WRITING FARM POLICY

Land and communities, not myth, should be its basis

by Ken Meter

Farm policy currently supports myths far better than it supports farmers. For example, the original House version of the 1985 Farm Bill proposed to spend $141 billion—two thirds of the total national farm debt. Yet that bill would do absolutely nothing to relieve farmer debts. In fact, by further reducing commodity prices, the House bill promised, instead, to deepen farm debt and reduce income for most family farms. Is this the best way to apply our tax resources?

Political leaders on both sides of the aisle have determinedly stated that the family farm is "obsolete." Both sides agree that increasing exports and encouraging the "free market" is the proper course for policy. Federal funds are rigorously applied to upholding these assumptions, even while farm families flounder.

Yet the idea that the free market and exports will solve the problems of American agriculture is a myth. Unhappily, it is not the only myth at work in farm policy debate today. In this essay, I examine eight of the most prevalent myths in the current political debate. A better course, as I will propose, can empower those who are intimate with the land. Once local communities can again supply their own farm credit, we will have the opportunity to develop a regenerative agriculture.

Myth 1: "What's Needed Is A Return To Free Enterprise"

There never has been much free enterprise in this country for farmers. In fact, the federal government has always held the reins guiding the development of agriculture.

As early as 1623, government policy played a direct role. Town governments established common grazing areas for the herds of the local farmers, and then hired shepherds to tend several flocks in common. Even in the "laissez-faire" era of the 19th century, federal policy was far from neutral. Railroad magnates were granted alternating sections of land on either side of their railway routes. These land grants later became timber areas, bonanza farms, settlements, mining areas, or merely an asset base. The growth of grain empires in the Midwest was inextricably tied to the growth of the railroad industry.

Wars, similarly, brought federal support to certain food producers. The western range-cattle industry was begun—not enhanced, supported, or fostered, but *begun*—by federal purchases to outfit Civil War regiments with food.

Further, tax structures have been one of the most important determinants of agricultural development. Federal tax write-offs have encouraged investment by larger corporations at the expense of small ones. Limited partnerships have allowed outside investors to shelter investment capital and write off farm investments against business profits. Such partnerships have been able to sustain farm losses while improving their tax position.

The myth of a "free-enterprise" economy persisted because, for many small producers, it has in fact been a severely *competitive* economy. There has also been a dramatic competition between wealthy families to decide which of them would dominate the grain trade. As Dan Morgan points out in *Merchants of Grain,* it was precisely because the grain industry was so competitive that only family-held corporations could prevail. Only families could hold their members to the strict confidentiality and extreme trust required to keep trade secrets and to hold a competitive edge.

While there was competition inside certain sectors of the economy, there was also a distinct pattern emerging—consciously supported by federal policy—to establish larger producers and traders at the expense of the small. For the underdog family farm, there has been an understandable call to "get the government out of agriculture." The anger is fair, but the solution is not.

Elevated to the level of political platform by the Farm Bureau Federation (the largest of farmer organizations), the call to remove the government from agriculture is simply dishonest. The Farm Bureau itself relied heavily upon the federal government to get established. At its birth in 1919, the Farm Bureau had access to the entire national roster of federally paid U.S. Department of Agriculture Extension agents—who signed up Farm Bureau members as part of their jobs while being paid federal salaries. Since then, the federation has consistently worked to develop a powerful and effective lobbying force—in Washington, D.C. of all places.

Myth 2: "Agricultural Commodities Should Be Sold On The Free Market"

A second key phrase in the popular debate about agriculture is "free market." Those supporting a "free market" say that the farm economy is suffering from overproduction caused by federal intervention into the pricing system. Normal interactions of supply and demand, they say, would take care of limiting production, if only the free market were allowed to work.

Interestingly, the current administration has backed away from the words "free market" when describing its own farm program. Its officials now use a more nondescript phrase—"market-oriented"—which carries no specific commitment to actually creating free-market conditions.

"Free-market" models of supply and demand are, at best, academic abstractions. They are useful concepts which help to explain complex relationships, but are scarcely followed in real life. An ideal "free market" can be defined as a market in which every economic actor has relatively equal access to information about markets and prices, and nearly equal power in responding to that information. Further, it is a market in which no outside encumbrances—be they tradition, public policy, political constraints, or resource limitations—would impinge on an individual economic actor's ability to act in any way he or she saw fit.

Agriculture clearly does not fit this definition. A more basic dynamic is at work. As Joan Robinson, an English economist, has pointed out, there are basic economic forces which operate against the producers of raw materials, and which tend to favor the growth of monopolistic marketing firms.

Producers, for their part, assume risks: weather, accidents, natural disasters, fluctuating prices, labor markets, uncertain resource supplies, and so on. The realities of production dictate that it will be scattered at various sites, depending on where resources are available and on which raw materials are in demand. Capital requirements place an especially heavy burden of risk on the producer, especially as technology becomes more sophisticated, or as interest rates increase.

Marketers, however, shun risks. They have very little capital investment per unit of produce handled, relative to the value of material they trade. They have no direct risk from weather or climate in normal conditions, since they are free to buy from several sources in different locales. They are in a position to hedge against economic conditions with speculative purchases.

Mature grain companies, in particular, have the ability to invest with relatively small risk. The Cargill Corporation has a world-wide computer network of information on weather, grain production, and markets, which allows it to predict future grain supplies with fairly high accuracy. They are in a position to purchase futures—and with superior information they are able to realize a profit whether the price goes up or whether it goes down—they simply know the market better than anyone else. Richard Gilmore has pointed out in *A Poor Harvest* that the grain companies do not care how the price changes, as long as it keeps changing. It is the *fluctuation* in price from which they derive their profit. Under a stable price system, they would have less competitive advantage.

So it is that the interests of producers are set against the interests of the marketers. While the producer will gain the most if he is assured of a certain price for his product, the marketer wants to see the price change. Whereas the producer is rooted to a locale and must sell his produce at a limited number of markets, the marketer has highly mobile capital. The producer is more efficient if he stays relatively small, while the marketer has every reason to get as large as possible. In short, there is a tendency for marketers to become monopolies, while there is a tendency for producers to remain scattered, more independent entities.

U.S. government policy has worked to institutionalize this split, and has made powerhouses out of monopolies, while making dependents out of individual producers. A more useful federal policy would straightforwardly confront the reality of monopolies in the food economy and set limits on them—rather than parroting unrealistic fantasies of a "free market."

Myth 3: "The Best Salvation For The Farm Economy Is To Increase Exports"

Most of the proposals offered to Congress assume that increased exports offer the single best path to a recovery in the farm economy. This has, in fact, been the basic thrust of every farm program since 1960, from both Democratic and Republican administrations.

It is true that, in the short term, increasing exports is an exceptionally effective way to bring capital into the country quite rapidly. For example, farm exports helped offset quickly the economic crunch that accompanied the dramatic hike of OPEC oil prices in 1973. With fuel exports jumping from $9 billion to $32 billion from 1972 to 1974, the federal government looked to some source of capital to restore a balance to our foreign payments. Agriculture was an obvious answer.

With billions of bushels of grain then in storage, there were ample supplies to sell abroad. Food exports leapt from $6.5 billion in 1972 to $15 billion in the same two years. A potential economic debacle was averted. It was at this point that then Secretary of Agriculture Earl Butz gave his now-famous advice to farmers to "plant fencerow to fencerow." Thus it became systematic federal policy to "save" our balance of payments with agricultural exports.

In retrospect, we can see the risks involved in basing our economic health on exports. To begin with, we became overly dependent on the ability of other countries to purchase our agricultural commodities. When other countries struggled in a depressed world economy, the U.S. lost business which was central to its own economic survival.

A second risk is that our very effort to convince other countries to purchase food from the U.S.—through export subsidies, or special loan programs which guaranteed that foodstuffs would be purchased from us—has encouraged some of these countries *not* to produce their own food. U.S. foods were simply cheaper and more readily available, and often became tools used by political figures to control their own population. (This dark side of U.S. aid has been documented by Jack Nelson in *Hunger for Justice,* and by Frances Moore Lappe in *Food First.)* Along with fostering dependence in Third World countries, our food programs—both aid and loans—often also fostered suspicion of U.S. motives. They led to a less stable world, and to more hungry people.

Our efforts to dominate world food trade have dictated a policy which holds the price of foods artificially low, so that U.S. products—which have a natural advantage because of the sheer size of the country—are more competitive.

This comes back to haunt us. As the U.S. forces world market prices down on most commodities, many Third World nations—whose primary exports are, after all, agricultural—falter in the world economy. This means they are unable to pay back their debts to superpower banks or the International Monetary Fund. Moreover, they cannot muster the currency to buy U.S. products.

The third risk is less noticed, but is equally devastating. Within our own borders, we have created dependent rural communities. Like the Third World countries we sought to "help," our rural communities now turn over their best soil for export crops, at the expense of food production for local mouths. In a farm state like Minnesota, which is one of the nation's seven top producers in several major food crops, two-thirds of the food eaten is brought in from out of state.

Myth 4: "The Only Solution Is To Give Farmers More Credit"

In Minnesota and Iowa, one out of three farms were in danger of not being planted in 1985 because bank credit was unavailable. Some were planted because neighbors, relatives, or bankers rallied to help. Many farmers simply rented out their land to others with credit. Many planted low-cost crops like oats. While those farms were eventually planted, there were few signs of economic health.

A major policy response has been to propose more credit. In one proposal, limited partnerships were to be formed among urban lawyers, doctors, businessmen, and other professionals who would bail out farmers by investing in their farms. Their investment would be limited to 49 percent. In 10 years, the farmers were to buy these partners out. In the meantime, of course, the farmers were to work hard, and the investors would collect their tax credits.

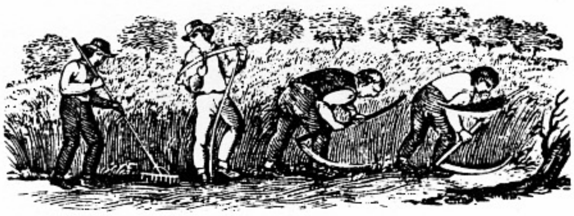
The glaring assumption of this proposal is that the farm economy will improve enough so that farmers will be in a position to purchase their equity back. If that assumption proves false, the risks of a major loss of farmer control over land is severe.

The structure of credit in the farm economy casts doubt on any too-easy optimism about that assumption, however. Over the last 40 years—in the midst of an immense boom in farm productivity, technological advance, and foreign markets—control of farm credit has systematically been drained away from rural communities. In 1950, farm communities were their own source of credit. Forty-two percent of all farm credit came from *individual* lenders, according to USDA data. Most of these were relatives of the farmer. A mere 17 percent was loaned by the bankers, another 17 percent by government. In 1978, by contrast, 40 percent of farm credit came from federal sources. Banks held about 24 percent. Individuals' share had dwindled to 19 percent.

The answer is not simply to offer new credit infusions from outside the local community, but rather to retain the credit which is rightfully there. The backing for credit is, after all, commodities like corn and wheat, and the 1973 grain boom proves how substantial a source of credit such farm products can be. What is needed is that the communities which produce those commodities gain more just rewards for their efforts.

Myth 5: "Farmers Need To Be More Efficient"

Many observers of the current farm crises are still repeating the adage of the last four decades: that the farm crisis offers a fine opportunity to "weed out" inefficient producers. This view rings with a commonsense sort of logic. Since clearly some farmers are prospering in the midst of the economic crisis in which others are bankrupt, it would seem that some are just better competitors than others.



This calculation, however, rests on a false assumption—that the economic troubles besetting some farmers are caused purely by economic woes. In fact, there are several structural forces at work that are created by public policy, not general economic trends. Farm subsidy programs often help larger farms more than the small. Tax policies encourage investment in new machinery and buildings rather than in subtle refinements of an ongoing farm operation. Tax write-offs favor larger farms, or those with investors from outside of the farm sector, over smaller family farms. Lenders have pushed farmers to take on bigger loans. Extension agents and university researchers have applied their attention to larger farms and larger technology at the expense of small farms. Minority farmers are discriminated against by federal and local authorities, as the U.S. Civil Rights Commission has concluded. Marketers and public authorities have preferred to deal with a smaller number of large farms rather than many smaller ones. In short, there are a myriad of forces involved beyond mere economic efficiency of a given farm.

If efficiency were the most central determinant of farm survival, medium-size farmers would have the upper hand. According to a 1981 USDA study, "medium-size commercial farms with gross incomes of $41,000 to $76,000 achieve most technical cost-efficiencies." Beyond that size, farms can earn more money because they can sell more products, but they are no more efficient.

That farms don't improve efficiency with size is only one part of the issue. Implicit in the efficiency argument is the assumption that farmers should "get with it" and conform to industrial standards. Yet the farm sector has surpassed industry in productivity. Much industrial capital, in fact, has been tied up in mergers and other acquisitions. These involve massive amounts of capital devoted only to the purpose of transferring existing property, systems, or tax losses. They add no new productive equipment to the economy, but merely preserve the myth that monopoly corporations are "profitable," because such mergers allow a reorganized entity to show a profit on its balance sheet. Such mergers have been, in fact, a large drain on capital.

The "low-price" policy of the U.S. government, which ostensibly encourages efficiency, in effect, siphons money away from the productive rural sector in favor of corporate mergers. In the long run, this spells disaster to the national economy.

Myth 6: "Only The Bad Managers Are In Trouble"

Closely related to the "efficiency" myth is the notion that only the bad managers are in economic trouble. Once again, this is a notion that seems logical in the face of the uneven nature of the farm crisis. Those who received windfall payments during President Reagan's Payment-in-Kind (PIK) program, or those who are working land that was paid off before the economic crisis settled in, are in fact still able to reap large profits in farming. So are those who are able to write off farm expenses against off-farm income.

But the record of the current farm crisis is filled with examples of farmers who only recently were among the most productive farmers in their counties. The *Wall Street Journal* reported on one such farmer in Illinois. He was voted "farmer of the year" just two years before he was forced to file for bankruptcy. A Minnesota farmer was county "farmer of the year" one year and foreclosed the next. A North Carolina farmer was considered a "model" farmer by the local Farmers Home Office until his dairy herd contracted a disease—after receiving "preventative" inoculation. The next year brought drought. "Once I missed a payment, they called me a bad manager." He was foreclosed. There are similar examples in most other states.

In fact, two types of farmers are most in trouble. First, there are those who expanded rapidly in the 1970s, partially in response to the federal policies of both the Nixon and Carter Administrations. Many of these people were in fact the "best" managers in the eyes of local lenders. They were considered the best risks for new loans and often higher loans were pushed at them. For example, Minnesota's FmHA farm credit chief, Niles Westby, was told in 1979 by his superiors in Washington to "make loans!" Often, he says, farmers came into the office looking for, say, $150,000 and came out convinced they should borrow $250,000. Indeed, Farm Credit System managers were awarded merit pay based on the amount of money they loaned.

These farmers were able to borrow money on the assumption that the price of their land would increase. If they were to fail, the lender reasoned, the land could be sold for a higher price which would more than compensate for any losses. The whole estimate was based upon the assumption that the farm economy would always grow and on the assumption that inflation would always be present. But in 1980, land prices plummeted as much as 30 percent.

The second group of farmers in deep trouble are those who attempted to start a farm within the last 10 years. They find themselves saddled with tremendous debts which they had no choice but to assume. Often, these new farmers had to make substantial investments to modernize their equipment or facilities in order to attract a loan in the first place.

A recent survey of farm income shows that those who are making the most money are grain consumers. Those losing the most are grain producers. The price structure pits one type of farmer against another. Management is not the issue.

Myth 7: "The Only Solution Lies With Massive Federal Programs"

Traditional wisdom in farm and policy circles is that only the federal government is strong enough to set subsidies. Federal support programs also assume that the presence of the federal government is always benign, ignoring the constrictions of borrower freedom that accompany recordkeeping related to federal loans. Further, they assume that the federal government actually has the capacity to enforce its programs fairly—when in fact private interests consistently "work around" federal laws to get their needs met.

Such programs take for granted that the federal government "knows enough" to adequately set policy. In fact, often the only people who have enough information to properly subsidize the growing of crops on particular soils, or to properly police pricing structures are those who are rooted in local communities—people who know the land, the climate, the grapevine, and the official policy.

The "welfare" approach to agriculture involved in

some federal programs ignores the dependency which is created by federal money. Once a local community becomes used to infusions of outside capital that it did not raise itself, then it loses some of its capacity to sustain itself. Local political leaders become attached to exercising their powers to dictate the flow of the public dole, rather than in helping their neighbors to develop their own ability to produce.

Finally, the more highly organized economic entities—for example monopolies, large businesses, powerful political figures, and so forth—are usually more adept at garnering control of these "welfare" payments than are small-scale actors. Consequently welfare-oriented programs rapidly become welfare for the rich.

Such concerns are embodied in the message—but clearly not the reality—of President Reagan's rhetoric of "local power" as advocated in the election campaign of 1980. Significantly, he dropped this language in the succeeding campaign, in light of the reality that his administration had done so much to increase federal debt, increase federal defense expenditures, and to drain funds away from local units of government. In effect, President Reagan displaced *risks* onto local communities, but did not decentralize *responsibilities.*

The grass-roots conservative critique of "big government"—however misinterpreted by Mr. Reagan and however maligned by the New Right—does in fact carry a powerful germ of truth. That truth is not that public authority should be avoided, but that it should be small in scale, "of, by, and for the people" it intends to serve, and thus accountable to its own public.

The Democrats, for their part, have been unwilling to break with their own "big-government," New Deal style answers to the farm crisis.

Instead, what is needed is a new view which links a healthy conservatism with a commitment to justice. Such a position will blend an appreciation of powerful families, of community self-awareness, preservation of cultural tradition, and democratic local control with compassionate and flexible public authority based on the liberal tradition of aggressively pursuing justice. It will surpass the New Deal by decentralizing authority and limiting the federal role.

Myth 8: "Farming Is An Obsolete Way Of Life—The Answer Lies In New Technology"

In Minnesota, where high-tech computer industries are now well-established, it is fashionable to declare that the family farm is "obsolete." From this viewpoint, it is a "backward" way of life destined to disappear in the face of new technology.

Ironically, this very attitude was behind the worst of farm legislation in the 1920s. Farmers then were to be "upgraded" into the industrial age. But 60 years later, people still raise food and people still eat. By contrast, the immense steel mills and assembly lines which once caught a generation's fancy are themselves inefficient and obsolete. Their products, the large scale tractors and combines, are showing up as one of the major *causes* of the devastating farm debt.

In fact, corn is itself a technology. A single kernel is an extremely intricate and sensitive "information-retrieval" system, the product of generations of rural people who nurtured a plant with finger-sized seed pods into the bountiful crop we grow today. Corn is itself more sophisticated in its information content than any computer we have—and yet society does not yet know how to properly reward those who produce this well-established technology.

Unlike corn, computers are unproven technology. We know that they are efficient processors of data, but we do not yet know if they can help nourish a community.

Computers do not themselves produce new wealth—their economic role is to make the production process more efficient. They may save on labor costs, they may make the transfer of wealth more efficient, but they do not *create* new wealth. Communities harvest and mine the wealth which pays to build computers.

A proper farm policy will surpass these myths. Such a policy will:

- ☐ limit monopolies so that competition can be fair.
- ☐ bring supply and demand into conversation with each other.
- ☐ export surplus production, but be centered on domestic markets.
- ☐ cultivate local credit sources and minimize unnecessary producer risks.
- ☐ reward efficiency at any scale.
- ☐ reward good management without endangering those who are unfortunate.
- ☐ blend a thoughtful conservatism with a liberal commitment to justice, rather than writing policies which vacillate between the two.
- ☐ demand that new technology prove itself.

In addition, a proper policy will come about after two important lessons are learned: (1) that policy cannot be made with abstract formulas, but rather must be tied to specific lands. Those who know the intricacies of a given region must write the policy which affects that region. (2) that farm supports should not go to individual farmers, but rather to rural communities. Rather than being based on an individual's income, farm policy will demand that rural communities can support their own credit base.

Once these steps are taken, the rural economy has the hope of building an agriculture which regenerates itself. Once the mythology is gone, we can look with clear eyes at the land.

Ken Meter is a free-lance writer based in Minneapolis. He is the author of Green Isle, *in which one community of Minnesota farmers describe the impact of the national farm economy on their lives. This article is taken from a forthcoming book,* Groundswell.