved two basic approaches. One approach involved two sets of prices: a specified price support level for producers, which would be designed to compensate producers for the cost of the commodities they produced and a market-clearing price that would be used to distribute those products among food consumers. A direct price payment, based on the difference between the specified support price and the market-clearing price for a given commodity, would be paid directly to the producer in the form of a deficiency price payment. It is to be noted that the deficiency price payment system represented only a partial de-coupling of price supports from specific commodities. The system was de-coupled only to the extent that food consumers paid a market-clearing price for a given product. However, the system would still have price supports to farmers coupled with specific commodities.

The second approach was based on market-clearing prices to both farmers and consumers, but with direct income support payments to the producers. This approach was designed to de-couple income support to farmers from both the demand and supply side forces of the competitive market system.

The advantages claimed for the direct income payment approach indicated the following:

• it would permit consumer choices and the broader forces of the competitive market system to allocate resources more efficiently within the agricultural industry;

• it would eliminate the need for costly storage and surplus disposal programs;

• it would be of major benefit to the lower income food consumers;

• it would minimize interference with the international agricultural trading system; and

• it would provide greater freedom to farmers in managing their farms.

The disadvantages of the direct income payment approach to farm policy included most of those cited in connection with the Brannan Plan proposed in 1949:

• the income payments would be visible and large and would come directly from the national treasury; and

• farm leaders feared that the direct income payment approach would make them too dependent on the U.S. Congress for appropriations each year, and that farmers would prefer "justice" in the marketplace, not through a government cheque.

Strong arguments were made on both sides of this issue, essentially cancelling each other out. However, some elements of de-coupling theory had already begun to creep into the nation's farm policy as early as 1953, but began to have significance in the early 1960's.

Cargill Grain Corporate, one of the strongest advocates of "de-coupling" farm policies since the 1940's has charted the changing fortunes of their proposals.

Cargill Vice President William Pearch summarized the early years of this debate in a speech to an Agricultural Journalist Conference in Copenhagen on July 18, 1987.

"The United States has been moving in this direction ("de-coupling") for 25 years. It began in the early 1960's by reducing price supports to what were then regarded as market clearing levels and offering direct income payments to farmers who agreed to limit their planted acreage. This laid the groundwork for significant adjustment in Agriculture in the 1960's and rapid expansion of U.S. exports in the 1970's."

The next major push came shortly after these small inroads were made in the early 1960's.

Reducing the percentage of farm income that comes form the marketplace and replacing this lost income with increased government payments was the primary farm policy goal of a number of business-related organizations in the 1960's, including the U.S. Chamber of Commerce, the American Bankers Association, and corporate think tanks like the Committee for Economic Development (CED). For example, the CED's 1962 farm policy proposal, "An Adaptive Approach to Agriculture", outlined their analysis of the agricultural crisis:

"Roots of the American farm problem are to be found in a combination of five conditions no one of which, alone, would have caused it: swiftly rising productivity; declining use of labor relative to capital; slow growth of demand for farm goods; low responsiveness of demand to price changes; inadequate flow of resources, most importantly labor, out of farming."

The CED's description of the two options available to solve this crisis was clear. "The choices before us are: 1) leakproof control of farm production (supply management), or 2) a program, such as we are recommending here, to induce excess resources (people primarily) to move rapidly out of agriculture."

The first option, managing farm production, was not really considered. The agribusiness corporations who funded the CED opposed all overt programs of supply management. The only solution, in their minds, was to reduce the number of farmers through a "de-coupling"-type program. They stated that "the adaptive alternative is a program to permit and induce a large, rapid movement of resources, notably labor (farmers), out of agriculture. This is the program we recommend. In our opinion, it is the only approach that offers a solution form the standpoint either of the agricultural community or of the non-agricultural community."

"The program we (the CED) suggest contemplated that a major part of the required adjustment in agriculture would take place over a five year period.

We recommend steps to supplement, on a diminishing scale, the incomes that farmers would earn in free markets during that period." The program recommended by the CED included the rapid phase-out of all farm programs, cuts in price support loan levels to roughly one-half the prevailing levels, and then transition payments for farmers to moderate the sharp decline of farm income. Their recommendations were almost exactly the same as those made by Senator Boschwitz today, including the proposed five year "transition" period.

Just 10 years later (1974), the CED was able to claim that at least some of their "de-coupling" policy recommendations from the 1962 report had been implemented. In their 1974 report, they claimed that "in 1962, when we issued our policy statement, 'An Adaptive Program for Agriculture', the problems of U.S. farming were mainly related to maintaining farm income in the face of continuing surplus. Our diagnosis was that agriculture was using too many resources. We prescribed programs for the better use of our resources in agriculture (that), vigorously prosecuted, would enable the people involved in farming to receive higher incomes without government controls or subsidies." In general, policies of this nature have been pursued by the U.S. government.

However, the CED planners and economists recognized that they had been only partially successful. Although programs had been scaled back significantly, and prices lowered as recommended, the driving of millions of farmers off their farms had not materially improved the conditions of those who had survived. In fact, for many farm families the CED recognized that the economic conditions had become worse, not better. The CED did not consider the possibility that it had been the low price policies which they recommended which had created these economic difficulties. They chose instead to search for causes in the broader economy.

The CED concluded that for the "75 percent of farms where financial distress exists, it is rooted mainly in general social and economic causes, not in farm prices. Assistance for these farmers would be extended not through special support programs but rather through the same kind of programs that should be made available to all disadvantaged Americans, urban or rural such as national welfare assistance programs based on a minimum annual income."

This call for long-term permanent government support was a significant change from their 1962 proposal for temporary and transitional financial assistance. "The problem of persistent rural poverty should be approached through national welfare policies rather than through price-support or other specifically agricultural programs."

The most recent push for de-coupling began again in the 1985 Farm Bill debate, when Senator Rudy Boschwitz (R-MN), submitted legislation to totally de-couple U.S. farm policy.

Congress, as they had done in previous debates, rejected the CED's call for totally pure "de-coupling", choosing instead a modified approach, creating the deficiency payment/target price program which remains the primary government farm program today. Under this program, direct government payments, called deficiency payments, were used to make up a portion of income lost due to farm prices being consciously lowered by the government. The direct payments have become a permanent part of farm income, as envisioned by de-coupling supporters, but they are tied to quantities grown under varying types of acreage reduction programs, which is totally contrary to the basic "de-coupling" philosophy.

The most recent push for de-coupling began again in the 1985 Farm Bill debate, when Senator Rudy Boschwitz (R-MN), submitted legislation to totally de-couple U.S. farm policy. Written for Senator Boschwitz by the public affairs staff at Cargill Grain Corporate, this plan was able to gather over 45 votes in the Republican controlled senate that debated farm legislation that year.

In 1987, he re-submitted his plan, with major alterations, simultaneously with the launching of a major national campaign by Cargill and other major agribusinesses to support the Boschwitz bill.

In 1989, shortly after the return of Congress, the 1990 Farm Bill will begin in earnest. Senator Boschwitz's de-coupling proposal will be the major Republican plan, coupling directly with supply management legislation that will be championed by many leading Democrats.

Whether the Congress will again reject the demands of the grain companies for a totally de-coupled free market, is yet to be seen. If past history is any indication, the "pure" beliefs of the economists which fit so neatly with the interests of agribusiness but conflict totally with the interests of farmers, consumers and the environment, will generate a great deal of heat and smoke, but no fire. The idea that farmers should be put on public welfare so that their customers, especially the Soviets, Japan, and European consumers, can buy their products at prices below the cost of producing, will not fly.