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The Evolution of the Rationale for Government Involvement in Agriculture

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Before change can be introduced successfully, we have to know *why* we are where we are today. This is as true of policy as it is of individual behavior. There are a number of suggestions for substantial change in our agricultural policy. Few address up front the issue of whether government should be involved in agriculture. Thinking about the evolution of today's policy may encourage us to dig a little deeper into our objectives for agricultural policy and ask whether we are attempting to reach these most effectively.

Background

The Jeffersonian notion of agricultural fundamentalism was more a rationale for a kind of democratic society rather than a rationale for government involvement in agriculture. This prescribed the maintenance of a population of yeoman farmers who would be the backbone of democracy as small, independent-propertied individuals. The Louisiana Purchase extended the opportunity for the expansion (geographically and in numbers) of this citizenry, while shutting out the British and the Spanish. Government's involvement in agriculture for the first hundred years was largely land policy (Northwest Territories Act and Lewis & Clark expedition, for example) to create a property survey and rights system and settle the central expanse of the country and the land west of the Mississippi. The creation of the extensive public domain through expansion also involved moving these lands into private hands through veterans' programs and homestead acts.

Government also helped create infrastructure – the most notable early example being the Erie Canal, which opened up the middle of the country to export markets in Europe and set the future for New York as the commercial center of the nation. Agricultural interests agitated for public infrastructure that would ease the transport of goods to market. Later came support for railroads, and ultimately the regulation of rail rates to prevent monopoly charges for transport of agricultural inputs and commodities.

In the 1860s, the Department of Agriculture was established and both the Homestead Act and the Morrill Act were passed. All three were critical to the development of agriculture and all three brought benefits to the farmer, providing resources and infrastructure, but not proscribing production. The rationale for these actions was one of helping agriculture prosper and with it the economic development of the country. Monetary policy and trade also became key issues for agriculture.

One early major role of the Department of Agriculture had been seed distribution. However, under Secretary of Agriculture, Wilson (in the early 1900s), the Department became a scientific establishment capable of leading agricultural research. The early 1900s were a golden age for agriculture. From the Civil War, agriculture had suffered through both the nation's business cycles and the extension of agricultural lands and production that constantly drove down prices. In the early 1900s, the frontier closed and industrialization and immigrant population growth surged and increased net demand for agricultural commodities. It is no accident that farmers chose 1909 to 1914 as the base for parity.

Yet, rural agriculture was still disadvantaged relative to urban industry. Teddy Roosevelt's Country Life Commission (1908) looked into the deficiencies of agriculture and country life and the means by which they might be remedied. From this report came rural free mail delivery, the Smith Lever Act and the state experiment stations, and improvements in rural health and education. Whatever the rationale, the tradition of government involvement in agriculture was still indirect, helping stimulate settlement, defining boundaries and property rights, building transportation and infrastructure, and improving communications, technology, and education. It was not until the great agricultural collapse after the First World War that government, with a rationale born of prolonged depression, began to enter directly into agricultural markets, production, and the livelihood of farmers.

Agricultural prices broke around the world in the summer of 1920. This was a quick end to the bubble of land prices and input costs that had been occurring since the First World War. A national agricultural conference assembled in 1923 that called for economic equality for agriculture (a fair share of the national income) and adjustment of farm production to demand. From 1923 on, farm groups lobbied for government action to relieve rural distress. The McNary-Haugen Bill became the central vehicle for a policy to help agriculture. This policy would allocate a reduced portion of the crop to domestic demand and raise domestic prices, while the "surplus" would go to the export market. Now government is seen in a price and supply determining role. The Agricultural Marketing Act of 1929 put the government in the role of influencing markets with a Federal Farm Board administering a revolving fund of 500 million dollars to loan to cooperatives to store and withhold commodities. This proved to be futile (Benedict, 1953).

By 1933, the exchange value of farm products to industrial goods was 50% of the pre-war average (Davis, 1940, p. 313). The cash economy in rural areas had ground to a halt. When the Roosevelt Administration came to Washington, there was fear that there would be revolution in the countryside if something were not done.

The New Deal prescribed a new role for government involving direct intervention into markets and individual production decisions by farmers. Much of the discussion of the period was about raising rural standards of living to be more comparable to urban standards. This was different from the earlier concept of purchasing parity based on the 1909-1914 relative industrial and agricultural costs and prices.

Chester Davis, in the *1940 Agricultural Yearbook*, set forth a broad view of the range of government actions that affected agriculture in contrast to the narrow view that only Farm Bills affected the sector

> "A nation's agricultural policy is not set forth in a single law, or even in a system of laws dealing directly with current farm problems. It is expressed in a complexity of laws and attitudes which, in the importance of their influence on agriculture, shade off from direct measures like the Agricultural Adjustment Act through the almost infinite fields of taxation, tariffs, international trade, and labor, money, credit, and banking policy" (Davis, p. 325).

Today we can add environmental policy, food safety, and more. These things now set the larger environment for agriculture, and like Paul Volker's decision to stop inflation in the early 1980s, can be the overriding government influence on the sector._

Where does this leave us? The broadening of interests and policy impacts works both ways. Policies that are not thought of as agricultural can have a determining impact on agriculture. In addition, what are thought of as agricultural policies (the "Farm Bill") can exert strong influence on areas beyond the narrow scope of agriculture. As such, these broad aspects become part of the fabric of what happens in agriculture and beyond.

Reviewing the Legislation

A review of the preambles to 14 major pieces of agricultural legislation from 1933 to 2002 (generally those we now refer to as Farm Bills) provides another characterization of the evolution of the rationale for government involvement agriculture. These broadly defined categories of goals – both explicitly stated and/or implicitly implied reflecting programmatic intent as determined by the authors – are portrayed in Figure 1. Generally, the goals (as indicated in Figure 1) are the perceived problems that the programs provided for in the legislation attempted to alleviate. A few broad conclusions can be made from reviewing the goals. First, many of the goals have been consistently addressed over time. Second, there have been very few recent changes in direction other than making agricultural programs more responsive to market forces and promoting agriculture as an alternative source of energy.

Asking Questions about the Rationale

There has only been one attempt in recent decades to determine some national rationale for agricultural policy. In 1994, the staff of the Senate Committee on Agriculture, Nutrition and Forestry prepared for Senator Richard Lugar a set of questions on prospective farm policy that were circulated around the country

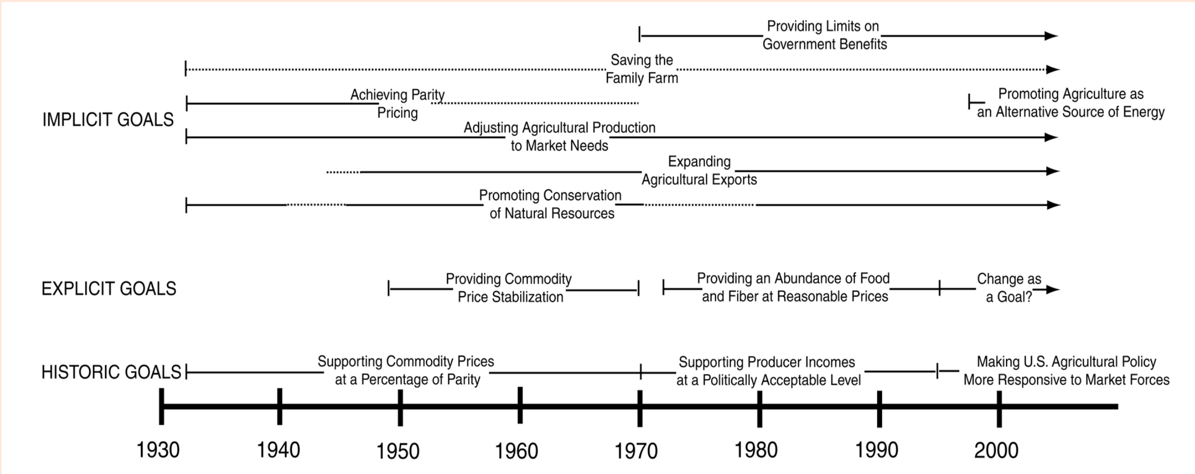

Figure 1. Agricultural policy goals: 1933-present.
Sources: Flinchbaugh and Knutson (2004); The National Agricultural Law Center (2007).

(Schertz & Doering, 1999). Questions were asked about commodity, conservation, export, nutrition, and rural development programs. A summary of these indicates that the attempt was made to ask the question, why do we have the farm policy we do? (i.e., what is the rationale, and are the programs effective in terms of what they purport to do?) The answers the committee received relative to the request were very broad and at least to some degree reflective of the conditions in agriculture at the time. The answers would certainly have been much different if the question had been asked at the height of the record prices in 1995 or at the very low prices realized less than two years later.

The Broad Response to Rationale for Involvement in Agriculture

If one were asked 20 years ago, what is the rationale for U.S. Government involvement in agriculture, a response might have been to increase farm incomes to the levels of urban incomes. Admitting the complication of off-farm income, this objective has been achieved. In addition, "farmers" have more accumulated wealth than their urban cousins, usually in the form of land.

Another response might be a strategic one, i.e., that the nation needs to be self- sufficient in food. Without government involvement, would there still be an abundant food supply, would agricultural exports drop, and would less acres be cultivated? Few seem to be concerned that not enough food would be grown for domestic consumption. However, government involvement of some sort might be justified if food self-sufficiency were a national concern (in spite of the fact we wish other countries to do otherwise so we can increase our exports to them).

There is a strong rationale for government involvement in agriculture to reduce risk from natural causes – drought and flood. We accomplish this partially through subsidized crop insurance and partially through ad hoc disaster payments. There is a rationale for involvement and we are doing it, though probably less cost effectively than we might.

One broad rationale for government involvement under the "reducing risk" heading is the desire to have a stable industry over time. Investments in machinery, buildings, and human capital are relatively large in U.S. agriculture. It would be costly to the sector and to the public, through higher food prices, if there were cycles of capitalization and de-capitalization of these assets over time. This is different from decreases in land values, which the producer (or landowner) bears directly (decreases which farm groups fight to prevent). The banking community also has a large stake in this rationale, especially during times when loans have been based on asset values rather than on the ability to repay, as in the farm financial crisis of the late 1980s.

Price stability is another leg of the "reducing risk" rationale. Traditional farm programs after the 1930s used a "price stability" rationale to boost farm incomes by setting loan rates and later target prices above long-term average prices (contrary to Wallace's "ever-normal granary" concept). Fred Waugh's concern with the use of price stability as a vehicle for increasing farm incomes and the ensuing treasury exposure led him to write an article attempting to show that price stability was not always best for the consumer (Waugh, 1994). The protection from risk, whether through price supports, direct payments, or insurance, for natural disasters involves a number of rationales for government involvement depending upon where one's interests are – helping beginning farmers, ensuring an inexpensive food supply, keeping farmers on the land, etc. Most have some credence as being in the national interest.

In some ways, agricultural policy and the rationale for it is becoming more closely tied to conservation of the land and the sustainability of agriculture than ever before. While conservation during the dust bowls of the 1930s was a rationale that could stand alone, it also became the vehicle for moving cash into rural areas to meet income needs through payments to farmers for adopting conserving practices and setting land aside. Today, conservation is a strong independent rationale for agricultural policy. The 1985 Farm Bill's cross compliance provision was to enforce basic national conservation standards on those farmers wishing to obtain the risk and income protection of commodity programs. The compliance standards have been reduced and enforcement has proved unpopular so this device has less impact. However, we see that the newer programs for conservation on working lands, EQIP, CSP, etc., reflect a public concern that conservation be a primary rationale for government involvement in agriculture. Programs like the Conservation Reserve Program have brought new supportive constituencies to agricultural conservation – in this case sportsmen and others interested in wildlife habitat, as well as improved water quality.

Nutrition programs are out of the inner circle of what is considered essential to government's involvement in agriculture. If these programs are to remain within the Department of Agriculture, they may have to become more closely linked to the traditional agricultural programs – if for no other reason than their political importance to these programs. The photos in most Congressional offices show the Congressman involved in the school lunch program, not in production agriculture. Food safety is in the same political situation. While nutrition and food safety largely stand on their own, other efforts, like export enhancement and trade liberalization, are intended to increase and/or stabilize the incomes of farmers.

While rural development and things like the FMHA programs remain part of government's involvement, they have not been of major importance since the Great Society. Given the current availability of credit from a variety of sources, there is less argument that a government credit role is as essential as it was in the 1930s. For example, Farmer Mac has not played the role that was envisioned for it and does not appear to be a least cost way to provide a function that may not be essential for government today.

Conclusion

The rationale for government involvement in agriculture has evolved from indirect involvement in the early years of the United States and income parity and the credit availability of the 1930s. Currently, the central remaining issues are risk reduction and the public's willingness to continue to provide income transfers and other assistance to this sector based on its strategic importance or uniqueness. Senator Lugar's questions focused on whether government needed to continue to be involved, and what the most cost effective way to be involved would be if that is required. Few today ask if government involvement is needed, what the rationale is for the involvement, and then what the best way is to provide support. This may change as agriculture becomes viewed as a producer of biofuels and other bioproducts in competition with food and at a potentially higher cost to the environment from more intensive and/or extensive production.

For More Information

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