I. DOMESTIC AND INTERNATIONAL SETTING

Historical Overview of U.S. Agricultural Policies and Programs

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ABSTRACT

U.S. agricultural policy is as old as the Nation itself, going back to the struggle for independence against Great Britain. As the Nation developed, policies were implemented to promote the exploration and settlement of the frontiers. As the country progressed through cycles of business development, financed at first by farm exports, policies were formulated to help U.S. agriculture keep pace. By the thirties, a national concern arose to improve the depressed farm income situation, which many believed to be the root of the Great Depression. Most of our current programs--and much of our current agricultural success--had their origins in this period.

KEYWORDS: Agricultural Adjustment Acts, agricultural programs, Hatch Act, Capper-Volstead Act, Federal Farm Board, McNary-Haugen bills.

INTRODUCTION

For 200 years, agricultural policies have been a part of American government. Although they have changed as the Nation itself has changed, certain basic objectives have remained throughout:

- helping farmers to maintain themselves as free, independent business people, control their means of production, make their own decisions, and benefit from their own labor and management abilities;

- maintaining an adequate supply of high quality food at reasonable prices; and

- encouraging agricultural exports as a way to pay for the industrialization of the Nation and for imports.

When the United States declared its independence of Great Britain in 1776, it did so largely because of repressive agricultural policies. Great Britain was taxing and controlling Colonial exports of agricultural commodities, had limited westward movement by forbidding settlement west of the Allegheny Mountains, and was collecting quitrents, or small fees, on lands that settlers had bought. When

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the new Nation was established, quitrents were quickly abolished, export taxes were forbidden by the Constitution, and western lands were opened to settlement.

The Congress stimulated western settlement, which both protected our frontiers and encouraged independent farmers, by passing the Ordinances of 1785 and 1787. These made it easier for farmers to obtain title to land and brought new lands into the Nation as States as their populations increased. With the goal of making new farmers free, independent producers, Congress continued to modify the land laws until in 1862 it gave men or women who would settle on western lands for 5 years title to 160 acres.

By the late 1850's, a major depression had hit the Nation. Political leaders were concerned with maintaining a healthy, expanding agriculture in part because farm exports had been increasing, making up about 80 percent of total exports. In 1862, Congress passed and President Abraham Lincoln signed laws establishing the Department of Agriculture, granting land to the States for agricultural colleges, and giving homesteads to settlers in the West. Agricultural research was greatly strengthened in 1887 with passage of the Hatch Agricultural Experiment Station act. Together, research and opening new lands to farming increased total production and the productivity of individual farmers.

During the Civil War, the demand for farm products, both domestic and foreign, sent prices up sharply. Labor was short as young men from both the North and the South joined the armies. Farmers turned to the comparatively new horse-drawn machinery to increase production despite the labor shortage, a change that has been called the first American agricultural revolution. However, prices received by farmers fell irregularly but persistently from the end of the War until about 1896. Farmers experienced 30 years of hard times. The basic problem was overproduction, although farmers did not recognize it. Production was increasing about twice as fast as population. Increased domestic per-capita food consumption and exports were not enough to take up the slack.

Farmers organized nationwide associations to solve their problems through cooperatives and to press for Government action. They called for the regulation of railroads and warehouses and for the breakup of monopolies. Congress passed the Interstate Commerce Act and the Sherman Anti-Trust Act, but these had little effect on the farm situation. Farmers then called for an increase in the money supply, first for more currency and then for the free coinage of silver. In the 1890's, they organized the Populist Party and came close to electing a president.

After the turn of the century, the rate at which farm production had been increasing began to slow, while both domestic and foreign demand increased. Farmers also benefitted from a mild inflation, triggered by the discovery of gold in Alaska.

World War I led to a new approach in Federal agricultural policies--a guarantee of minimum prices for wheat and hogs. Farm prices rose, the Government called for increased production, and farmers responded. Large quantities of food went to our overseas allies and to relieve hunger in Europe after the War. Then, agricultural prices collapsed in July 1920, largely because of a sudden decline in export demand. Farmers averaged $2.16 per bushel for wheat in 1919, but only $1.03 in 1921. For more than a decade, prices went up and down, with the trend always down. The situation was aggravated by the rigidity of nonagricultural prices and wages, creating a new gulf between farm income and costs. The continuing farm depression was one of the causes of the Great Depression. Many farmers, of course, prospered. They managed their farms well, adopting the new technology that suited their situations. Some began using tractors, for example.

Hybrid seed corn became commercially available in the Midwest in 1926 and those who adopted it usually profited. Many farmers were aided by the Federal Farm Loan Act of 1916. It encouraged the establishment of both privately owned and cooperative farm mortgage banks, with financial guarantees by the Government.

Cooperatives seemed to many to be the answer to marketing problems, particularly after Congress passed the Capper-Volstead Act of 1922, allowing farm cooperatives some exemptions from the antitrust laws. Cooperatives, though, could not control the marketing of substantial enough amounts of the major crops to keep up prices. Production was increasing and foreign markets had virtually disappeared because of rampant nationalism in Europe and the change in status of the United States from a debtor to a creditor nation as a result of World War I.

Farm organizations, led by the new American Farm Bureau Federation, called for national legislation to maintain farm prices and incomes. Congress twice passed the McNary-Haugen bills, which would guarantee farmers fair prices for their share of the domestic market for basic commodities, while the surpluses would be sold abroad by a Government corporation. These bills were vetoed by President Calvin Coolidge in 1926 and 1927. In 1929, legislation was passed authorizing Government loans to cooperatives to hold products off the market until prices improved and authorizing the establishment of stabilization corporations to purchase wheat and cotton. The Farm Board which administered the program was out of funds by 1933, due to continuing sharp declines in farm prices as a result of the Great Depression and a lack of authority to control production. After his inauguration in 1933, President Franklin D. Roosevelt asked the Congress to pass legislation that would "increase the purchasing power of our farmers and the consumption of articles manufactured in our industrial communities." Congress responded with the Agricultural Adjustment Act of 1933. The act, signed on May 12, 1933, by President Roosevelt, gave the Secretary of Agriculture authority to reduce acreage or production by voluntary agreements, to enter into marketing agreements with processors to control prices paid to producers, and to license processors and others with the aim of eliminating unfair practices. Farmers could receive rental or benefit payments and the Department of Agriculture could spend money to expand markets or remove surpluses. These activities were to be financed by a processing tax.

The year after the act was passed, Secretary of Agriculture Henry A. Wallace wrote: "The present program for readjusting productive acreage to market requirements is admittedly but a temporary method of dealing with an emergency." Yet, 50 years later, this "temporary method of dealing with an emergency," while modified, is still in effect.

The Agricultural Adjustment Act was aimed primarily at improving the financial situation of the average farmer. It was followed by a number of agencies and laws aimed at particular farm problems. The Resettlement Administration, later the Farm Security Administration and now the Farmers Home Administration, was established by the President in May 1935 to help destitute farm families and to retire submarginal land from production.

Congress passed the Emergency Farm Mortgage Act on May 12, 1933, and followed it with the Farm Credit Act of June 16, 1933. The Farm Credit Administration was established in June 1933 to handle both emergency and long-term credit programs. The Rural Electrification Administration was established in 1935. The Soil Conservation Service was established in April 1935 under authority of the Soil Conservation Act of 1935. It succeeded the Soil Erosion Service. One of the most acute of the Depression-born problems was that of getting food to people in the midst of surpluses. Beginning in 1933, the Federal Government undertook direct distribution of surplus food. School lunch, milk, low-cost milk, and food stamp programs came along.

The production control provisions of the Agricultural Adjustment Act were invalidated in 1936 by the Supreme Court. These provisions were replaced in part by the Soil Conservation and Domestic Allotment Act of 1936, which attempted to reduce production of surplus crops by payments for improved land use and conservation practices. However, surpluses began to accumulate and new legislation was passed. The Agricultural Adjustment Act of 1938 stressed an "ever-normal granary" plan of balanced abundance, with nonrecourse loans for cooperators, acreage allotments, marketing quotas for "basic" crops, and a goal of "parity" prices and incomes for farmers. This act, with many modifications, remains the basis of agricultural price support and adjustment law today.

World War II triggered a second American agricultural revolution, bringing major changes in land use, farm policies, agricultural production, farm management, and farm life. Even before the Japanese attack on Pearl Harbor, the United States supplied food to Great Britain and the Soviet Union. Secretary of Agriculture Claude Wickard called for increased production of many commodities in 1941 and Congress, in the Steagall Amendment, provided price supports for them.

World War II sent farm prices over 100 percent of parity and Congress guaranteed high support prices for 2 years after the cessation of hostilities. After this period, modifications of price support and adjustment legislation were marked by controversy and compromise. The major controversy for many years was between those advocating support levels at a high, fixed level of parity and those advocating flexible price supports adjusted to supply and demand. The Agricultural Act of 1949, which like the Agricultural Adjustment Act of 1938 is still on the books, supported major commodities at between 75 and 90 percent of parity, depending on supply.

During the fifties, surpluses began to accumulate and the Congress looked for ways to stimulate foreign trade. The Agricultural Trade Development and Assistance Act of 1954, known as Public Law 480, authorized the Government to make agreements for the sale of farm products for foreign currency, to make shipments for emergency relief and other aid, and to barter farm products owned by the Government for needed materials. P.L. 480 has proved so valuable that it has been extended into the eighties, but it is far from a complete answer to the surplus problem.

The Soil Bank, established by the Agricultural Act of 1956, was still another large-scale effort to deal with surpluses. The goal was to bring about adjustments between supply and demand for agricultural products by taking farmland out of production. An acreage reserve was aimed at a short-term withdrawal of land planted to major commodities, while a conservation reserve looked to the withdrawal from agriculture of any land designated by the farmer for a period of up to 10 years. In 1957, 21 million acres were in the acreage reserve and 29 million acres in the conservation reserve, with the program generally considered a success. Other types of land withdrawal programs were in effect during the sixties.

The Food and Agriculture Act of 1965 attempted to separate the income enhancement features of farm programs for basic crops from their stability-enhancing features, as had been done for wool since 1954. A similar step for wheat had been taken in 1964 after farmers turned down rigid marketing controls.

By 1973, the demand for U.S. farm products was at a high level due to world crop shortages and worldwide inflation. World demand, combined with export subsidies and the devaluation of the dollar, had liquidated the stocks which had been established under previous price support programs. The Agriculture and Consumer Protection Act of 1973 emphasized production to respond to "evergrowing worldwide demand for food and fiber" and permitted substantial changes in the ways programs were implemented.

The 1973 act was designed to provide protection for farm incomes while permitting American products to move into world trade. Farmers would be assured target prices, which would take into consideration the trend of domestic and world prices, supplies, cost of production, and other factors. Loan rates would be set below market prices to encourage products to move into markets rather than into Government storage. Direct payments on crops, called deficiency payments, would be made to farmers when the target price was higher than either the loan rate or the market price.

During the 4 years that the 1973 act was in force, market prices for most supported commodities remained above target prices, partly because of a strong world market. Many farmers, however, were concerned over rising production costs and felt a need for higher levels of price support. The Food and Agriculture Act of 1977 represented a compromise between the farmers' concerns and the need to keep potential program costs at reasonable levels. A farmer-owned reserve program for wheat was to encourage farmers to hold their grain from 3 to 5 years rather than turn stocks over to the Government. This would allow them to reap the benefit if prices increased significantly during that period.

During the 4 years covered by the 1977 act, demand and prices for farm products were generally high, although at the end of the period some falling off in both could be seen. However, the general pattern of price supports through loan programs and target prices established in 1973 was continued in the Agriculture and Food Act of 1981. The acts of 1973, 1977, and 1981 extended P.L. 480 and the food stamp and related programs.

During the time that the 1981 act has been in effect, agricultural exports have declined and market prices for farm products have weakened. Legislated levels of loan rates and target prices predicated on continued inflation and expanding markets proved to be well above actual market prices. During 1981 and 1982, substantial surpluses accumulated, and the costs of price support programs increased sharply. A payment-in-kind or PIK program used by the Department of Agriculture in 1983 offered surplus agricultural commodities owned by the Government in exchange for agreements to reduce production by cutting crop acreage. The program achieved its objectives of reducing production and eliminating much of the Government-owned surplus, except for wheat. Further improvements in the farm economy will depend upon continued recovery in the U.S. and world economies, adjustments in exchange rates, and better access to world markets for American farm products.

During the past 50 years, the Government has supported the prices of basic farm products by several different methods. These methods have varied as economic conditions and farm technologies have changed. During this time, the number of farms declined from 6.3 million to 2.4 million. The average farm increased from 157 acres to 437 acres, while the share of the employed working force in farming declined from 26 percent to 3.4 percent. In 1933, farm products made up 35 percent of America's exports, compared with 19 percent today, but the dollar volume has increased from $2 billion to $39 billion.

These trends may continue, yet the objectives of America's farm policies are much the same today as they were when we declared our independence. Partly as a result of these policies, American farmers today are free, independent business people, Americans enjoy an adequate supply of high quality food at a lower cost in terms of their income than in most other nations, and agricultural exports contribute substantially to the national economy.