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Agriculture During the Reagan Years

A Dissertation Submitted to
The Faculty of the Department of History
In Candidacy For The Degree of
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By

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Agriculture During the Reagan Years

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Dedication

To Rose, Kelly, Brian, Janelle, Mickey, Lauren, Payton, Addison, Evelynne, and Gibson—
the center of my world.

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Introduction

The current understanding of the Reagan years does not include details of the seven-year battle between the administration versus Congress and agricultural interests over how much income from America's taxpayers would support U. S. farmers. The burgeoning academic literature on Reagan and his presidency does not mention agriculture. For example, when the important conference held to assess Reagan-era scholarship in 2002 resulted in the acclaimed volume *The Reagan Presidency*, edited by W. Elliot Brownlee and Hugh Davis Graham, agriculture or agricultural policy did not appear in the table of contents.¹ Similarly, when the agenda-defining National Bureau of Economic Research symposium *American Economic Policy in the 1980s* completed its study, agricultural policy merited not a single word.² That silence is a problem, because the "Farm Crisis of the 1980s" occurred during the Reagan administration; there are important insights to be gained from that episode about the president, federal farm policy, the workings of Congress, and the evolution of farming and farm life in twentieth-century America. That silence surrounding Reagan and the Farm Crisis is the impetus for the current study.

However, if one is to write of agriculture in the United States, there are several popular misconceptions about farming and farmers that must be identified and

¹ W. Elliot Brownlee and Hugh Davis Graham, eds., *The Reagan Presidency: Pragmatic conservatism and Its Legacies*, (Lawrence, Kansas: University Press of Kansas, 2003).

² National Bureau of Economic Research, *American Economic Policy in the 1980s*, edited and with an introductory essay by Martin Feldstein, (Chicago: University of Chicago Press, 1994).

dispelled before the topic can be clearly understood. The concept of the yeoman farmer and the “family farm” has been central to the American self-image for over 200 years. Most Americans, especially urban Americans, are strongly influenced by the ideas of Thomas Jefferson. Jefferson called farmers the most valuable of citizens. In fact, Jefferson envisioned the United States as one huge agrarian society.³ Later, during the Romantic Period of the nineteenth century, both Ralph Waldo Emerson and Henry David Thoreau wrote that nature was a formative element in the American national character. They argued that hard physical labor was necessary for self-realization. Farming provided both closeness to nature and hard physical labor.⁴ Populist rhetoric beginning in the late nineteenth century and continuing to this day also extolled American farmers. The populists maintained that farms were an important “safety valve” that preserved individual liberties and were repositories of the family values that defined the traditional American worldview.⁵

³ “Those who labor in the earth are the chosen people of God, if ever He had a chosen people, whose breasts He has made His peculiar deposit for substantial and genuine virtue. It is the focus in which He keeps alive that sacred fire, which otherwise might escape from the earth. Corruption of morals in the mass of cultivators is a phenomenon of which no age nor nation has furnished an example. It is the mark set on those, who, not looking up to heaven, to their own soil and industry as does the husbandman, for their subsistence, depend for it on casualities and caprice of customers. Dependence begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition. This, the natural progress and consequence of the arts, has sometimes perhaps been retarded by accidental circumstances; but, generally speaking, the proportion which the aggregate of the other classes of citizens bears in any State to that of its husbandmen, is the proportion of its unsound to its healthy parts, and is a good enough barometer whereby to measure its degree of corruption. While we have land to labor then, let us never wish to see our citizens occupied at a work-bench, or twirling a distaff.’ Thomas Jefferson, *Notes on the State of Virginia* (Chapel Hill: Published for the Institute of Early American History and Culture, Williamsburg, Virginia, by North Carolina Press, 1955), 303.

⁴ Henry David Thoreau, *Walden* (New York: Fall River Press, 2008); Ralph Waldo Emerson, *Nature, Addresses, and Lectures* (Cambridge: Chadwyck-Healy, 1999); William P. Browne et al, *Sacred Cows and Hot Potatoes: Agrarian Myths in Agricultural Policy* (Boulder: Westview Press, 1992), 9.

⁵ For Populism, Lawrence Goodwyn, *The Populist Moment: A Short History of the Agrarian Revolt in America* (Oxford: Oxford University Press, 1978); James Turner, “Understanding the Populists, *Journal of*

The "image" of farmers and family farms in the minds of Americans has been an important factor that consistently influenced Congress as it deliberated federal farm policy through the years. Unfortunately, many of the images projected in 1981 were false. Scholars argued that the concentration of population, media influence, and popular culture on the East and West Coasts created a sort of informational vacuum about what went on in between. Scholarly studies confirmed the existence of such a bias. Those living on the coasts had a variety of false images about how farming really operated. If one is to deal effectively with agriculture during the Reagan tenure, those false images must be identified and dispelled.⁶

This coastal bias suggested that there was a uniform Middle America containing red barns and tall corn or golden wheat growing in flat, featureless landscapes collectively described as "farm states." The reality was that the great middle was, and is, a highly diverse environment. Each state's agriculture was distinct; it is impossible to talk of a typical farm state. While the economies of the states in Middle America historically depended on agriculture, they did so less each year. The Federal Reserve Bank of Kansas City reported in 1987, for example, that fewer than 12 percent of rural families received the majority of their income from farming.⁷ Nevertheless, agricultural processing, finance, and services were still substantial employers. Many international

American History, 67, no. 2 (1980): 354-373; Richard Hofstadter, *The Age of Reform* (New York: Vintage Books a Division of Random House, 1955).

⁶ Willard W. Cochrane and C. Ford Runge, *Reforming Farm Policy: Toward a National Agenda* (Ames: Iowa State University Press, 1992), 20.

⁷Mark Drabenstott, Mark Henry, and Lynn Gibson, "The Rural Economic Policy Choice" Federal Reserve Bank of Kansas City, *Economic Review*, 74 no. 2 (1987), quoted in Cochrane and Runge, p.20.

companies such as Hormel, International Multifoods, Pillsbury, and General Mills were headquartered in “farm states.”

Misconceptions, however, led to the idea that federal farm programs uniformly benefited farm state interests and were widely distributed to the residents of all farm states. Actually, the interests (and politics) of farm programs broke down along lines of specific crops and regions, each with its own features and peculiarities. Every “farm state” contained only a small minority of farmers; the same was true for every congressional district within these states.⁸ In the most “agricultural” congressional district in the country, only 25 percent of its population engaged in full-time farming. It was a major irony of the Midwestern “farm state” illusion that California was, and is, the biggest farm state in the nation; it had a net farm income of \$6.0 billion in 1981, compared to \$2.4 billion for Iowa, \$2.1 billion for Nebraska and \$1.1 billion for Kansas.⁹

There was no typical farm state and no general farm interest. Federal farm policy was directed to specific crops. To understand agricultural policy, it is necessary to understand each crop, the geographical area in which the crop was grown, and the complex historical evolution of that farm program. Some crops had no federal policy. Some crops that received subsidies did not need them. The complexity of farm policy was truly daunting. Realizing this problem, newly elected President John Kennedy told his secretary of agriculture, Orville Freeman, “I don’t want to hear about agriculture

⁸ Cochrane and Runge, *Reforming Farm Policy*, 21.

⁹ *Ibid.*

from anyone but you....Come to think of it, I don't want to hear very much about it from you either."¹⁰

A second typical false image was that of the "family farm," which with its white farmhouse and red barn represented the backbone of our republic. This Jeffersonian picture, despite its powerful hold on the American psyche, began a long decline in its actual relevance to American political life as early as Jefferson's own time, when Alexander Hamilton's concept of a manufacturing-based economy began to take hold. By 1980, most large commercial farms were incorporated. The vast majority of federal farm subsidies went to the wealthiest farmers. Because of the high cost of land and farm machinery, the small family farm was becoming a thing of the past. Those who remained on small farms were forced to gain their living from off-the-farm employment. Most small farms by the end of the Reagan era had become part of a larger farm. This reality was a long way from Thomas Jefferson's vision.

Another false image was that farmers in general were "stewards of the land," and that agriculture was an environmentally benign and naturally healthy activity. In reality, agriculture was increasingly dependent on chemicals and mechanical implements that contributed in major ways to the environmental pollution of lakes, streams, and groundwater. The fewer, bigger farmers who remained increasingly relied on larger machinery to till their soil, and on powerful chemicals to maintain its fertility and protect it from weeds and pests. Government programs rewarded the specialized cultivation of crops that were particularly prone to erosion, and encouraged heavy use

¹⁰ Quoted in Cochrane and Runge, *Reforming Farm Policy*, 22.

of fertilizer and chemicals to keep yields high so that larger government payments could be obtained. Heavy equipment, long hours, and steady exposure to hazardous materials also made modern agriculture one of the most dangerous businesses in America, with accidents and occupational mortality rates among the highest of any major occupation.¹¹

A fourth false image was that American agriculture remained a domestic industry, for which domestic policies were most important. In fact, American agriculture in the postwar period emerged as the biggest export industry in the nation, highly dependent on foreign markets and international market forces over which domestic commodity and economic policies had comparatively little influence. Far from being isolated between two coasts, the great middle of America depended upon global markets for its survival and livelihood. Nearly half of the corn, wheat, and soybeans grown in the Midwest arrived in foreign ports. The modern farmer was increasingly a global trader, with a sophisticated grasp of international commerce, logistics, and transport.

A great public fear was that American farmers were an endangered species. The argument went that because of high costs, low profit margins, vulnerability to inclement weather, and the vagaries of foreign markets, the independent farmer was in danger of a hostile corporate takeover. In this view, no federal expense was too great to preserve and protect them. The “danger” was that somehow America’s food supply would be taken over by multinational corporate interests and the price of food would be held hostage to the corporate bottom line. The reality was that farm programs had actually

¹¹ Cheryl Tevis, “America’s Most Hazardous Occupation,” *Successful Farming* 83 no.6 (1985): 17.

hastened the exodus of farmers from the land by encouraging large farmers to buy out their smaller neighbors. During the period 1981-1988, 89 percent of all farmland purchases in Minnesota were made by buyers living within 50 miles of the purchased farm. Seventy-four percent of all farm purchases were to expand existing farms, and only 12 percent were bought by investors.¹² By 1981, the number of farms was indeed falling. Only about 2 percent of Americans were farmers. However, they were hardly poor. In fact, total farm output in the United States had increased almost every year since 1947, and total output almost doubled despite a decline in the number of farms from 5.9 million to 2.2 million.¹³ The corporations that were taking over agriculture were local family corporations formed by the farmers who stayed in the industry.

The problem with these false images was that they led to poorly-conceived federal farm policy. Agricultural economists argued that these false images skewed agricultural policy, because the Congressional leaders from urban constituencies often left farm legislation to the representatives from the “farm states,” asking only that the policies not raise food prices.¹⁴ With these misunderstandings identified, it is time to turn to Ronald Reagan’s encounter with the political landscape of American agriculture.

Ronald Reagan thought that he knew farmers and what they wanted.¹⁵ He had grown up in Illinois and felt attuned to rural people. He described farming this way:

¹²Andrew Schwab and Phillip M. Raup, *The Minnesota Rural Real Estate Market in 1988*, (St. Paul, MN: University of Minnesota Economic Report ER, 1989), 3, quoted in Cochrane and Runge, p.23.

¹³Department of Agriculture, *Economic Indicators of the Farm Sector, State Financial Summary, 1989* EDIFS 9-3 (Washington, GPO, 1991a), quoted in Cochrane and Runge, p. 23.

¹⁴Cochrane and Runge, *Reforming Farm Policy*, 27.

¹⁵I have never met a farmer who wouldn't prefer freedom from government agents stalking his property, measuring each acre of production, hovering over paper work and the implementation of

Facts and figures don't tell the whole story (of farming). They don't convey the strength and nobility of values, the deep faith in God, and love of freedom and independence, the many years of hard work and caring for friends and neighbors that began on the farm and made America the greatest Nation on Earth. Farming is hard work, maybe the hardest. The strength of our farmers has always been the strength of their dreams for the future—dreams that a son or a daughter working the fields, tending the herds, might decide to stay on that farm and be able to make a go of it. There is no price tag on traditions like these, only the stark realization that to lose our farmers would be to lose the best part of ourselves, the heart and soul of America. We cannot permit the dreams of our farmers to die. We must have compassion for these men, women and their families so important to all of us.¹⁶

He believed that agricultural people wanted what he wanted: as little government interference in their lives, and especially in their businesses, as possible.

On December 26, 1979 Ronald Reagan received a boost in his quest for the presidency from the Soviet Union. Just after midnight, two Ilyushin executive jets landed at the Kabul international airport. Strangely, rather than taxiing to the terminal, the planes stopped beside the control tower. Two dozen men in long leather coats filed out of the two planes and into the tower. The Soviet invasion of Afghanistan was under way. By 2 AM, an air bridge of Antonov An-12 and An-26 tactical transport aircraft was bringing airborne armored forces to the Kabul airport. By dawn, a tent city was in place, securing the airport. From there, forces began fanning out to take over the entire capital city. A transport plane landed in Kabul every ten minutes for the ensuing week. Once Kabul was secured, the armored Russian forces began a drive northward toward the city

complex rules. Kiron K. Skinner, Annelise Anderson, and Martin Anderson, eds., "Speech on Agriculture," in *Reagan in His Own Hand* (New York: The Free Press, 2001), 469.

¹⁶ Ronald Reagan, "Radio Address to the Nation on the Farm Industry, September 14, 1985," *Political Papers of the Presidents of the United States: Ronald Reagan, 1985, II* (Washington: GPO, 1988), 1089.

of Kunduz to link up with land forces streaming south from the Soviet Union into Afghanistan. Other airborne Soviet forces landed almost simultaneously in Kandahar, Bagram, and Herat. These three cities contained 70 percent of the Afghan population; within two days Russia controlled them.¹⁷ The Afghan President Hafizullah Amin was captured by secret police and immediately executed. On the second day of the occupation, the hand-picked Soviet sympathizer Babrak Karmal was installed as the new president, and Afghanistan ceased to exist as an independent sovereign state. The Kremlin was gambling that the response of the West, and especially of the United States, would not be a declaration of war. And short of war, what could they really do to hurt the USSR?

Because President Carter was not willing to fight a war with the Soviet Union over the sovereignty of Afghanistan, he needed a dramatic response to such blatant aggression from America's main adversary in the Cold War. In the early 1970s, the leaders of the Soviet Union had made the decision to improve the diet of their citizens, especially as it pertained to their meat intake. Because of its northern climate, feed grain production within the Soviet Union was quite variable. Many years, there was not enough grain to increase the nation's livestock to a point that could support the increase in the per capita meat intake that Soviet leaders envisioned. Thus, the Soviets became active consumers of the world grain market. On October 1, 1976, the United States and the Soviet Union signed a five-year agreement stating that the Soviets would purchase 6

¹⁷Donald E. Fink, "Afghan Invasion Likened to 1968 Action," *Aviation Week & Space Technology*, January 14, 1980: 20.

million tons of feed grain each year from the United States; further, they could purchase an additional 2 million tons from U. S. exporters without consultation with the U. S. government. The purchase of more than 8 million tons of grain in any one year would require further governmental negotiations. Late in 1979, the Soviets had reached agreement with the United States for the purchase of an additional 17 million tons of grain during 1980. The sale of 23 million tons of grain to a single foreign buyer was a great boon for American grain farmers and was quite a popular decision within the grain belt. However, the invasion of Afghanistan changed the entire equation.

On January 4, 1980, President Carter addressed the nation to outline the administration's response to the Soviet invasion of Afghanistan. Among the measures instituted by Carter was his decision to cancel that portion of the 23 million tons of grain that the Soviets had ordered from U. S. markets that was not covered by prior contractual agreements. The president specifically emphasized his determination to prevent that measure from having an adverse impact on the American farmer; he spoke of removing the undelivered grain from the market through storage and price support programs and through direct purchase for use in the domestic production of ethanol. Nevertheless, many American farmers felt as if they were being asked to bear the burden of America's response to the Soviets.

This was a great chance for Republican presidential candidate Ronald Reagan to make significant political inroads with the nation's farmers, and he took it. He charged:

It [the Carter Administration] has damaged the credibility of American farmers as reliable suppliers of wheat, of corn, of soybeans-- of all farm products, by embargoing agricultural exports to the Soviet Union. The result has been costly to the American farmers and ineffective in our

foreign policy. I am pleased that the U. S. Senate voted last Friday to shut off funds to implement or enforce the embargo. The Senate action was a vote of no confidence in President Carter's embargo policy. The cancelling of our grain contracts was Jimmy Carter's way of sending a "message to Moscow." All he succeeded in doing was hurting U. S. farmers and the U. S. taxpayer.¹⁸

Accordingly, candidate Reagan laid out his own plan to help the nation's farmers.

Reagan's first priority for the problems of agriculture was to reverse inflation.

Inflation was 4.8 percent when Carter replaced Ford in the White House. Three and a half years later, inflation stood at 12.1 percent and was still rising. Reagan's program to reverse that trend included restraining the growth in federal spending, bringing the growth of the money supply back into line with the economy's ability to increase its output of goods and services, and to reduce the tax rates currently imposed on the people's earnings so that they would be able to invest in the country's future.¹⁹

Reagan made several other promises to the farmers. He promised to lift the grain embargo and reduce federal involvement in farming so that farmers could work unfettered in a free market. He pledged to place farmers and those who understood farming into policy positions in the Department of Agriculture. He affirmed his commitment to the aggressive expansion of agricultural exports. He pledged to give farm exports direct, personal support; he would insist that access to foreign markets be kept free of unreasonable trade barriers. He promised to name a U.S. Trade Representative who would pursue the objective of unfettered agricultural trade in the

¹⁸ "Farm Speech by Governor Ronald Reagan, Lounsberry Farm, Nevada, Iowa, September 30, 1980," Agriculture Box 2, Folder L-OA12162, Ronald Reagan Library.

¹⁹ "Farm Speech."

upcoming international trade negotiations. And the Reagan-Bush administration would not stand idly by while foreign governments subsidized exports that would compete unfairly against this nation's farm products.²⁰ A Reagan administration would also immediately review all federal regulations with the object of freeing farmers from unnecessary and counterproductive regulations and reports, while working to improve the protection of the health and welfare of all citizens. Conservation of soil and water was another area in which Reagan pledged his support. It was not only important to the farmers, he noted, but also to future generations who must rely on the productive capacity of the farmers to meet the country's needs for food and fiber. And speaking of future generations, Reagan decried the endangerment of the family farm due to the inheritance tax that, he said, was forcing families to sell their farms when death made them subject to liability under the existing estate tax law. That law could not be justified on the basis of a federal need for revenue and it was unnecessarily punitive in its effect.²¹

Reagan was aware that a new farm bill would have to be written in the first year of the next administration. He promised that the entire thrust of the 1981 farm bill under his administration would be to make farming profitable again. Doing so was vital to the future of the family farm, to a productive American agriculture, and to feeding both Americans and the hungry around the world.

²⁰ "Farm Speech."

²¹ Ibid.

Reagan cited his experience as governor of California as qualifying him not only to be president of the United States but also to cope with the problems currently facing America's farmers. He reminded farmers that if California were an independent nation, it would have the 7th largest economy in the world. It was also the nation's largest agricultural state by volume of sales. Agriculture in California meant dozens of different crops and many different problems. He was proud of his record as Governor and he wanted to use that experience on a national scale.²²

Reagan found his farm audience receptive. Clearly, all was not well on the farms of America. The grain farmers were angry about the embargo. Farmers and ranchers of all varieties faced rapidly increasing production costs because of the ever-increasing inflation. Land prices were skyrocketing, making farm expansion extremely expensive. Even worse, those who had recently expanded and held loans on their land were facing interest rates that were rising inexorably.

While it is impossible to know with certainty what role the farmers' bitterness over the embargo and their worsening economic plight played in their voting decision, it is clear that Ronald Reagan fared much better with rural voters and in agricultural states against Jimmy Carter than did President Gerald Ford in his race against the same opponent. Rural voters voted for Carter 48 percent of the time in 1976 against Ford, but only 39 percent of the time against Reagan. In the Midwest, Carter got 48 percent of the vote versus Ford, but only 40 percent versus Reagan. The white South favored

²² "Farm Speech."

Carter 46 percent of the time in 1976, but only 35 percent in 1980.²³ Agricultural states — including Missouri, Texas, Wisconsin, Ohio, New York, Pennsylvania, Kentucky, Tennessee, North Carolina, South Carolina, Florida, Alabama, Mississippi, Louisiana, and Arkansas — all voted for Carter in 1976, but voted for Reagan in 1980. Carter's pollsters found that the embargo cost his campaign about 10 percent of the vote in the farm states. Those pollsters concluded that the embargo alone prevented the President from carrying at least six farm states.²⁴ However, the election of a Republican candidate was not entirely unexpected.

In 1979, sensing that the time was ripe, the Heritage Foundation, a conservative think tank, began putting together a book that would provide a comprehensive guideline for a new conservative administration. Published in 1981, this *Mandate for Leadership* contained a chapter on the specifics of what a conservative agricultural policy should contain. Written by agricultural economist Don Paarlberg, the essay emphasized the importance of agriculture to the nation's economy and stated that changes were absolutely necessary if major problems were to be averted.²⁵ The focus was on the need for fiscal responsibility, the need to foster the free market in agriculture, and the need to keep income transfers benefiting only the truly needy and at the minimum acceptable level. The essay on agriculture was the first chapter in the book — not only

²³CBS News/New York Times exit poll results, *New York Times*, November 9, 1980.

²⁴Seth King, "Higher Food Prices Predicted If Limit on Grain Sales Ends," *New York Times*, December 14, 1980.

²⁵Don Paarlberg, "The Department of Agriculture" in Charles L. Heatherly, ed., *Mandate for Leadership: Policy Management in a Conservative Administration* (Washington, D. C.: The Heritage Foundation, 1981), 3.

because it came first in the alphabet but also because it was a cabinet-level department with an ever-increasing budget.

One of the themes of this study is the remarkable transformation brought to farming and farm life by technological change. In the nineteenth century, farming was the occupation of 75 percent of all Americans. But by 1980, on the eve of Reagan's election, only 2 percent of American workers were farmers. Nevertheless, farming was still an important part of the U S economy. While farmers' incomes accounted for only about 4 percent of the Gross Domestic Product (GDP), farmers bought agricultural supplies such as feed, seed, fertilizer, pesticide, farm machinery, fuel, and paid debt service; all this accounted for another 2 percent of the GDP. On the other end, farmers sold their produce to be processed, transported, manufactured, distributed, retailed, consumed, and exported. Those enterprises accounted for another 14 percent of the GDP; thus, almost one-fifth of the American economy was involved in agriculture.²⁶

Farming was becoming more concentrated and much more efficient. The number of farms fell from a peak of 6.5 million in 1932 to 2.2 million in 1980.²⁷ While the average size of farms had risen more than two-fold since 1932, the amount of land involved in farming and ranching remained in 1980 at the same 1 billion acres that it was in 1900. However, the productivity of the land brought about by modern technology had changed farming remarkably. After World War I, U. S. agricultural products were almost entirely consumed domestically. By 1980, farm production far outstripped domestic

²⁶Kathryn L. Lipton, "Challenges in Designing U. S. Farm Policy," *Agriculture Information Bulletin No 518* (Washington, D. C.: United States Department of Agriculture, Economic Research Service, June 1987): 2.

²⁷ Ibid.

need. In some years, as much as 40 percent of the American crops were sold abroad. Almost everything about farming was different by 1980.²⁸

Farms were not only bigger and much more specialized, they were also part of a global economy. Using new machines, new fertilizers, new pesticides, and new hybrid seeds, farmers needed more cash and had less flexibility. If the farm's one or two crops failed, there was nothing on which to fall back. Many farmers had to borrow to buy bigger machines, or more land, or simply to buy the supplies to put in each year's crop. Land prices went up; debt service suddenly had become a major part of the cash outflow. With bigger, more specialized farms carrying more debt and depending more heavily on foreign sales of commodities than ever before, farm policy was no longer a local affair. Now, not only federal farm bills, but federal fiscal policy, monetary policy, and foreign policy affected farmers' everyday lives. Factors that expanded trade and brought boom times in the 1970s reversed in the 1980s. Foreign per capita food consumption rose in the 1980s at only about 60 percent of the rate of the 1970s. A worldwide recession, induced in part by U. S. monetary policy changes that caused high real interest rates and a significant appreciation in the U.S. dollar, caused a debt crisis in developing countries that stifled import demand. While world trade slowed over the first half of the 1980s, U. S. farm exports fared even worse, dropping by a third from the 1981 high point.²⁹

²⁸ Lipton, "Challenges," 3.

²⁹ *Ibid.*, 5.

The "Farm Crisis of the 1980s" was characterized by falling prices and falling income — but rapidly rising government payments. Farm asset prices fell more than \$300 billion in those first six years of the 1980s, and higher borrowing costs left at least 4 percent of farmers insolvent. Farm asset values fell more than 25 percent between 1981 and 1986. This fall was primarily due to lowered commodity prices, deflated expectations of farmland appreciation, and increases in real interest rates caused by monetary policy changes designed to reduce inflation. Over 21 percent of farms were highly leveraged in 1985 (debts exceeding 40 percent of assets). These farms accounted for 67 percent of all farm debt.³⁰ In 1985, net farm income was \$30.5 billion. Out of this, \$7.7 billion was in direct federal payments, and \$11.8 billion was in Commodity Credit Corporation nonrecourse loans.³¹ That was the reality of farming in the 1980s. However, the 98 percent of Americans who were not farmers had a different mental image of farmers. That image was built on myth, legend, and past reality, not modern American agriculture.

Ronald Reagan knew what he wanted when it came to farm policy. He wanted to abolish the existing program of direct federal payment to farmers that set target prices and provided deficiency payments. He wanted world commodity prices to be set by the free market — not, as was the current situation, by the loan rates on those commodities set by the U.S. government. He wanted the world prices of commodities to dictate what crops American farmers would raise. He wanted farmers to raise as many crops as

³⁰ Lipton, "Challenges," 8.

³¹ *Ibid.*, 9.

possible at a price that would allow them to sell all they raised. He wanted there to be no need for the federal government to pay farmers to not raise crops. He wanted American farmers totally unfettered by government interference. He also wanted to balance the federal budget; to help do that, he wanted to lower government costs for agriculture.

To examine Reagan's eight years of agricultural policy is an important and fascinating endeavor. Chapter 1 outlines the amazing, technology-driven transformation of U. S. farming during the middle half of the twentieth century. Chapter 2 sketches the history of federal policy on agriculture. It makes the point that the circumstances that created the need for federal intervention into farming revolved around 25 percent of Americans making their living from that industry, while domestic markets for their crops shrunk and foreign markets disappeared. Those problems did not survive World War II.

Chapters 3, 4, and 5 concern the Farm Bill of 1981 that was passed in the Reagan administration's first year. Chapter 3 discusses the way in which the administration's goals were in large part thwarted by the needs of Congress. Chapter 4 makes the point that in their fervor to slow the expansion of federal spending, the Reagan team cut food assistance programs beyond the point of reason and compassion. Chapter 5 shows Reagan in a light that does not conform to the current legend of the stalwart of conservative ideology. He shows himself to be both pragmatic and flexible in working toward fixed goals.

The ensuing two chapters deal with the Farm Crisis of the 1980s and the administration's reaction to it. Chapter 6 describes what happened to the nation's

farmers and why. It makes the point that federal policy turned a normal cyclical business downturn into a farm crisis, and suggests that the government bore some responsibility to aid farmers because of that. Chapter 7 illuminates the flexibility of Reagan's thinking and describes a very uncharacteristic plan originated by his administration in response to the farm crisis.

Chapters 8 and 9 focus on the epic battle at mid-decade between the administration and Congress over the direction of federal farm policy. Chapter 8 outlines the Reagan initiative to align U.S. agriculture with the world market — and in the process, remove the federal government from the position of determining farm commodity prices for the world. Chapter 9 argues to members of Congress, the drive to maintain incumbency overpowered any consistent philosophy regarding agricultural policy.

Chapter 10 reprises the theme of agriculture interests prevailing on Congress to shower taxpayer money on the farm problem, against the express wishes of the Reagan administration. The frustration of the administration as it tried to minimize federal outlay is palpable in these struggles. The final chapter draws on all of the foregoing to discuss a few of the study's overall conclusions.

Chapter 1

The Second Agricultural Revolution

Ronald Reagan came to the presidency at a time when American agriculture had just experienced a major change. This change was so fundamental and so profound that scholars called it an American Agricultural Revolution. The revolution consisted of a myriad of technological innovations that caused agricultural productivity to absolutely soar. However, this is not simply a story of American farmers growing more crops and raising more livestock. Many of the technological breakthroughs occurred during the agricultural depression stretching from 1920 through 1940. Well over two-thirds of the 6.8 million farmers during the Great Depression could not afford the new machines and the hybrid seeds that would become so instrumental in increasing productivity. It took the economic consequences of World War II to increase farm income and make these innovations affordable. Thus, it was the combination of technological change and economic change that brought about the agricultural revolution.

The agricultural revolution changed every facet of American farm life. Subsistence farming virtually disappeared from the American scene; all farmers became commercial farmers. Farms became increasingly specialized. The ownership of agricultural production became concentrated in fewer and fewer hands. Farming became a 3-tiered industry: a few large entrepreneurial farmers produced the bulk of the country's agricultural commodities; a dwindling group of middling farmers did reasonably well during good times, but struggled mightily when times were less than good; and well

over half of U. S. farmers were relegated to a "part-time" or "hobby" status, requiring the bulk of the family income to be produced off the farm.

A final consequence of the striking increase in agricultural productivity: the domestic market for agricultural commodities was overwhelmed. American farmers could produce far more than the general populace could consume. This created a stark choice for U. S. policy makers: either sell more farm products abroad, or assume the burden of supporting a redundant farm economy on the federal budget. However, before exploring federal farm policy, we must look more closely into the origins of the agricultural revolution with which Ronald Reagan would have to deal.

If one defines an industrial revolution as a 50 percent increase in productivity during a single generation, then the United States has had two agricultural revolutions.¹ While each of these revolutions included multiple technological innovations to increase efficiency, they both were centered on a new source of power to accomplish the multiple tasks necessary on a farm. The First American Agricultural Revolution occurred when draft animals replaced human labor as the core of U. S. farming.

Early American farming had been predominantly powered by human toil and hand tools. While draft animals had been used in human agriculture for centuries, much of early North American farming was created by the felling of trees and planting crops between the stumps. As time went by and the colonies expanded, better tools were necessary to enable farming larger plots of ground. The First Agricultural Revolution

¹Paul K. Conkin, *A Revolution Down on the Farm: The Transformation of American Agriculture since 1929* (Lexington: The University of Kentucky Press, 2008), 97.

began with a slew of agriculturally-oriented design innovations between 1815 and 1830.² The question was always how to save time and effort. Seed drills, harrows, rakes, and reapers appeared and were refined. The biggest problem with farm implements before the revolution was that of the plow. Wooden and cast-iron moldboards could not pulverize the soil and turn it satisfactorily. There were many innovative attempts (one even by Thomas Jefferson). But in 1837 a blacksmith, John Deere, rose to fame by replacing cast-iron models with steel.³ These steel plows enabled the thick, dense sod of the plains to be conquered efficiently. Consequently, the move to cultivate the western lands picked up steam. With steel plows, the advantage of draft animals increased. It was between 1862 and 1875 that animal power (largely horse, mule, and oxen) fully replaced human power and the revolutionary jump in productivity took place.⁴ Before the advent of animal power, twenty bushels of corn per acre was considered a paying crop;⁵ with animals, thirty bushels became the standard.⁶ Draft animals were not without drawbacks, however. They were the rate-limiting factor in nineteenth-century farming. The animals needed rest, food, water, and grooming on a daily basis. A machine, on the other hand, would need none of those things.

²Peter D. McClelland, *Sowing Modernity: America's First Agricultural Revolution* (Ithaca, N. Y.: Cornell University Press, 1997), 9.

³ Conkin, *Revolution*, 5.

⁴As a draft animal, the ox was slower than the plow horse or mule, but was stronger and had greater endurance. Their use declined as lighter farm machinery came into use and as railroads became the chief mode of transportation. Edward L. Schapsmeier and Frederick H. Schapsmeier, *Encyclopedia of American Agricultural History* (Westport, Connecticut: Greenwood Press, 1975), 258; R. Douglas Hurt, *American Agriculture: A Brief History* (West Lafayette, Indiana: Purdue University Press, 2002), 165.

⁵ Schapsmeier and Schapsmeier, *Encyclopedia*, 97.

⁶Paul W. Helsey, "Science, Technology, and Prospects for U. S. Corn Yields: Investing in Scientific Research is Key for Boosting Corn Yields, Making Productivity, Environmental, and Bioenergy Goals Easier to Obtain," *Amber Waves* (December 2009):10.

Just as the First Agricultural Revolution centered around a change in the mode of power generation on the farm, so too did the second revolution. This time, the development of a versatile, internal combustion engine to replace the draft animals sparked the change. However, this agricultural revolution was much more complex than the first, and the list of the technological innovations in addition to the engine was quite long. These innovations could be grouped into four categories: machines, electricity, chemicals, and genetics.

It is the scholarly consensus that the most important single innovation of the second revolution was the general-purpose tractor.⁷ The idea for a motor-driven farm tractor emerged soon after James Watt developed the steam engine in 1820. However, the refinement of a small, versatile, and affordable machine took over one hundred years to complete. Steam power was really never the answer for tractors. Steam-driven tractors were extremely heavy and caused too much compaction, damaging the soil. They were not useable in wet soil because of their great weight and their tendency to become stuck with maddening frequency. Steam tractors were also very dangerous. Because of their high centers of gravity, they were liable to turn over on hillsides. In addition, steam engines often exploded. However, the biggest drawback for steam tractors was their expense and the fact that there were too few large farms to provide a viable market for such large, expensive machines.

⁷ R. Douglas Hurt, *American Agriculture: A Brief History* (West Lafayette, Indiana: Purdue University Press, 2002), 357.

When in 1892, John Froelich built the first mechanically successful gasoline tractor, the future of modern agriculture began to come into view.⁸ There was, however, much still to be done. The early gasoline tractors were, like their steam predecessors, much too heavy. A 1908 model tractor weighed 19,000 pounds. Naturally, such huge machines were ill-adapted to farms in the United States, which averaged less than fifty acres of cropland each.⁹ Thus, by 1912, designers realized that they needed to create lighter, cheaper, more efficient, more agile tractors that were versatile enough to replace the horse completely in all phases of farm work. The major problem was that the early tractors could not cultivate row crops, because their wheels were too widely spaced and would run over the emerging plants. While tractors were fine for small grains such as wheat, oats, and hays that required no tilling, tilling cotton and corn still needed animals, obviating the practicality of such expensive machines.¹⁰ In 1912, farmers in the United States grew 149 million acres of row crops and 119 million acres of small grains. The row crops were estimated to be worth almost \$4 billion, while small grains were worth \$1.5 billion.¹¹ Obviously, there was an untapped market for a truly versatile tractor. Still, by 1917, there were roughly fifty-one thousand tractors on 6,478,000 farms.¹² The USDA estimated that total farm power provided by internal

⁸ Robert C. Williams, *Fordson, Farmall, and Poppin' Johnny: A History of the Farm tractor and Its Impact on America* (Urbana and Chicago: University of Illinois Press, 1987), 15.

⁹ *Ibid.*, 19.

¹⁰ Robert E. Ankli, "Horses VS. Tractors on the Corn Belt," *Agricultural History* 54, no. 1, Agricultural History Symposium: Science and Technology in Agriculture (Jan 1980): 139.

¹¹ Williams, *Fordson*, 87.

¹² Bureau of the Census, *Historical Statistics of the United States Colonial Times to 1970, Part 1* (Washington: United States Department of Commerce, September 1975), 457, 469. Cited in Williams, *Farmall*, 41.

combustion tractors surpassed the output of steam engines by 1915, and all sources of animal power by 1930. By 1950, 86 percent of commercial farms had tractors.¹³

The first tractor designed to plow, cultivate, and pull harvesters was the International-Harvester Farmall, introduced for wide distribution in 1926. The design of the Farmall featured two small, closely spaced front wheels with two large, widely spaced rear wheels. The front wheels would fit between two rows, while the rear wheels fit in the spaces outside the rows. The Farmall body was high off the ground, to allow it to pass harmlessly over growing corn and cotton plants during cultivation. Because of its versatility and its ability to completely replace horses, the Farmall sold well. By 1932, there were more than a million tractors on farms; the United States Department of Agriculture (USDA) estimated that one farmer in six owned a tractor in that year.¹⁴

The row crop tractor now awaited only three more modifications before it was ready to initiate the Second American Agricultural Revolution. The first major improvement was the introduction of the power lift. No matter what the tractor was pulling—be it a plow, a harrow, a mower, or some type of harvester—a great deal of time was lost if the farmer had to get off the tractor and manually raise the implement at the end of each row in order to turn the tractor and start down a new row, and then reverse the process by

¹³ Bruce L. Gardner, *American Agriculture in the Twentieth Century: How It Flourished and What It Cost*, (Cambridge, Massachusetts and London, England: Harvard University Press, 2002), 3.

¹⁴ Donald D. Durost and Evelyn T. Black, "Changes in Farm Production and Efficiency." *Statistical Bulletin No. 581* (Washington, D. C.: United States Department of Agriculture, Economic Research Service, November, 1977): 31.

lowering the implement down again. With the power lift, that job could be done with the pull of a lever; much time and energy were conserved.

The second major innovation to the row crop tractor was the adoption of rubber tires. The previous use of metal tires damaged crops, soil, and the farmers' bodies due to the weight and rigidity of the metal and the concussion effect of riding them. In 1934, Allis-Chalmers introduced the first tractor designed for rubber tires, and by 1939, 90 percent of new tractors were sold with such tires.¹⁵

The final piece of the tractor puzzle lay in its size. By 1935, there were 6.8 million farms—but only 1.2 million tractors in use. Most of the tractor farms were larger than one hundred acres, while four million American farms contained less than one hundred acres. In 1937, Allis-Chalmers announced a baby tractor, which would sell for just \$495 (less than the cost of a good pair of plow horses). Now, for the first time, the smallest farms had an economically viable opportunity for mechanical power.¹⁶ The problem was: Where would the smaller farmers find the money for the conversion to not only the tractor but all of the other agricultural innovations bursting onto the scene? The answer lay in the economic changes incumbent on a wartime economy.

World War II not only ended the depression—it also changed American farm life forever. Wartime demand for food raised prices to the degree that tractors became feasible for more and more farmers. In addition, the demand for manpower in both the military and in the war industry siphoned off millions of underemployed farm workers,

¹⁵ Williams, *Fordson*, 93.

¹⁶ *Ibid.*, 94.

who would never to return to the farm. Industrial wages priced farm labor out of the market; the only alternative to the farmer was mechanization. In fact, the farm population declined from 31 million persons in 1939 to just 20 million in 1953—a decline of 35 percent in fourteen years.¹⁷

Work animals' availability also declined during the war, but the decline of work animals on the farm created an unexpected dividend. In 1915, i.e., before tractors, about 93 million acres of U. S. cropland (27 percent of the total harvested acres) were used to grow feed for farm work animals. With the advent of tractors, that land could now be committed to commercial crops and the expense of the new agriculture could be further ameliorated.¹⁸

The rapidity of the disappearance of draft animals was amazing. By the end of World War I (circa 1918), there were 27 million draft animals on American farms. In 1962, the Statistical Reporting Service of the U. S. Commerce Department stopped reporting draft animals—so insignificant had their numbers become.¹⁹ As the animals disappeared, tractor sales continued to rise until 1965. After that year, the number of tractors on farms gradually decreased because the number of farms continued to fall.

The tractor was the most important machine in the Second American Agricultural Revolution, because it was used in the production of most crops. However, mechanization occurred all across the farm. Virtually every crop had its own story of a

¹⁷ Willard W. Cochrane, *The Development of American Agriculture: A Historical Analysis*, Second Edition (Minneapolis and London: University of Minnesota Press, 1993), 125.

¹⁸ Gardner, *Agriculture*, 12.

¹⁹ *Ibid.*, 110.

mechanical innovation that led to human labor savings and increased productivity, often because of the ability to harvest at the precise time to maximize production. The mechanical cotton picker, for instance, changed the shape of U.S. cotton farming areas. Before World War II, cotton was a very difficult crop because it had to be hand-picked by a large number of field workers, at a very precise time to prevent degradation of the fibers due to certain weather conditions. The logistics of this type of operation were complex. By 1942, International Harvester had a cotton picker for sale; by 1952, the price of that machine was less than \$3,000. Over one million human cotton pickers were displaced from their jobs by that one machine.²⁰

Cotton was not the only crop that posed a dilemma for the farmer at harvest time. Each grain created its own problem when it came to designing a mechanical harvester. Wheat, for instance, had to be cut, threshed to separate the straw, then winnowed to eliminate the chaff, and then the grain had to be transported to storage facilities. Before the advent of self-propelled combines, wheat farmers had to hire harvesting crews to bring in their crops. By eliminating the need for draft animals or tractors to pull the combines, the cost of the crews—as well as the loss of grain in those more-inefficient methods—was markedly reduced.

Soon after the war, pick-up balers and barn elevators cut the work of harvesting hay by at least half. Then in the 1970s, with the advent of large round bales that were left in the fields, it was possible for a single farmer to bring in all of the hay.

²⁰ R. Douglas Hurt, *Agricultural Technology in the Twentieth Century* (Manhattan, Kansas: Sunflower University Press, 1991), 37.

Although agricultural engineers experimented with a combine for soybean harvesting as early as the 1920s, this crop could not be successfully machine-harvested until the 1970s. At that time, the Deere and White companies developed a new cutting system that transected the vines without causing the beans to shatter from the pods and be lost.²¹ Thus, this increasingly important crop could be handled much more efficiently mechanically.

Corn also created a unique problem for innovators. The wide-scale adoption of a corn combine did not depend on solving technical problems such as cutting and threshing tough, large plants, but on the development of efficient grain dryers for the corn after it was harvested. Combine-harvested corn usually had a moisture content high enough to lower its market value, and promote spoilage during storage. To be stored safely, corn could not have a moisture content of over 14 percent. However, if the farmer allowed the crop to dry more completely in the field, a large percentage of kernels were lost during the cutting, snapping, and delivery of the ears to the thresher. By the early 1950s, engineers had developed a combine that could cut and thresh corn efficiently with moisture content as high as 26 percent. Affordable and efficient grain dryers had emerged onto the market by then, making combine-harvested corn financially viable.²²

Rice harvesters, tomato pickers, and sugar beet harvesters also were instrumental in the revolution. The emergence of affordable irrigation equipment also played a large

²¹ Hurt, *American Agriculture*, 58.

²² *Ibid*, 59.

role in the development of crop farms in the West, especially in the High Plains.²³

Various vegetable harvesting machines, such as those used in lettuce and spinach crops, merged harvesting and processing. Some of these huge machines cleaned the vegetables and packed them into boxes right in the field. Cherry pickers improved the harvest of fruit, while tree shakers helped harvest the nut crops.²⁴ Some of these mechanical innovations evolved as late as the 1970s, just before Reagan took office.

However, the Agricultural Revolution was not confined to the development of new machines. A second major component of the revolution was the electrification of American farms. In 1935 only 11 percent of U. S. farms had electricity. The Rural Electric Administration, part of the New Deal, was established to bring electricity to the country. It succeeded admirably, with 85 percent of farms electrified by 1950 and 97 percent by 1960.²⁵

Electricity changed every farm, but it was among livestock farmers that it proved most revolutionary. Electricity warmed and cooled the caged animals, powered the automated provision of food and water, and provided light for the modern poultry and hog factories. Modern dairy farming relied on electricity to pump the water, power the suction milkers, cool the stainless-steel tanks, ventilate the holding barns and milking parlors, heat the water for the sanitary cleansing of lines and milkers, and feed the COWS.

²³ Hurt, *American Agriculture*, 63.

²⁴ Conkin, *Revolution*, 101.

²⁵ *Ibid.*, 107.

Electricity revolutionized the organization of the farmhouse as well. Electric appliances replaced the human labor of the women, often making it possible for the farm wife to seek employment elsewhere— thus adding to the total household income and allowing the farm to continue operations. Radios, televisions, and computers provided market information and facilitated record-keeping and tax planning.

Electric motors replaced the windmill, providing power for the pumps necessary for the deep wells and water pressure for huge spray irrigation systems—vitaly important during droughts and in the arid high plains. In the barns, electricity powered elevators for hay and other silage, and many shop tools that made implement repairs an in-home industry.²⁶

Engineers were not the only innovators involved in the agricultural revolution. Scientists, especially chemists and geneticists, played huge roles. New chemicals were vital in boosting farm production. These chemicals fell into five broad categories: fertilizers, insecticides, fungicides, herbicides, and medications. Of these, fertilizers and herbicides had the greatest impact on the production of crops, while medications had the most profound, albeit controversial, impact on livestock.²⁷

Farmers had known for thousands of years that growing crops year after year depleted nutrients from the soil and eventually rendered it unfit for crop growing. The three most important nutrients for plants in soil were phosphorus, potassium, and nitrogen. Various stratagems had been used to prevent soil exhaustion over the years.

²⁶ Conkin, *Revolution*, 107.

²⁷ *Ibid*, 108.

One was a pattern of rotation of crops on farm fields such that the fields would have no crops every certain number of years. During the fallow years, wild vegetation would grow and decay, thereby returning nutrients to the soil. Most farmers spread manure on their fields. Native Americans had buried fish or seaweed in their fields. They also learned the value of ground-up bones to provide minerals, especially phosphorus, to the soil. Historically, nitrogen was the most difficult of the nutrients to replenish. It was not until 1913 that a chemical process was discovered to convert the nitrogen in the atmosphere into ammonia—a compound that could be used to fertilize farm fields.

During World War I, the U. S. government constructed the Wilson Dam at Muscle Shoals on the Tennessee River in northern Alabama. The purpose of the dam was to provide the power needed to create nitrates for explosives used in the war. However, a byproduct of that process could produce an affordable nitrate fertilizer for impoverished Southern sharecroppers. The proposal for the government to produce fertilizer as well as explosives, however, became enmeshed in a philosophical argument over the propriety of government versus private operation of the Muscle Shoals project.²⁸

The Depression, the New Deal, and the creation of the Tennessee Valley Authority (TVA) changed the dynamics of the argument. In 1933, Muscle Shoals became the National Fertilizer Development Center. During the Depression, the TVA concentrated on developing new and improved phosphate fertilizers. By the onset of World War II,

²⁸ Richard C. Sheridan, "Chemical Fertilizers in Southern Agriculture," *Agricultural History* 53 (January 1979): 308-18.

Muscle Shoals once again began to produce ammonium nitrate for munitions. Moreover, it also began to sell ammonium nitrate to farmers as the first major nitrate fertilizer. The TVA helped develop granulated forms of fertilizer for easier application, developed a very concentrated liquid form of nitrogen (anhydrous ammonia), and created a fertilizer that contained a blend of phosphate and nitrogen.

After World War II, all successful farmers used fertilizer. This meant that for the first time, farmers could grow crops on the same fields year after year without exhausting them.²⁹ There continue to be environmental questions regarding chemicals in agriculture, but nonetheless the enormous increase in crop productivity achieved after the Second Agricultural Revolution was fueled by fertilizers.

That productivity also depended on freedom from insect infestation. More than 700 types of insects have damaged American crops, fruits and vegetables. Humans learned methods to repel insects at least as long ago as Roman times. However, a major innovation in insecticide research began during World War II that led to the development of hundreds of synthetic insecticides.

Some insects, such as the boll weevil and the corn borer, were famous for having devastated single crops. However, virtually every farmer had some problem with insects. Although organic farmers tried to use only non-synthetic forms of insect control, it was not possible to control most insects on large fields at an acceptable cost without synthetic insecticides.³⁰

²⁹ Conkin, *Revolution*, 111.

³⁰ *Ibid*, 114.

Fungal diseases were not as widespread as those caused by insects, but they were also capable of causing great damage. The Potato Famine in nineteenth-century Ireland was caused by a fungus. Many crops and trees were susceptible to mold, rust, scale, blight, mildew, yeast scab, and smut. Because fungi develop resistance to fungicides, often quite quickly, research and development of new kinds of fungicides had been going on for decades.

In crop agriculture, herbicides were revolutionary because they virtually eliminated the need to cultivate row crops. The result was a dramatic savings in human labor and an unanticipated increase in production per acre. For corn, because tractors no longer had to get between the rows for cultivation, farmers could narrow the width of rows from thirty-six inches to as little as twenty inches, and in some cases they realized a 100 percent increase in production. With the introduction of pre-emergents in 1980, cotton farmers could narrow their rows as well. In 1952, 11 percent of corn and 5 percent of cotton acres were treated with herbicides; by the time of the Reagan Administration, American farmers were using herbicides on 95 percent of corn and 93 percent of cotton.³¹

Crop farmers, however, are not the only farmers to have benefited from this chemical revolution. Antibiotics and hormones were related almost entirely to livestock. Just after World War II, when penicillin was being hailed as the wonder drug of human medicine, veterinarians began prescribing it for farm animals with equally dramatic success. Antibiotics had a significant impact on livestock health and

³¹ Gardner, *Agriculture*, 24.

productivity. Chronic animal diseases, such as mastitis and pink eye, were finally curable. Chickens and hogs raised in very crowded conditions that invited epidemics, could grow and prosper when given antibiotics in their feed. By some estimates, up to 70 percent of all antibiotics in the United States were being given to livestock. It was thought that a steady diet of low-level antibiotics would kill harmful bacteria in the stomachs of cattle, hogs, and chickens and thus makes their digestion more effective. By 1980, the use of such antibiotics had become standard practice in poultry, hogs and feedlot beef cattle.³²

Hormone use in beef cattle, specifically diethylstilbestrol, had begun experimentally by 1947 and commercially by 1951. The hormones increased the amount of lean meat by 15 percent, and sometimes more. Hormone usage was controversial, however, and not all of the export partners of the United States were willing to accept meat treated with steroids.³³

The final innovation that contributed to the Second Agricultural Revolution was the selective breeding of new varieties of crops and livestock. Arguably the first and most important breakthrough in this field was hybrid corn, which was developed in the 1920s and gradually accepted by farmers in the 1930s. By 1949, 78 percent of farmers in America's Corn Belt were using hybrid seed.³⁴ One of the traits bred into the new corn was a stronger stalk, which facilitated machine harvesting. Soon after corn,

³² Conkin, *Revolution*, 116-7.

³³ *Ibid.*, 118.

³⁴ *Ibid.*, 120.

hybridization spread to most vegetable crops. In some cases, the goal was disease resistance; in others, it was a heavier yield or better shipping qualities.

The gains in livestock breeding were as impressive as those for plants. Milk output more than doubled as a result of selective breeding. The single greatest innovation in animal breeding was artificial insemination, which allowed a relatively few, select males to generate thousands of offspring. Before World War II, the emphasis was on purebreds, but soon the goal became the highest level of production possible, which often favored mixed breeds.³⁵

The complicated nature of tomatoes provides a glimpse of how the agricultural revolution fit together. The tomato vines jammed the mechanical harvester, the fruit did not ripen uniformly, and—because the mechanical pickers damaged the fruit left behind—not all of the fruit could be picked by machine. Thin-skinned tomatoes bruised and cracked easily while being picked mechanically; thus, there were many problems to solve before a useful tomato picker could be developed. Agricultural engineers, horticulturists, and agronomists pooled their talents and built a mechanical harvester and bred a tomato that could withstand machine harvesting. They developed new varieties that ripened uniformly and resisted bruising and cracking during rough mechanical handling. They also changed planting, cultivating, and irrigation practices—all of which made mechanical harvesting possible. Because the new tomato varieties were not uniformly round, however, many customers refused them. Consequently, machine-harvested tomatoes were suitable only for making catsup, juice, or tomato

³⁵ Conkin, *Revolution*, 121.

paste. Between 1961—when growers first began to use the mechanical harvester commercially—and 1967, when they picked virtually the entire crop mechanically, the machine-harvested acreage of tomatoes increased more than 90 percent, and the number of implements increased 80 percent.³⁶

All of these myriad changes were designed to increase productivity and conserve human labor. In 1900, it took 147 hours of human labor to grow 100 bushels of wheat. By 1950, the effort needed had shrunk to 14 hours; by 1990, to only 6. For corn, the number of hours per 100 bushels reduced from 147 in 1900 to 16 in 1950, to 3 in 1990; for cotton, from 248 hours per bale in 1900 to 100 in 1950 and to only 5 in 1990.³⁷

Almost as dramatic as the labor saved was the increased yield per acre for crops. While the yield per acre for wheat, corn, potatoes and cotton had remained essentially unchanged during the 65 years between 1870 and 1935, the next 35 years showed amazing increases. The yield for corn, our largest national crop, rose from 30.5 bushels per acre in 1935 to 80.8 in 1970. Potatoes increased from 6600 pounds per acre to 226,300. Cotton, which averaged 185.4 pounds per acre in 1935, reached 513 pounds per acre in 1972. Wheat grew from 12.3 bushels per acre to 31.8 by 1970.³⁸

However, increased productivity was not the only agricultural change caused by the revolution. Virtually every aspect of farm life and organization was changed dramatically. For instance, one early tractor farmer said that since buying a tractor, he

³⁶ Hurt, *American Agriculture*, 361.

³⁷ *Ibid.*, 99.

³⁸ United States Department of Agriculture, Statistical Reporting Service, *Century of Agriculture in Charts and Tables*, Agricultural Handbook No. 318, 1966; and *Agricultural Statistics, 1972*, USDA, 1972, quoted in Willard W. Cochrane, *The Development of American Agriculture*, 128.

and his employees were able to quit shortly after five in the afternoon and not have to spend the usual forty minutes to two hours feeding, watering, and currying his six horses. Moreover, During World War II, the War Production Board estimated that the tractor saved the farmer 250 man-hours per year in caring for animals.³⁹ Time savings was only one of the profound changes to farm life caused by the revolution.

Before the revolution, many, if not most, American farms were not entirely commercial. Much of what was produced was consumed at home. In 1900, of the 5.7 million farms counted by the Agriculture Census, 98 percent had chickens, 82 percent grew corn, 79 percent had at least one milk cow, and 76 percent had pigs (Table 1 on page 39 provides more detail about the evolution of specialization). By 1982, of the 2.2 million farms, only 10 percent had chickens, 30 percent corn, 8 percent milk cows, and 15 percent pigs.⁴⁰ More importantly, the entire emphasis of farm life had changed. Pre-revolution, the operators of virtually all of the farms depended on the farm for their family's entire livelihood. Most farms had a small cash crop, e.g., cotton in the South, wheat in the Plains, and corn in the Corn Belt. The remainder of the farm was used for sustenance. There was usually a large garden for fresh vegetables and canning.

The cattle provided milk for the family and the occasional meat for the table. Likewise, pigs were raised for the family table. Chickens provided eggs and broilers for food and for sale or barter. A small farming society was not dependent on a cash

³⁹ Williams, *Fordson*, 132.

⁴⁰ Gardner, *Agriculture*, 61.

economy. In fact, the source of most of the family's needs was the farm. Such was not the case after the agricultural revolution.

Table 1. Number of farms producing each commodity (thousands of farms)⁴¹

Commodity	1900	1920	1950	1969	1982
Corn	4,698	4,937	3,202	989	715
Wheat	2,054	2,225	1,148	584	446
Oats	2,114	2,238	1,341	501	280
Soybeans	0	31	370	530	511
Cotton	1,419	1,906	1,111	200	38
Tobacco	308	449	532	276	124
Potatoes	2,836	2,888	1,650	108	26
Cattle	4,730	5,358	4,064	1,719	1,354
Pigs	4,335	4,851	3,012	686	329
Chickens	5,578	5,837	4,216	471	215
Total farms	5,740	5,837	5,388	2,733	1,925
Commodities per farm	5.1	5.6	4.2	2.7	1.8

Source: U.S. Department of Commerce, *Census of Agriculture*

The changes wrought by the Second Agricultural Revolution demanded a cash economy. The machines had to be purchased with cash. Most often, farmers needed loans to make the large cash outlays to acquire such equipment. Proof of financial soundness for the banks meant better record-keeping and an emphasis on crops that could be sold for cash. In many cases, the onset of mechanization allowed farm wives to seek off-the-farm employment to further augment the family cash flow. In addition,

⁴¹ Gardner, *Agriculture*, 61; The original table by Gardner contained a final column for 1992; however, for this study that year would be anachronistic. Therefore, I substituted 1982 in the final column to fall within the time frame of this study. Those data were obtained from the Department of Commerce, Bureau of Census, *Agricultural Census of 1982*, 53 (Suitland, Md., 1984) 1-24.

maintenance of the diversity required a wider variety of crops to be grown, a wider array of tractor accessories and harvesters necessary to bring in those crops, and a larger cash outlay.

It soon became clear to most farmers that specialization provided the most reasonable means to take advantage of the increased productivity that the revolution promised. That meant that the modern farm, by necessity, was a commercial farm. However, there were several more questions posed by the revolution. One of the most fundamental questions was: who would own and live on the land?

What developed as a result of the Second Agricultural Revolution was the consolidation of farmland ownership into fewer and fewer hands. The United States began the twentieth century with 5,740,000 farms on which over 29 million Americans lived. That amounted to 41.9 percent of the people physically living on farms. By 1920, the number of farms had risen to 6.5 million—but the 31.4 million people living on those farms accounted for only 30 percent of the population. By the time Ronald Reagan assumed the presidency, only 2.7 percent of the people lived on the farms that made up one-half of the land mass of the continental United States.⁴²

Farm numbers did not decline steadily. First to go were the farm laborers. Between 1910 and 1930, while the number of farms stayed essentially stable, 2 million laborers left farming. There are those who argue that the advent of the tractor cost those 2 million laborers their jobs. Moreover, they also caused the disappearance of 16 million draft horses—and with them, the market for 35 million acres of oats, barley, and hay.

⁴² Gardner, *Agriculture*, 50.

With the resulting increased commercial farm production came a plummet in commodity prices and an agricultural depression (which started in 1920). These same scholars argue that both the number of the unemployed and the depth of the commodity price crash during the Depression were attributable to the untimely emergence of the tractor.⁴³

After the farm laborers left, the ax swung toward the share-croppers. Between 1930 and 1940, a second 2 million left farming. The use of the new machinery made multiple small plots of land much less economical to farm than fewer, larger plots. (See Table 2, below, for specifics of the exodus from the farm.) Large land owners began to be much more conscious of economies of scale, and sharecroppers had no rebuttal for the logic of the dollar.

Table 2. Farm Labor⁴⁴

Year	Total Labor Force*	Ag. Labor Force*	% Total Labor Force*
1910	38,167	12,388	32.5
1920	41,614	10,666	25.6
1930	48,830	10,472	21.4
1940	53,011	8,449	15.9
1950	59,643	6,876	11.5
1960	69,877	4,257	6.1
1970	83,049	2,750	3.4

*in 1,000s, 16 and over

A problem with recounting the large contraction of farm numbers during the postwar period lies in the fact that the definition of a farm changed over time. The Agriculture

⁴³ Williams, *Fordson*, 154.

⁴⁴ *Ibid.*

Census of 1900 defined a farm as an agricultural operation requiring the continuous services of at least one person. In 1910, the criteria were made more precise: an agricultural operation utilizing three or more acres, or normally producing agricultural products worth at least \$250. In the 1945 and 1950 Censuses, the \$250 requirement was reduced to \$150. In 1959 the three-acre requirement was increased to ten acres plus at least \$450 in production for sale; or if the farm had less than ten acres, \$250 in products for sale. The biggest change in definition occurred in 1974, when acreage criterion was dropped and a farm was defined as any place from which \$1,000 in agricultural products were produced and sold (or normally would have been sold).

The big decline in farm numbers began in the late 1930s, but really picked up momentum with the onset of World War II and the alternative employment it afforded. With the onset of the wartime economy, many farm owners who were marginal, in arrears, reticent to make the changes necessary to meet the demands of the revolution, or just weary of the long struggle, began to consider leaving agriculture. For many, the change to a cash economy was daunting. The process of learning an entirely new method of farming with machines, chemicals, etc. was very threatening. The war afforded some a graceful exit from a deteriorating existence.

Those who decided to stay the course were forced to learn a new trade, as it were. It was clear to most who made the transition to modern farming after the revolution that in order for the new machines to be worth the cost, they had to be in use most of the time. This meant that big machines paired with small farms could not make economic sense. Those with the ability, foresight, and determination to make it, needed to

acquire land from those who could or would not make the necessary adjustments.

Table 3 on page 44 illustrates how that process of change played out over the years between the war and the inauguration of Ronald Reagan. People living on farms declined from 30 million to 6 million, while farms themselves declined from 6.1 million to 2.7 million.

Not only did the number of farms fall, but the size of many farms also grew. A simple indicator of the concentration of farm sizes was the percentage of all U.S. Farmland accounted for by the largest farms. Table 4 on page 46 shows that the smallest 50 percent of farms in the United States in 1900 accounted for only 13 percent of all farm acreage. This suggests a very high concentration of land in farms—even as long ago as that. However, the data for later years show that the concentration grew steadily after 1900. By 1978, the smallest 50 percent of farms contained only 4 percent of U.S. farmland. As for the very largest farms, the largest 10 percent of farms contained 45 percent of the land in 1900, but 73 percent in 1978. (Table 4 on page 45 makes this point in graphic form).

Perhaps even more strikingly, in the 1982 Census of Agriculture, of the roughly 2.2 million farm operators surveyed in the United States, more than 1 million named something other than farming as their primary occupation. Clearly, the Second American Agricultural Revolution had created a sort of 3-tiered industry. There were a group of just over 1 million farmers who farmed less than 100 acres of cropland and who could not make a living from doing so. These people had chosen to obtain work off the farm in order to support their families and to continue to farm on either a part-time

or a hobby basis. It would be difficult to categorize these industrious folks as professional farmers.

Table 3. Farm Characteristics, 1900-1980.⁴⁵

	Farm Population (thousands)	Percentage of total population	Number of farms (thousands)	Acres in farms (thousands)	Average size farm (acres)
1900	29,875	41.9	5,740	841,202	147
1910	32,077	34.9	6,366	881,431	139
1915	32,440	32.4	6,458	917,335	142
1920	31,974	30.1	6,454	958,677	149
1925	31,190	27.0	6,372	924,319	145
1930	30,529	24.9	6,295	990,112	157
1935	32,161	25.3	6,812	1,054,515	155
1940	30,547	23.2	6,102	1,065,114	175
1945	24,420	17.5	5,859	1,141,615	195
1950	23,048	15.3	5,388	1,161,420	216
1955	19,078	11.6	4,654	1,201,900	258
1960	15,635	8.7	3,962	1,175,646	297
1965	12,363	6.4	3,356	1,139,597	340
1970	9,712	4.8	2,954	1,102,769	373
1975	8,864	4.1	2,521	1,059,420	420
1980	6,051	2.7	2,439	1,038,885	426

Sources: *Historical Statistics of the United States*.

There was a second group of farmers who owned average- to large-sized farms (440 acres or more) who were completely invested in the modern agriculture of the post-revolution. These businessmen numbered around five hundred thousand by the advent of the Reagan administration, they were clearly commercial farmers who looked forward to rewarding careers.

⁴⁵ Cochrane, *Development*, 165.

Table 4. Shares of farm acreage and sales accounted for by farm size⁴⁶

	Smallest 50% of farms	Largest 20% of farms	Largest 10% of farms
By acreage			
1900	0.13	0.60	0.45
1920	0.12	0.61	0.46
1940	0.09	0.69	0.50
1959	0.08	0.74	0.63
1978	0.05	0.84	0.73
By value of sales			
1930	0.15	0.58	0.41
1940	0.12	0.64	0.48
1950	0.10	0.68	0.52
1959	0.06	0.69	0.45
1969	0.05	0.76	0.60
1978	0.043	0.83	0.63

Source: U.S. Department of Commerce, *Census of Agriculture*.

The third tier of post-revolutionary farmer had middling amounts of land, between 100 and 400 acres. These farmers had seen their costs rise markedly with the revolution. Machinery, chemicals, fuel, appliances, and utilities all were new costs. When the wartime economy (which was prolonged until the end of the Korean War) waned, prices began to sag. Some of these middle-tier farmers would sell to their more aggressive neighbors, while some would try to hang on to the old way of life by borrowing large sums, investing in new equipment, and acquiring more land through purchase or rental. In the end, though, all three groups would ask: Who is going to buy all of these commodities?

The wonder of the Second Agricultural Revolution was the amazing increase in the productivity of American farms. At the same time, this wonder began to cause a

problem. When the artificial markets created by World War II, the rebuilding of Europe, and the Korean War ended, farm prices began to fall and over-production began to be a significant worry. The revolution created a situation in which, with productivity increasing at a rate of about 2 percent per year, there was no possibility of the domestic market absorbing much of the increase. Therefore, if the U.S. agricultural economy were to prosper, either large, new, permanent or foreign markets would have to be found, or the federal government would need to transfer large amounts of income from non-farming Americans to the farmers.⁴⁶

Was exporting the increase in production even feasible? Perhaps a brief look at the history of U.S. farm exports can help answer that question.

The United States had always exported agricultural commodities, even before it was a nation. In the colonial days, tobacco, rice, and indigo were the major exports. By 1800, tobacco was still the major export commodity, while some wheat went from the middle colonies to the West Indies. In the antebellum years, rural farmers used about 80 percent of their crops and sold 20 percent. With the completion of the Erie Canal in 1825, farmers in the old Northwest could ship wheat and corn to the East Coast primarily for domestic sale. After 1820, cotton made up 42 percent of U. S. foreign exports. Cotton, tobacco, and wheat accounted for 67 percent of total U.S. exports. By 1840, cotton had assumed an even more dominant position in the export trade; cotton

⁴⁶ Gardner, *Agriculture*, 67.

accounted for 57 percent of total exports, and cotton, tobacco and wheat together accounted for 77 percent of total exports.⁴⁷

Even as far back as the middle of the 19th century, foreign exports of agricultural goods greatly affected the prosperity of American farmers. The Crimean War (1853-1856) served as a stimulus for the exportation of wheat from the United States to Great Britain and the European continent. However, when that market subsided and the stimulus of the Civil War had ended, the first agricultural revolution occurred in the United States. The formula of rising production and falling markets led to the first major farm recession—the recession of the 1870s. By 1880, the value of wheat exports exceeded the value of cotton exports for the first time. Again in the 1890s, production outstripped domestic and foreign markets; the recession of the 1890s caused great economic hardship, even causing the loss of farms and farm equipment.⁴⁸ Even more transparently, every period of farm prosperity in the twentieth century was associated with a period of high level of farm exports, and every period of farm depression was associated with a period of falling farm exports.⁴⁹

By the turn of the twentieth century, the productivity surge from the first revolution had plateaued and the frontier had closed, curtailing the cultivating of new virgin land. With a steady foreign market, stable production and the immigration of one million Europeans into the country yearly, the period from 1900 to 1914 has been called the

⁴⁷ Cochrane, *Development*, 268.

⁴⁸ *Ibid*, 270.

⁴⁹ *Ibid.*, 151.

golden age of agriculture. With demand high, agricultural prices rose faster than those of manufactured goods; farmers' standard of living rose throughout the period.

The outbreak of World War I curtailed immigration, but caused much greater demand for exports of agricultural goods. This extraordinary foreign demand for farm products reached its peak in 1919 when exports reached \$4.8 billion in value. However, the demand slackened in 1920 onward; by 1922, foreign exports had fallen to \$1.8 billion.⁵⁰ During this twenty year period of continually increasing demand (1900-1920), production was raised virtually to the maximum. However, when foreign demand fell so precipitously and production continued unabated, prices fell markedly. Agricultural exports continued roughly at the 1922 level throughout the decade, until the onset of the Great Depression. Federal policy response to the onset of the Depression was the Smoot-Hawley tariff, which raised tariffs to historically high levels. This elicited predictable responses from U.S. trading partners; agricultural exports plummeted. Exports of agricultural goods in 1933 were only 590 million dollars in value, the lowest since 1870. Throughout the remainder of the Depression, prices were extremely low, caused in large part because foreign exports exceeded \$770 million only in 1937 (\$891 million), culminating with an astonishing \$350 million level in 1940.⁵¹

The onset of World War II set agricultural exports rising again, as well as sparking increased domestic demand. That resulted in the end of the Depression. The war,

⁵⁰ Cochrane, *Development*, 111.

⁵¹ USDA, *U. S. Foreign Agricultural Trade Statistical Report, 1961-68*, (Washington, D. C.: G P O, 1969), 2.

followed by the Marshall Plan and then the Korean War, kept exports rising until 1952, when exports topped the \$4 billion value for the first time since 1919.⁵²

Following the armistice during the War in Korea, foreign demand dropped and prices again fell. However, the increased productivity of the revolution began to be noticeable; as production rose, so too did exports. The later part of the 1950s saw export levels around the \$4 billion mark. From 1964 through the remainder of the decade, exports hovered around the \$6 billion range.

It is clear then that even before the Second Agricultural Revolution, the United States relied on exporting much of its agricultural production. In most years after World War II, about 20 percent of agricultural commodities ended up in foreign markets.⁵³ Was it possible to increase that figure each year to account for the ongoing climb in productivity? Or would the federal government need to come up with new and innovative policies to address this problem caused by ever-increasing agricultural production?

The emphasis in Chapter 1 has been on the point that during the period from 1940 up until the inauguration of Ronald Reagan as president of the United States, U.S. agriculture went through an irrevocable change—to the point that it would be virtually unrecognizable to a farmer from the Depression era. American farmers had motorized implements; electrified buildings and equipment; utilized chemicals to fertilize crops,

⁵² USDA, *Trade Report*, various years, and USDA, Economic Research Service, *Value Added to the U. S. Economy by the Agricultural Sector via the Production of Goods and Services, by Component, and Net Farm Income, 1910-2010*, <http://www.ers/usda.gov/data-products/farm-income-and-wealth> (accessed July 18, 2012).

⁵³ *Ibid.*

killed weeds to the point that tilling was no longer necessary, and used insecticides to protect crops from insect damage. They had genetically modified plants and animals to bring out the most advantageous traits in both. Antibiotics and steroids protected and enhanced livestock to amazing levels of productivity.

These changes in farming also changed farm life and organization. Farms became much more selective. They went from an average of 5.8 commodities per farm to 1.8. The number of farms fell from 6.8 million to 2.4 million and the number of people living on farms dropped from 41 percent of the country's population to 2.7 percent in only 80 years. In fact, commercial farmers made up little more than 1.5 percent of the population, with the remaining farmers entering a new category called “part-time” or “hobby” farmers.

As a consequence of these dramatic changes, demands on agriculture changed as well. Because of the tremendous increase in production, more markets were necessary in order to guarantee economic prosperity. Now, foreign markets were even more vital for the economic health of U.S. agriculture than they had been in the past.

What, then, was the federal policy on agriculture during the period of the Second American Agricultural Revolution? How did it affect the revolution? How did policies change in response to the tremendous upheaval wrought by the revolution?

Chapter 2

Federal Policy on Agriculture

In view of the revolutionary change in farming and farm life that occurred between the onset of the Great Depression and the inauguration of Ronald Reagan, one would assume that a similar fundamental change would have occurred in the federal policy governing agriculture—if for no other reason than to keep up. Such was not the case, and therein lay the problem. The economic devastation wreaked by the Great Depression on the 30 million Americans living on farms mandated federal action to at least ameliorate the suffering. That was done with significant political success, if only sketchy economic improvement in the farm economy. However, World War II and its aftermath so changed the agricultural economy that the New Deal farm policies no longer were appropriate. An overriding economic philosophy for agriculture should have been adopted; clear goals for the policy should have been stated; and a series of Agricultural Acts should have been passed to keep U.S. agriculture moving on that new path.

Unfortunately, what the Reagan Administration inherited in the way of agricultural policy was essentially an extension of those policies passed in 1933, 1936, and 1938, while the depths of the Depression were still the driving force. What emerged was a system responsive to farm crises and interest group pressure, but not a cohesive policy.

But this is a complicated, story and we must begin at the beginning—in 1862, when Congress established the United States Department of Agriculture (USDA).

The focus of Congress in 1862 was not to establish a department; rather, it was intent on making available the vast public lands west of the Mississippi for settlement and farming. It needed an authority to administer this land transfer; that was the impetus to establish the USDA. However, also in 1862, Congress established the Land Grant Universities, among whose duties was the responsibility to teach and do research in agriculture in conjuncture with the USDA.

The function of the USDA was augmented in 1887 when Congress created agriculture experimental stations for state-of-the-art research on behalf of farm modernization. These stations were to be directed by the department. Then in 1914, Congress expanded the USDA again to include the Extension Service with its network of county agents who were tasked with linking the land grant universities and the experimental stations with the farmers in their fields. In this way, the USDA evolved from an overseer of land disbursement to a cabinet-level agency in charge of agriculture.¹

Prior to World War I, the United States had no federal policy for agriculture that participated in the marketplace (aside from tariffs and military procurement). The reason for this was that, as a nation distrustful of centralized power, without national governing authorities, and embedded in patronage politics, it had never wanted one.² However, during the war, the government called on the nation's farmers to maximize

¹ Gladys L. Baker, et al. *Century of Service: the First 100 years of the United States Department of Agriculture*, (Washington, D. C.: GPO, 1963), 14.

² David E. Hamilton, *From New Day to New Deal: American Farm Policy from Hoover to Roosevelt, 1928-1933*, (Chapel Hill and London: The University of North Carolina Press, 1991), 4.

their production in support of the war effort. The farmers responded patriotically, and there was never a want of farm products throughout the war.

However, when the wartime economy ended, such patriotic efforts began to cause economic problems for the farmers, who had continued to produce at wartime levels. However, a series of economic circumstances created by the war and its aftermath caused America's farmers to lose most of their foreign markets. At the start of the war, the United States owed foreign investors \$3 billion, and the annual interest and dividend payments on this debt sent dollars to Europe that had facilitated purchases of \$250 million to \$300 million dollars' worth of farm goods each year. But, after the war, European borrowers owed the United States \$21 billion and made annual interest payments of over \$1 billion. Before U.S. wheat and cotton could be imported into Europe, these debts had to be serviced. This creditor status of the United States made it much easier for competitor nations such as Canada, Argentina, Australia, Russia, Egypt and India to sell agricultural products to Europe, because all of them were debtor nations to Europe. Their currencies were much more available to Europeans than U.S. dollars.³

During the twenties, the United States tried to have the best of both worlds. It wanted to reap the benefits of profitable investments abroad as a creditor nation, and at the same time protect home markets for its manufactured goods with high tariffs. This plan worked to the detriment of the farmers. It raised the price of items the

³ Hamilton, *New Day*, 11.

farmers bought, while shutting off many of their important overseas markets by preventing reciprocal trade.

Moreover, the federal government changed its policy on immigration, placing many new restrictions on those coming to this country, especially from southern and eastern Europe. Such immigrants represented potential customers for agricultural products. After the new laws went into effect, the number of immigrants dropped from 805,000 in 1921 to 23,000 in 1933.⁴

All these factors caused American farmers' standard of living to slip significantly. The farm income of 1919 was \$16.8 billion, but after all wartime economic activity had ended, farm income fell to \$9.5 billion in 1921.⁵ As farm income fell, debt became an increasing burden. Interest rates of 8 to 12 percent were common. Yet farmers' costs did not fall along with their incomes. An index of retail prices compiled by the USDA in the early 1920s showed that, using 100 for the base period of 1910 to 1914, farm buying power fell from 102 in 1919 to 86 in 1928. Added to the farmers' burden was the fact that tax rates were higher on farmers than on urban dwellers. In Michigan, for instance, 52 percent of the net income of farmers between 1919 and 1925 went for taxes, a reflection of both lowered income and unusually high taxes.⁶ The price decline of 1920 and the short-lived depression that followed affected all sectors of the farm economy.

⁴ Theodore Saloutos, *the American Farmer and the New Deal* (Ames: the Iowa State University Press, 1982), 10.

⁵ USDA, Economic Research Service, *Value Added to the U. S. Economy by the Agricultural Sector via the Production of Goods and Services, by Component, and Net Farm Income, 1910-2010*, <http://www.ers.usda.gov/data-products/farm-income-and-wealth> (accessed August 18, 2012).

⁶ Saloutos, *American Farmer*, 13.

Bankruptcies skyrocketed, farm values declined, and the prewar-level purchasing power of the farmers sank.⁷

In addition to the economic problems engendered by the end of the war, farming was experiencing its own evolving economic picture. The very makeup of farming, with its seasonal nature, long production periods, and its small farm units, made it impossible for a farmer or even a group of farmers to control production or influence prices.⁸ In addition, there were actually two levels of farmers. Of the 6.4 million farmers in the United States, approximately 3 million were tenants, sharecroppers or marginal farm owners. These had neither the capital nor the financial backing necessary to succeed at commercial farming. Instead, they worked on farms too small and too infertile to maintain a decent standard of living. In fact, these men and their families lived in poverty. Their yearly produce had a total value of less than \$1,000, and one-half of them produced less than \$600 dollars' worth of goods.⁹

The remainder of the farmers, the commercial farms, also faced an uncertain future. Income dropped significantly while interest rates, taxes, and labor costs remained high. No matter how much farmers might want to insist on the centrality of agriculture, the success of the farm economy now depended on the domestic industrial economy and the availability of international markets. Both of these entities were inherently unstable. The economic situation for American agriculture had changed substantially,

⁷ Saloutos, *American Farmer*, 5.

⁸ *Ibid.*, 9.

⁹ *Ibid.*

with no input from the farmers themselves. They felt that the time had come for a federal farm policy.

The agrarian view was championed by several large farm groups. The American Farm Bureau Federation was the largest farmer organization, made up largely of commercial farmers. The National Farmers Organization was smaller and contained many small farmers who held a more populist philosophy. The Grange by this time had lost much of the size and influence it had held in the previous century, but still was a player in the political game. These organizations argued that farmers were being hurt by the organization and the political influence of business and labor. They advocated similar tactics on behalf of the farmers. Their goals were to exact higher commodity prices and cheaper credit with a minimum of governmental intrusion.

The agrarians believed that the tariff had been responsible for the profitability of many U.S. industries, and that it could also benefit the farmers—if used on agricultural staples and ultimately on all farm products.¹⁰ George Peek and Hugh Johnson wrote a pamphlet in 1922, *Equality for Agriculture*, in which they outlined a plan that was to become the basis of a bill introduced to Congress called the McNary-Haugen Bill. In essence, the plan called for the federal government to establish a substantial tariff on the importation of agricultural commodities, with the purpose of reserving the entirety of the domestic market for domestic farmers. Further, the government was to raise the prices of the farm goods by the amount of the tariff. A federally established corporation would buy all surplus farm goods and sell them to foreign markets at the prevailing

¹⁰ Darwin N. Kelly, "The McNary-Haugen Bills, 1924-1928," *Agricultural History*, 14, no 4 (1940): 170.

world price. The farmers would then pay an equalization fee from their profits back to the government to help defray the cost of the program. This bill was introduced into Congress in 1924, 1926, 1927, and 1928. It passed both houses of Congress in 1927 and 1928, but was vetoed both times by President Coolidge, who argued that the government should not enter into the private market of agriculture.

The moving force behind the blockage of McNary-Haugen was Herbert Hoover. He was Secretary of Commerce in the Coolidge administration and soon to be president of the United States. A progressive, he envisioned an associational democracy in which private interests would assume broad public responsibilities; the federal government would guide these private groups in cooperative self-government. He believed the answer to the nation's social and economic problems was not more regulation and legislation, but new avenues for voluntary and cooperative action. Through partnerships of the public and private sectors, American society could become more self-regulated, more self-governed, and more economically rational. In this way the nation could develop economic coordination without large-scale bureaucracies.¹¹

It would be up to the farmers to build cooperative endeavors that would allow individuals to unify under a goal to embrace scientific and organization values, and create a more rational farm economy. For the associationalists, the answer to the farm problem was not interest-group pressure or agrarian revivals, but the creation of cooperative institutions that would give farmers a fighting chance in the ever-changing new economy. Government was to be used to encourage farmers to build credit

¹¹ Hamilton, *New Day*, 28.

systems, use scientific research, control the marketing of their commodities, and plan what crops and livestock to raise.¹²

Despite the efforts of the organized farm groups, which were angered at his opposition to McNary-Haugen, Hoover was handily elected president in 1928. He set right to work to develop the first modern federal farm bill, the Agricultural Marketing Act of 1929, which he signed into law on June 15, 1929.

The marketing act had two main goals: to aid, strengthen, and extend the scope of farmer-owned and-controlled cooperatives; and to establish stabilization corporations that would help maintain acceptable farm prices. These goals were to be managed by a Federal Farm Board and a revolving fund of \$500 million.¹³ Hoover was not anxious for the Farm Board to actually buy and sell agricultural commodities. In his message to Congress at the start of the 1929 special session, he said, "No governmental agency should engage in the buying and selling and price fixing of products, for such courses can lead only to bureaucracy and domination."¹⁴ However, it was never quite clear just how the board was to stabilize farm prices without participating in the market. In fact, the Federal Farm Board took the unprecedented step of forming two stabilization corporations, through which it purchased 65 million bushels of wheat and more than 1 million bales of cotton. These purchases threw the private grain and cotton traders into a frenzy and incited a furious attack against the board.

¹² Hamilton, *New Day*, 4-6.

¹³ Saloutos, *American Farmer*, 28.

¹⁴ Hamilton, *New Day*, 57.

The board, of course, could not know what lay in the future. Despite the low wheat prices, the 1928-29 crop year had not been bad. The decline in land prices had stopped and farm income approached the 1910-1914 average. What lay just ahead, however, would destroy not only the Federal Farm Board, but the presidency of Herbert Hoover. From 1929 to 1932, the prices of crops and livestock fell by 75 percent, gross farm income fell from \$13.8 billion to \$6.5 billion, farm purchasing power and land values fell by 40 percent, and per capita income fell from \$602 to \$145. The two commodities most heavily dependent on world trade, wheat and cotton, suffered the most. Wheat prices fell from \$1.30 a bushel in 1929 to 48 cents in 1932, and cotton dropped from 18.7 cents a pound to 5.5 cents in 1932.¹⁵ This tragedy was more than the board could handle. It spent virtually all of its \$500 million revolving fund futilely trying to stabilize farm prices, and ultimately it essentially disbanded. It was clear by 1932 that a new administration would be needed to create a workable farm policy.

The irony of Franklin Roosevelt's New Deal, at least in farm policy, was that it contained no new ideas. Everything that appeared in the Agricultural Adjustment Act of 1933 (AAA) had been proposed before—much of it by members of the USDA. The difference was in the ears that were hearing the proposals. Herbert Hoover had been rigid. There was only one avenue down which he was willing to go with new policies: associationalism. Roosevelt, on the other hand, was willing to consider any idea within

¹⁵ Hamilton, *New Day*, 67.

reason. He was also willing to allow a larger role for governmental financing than either Hoover or the Federal Farm Board had been willing to accept.¹⁶

The Emergency Farm Mortgage Act was tied to the Agricultural Adjustment Act in order to provide relief for farmers in the form of mortgages at lower rates.¹⁷ At the same time, Roosevelt's USDA, under the leadership of Secretary Henry A. Wallace, continued to hold a deep commitment to voluntary and decentralized methods. In fact, the reliance on state and local control of the AAA led to the displacement of southern tenants and sharecroppers. However, some of the new policies contained within the Agricultural Adjustment Act did have modest success and certainly proved to be long-lived.

The general objectives of the AAA were to reverse the disparity in the purchasing power of farmers, which by February 1933 had dropped to about 50 percent of its pre-war level.¹⁸ The government hoped to accomplish this by eliminating the surpluses in wheat, cotton, tobacco, rice, hogs, and milk. By bringing the supplies of these commodities into line with the demand, officials hoped prices would rise, farm income would rise, and parity would be achieved. Benefits would be confined to the farmers who raised these commodities and who cooperated with the government by growing only enough of them to meet projected demand. Restricting payment to only those farmers was based on the theory that these seven crops were in worse economic

¹⁶ Hamilton, *New Day*, 245.

¹⁷ Robert S. McElvaine, *the Great Depression: America, 1929-1941* (New York: Three Rivers Press, 1993), 148.

¹⁸ Arthur M. Schlesinger, Jr., *the Age of Roosevelt: The Coming of the New Deal* (Boston: Houghton Mifflin Company, 1958), 45.

condition than other commodities, because the United States had a large surplus in all of them. It was thought that changes in the prices of these crops would influence changes in the prices of the other commodities as well. Farmers were free to grow as much as they chose—but if they did so, they could not receive benefit payments from the USDA. The government also proposed to become the arbiter and partner in marketing agreements with associations of producers, processors, and distributors.¹⁹

The Agricultural Adjustment Act was an omnibus bill that contained many programs. It authorized a land retirement program, it allowed price-setting marketing agreements between farmers, and it allowed the subsidized export of surplus commodities. However, these programs were dwarfed by several of the other programs. Farmers, by entering voluntary contractual agreements, could be paid not to grow the specified crops on portions of their land that had historically grown that crop (Hoover had repeatedly urged farmers to reduce production; however, he could not bring himself to allow the government to pay the farmers to do what he felt was their civic duty, and the farmers largely ignored his pleas). The money to pay the farmers came from taxes on companies that processed the program commodities, and thus amounted to an indirect sales tax on consumers.²⁰

Cotton gives a good example of how the program worked. A farmer who signed a government contract was required to state how much cotton he had planted in 1933, and of what quality. He had to report whether his land was fertilized, and if so, how

¹⁹ Saloutos, *American Farmer*, 48.

²⁰ Paul K. Conkin, *the New Deal*, 3rd ed. (Wheeling, Illinois: Harlan Davidson, Inc., 1967), 42.

much fertilizer he used per acre. He was to verify his yield for 1932, where he ginned his cotton, and to whom it was sold. Assuming normal conditions, he was to estimate the amount of lint cotton he expected to harvest per acre from his planted acreage in 1933. On a map on the back of his contract, the farmer had to indicate the acres he would fallow. He further had to agree not to use more fertilizer on the remaining acres than he had used in 1932. No grower was to take less than 24 or more than 50 percent of his cotton acreage out of production.²¹

In this contract, the farmer benefitted in two ways. He was paid for the acreage that he did not plant, and he was eligible for a loan from the Commodity Credit Corporation (CCC) against the crop that he did plant. If his crop could be sold at a higher price than that of the loan, the farmer could sell his crop and pay back the loan plus interest. If, however, the loan price was greater than the market price, the farmer could simply forfeit his crop to the CCC and the loan would be canceled.

The allotment plan was based on the realization that because the United States was committed to a high tariff, the nations who had been former buyers of its commodity exports were now resorting to every conceivable form of excluding U.S. farm products. Thus, without foreign markets, the American farmer had to be protected for at least that portion of his product used at home. The excess production had to be reduced. It was simply a question of fighting fire with fire.²²

²¹ Saloutos, *American Farmer*, 68.

²² *Ibid.*

The benefits of the contracts for the program crops during the life of the AAA of 1933 were real, albeit modest. Gross farm income rose from \$5.9 billion in 1932 to \$9.8 billion in 1935. Government payments totaled \$1.15 billion in the years 1933 - 1935.²³ It is easy to see why there was some consternation among farmers when the processing fee was deemed unconstitutional by the Supreme Court in January 1936.

Congress moved quickly to pass the Soil Conservation and Domestic Allotment Act (SCDAA) of 1936 to act as a substitute for the AAA. Payments under the SCDAA were based on the willingness of farmers to voluntarily implement soil conservation practices. This time, the payments were drawn directly from the U.S. Treasury rather than from a fee or tax. In effect, this was an attempt to write a constitutional AAA. However, there were still problems.

The extensive droughts of 1934 and 1936 and the bumper crops of 1937 showed that both the allotment plan of the AAA and the conservation plan of the SCDAA provided too little wheat and corn for food and feed during drought, and large surpluses during bumper crops. To address that problem, Congress set about to enact a new farm law which would include a national grain reserve. This became the Agricultural Adjustment Act of 1938.

The 1938 legislation retained the programs from the AAA of 1933, with the exception of the unconstitutional processing fee. In addition, it made price supports mandatory for wheat, corn, and cotton during times of low supply (USDA Secretary Henry A. Wallace called this an “ever-normal grainery”) and also provided marketing quotas for

²³ USDA, *Value Added* (accessed August 29, 2012).

these crops during times of oversupply. This law was made permanent; should a subsequent farm bill expire without a replacement, the provisions of the 1938 legislation would become active.

When the New Deal ended in 1939, its agricultural policy bills had not met its goals of obtaining parity for the farmers of the program commodities. In August of 1939, prices were substantially lower than parity or even prices in 1929: corn was 59 percent of parity; cotton 66 percent; wheat 50; butter 59; hogs 60; chickens 93; and eggs 49.²⁴ The attempt to control overproduction through the allotment program and by shifting some land out of production into conservation uses was not effective. The New Deal policies had not retired land from cultivation fast enough to overcome the effects of the agricultural revolution in its earliest stages. As we shall see, these policies that continued during periods when production soared ever higher were equally ineffective. However, the economic crisis in farming would be greatly improved by the onset of another war.

The emergency generated by the events at Pearl Harbor on December 6, 1941 greatly simplified the task of writing federal policy for agriculture. The secretary of agriculture called for full agricultural production, and Congress passed the Emergency Price Control Act on October 2, 1942. The act provided price guarantees of 90 percent parity for requested commodities of corn, wheat, rice, tobacco, cotton, hogs, eggs, chickens, turkeys, milk, butterfat, dry peas, dry beans, soybeans, flaxseed, peanut oil, sweet potatoes, and potatoes until two years after the official termination of the war. Since

²⁴ Saloutos, *American Farmer*, 257.

President Truman did not certify the war as over until December 31, 1946, the price supports remained until the end of 1948. The justification for this sweeping measure was that if farmers responded to the war emergency by raising more crops, they should be protected from a recurrence of the price collapse that had followed World War I.²⁵

The wartime economy changed the face of agriculture in the United States. Commercial farmers again had markets for everything that they could grow. This prosperity enabled the purchase of new equipment to embrace the agricultural revolution. The tenants, sharecroppers, and marginal farmers had the opportunity to leave farms and find meaningful jobs in industry supporting the war effort. Two million did so, never to return during the war years. The devastation in the agricultural economy that had spurred the New Deal farm policies was now largely nullified.

With the war over but the wartime provisions still in place, Congress began to consider what federal farm policy would look like going into the future. The Republicans favored a system of flexible price supports, with the level of support to be determined by the size of the supply and the intensity of demand. The Democrats largely clung to the status quo of 90 percent of parity.

It was also at this point that federal agriculture policy played a significant role in one of the biggest political upsets in U.S. presidential history. America's farmers, by nature conservative people, had tended to vote Republican following the Civil War. They had, however, become disenchanted with Herbert Hoover and his approach to the

²⁵ Willard Cochrane and Mary E. Ryan, *American Farm Policy, 1948-1973* (Minneapolis: University of Minnesota Press, 1976), 134-5.

depression in agriculture; they had deserted the Republicans in favor of Franklin Roosevelt and the New Deal in 1932. As the Depression dragged on, the farm vote continued to back Roosevelt in both 1936 and 1940. However, when the wartime economy led to a real economic turnaround for agriculture, most of the farm states returned to the Republicans and their candidate Thomas Dewey by the 1944 presidential election. The 1948 election pitted Harry Truman, the incumbent Democratic president, and Thomas Dewey, again the Republican challenger.

The early polls showed Dewey well in the lead across the country, including the farm states. In July, as the Democratic convention was half-heartedly making Truman their nominee, the *Des Moines Register's* poll of Iowa gave Truman 29 percent, compared to 56 percent for Dewey. In August, the Gallup Poll of farm voters showed Dewey with 48 percent and Truman with 38 percent.²⁶ On September 2, Harold Stassen, speaking for the Republican Party, charged that the Administration had purposely attempted to keep food prices high despite one of the largest harvests in history. Further, Stassen claimed that to keep prices from making their normal and desirable adjustment downward, the Department of Agriculture had created unneeded grain purchases for export.

The Truman campaign, desperately needing a farm issue to stem the tide of defeat, seized on this statement. Within two hours, Secretary of Agriculture Harold Brannan issued a statement declaring that Stassen and the Republicans were attacking the agricultural price support system; the implication was that the Democrats were

²⁶ Allen J. Matusow, *Farm Policies and Politics in the Truman Years* (New York: Atheneum, 1970), 174, 178.

defending the price support system and were in the farmers' corner. A second, seemingly harmless Republican move then provided the Democrats with more ammunition. The Commodity Credit Corporation charter had been up for renewal during the recently concluded Congressional session. At the insistence of the private grain traders, the Republicans had included a clause forbidding the CCC from acquiring land, leasing storage facilities, or building new storage bins near farms to hold crops placed under CCC loans. This meant that the CCC would have to ship the loaned crops to remote sites for storage and then back again if they were to be redeemed. Secretary Brannan now attacked this move as being advantageous for the traders and expensive for the farmers—in other words, an attack on the price support system.

The combination of the huge domestic harvest and the easing of the famine in Europe had caused grain prices in the summer and autumn of 1948 to plummet, making the farmers very uneasy. At just that time, the Democrats began what one reporter called a "whispering campaign," to the effect that Dewey intended to end the agricultural programs of the New Deal.²⁷ Still, even well into October, both the Gallup Poll and the poll of the *Des Moines Register* gave Dewey 53-54 percent of the Iowa vote as compared to 38 percent for Truman. The prediction of a landslide still stood. However, the price of corn continued to drop during October, and the Democrats intensified their attack.²⁸

²⁷ *Des Moines Register*, October 15, 1948, cited in Allen J. Matusow, *Farm Policies and Politics in the Truman Years*, 183.

²⁸ Matusow, *Farm Policies*, 182.

This is a well-known story. Against all odds, Truman beat Dewey. The moral of the story is not so well known. However, it had a significant effect on future federal farm policy battles in Congress. The strategy of accusing the Republicans of wanting to abolish the New Deal price support system had turned the tide for the Democrats and won them the election. Ohio, Iowa, Wisconsin, Colorado, and Wyoming, all won by Dewey in 1944, reversed and voted for Truman in 1948.²⁹ Dewey was convinced that the 101 electoral votes that Truman won in the Midwestern farm states had cost him the election.³⁰

Following the 1948 election, the ensuing three administrations would present liberal, conservative, and centrist farm plans in an attempt to define American federal agricultural policy, but future Congress members would be loath to make any meaningful changes to the New Deal farm policies for fear of alienating the farm vote.

Harry Truman and his Agriculture Secretary Charles Brannan knew they owed their jobs to the farm vote, and they were determined to pay the farmers back. Truman was also determined to make a name for himself apart from the New Deal. He realized that his strength lay largely to the left of the political spectrum, and his program was skewed in that direction. He asked for legislation that would make the Fair Deal a liberal milestone: he wanted national health insurance; civil rights legislation; a strong

²⁹ Virgil W. Dean, *An Opportunity Lost: The Truman Administration and the Farm Policy Debate* (Columbia and London: University of Missouri Press, 2006), 111.

³⁰ Matusow, *Farm Policies*, 187.

minimum wage; and new liberal farm legislation that would be called the Brannan Plan.³¹

Secretary Brannan was determined to make the 1948 farm vote shift from Republican to Democrat a permanent one by giving the farmers such a popular bill that they would be bonded to the Democrats well into the future.³² His proposal for a new postwar agricultural policy contained four basic elements: a new type of support based on a farmer's income rather than on commodity prices, which would set a realistic minimum income below which it was not in the interest of the nation to allow farmers to go; a more recent, realistic, moving ten-year base period for computing parity; loan support for farmers, purchase agreements, production payments, and direct purchases of crops; and eligibility for support to farmers who practiced good soil conservation, complied with acreage allotments and marketing quotas and agreements, and who did not exceed the agreed-upon volume of production.³³

The proposed system was based on recommendations by agricultural economists who advocated the elimination of direct price supports, and recommended the principle of direct government payments to farmers. This would allow prices to be determined by the marketplace. The marketplace would also then clear the commodities and avoid large government-held surpluses. The difference between the free market price and the ideal price for farmers would be the amount sent to the farmers by the government.

³¹ Alonzo Hamby, *Beyond the New Deal: Harry S. Truman and American Liberalism* (New York and London: Columbia University Press, 1973), 293.

³² *Ibid.*, 304.

³³ Dean, *Opportunity*, 137.

(Many commercial farmers, including the Farm Bureau and the National Grange, were uneasy about the idea of accepting a subsidy and opposed direct payments, because they felt it would be easier to go to Congress for appropriations to make crop loans.)³⁴

Abandoning the basic commodities supported by current legislation, Brannan's liberal plan suggested a group of ten commodities as being of prime importance—both from the standpoint of their contribution to farm income and their importance to the American consumer family. He named corn, cotton, wheat, tobacco, milk, eggs chickens, hogs, beef cattle, and lambs. However, in a fresh perspective, Brannan concluded that if possible, all other commodities should be supported in line with or in relation to those he named. The secretary of agriculture would have the authority to support any commodity at whatever level was required to increase supplies or meet national emergencies.³⁵ To protect the department from too great an expansion of production and huge expenditures for production payments, Brannan requested authority to impose production controls on all basic commodities whenever necessary. In supporting storable crops, the department would mainly rely, as before, on storage programs, with production payments serving only as a supplementary method.³⁶

Although most executive branch officials supported the Truman-Brannan proposal, several Bureau of the Budget officials expressed their concerns privately with the White House. These officials, E. Fenton Shepard and Lee Dashier, feared that the budgetary implications and economics effects of the proposals would be quite high. They surmised

³⁴ Dean, *Opportunity*, 129.

³⁵ *Ibid.*, 138.

³⁶ Matusow, *Farm Policies*, 198.

that the justification for this outlay would be the disparity between farm and industrial income. However, they pointed out that the disparity had existed for many years and would continue to exist because of the excess population in farming. They suggested that transitions were needed out of agriculture and into more stable and lucrative nonfarm occupations. Production payments were a desirable feature, they agreed, but benefited mainly commercial farmers and not the poor in farming.³⁷

True to the politics of the Fair Deal, Secretary Brannan concluded that it would be wrong to allow the farm program to operate in such a way as to encourage the concentration of U.S. farmland into fewer and fewer hands. Thus, the secretary recommended that any farm production in excess of a predetermined amount not be eligible for price support. He suggested that a comparative unit equal to 10 bushels of corn, roughly 8 bushels of wheat, or 50 pounds of cotton be established, and that not more than 1,800 units per farm be eligible for support.³⁸

Interestingly enough, many farm groups were not impressed with the Brannan plan—including the Farm Bureau, who largely represented the commercial farmers. The bureau had six main objections. It feared the plan would: make farmers dependent on a government handout; be staggeringly expensive to administer; lead to rigid price controls; result in low farm prices and high consumer prices; end the fair exchange concept of parity; and make the farm program even more partisan than before.³⁹

³⁷ Dean, *Opportunity*, 132-3.

³⁸ *Ibid.*, 139.

³⁹ *Ibid.*, 163.

In Congress, the Brannan Plan never came close to passing. There were many contributing factors to this failure. Partisanship, introduced so effectively by the Truman administration during the 1948 presidential campaign, played a major role. As was the case on so many Fair Deal issues, the fact that the Democrats held the majority meant little. Many Southern Democrats joined Republicans and the Farm Bureau in opposing the proposal. In the end, status quo won out. The Brannan Plan was brushed aside in Congress; 90 percent of parity for the basic commodities, with allotments and conservation set-asides, won the day in 1949.

In 1950, the Truman Administration and the Congressional liberals tried again to pass the Brannan Plan. Espousing what they termed the economy of abundance philosophy, the administration—unlike most of the nation's agricultural economists—believed that with proper policies, consumption could be increased enough to completely utilize agricultural production. In a memo to the president, Secretary Brannan argued:

Encourage business to produce in abundance, and you lessen the farmer's need for price supports. Help labor to keep steady employment at good wages, and you reduce the possibility of farm surpluses. Provide the farmer with opportunity to earn good returns from his production, and you help assure the businessman of markets and the laboring men and women of jobs. Expand the total economy and everybody gains. Cut it back and nobody gains but the enemies of democracy.⁴⁰

Conservative opponents of the Brannan plan termed it socialized agriculture.

However, on June 25, 1950, the question became moot when North Korean troops crossed the 38th parallel into South Korea; the United States was back at war. The

⁴⁰ Brannan to Truman, November 1, 1949, Office of the Secretary of Agriculture, RG 16, NA, cited in Virgil W. Dean, *An Opportunity Lost*, 213.

Brannan Plan was never even considered in 1950. Congress instead passed a new farm bill with all of the old wartime provisions, in effect through 1954. Thus, the liberal attempt at a long-range policy for agriculture failed; the nation entered 1955 with the same system that had been enacted to address the Great Depression.

The difference, of course, was that there was a new president and a new agriculture secretary—both much more conservative than the last. Dwight Eisenhower could have been elected president in 1952 as either a Democrat or a Republican, but he felt more comfortable with the Republican philosophy. While Eisenhower was not conversant with the nuances of agricultural policy, he nevertheless felt that federal involvement in agriculture should be reduced. This meant that he favored flexible price supports as a first step in loosening government involvement in farm planning. Eisenhower chose Ezra Taft Benson to be his Secretary of Agriculture. Benson had worked for some years in farm co-ops, and was, like Eisenhower, of the opinion that the less governmental involvement in agriculture, the better.

However, the armistice ending the war in Korea meant trouble for operations under the New Deal farm program as the agricultural revolution began to accelerate. Yields were increasing rapidly and exports fell. Production controls at the support levels of 90 percent of parity could not contain crops at the level of demand. Government stocks were accumulating alarmingly, and farm income was sagging.⁴¹ The Commodity Credit Corporation was obligated to buy all program commodities that the farmers in the program could not sell. With production increasing yearly and no effective means of

⁴¹ Cochrane and Ryan, *Farm Policy*, 77.

capping production to demand, the cost of the farm program could potentially become a major financial burden. Between January 1, 1953 and January 1, 1954 the CCC had increased its stock of commodities by \$1.3 billion. If no wheat were harvested at all in 1954, the 875 million bushels already owned by the CCC would take care of 100 percent of domestic demand. Also in storage were 9.6 billion bales of cotton and 900 million bushels of corn, each also a year's supply.⁴²

In response, the administration successfully pushed in July of 1953 the passage of a bill called Public Law 480. This law provided the authority for disposing of surplus agricultural products through sales to foreign countries in their own currency, and in other concessions that essentially amounted to foreign aid.⁴³ Of course, even when done in the name of charity, dumping excess crops on foreign countries was not the answer to the farm problem, primarily because simply providing food rather than the tools and know to grow their own food did not solve the problem of hunger in emerging countries.

In proposing the farm bill for 1954, the Eisenhower administration worked under the philosophy that the increasing over-production of farm products could be slowed and brought back into balance with demand by lowering the level of farm price support. The idea was that with no price supports, the farmers would only grow what they thought they could sell for a profit. Secretary Benson was intent on moving expeditiously in that

⁴² Edward L. Schapsmeier and Frederick H. Schapsmeier, *Ezra Taft Benson and the Politics of Agriculture: The Eisenhower Years, 1953-1961* (Danville, Illinois: The Interstate Printers & Publishers, Inc., 1975), 77-8.

⁴³ Cochrane and Ryan, *Farm Policy*, 77.

direction, while the president was more inclined to reduce the supports gradually. Despite the fact the administration was supported by the American Farm Bureau and a Republican Congress, there was still a strong preference within Congress to leave price supports at the current 90 percent of parity level.⁴⁴ The administration, on the other hand, recommended a flexible price support, to be fixed by the secretary of agriculture, in response to the character of the market and the projected harvests. The administration won a limited victory in August 1954 with the passage of the Agricultural Act of 1954, which authorized the use of flexible price supports for the basic commodities ranging from 82.5 percent of parity to 90 percent for 1955, and from 75 percent to 90 percent in 1956 and beyond.⁴⁵

Ezra Benson believed that the problem of over-production could be completely cured by withdrawing all price supports and allowing the market to dictate price. In addition, he wanted to do away with all production controls. He argued that the farmer should be free to grow as much or as little as his business acumen led him to do. However, while price supports remained, Benson wanted a strict adherence to production controls. The problem lay in the fact that as allotments got smaller, it became increasingly difficult for small farmers to make a living. Those farmers naturally asked for permission to divert their idled land to another crop. For the farm program to work, Benson argued, diversion was not possible. However, a strict adherence to the program

⁴⁴ Schapsmeier and Schapsmeier, *Benson*, 81.

⁴⁵ Cochrane and Ryan, *Farm Policy*, 77.

rules would freeze farmers into their production history and prevent new farmers from joining the program.

The small farmers complained loudly to their Congress members. The political pressure on the administration was intense. With the 1956 elections looming, the White House bowed to the pressure and ordered Benson to allow diversion. "The Republican Party was more intent on retaining control of both houses of Congress (thus the need to hold the farm vote) than in implementation of a consistent and comprehensive program in agriculture."⁴⁶ Yet even with the easing of production restrictions, the Congress in 1956 repudiated the sliding scale and passed a bill returning to the tried-and-true 90 percent of parity. Eisenhower, however, vetoed the bill and sent Congress back to the drawing board.

Not surprisingly, the combination of a modest lowering of the loan rate for wheat, feed grains, and cotton in 1955-56, coupled with lax production controls, did not stem the tide of agricultural output. Thus, increasing farm productivity, increased stocks of commodities in government hands, and lower net farm incomes all sent the administration looking for a new scheme.

The Republicans thought they had found the answer in the Soil Bank program. This program was intended to take farm land out of production and bring harvests more in line with demand. The Soil Bank had two parts: the Acreage Reserve Program, under which no crop could be harvested or pastured on the acres which the farmer was paid to leave idle; and the Conservation Reserve, under which farmers were paid to reduce

⁴⁶ Schapsmeier and Schapsmeier, *Benson*, 95.

harvests by shifting cropland to long-range conservation uses such as forests and wetlands.

President Eisenhower was especially enthusiastic about the Soil Bank program and encouraged Secretary Benson to push the program vigorously in Congress.⁴⁷ This effort bore fruit; the Soil Bank program was incorporated into the Agricultural Act of 1956. The program was actively pursued from 1956 through the end of the Eisenhower administration. However, it proved to be unpopular. It was not successful in reducing total output, it was costly to remove land from production, and urban voters resented paying farmers for doing nothing. Serious efforts to reduce the production of wheat, cotton, and feed grains through such control programs were abandoned in 1959 and 1960.

Despite the firm confidence of the president and the secretary that the overall approach would work, the results of this small trial of allowing free market to dictate agriculture were disappointing. The following table shows the program.

Table 5 Percentage of Parity ⁴⁸

Product	1959	1960
Wheat	77	75
Cotton	80	75
Corn	66	65

⁴⁷ Fred I. Greenstein, *the Hidden-hand President: Eisenhower as Leader*, (Baltimore and London: The Johns Hopkins University Press, 1982), 144.

⁴⁸ Cochrane and Ryan, *Farm Policy*, 78.

Despite the lowering of price supports, total farm output increased significantly; carryover stocks reached alarming levels; and net farm income continued to be depressed. The agricultural revolution continued its inexorable path, producing more commodities that the market could absorb. No reasonable decline in the level of farm prices could correct the problem while the price supports were in effect. What could be done about the problem of chronic overproduction in agriculture? That was one of the big questions facing the new president.

John Kennedy tended to be a political pragmatist. His agricultural philosophy reflected his political outlook. His goals for agriculture were to raise farm incomes while reducing the cost of farm programs to the federal government. The administration sought to raise farm prices by reducing farm output through the mechanism of self-imposed, mandatory production controls. With government-granted monopoly power, each group of farmers who raised each commodity could control its own production and drive up prices to balance demand. Kennedy called this technique “supply management”—a system of sales and production quotas that would prevent surpluses and thereby drive farm market prices up above support levels. The quotas were to be based on each farmer's history of production.

The difference between this plan and previous plans was that previous production controls were based on acreage allotments; a farmer's quota was simply as much as he could grow on his allotted acreage. The agricultural revolution's increasing productivity had prevented acreage allotment from ever accomplishing a reduction in the size of harvests; hence the continuing overproduction.

Kennedy's plan was based on quantity limits. Marketing quotas would be based on bushels of wheat, for example. In that case, a farmer would have no incentive to add more fertilizer, new seed types, weed suppressants, or irrigation in order to boost production, because his production was fixed.

The second change in this system was that Kennedy proposed to apply the supply control principle to all farm commodities. In addition, he planned to expand demand as much as possible. Thus he initiated the Food Stamp Plan.

It comes as no surprise that Congress received the Kennedy Plan with little enthusiasm. To accept mandatory controls without a system of payments to the farmers, and to cede Congressional power to a farmer organization for each commodity, was much more than Congress would even consider. The Kennedy Plan died in committee in both chambers of Congress.⁴⁹

It was apparent that no clearly enunciated philosophy for agriculture would be acceptable to a majority of those involved. The liberal plan of the Truman administration—essentially a "socialized" agriculture in which the government was involved with every commodity—was absolutely unacceptable to the commercial farmers and the agricultural processors. The conservative plan of the Eisenhower administration—in which the government would phase out of agriculture entirely—was unacceptable to the small farmers and to the farmland Congress members who needed agricultural policy for political leverage. The centrist plan of the Kennedy administration—that required mandatory production control and a ceding of power to

⁴⁹ Cochrane and Ryan, *Farm Policy*, 92-3.

farmer organizations—was unpopular with everyone. The only acceptable alternative was a patchwork policy in which everyone got something, no one got everything, and control remained in the hands of Congress.

The problem was that with the increasing farm output yearly, the farmers unwilling to impose strict production controls on themselves, and the need to export the large surplus, a policy of price supports significantly above the world price simply would not work. The cost to the taxpayer would be untenable and the crops held by the government would overwhelm storage capacities. Compromises were clearly in order.⁵⁰

The Food and Agricultural Act of 1962 that was passed instead of the Kennedy Plan did have some innovations. For feed grains only, the price support level was lowered to the approximate world price level. To make up for the fall in price supports, Congress agreed that the difference between the old support level (\$1.20 per bushel for corn) and the new lower support level (\$1.07 per bushel) would be paid to the farmer in the form of a deficiency payment (\$0.18 per bushel) on the farmer's normal production (allotment acreage times national yield). In addition, the farmer would receive a diversion payment for land withdrawn from production. These new features had some clear advantages. They permitted export crops to compete at the world price, and they provided a means for holding down prices to the domestic consumer. The major flaw was the cost to the taxpayer.

By 1965, it was clear that farm price supports substantially above world-market-equilibrium prices on any crop could not work for a country like the United States, which

⁵⁰ Cochrane and Ryan, *Farm Policy*, 94.

needed to export crops to maintain a prosperous agriculture. From the government's standpoint, the ideal yearly production for each crop was: that which could be sold at home and abroad, what was needed for domestic and foreign food aid, and what was needed for a domestic reserve in case of disaster.⁵¹ Government hoped that paying farmers to grow less crops might reduce production to such a workable level. Thus, the Johnson administration and Congress were able to work out a basic policy compromise entitled the Food and Agricultural Act of 1965.

In the new act, price supports, crop by crop, were lowered to world equilibrium levels. Farm incomes were supported by a combination of deficiency payments, as in the 1962 bill and land retirement payments. However, payments were to be made to farmers only if they participated in the production control program for that crop, that year. This compromise was accepted and maintained for five years and with only modest changes throughout the 1970s. It did have one great drawback—voluntary production control programs coupled with deficiency payments come with very high price tags for the federal government.⁵²

The Nixon administration worked mainly for a reduction in government costs, but did not have specific agricultural policy goals. The 1970 farm bill introduced one new element and a major modification. The new element was a limitation on payments to farmers of cotton, wheat, and feed grains. Total payment to a farmer for price support, set-aside acreage, and diversion for any of these crops was \$55,000. The modification

⁵¹ Cochrane and Ryan, *Farm Policy*, 95.

⁵² Willard W. Cochrane and C. Ford Runge, *Reforming Farm Policy: Toward a National Agenda* (Ames: Iowa State University Press, 1992), 48-9.

was on planting restrictions. The new provision, called a set-aside, required reduction in total acreage devoted to crops. There were no acreage controls on individual crops, only on total acreage enrolled in federal programs.

The Agriculture and Consumer Protection Act of 1973 contained one new aspect. The wheat, feed grains, and cotton program would have a target price set by Congress. Deficiency payments would be made only if the average market price, received by farmers during the first five months of the marketing year, fell below the target price.⁵³

President Jimmy Carter wanted to keep farm program costs to a minimum, while Congress was anxious to raise both target prices and loan levels. In the end, very little changed, except for a modest increase in the two loan levels.

Thus, by 1981, the U.S. federal policy regarding agriculture was very much the same as it had been during the height of the Depression. It still centered on paying farmers not to plant all of their land, supporting commodity prices, and encouraging increased domestic consumption. Successive administrations had proposed liberal, conservative and centrist philosophical approaches to farm policy following World War II. However, Congress was unwilling to give up any political leverage that accrued from control of agricultural policy. Therefore, what emerged from the Depression and persisted until 1981 was a system of economic management responsive only to farm crises and interest-group pressure. The fascinating question then became: How would Ronald Reagan and his administration deal with such a system?

⁵³ Cochrane and Ryan, *Farm Policy*, 168, 172.

Chapter 3

The Reagan Approach to Agriculture as a Part of the General Economy

Ronald Reagan came to the Presidency in 1981 with an abiding concern about the direction of the federal government. In his view, over the previous twenty years the U.S. government had become too big, too expensive, and too intrusive into the affairs of U.S. businesses and citizens.¹ He argued that these flaws had crippled the American economy. Inflation was too high and continuing to rise, unemployment was devastating American families, and interest rates were driving small businessmen and farmers from their livelihoods. Reagan, in his campaign of 1980, promised to tackle these problems, and the people responded by giving him what he deemed to be a mandate for change.

The president's focus in the first year was on fixing the economy. What his administration believed ailed the economy that he inherited was laid out in an undated White House memo entitled "Talking Points," circulated in 1981. The memo claimed that, in part because the government was spending enormous sums, the index of consumer prices—a measure of inflation—had risen every year since 1960. In 1980 alone, the cost of living had risen 13.5 percent. The consumer price index went from 89 in 1960 to 247 in 1980. The prime interest rate charged by banks went from 4.8 percent in 1960 to 15.3 percent in 1980, more than triple.

¹ Ronald Reagan to Ms. Jamie Harrison, 1977, in *Reagan: a Life in Letters*, eds. Kiron K. Skinner, Annelise Anderson, and Martin Anderson (New York: Free Press, 2003): 270; "Talking Point No. 3," a White House Memo, Agriculture Box 2, Folder L-OA12162, Ronald Reagan Presidential Library.

Reagan's term for government expenditures was "run-away."² By 1981, the nation had more than a trillion-dollar debt. Tellingly, the federal budget had gone into the red in 21 of the 22 years since fiscal 1960; the size of the debt had grown faster in each ensuing five-year period during that time. The interest payments on the debt had reached more than \$10 billion each year, a sum equal to the entire federal budget in 1962, just twenty years before.³

The nation's farming aggregate overhead soared from \$27 billion in 1969 to \$131 billion in 1980, and farmers' net income in constant dollars fell from \$13 billion in 1960 to \$8 billion in 1980.⁴ The economy at the end of 1980 was sluggish at best. The prime lending rate in early 1981 had risen to slightly more than 20 percent. The rate of unemployment was 7.4 percent.⁵ Business was faltering.

American productivity also was not doing well. By 1980, average output per hour had declined in the United States for three years in a row, whereas it had declined only once in the preceding thirty years. Between 1967 and 1980, the nation's rate of productivity was overtaken and surpassed by Canada, Japan, and the ten nations that made up the Common Market of Western Europe. By 1980, the United States had suffered five consecutive years of international trade deficits, and eight trade deficits in

² Ronald Reagan in *Reagan in His Own Hand: The Writings of Ronald Reagan That Reveal His Revolutionary Vision for America*, eds. Kiron K. Skinner, Annelise Anderson, and Martin Anderson, (New York: The Free Press, 2001), 257.

³This part of the chapter is based on a position paper entitled "Talking Points" for internal use in the White House. It reflects the administration consensus on what ailed the domestic economy prior to the presidential election, and what it was that the electorate had given a mandate to change by the election returns. It is available in the Reagan Library as: "Talking Point No. 3", Agriculture Box 2, Folder L-OA12162, Ronald Regan Presidential Library.

⁴ Ibid.

⁵ *Congressional Quarterly Almanac*, 97th Congress, 1st Session, 1981, vol. XXXVII, (Washington, D. C.: Congressional Quarterly Almanac, Inc, 1982.) 89.

the previous ten years. Consequently, the value of the dollar sank to record lows in relation to the Japanese yen and the West German mark.⁶

In the view of the president and the administration, the country was moving rapidly in the wrong direction—in the direction of alarming government deficits, soaring inflation, overly expensive social programs, growing trade deficits, increasing regulation, ever-rising interest rates, and faltering productivity. As a nation, the United States was careening ever faster toward a national catastrophe.⁷

In the fall of 1980, the Reagan team maintained, Americans had said, "Enough of this" and wanted new choices. Ronald Reagan told them that the United States could not continue to pile up bigger and bigger debts and print more and more money. He maintained that the social programs of the Federal Government simply transferred money from one set of taxpayers to another. These programs had grown from \$21 billion in 1960 to \$235 billion in 1980— a staggering increase of more than 1,000 percent. Income transfer payments alone in 1980 were more than the entire Federal Budget receipts in 1973, just seven years earlier.⁸

The new administration members insisted that the voters in 1980 had selected them and told them to take a different path. Inflation was eroding personal savings, effectively reducing paychecks, and putting the middle class further behind each year; average weekly earnings had bought less in six of the past eleven years.⁹ Ronald Reagan

⁶ "Talking Point No.3."

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

brought a new kind of conservatism to the Republican Party, with a new hope for a nation mired in disenchantment with the laxity of liberalism. Reagan's message was this: "We must reduce the tax burden on the people. We must slow down the rapid increase in Government. We must cool the fires of inflation. And we must give the private economy a chance to breathe and grow and make jobs for people and produce an economic climate where it is safe for people to save money and plan for the future."¹⁰ The goal for the Reagan Administration was to strengthen the nation and strengthen the nation's economy, and for the federal government to become a partner for progress, not a burden on the people.

What Reagan prescribed as the best economic program for the farm as well as the city was a vibrant economy in which workers had jobs, not food stamps, and the heads of households took home a healthy paycheck that bought food for a bountiful table.¹¹ The president knew that agriculture made up an important part of the general economy. He also understood that agriculture underpinned the rest of the economy by providing cheap food. Thus he recognized that some federal involvement in agriculture would always be necessary. However, because the vagaries of nature would always present agricultural disasters in the form of drought, flood, hail, and wind, that federal involvement could take the form of emergency aid rather than established federal programs. Whatever the form, Reagan argued that farm programs—as well as all other federal programs—had to be fiscally responsible in order for the country to recover its

¹⁰ "Talking Point No. 3."

¹¹ "Draft of Presidential Speech," Agriculture Box 2, Folder L-OA12161, Ronald Reagan Presidential Library.

economic vitality. Even though he realized that many farmers were facing adverse financial circumstances, he believed that their true and lasting prosperity had to come from the marketplace and not the U.S. Treasury. Reagan declared his fight to bring inflation and interest rates under control was more important than any federal policy on agriculture for the farmers. The goal of Reagan's farm policy was to return profitability to the U.S. farm sector through the marketplace, especially the international marketplace, while minimizing the cost to the taxpayers.¹²

Reagan maintained that farmers were taking in more money than ever before, but inflation had run their costs so high that they were worse off financially than at any time since the Great Depression. This was the reason that the president was so determined to fight against inflation and high interest rates. Every one percentage drop in the interest rate would add about \$2 billion dollars in net farm income, or the equivalent to a 10 percent increase in net farm earnings. Inflation, Reagan argued, was caused by the deficit spending rampant in Washington since the 1960s. Farmers knew, he said, that the best way to control federal deficits was to cut the cause: federal spending. They, as he, said Reagan, wanted a balanced federal budget.¹³ Agriculture was vital for this, because approximately 20 percent of the general economy lay within agriculture.

Fortuitously for Reagan, the Food and Agriculture Act of 1977 that had set federal agricultural policy for the ensuing four years was scheduled to expire in September

¹² Letter from President Ronald Reagan to Senator Jesse Helms, November 4, 1981, Agriculture Box 1, Folder 000001-080888, Ronald Reagan Presidential Library.

¹³ Ibid.

1981. Thus the newly sworn-in administration had the opportunity to make important changes in both the general economy and farm policy in the first months of its tenure.

For Reagan, agricultural policy posed several problems. Not only did farm programs cost the federal government billions of dollars, but those programs also told the farmers who participated in them how much of their own land they could plant. The programs determined what crops would be planted; what price the farmers could demand; what price below which they need not sell their crops; and what conservation practices were expected of them. Ronald Reagan did not approve of this type of intrusion. In this regard, he was much closer philosophically to Dwight Eisenhower and Ezra Taft Benson than any of his other predecessors. Like Eisenhower, Reagan wanted to withdraw government from agriculture to the ultimate degree politically possible. He had three objectives for his farm policy: (a) to minimize the role of government in agriculture; (b) to emphasize high agricultural production in order to maintain and grow agricultural exports; and (c) to maintain maximum agricultural program flexibility at the least possible cost to the government. Understood was the mandate to subordinate agricultural policy to federal budgetary constraints.¹⁴ The president's ultimate goal was to treat the agricultural economy as just another part of the domestic economy, because it was the domestic economy that he was convinced that he could fix.

Reagan called the plan he sent to Congress for the general economy a "Program for Economic Recovery." That plan consisted of four major components: a substantial

¹⁴ Elizabeth Wehr, "Agriculture: Major Congressional Action," *Congressional Quarterly Almanac*, 97th Cong. 1st sess., 1981, Volume XXXVII, Congressional Quarterly Inc. (Washington, DC, 1981), 533.

reduction in the growth of federal expenditures; a significant reduction in federal taxes; prudent relief of federal regulatory burdens; and a monetary policy on the part of the independent Federal Reserve System that was consistent with those policies.¹⁵ Reagan believed that this program would bring inflation down to the point that interest rates would also drop.¹⁶

As he told Congress:

The benefits to the average American will be striking. Inflation—which is now at double-digit rates—will be cut in half by 1986. The American economy will produce 13 million new jobs by 1986, nearly 3 million more than if the status quo in government policy were to prevail. The economy itself should break out of its anemic growth patterns to a much more robust growth trend of 4 to 5 percent a year. These positive results will be accomplished simultaneously with reducing tax burdens, increasing private saving, and raising the living standard of the American family.¹⁷

He also believed that it was mandatory that the president and the people unite to support Federal Reserve Chairman Paul Volker in his attempt to limit the money supply as a tool to lessen inflation.¹⁸

The president considered his first year not only a testing period for the administration, but also for Congress. He challenged Congress to carry out the his program of: reducing the growth of the federal debt, permitting interest rates to fall,

¹⁵ *White House Report on the Program for Economic Recovery*, February 18, 1981. The Presidential Project, <http://www.presidency.ucsb.edu/ws/?pid=43427> (accessed March 12, 2013); See also the testimony of Richard Lyng, Deputy Secretary of Agriculture, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, Hearings on *General Farm Bill of 1981*, 97th Congress, 1st sess. (17 March 1981) : 601-2.

¹⁶ "I am convinced our problem is government spending as a percent of our national earnings and we must cut spending further than we have so far." Reagan to Arthur Burns, February 22, 1984, in *Reagan: a Life in Letters*, 319; Reagan to Mrs. Bill Casey, December 1, 1981, in *Reagan: a Life in Letters*, 306.

¹⁷ *White House Report*, (accessed June 15, 2014).

¹⁸ Ronald Reagan in *the Reagan Diaries*, ed. Douglas Brinkley, (New York: Harper Collins Publishers, 2007), 20.

reducing inflation, and to forsake playing politics with the future of the nation by lapsing into the familiar and discredited “spend, tax, and squander” policies that caused the current problems in the first place.

The administration also proposed to test the private economy. They believed that it was the private economy, not the federal government, that invested in capital goods, constructed offices and factories, built houses, made jobs, created wealth, sold products, determined the level of economic activity, and paid taxes. They asked private industry under its new freedom from excessive government regulation and oppressive tax burdens to become more efficient, increase its rate of productivity, and meet foreign competition for both U.S. markets and overseas markets.¹⁹

The new challenges also extended to state and local governments. Would those local governments carry out what they knew to be the established truth—that the best and most efficient government is the government that is closest to the people? Or would state and local governments be too hesitant to deal with such new responsibilities?

The administration pledged to work non-stop to bring about "a change—a change in our economy; in our government programs; in our national strength and vigor; and in the partnership between the government, the people, and the economy."²⁰ Still, the president realized that all of this could not be done immediately. He asked voters to realize that the new program instituted under what he called "Progressive

¹⁹ "Talking Point No. 3."

²⁰ Ibid.

Conservatism" would only work if Congress, private industry and the public would help make it work—and that would take time. Each stakeholder would have to shoulder responsibility and stay the course.

The central theme of Reagan's plans was to revive the nation's economy by reducing the marginal tax rate on both private citizens and businesses, by reducing the inhibitory effects of government regulation on business, and to balance the federal budget. This revival would utilize a largely untested theory known as supply-side economics. In essence, this theory held that cutting taxes to both businesses and individuals and removing government from the marketplace would give Americans the incentive to work harder and save more.²¹ This would lead to more investment, higher productivity, and lower inflation. Supply-side theory was a direct contradiction to what had been the prevailing theory since World War II.

Following the lead of British economist John Maynard Keynes, economic policy had focused on controlling the *demand* for goods and services rather than the *supply* of those items. Keynesian policy was designed largely to eliminate unemployment. Inadequate demand, according to Keynes, led to joblessness and in turn to inadequate incomes for consumers to maintain the economy.²² The answer to this problem, he declared, was to increase demand—either by cutting taxes or increasing government spending (often deficit spending would be required). Once people started spending

²¹ Ronald Reagan in *Reagan in His Own Hand*, 277.

²² John Maynard Keynes, *the General Theory of Employment Interest and Money*, (London: Macmillan & Co. Ltd., 1961), 378.

their increased incomes, the demand for goods and services would rise, production would increase, and more jobs would be created.²³

Keynesian theory purported not only to cure unemployment but to fix inflation as well. Just as unemployment occurred when demand failed to match productive capacity, inflation became a problem when demand exceeded capacity. Keynes would reduce inflation by reducing purchasing power through increased taxes or reduced government spending. Keynes' theory, however, did not hold up well in the situation in which the United States found itself in 1981, namely with both high unemployment and high inflation.

The supply-side theorists denied the Keynesian idea that once the government achieved an adequate level of demand, supply would be assured.²⁴ They maintained that people produce not only in response to demand, but also to increase their own incomes. The driving force of economic activity, according to the supply-siders, was the marginal rate of taxation, i.e., the rate on the last dollar earned. People were constantly deciding between working more and turning to leisure activity, and between saving and spending. The higher the marginal rate, the less likely a person was to work more or save. By reducing marginal tax rates, the government could encourage more work and savings, and subsequently increase incomes and improve the economy. In order to implement these supply-side theories, on March 10, 1981 President Reagan asked

²³ Keynes, *General Theory*, 248.

²⁴ *Ibid*, 249.

Congress to cut more than \$40 billion from the fiscal 1982 budget and to reduce taxes by \$53.9 billion.²⁵

Reagan had a clear-cut agenda in mind and selected like-minded people to work with him. One of the most like-minded and hard-working of his selections was David Stockman, whom he picked to be the director of the Office of Management and Budget. Stockman and the rest of Reagan's appointments firmly believed that they could tame the government.

Ronald Reagan was portrayed by the press in 1981 as an ideologue. While this was a misjudgment, there was, nevertheless, a genuine ideologue in the Reagan Administration. That person was chief-budget slasher and Director of the Office of Management and Budget David Stockman. Stockman was, by his own estimation, a zealot. In his book *The Triumph of Politics*, he chronicled his devotion to various causes from fundamentalist Christian to atheist to liberal to Marxist. While a student at the Harvard Divinity School, he was introduced to the works of Walter Lippmann and Reinhold Niebuhr. Later he discovered F. A. Hayek, Milton Friedman, and Arthur Laffer, a conservative adherent of supply-side economics.²⁶ Stockman believed that after the

²⁵ "White House Report"; see also *Report Before a Joint Session of Congress Reporting on the State of the Union*, January 26, 1982, *Public Papers of the Presidents of the United States: Ronald Reagan, 1982, I* (Washington, United States Government Printing Office, 1983), 72; and Martin Anderson, *Revolution: The Reagan Legacy*, (Stanford, California, Hoover Institution Press, 1988), 140-63.

²⁶"The right starts with history and society as they are, and places the burden of proof on those who would use the policy instruments of the state to bring about artificial change. The left starts with an abstraction—a vision of the good and just society—and places the burden of defense on the bloody process. Implicit in the conservatism of the right is a profound regard for the complexity and fragility of the social and economic order, and a consequent fear that policy interventions may do more harm and injustice than good. By contrast, the activist impulses of the left derive from the view that a free society is the natural incubator of ills and injustices. The left assumes that society has an infinite capacity to absorb the changes it imposes on it. Now I saw that the good society—the one Lippmann spoke of—was best served by a smaller, less activist state and by a more dynamic, productive, and fluid marketplace. Social

New Deal, the line separating the government from the free market had been destroyed, and that interest groups had appropriated governmental authority. He argued that Congress had stopped making laws and had begun ceding authority to the Presidency, to bureaucracies, and to regulatory agencies. Thus, he declared, “the power to make policy shifted from the institutions of central government to a plethora of mini-governments, made up of the ‘iron triangles’ of bureaucracy, client, and congressional subcommittees.”²⁷ To Stockman, the government had become a shopping center. It was no longer accountable to the people because it had been taken over by modern-day guilds and syndicates: trade associations, unions, professions, and organized interests. He was hell-bent on getting to Washington to set things right.

Stockman’s path to Washington was an interesting one. He graduated from Michigan State University in 1968 and went on to study at the Harvard Divinity School. While at Harvard, he got a job as live-in babysitter for Daniel Patrick Moynihan, then for the chief domestic adviser to President Richard Nixon. Through this connection, he became a legislative assistant to Congressman John Anderson. That job led to his appointment as the executive director of the Republican caucus headed by Anderson. In this position, Stockman studied economic theory and became an adherent of supply-side economics.²⁸ Wanting the opportunity to implement his new economic ideas, he ran for the Congress from the state of Michigan.

progress was as much a matter of unshackling the powers of the latter as it was of extending the reach of the former.” David A. Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed*, (New York: Harper & Row, 1986), 32.

²⁷ Ibid., 33.

²⁸“We viewed the supply-side doctrine as all-encompassing. It implied not merely a tax cut but a whole catalogue of policy changes, ranging from natural gas deregulation, to elimination of federal certificates of

He had served two terms as Congressman when a strange, life-altering experience occurred. Reagan's campaign advisors were preparing their candidate for the upcoming presidential debates; they needed someone to play the part of candidate John Anderson, who was running as a third-party independent. They decided that Stockman, Anderson's former chief aide, would be the perfect stand-in. In fact, he was very effective in the mock debates. This interaction with Reagan and his inner circle led to Stockman's appointment as one of the Reagan administration's chief economic planners: the Director of the Office of Management and Budget.

Stockman wanted a tax cut because it was part of his economic vision for a redeemed American society. Ronald Reagan wanted a tax cut in 1982 because he thought it would stimulate the economy. Actually, Reagan wanted two tax cuts. He wanted to prevent inflation from pushing taxpayers into ever-higher tax brackets without actually increasing their buying power. Thus, he called for indexing the brackets to inflation. He also wanted a 30 percent rate cut across all brackets, to be implemented at a rate of 10 percent a year for three years. The problem, in Stockman's eyes, was that the president only understood a part of the supply-side theory. First, a tax cut would increase government revenues only if it occurred in a zero-inflation economy—a far cry from the state of the economy in 1982 with its 12 percent inflation. Second, the theory could not pay for two tax cuts at the same time. As Stockman said, “To keep the budget solvent {under those circumstances} required draconian reductions

“need” for truckers, hospitals, airlines, and anyone else desiring to commit an act of economic production. It even encompassed reform of the World Bank, and countless more.” Stockman, *Triumph of Politics*, 40.

on the expenditure side—a substantial and politically painful shrinkage of the American welfare state.”²⁹ Obviously to make that happen, Congress was going to have to be convinced.

David Stockman carefully addressed specifics of the budgetary process. He argued that during the preceding two years, spending overruns had totaled nearly \$100 billion. During those two years, the rate of increase in government spending averaged 16 percent. Over the preceding six years, Stockman maintained, budget growth had averaged an unsustainable 12 percent. The combination of budget mismanagement and rapidly increasing federal spending, according to Stockman, was a sure recipe for tax increases, enlarged deficits, and economic deterioration.³⁰

The Reagan administration’s proposed budget reform plan was intended to transmit a much different set of signals. Budget savings were targeted at \$41.4 billion in 1982, about \$80 billion in 1983, and more than \$100 billion annually during future years, relative to the existing policy base. During the 1981-84 period, the budget reform plan aimed to reduce spending growth to 5.6 percent annually.³¹ The combination of incentive-minded tax rate reductions and firm budget control was expected to lead to a balanced budget by 1984. By holding the growth of federal spending below the growth of national income, Stockman claimed the new policy represented serious and reliable budget control. With the tax share equal to the outlay share at significantly lower levels

²⁹Stockman, *Triumph of Politics*, 11

³⁰ See the testimony of David A. Stockman, Director, Office of Management and Budget. House Committee on Appropriations, *Hearings on 1982 Budget: 97th Congress*, 1st sess. 1981, 21-23.

³¹ Stockman, *Hearings on Budget*, 23.

than in the previous administration, the budget process would become sounder and more disciplined.

The end result of these reforms would be a fundamental shift in priorities. The goal was to provide sufficient budget resources to create a margin of safety in the nation's defense capacities and to preserve and strengthen the social safety net of basic needs that the government had promised its citizens. Stockman warned that beyond these two priorities, all other federal programs were to be subjected to thorough scrutiny and widespread reduction.

As a result, 32.4 percent of 1984 outlays were to be devoted to defense, as opposed to 24.1 percent in the Carter budget. The social safety net would claim an even greater portion of 1984 resources—40.6 percent (versus 36.6 percent in 1981). This meant that all other programs would have to be dramatically reduced, from 29.5 percent of 1981 outlays to 18.4 percent of 1984's outlays.³²

Stockman argued that the U.S. economy did not have the capacity to sustain federal expenditures growing at double-digit rates without paying for that growth with high levels of inflation, high interest rates, and the other economic disturbances being experienced at that time. The key, he said was to hold federal spending to a rate of a 6 percent increase in 1982 and beyond.³³ That 6 percent rate was to apply across the budget, with the exception of the Department of Defense.

³² Ibid., 21-23.

³³ Stockman was later to claim: "The true Reagan Revolution never had a chance. It defied all of the overwhelming forces, interests, and impulses of American democracy. ...Causing such changes to happen was not Ronald Reagan's real agenda in the first place. It was mine, and that of a small cadre of supply-side intellectuals. ...He (Reagan) was a consensus politician, not an ideologue. He had no business trying to make a revolution because it wasn't in his bones." Stockman, *Triumph of Politics*, 9.

Reagan's plan then, was to fix the flaws he perceived in the federal government: its size, its cost, and its intrusiveness. As he explained to a friend, "I guess a simple explanation of what I've been trying to do is peel government down to bare essentials—necessities if you will, and then set the tax revenues accordingly."³⁴ That meant he wanted to reduce the rate of increase in federal spending on everything but defense, and reduce taxes on both business and individuals to stimulate an expansion of the economy—including agriculture.

The American agricultural system was the most productive in the world in 1981. The growth rate in agricultural productivity was the highest of any sector in the U.S. economy. Agricultural output increased by 70 percent from 1950 to 1981, while the total labor input into agriculture increased by only 2 percent. The activity generated by farm products accounted for 20 percent of the nation's gross national product; that made agriculture the nation's largest employer. The 23-million-plus people employed as the result of agriculture made up a fifth of the nation's labor force. While American farmers constituted less than three-tenth of one percent of the world's farmers, they produced 65 percent of the world's soybeans, 48 percent of the corn, 32 percent of the sorghum, 31 percent of the poultry and 25 percent of the beef.³⁵ By 1981, the United States supplied 11 percent of all of the food consumed abroad. That was equivalent to the contribution to the world's energy supplies by the Organization of the Petroleum

³⁴ Reagan to R. Emmett Tyrrell, Jr., October 6, 1983, in *Reagan: A Life in Letters*, 318.

³⁵ See the testimony of John R. Block, House Committee on Agriculture, *Hearings on General Farm Bill of 1981*, 97th Cong., 1st sess. 1981, 434.

Exporting Countries. In a sense, the United States was the OPEC of food.³⁶ As we have seen, this remarkable productivity was made possible by the Second Agricultural Revolution. Interestingly, the total acreage planted in the United States had remained essentially constant during the century. The Census of Agriculture found 325 million acres of crops harvested in 1910. That number remained over 300 million in 1981, yet production had soared.³⁷

Ronald Reagan did not care about the nuts and bolts of most of the federal agriculture policy. He was primarily interested in agriculture as it impacted the general economy. He wanted to sell as many agricultural products as possible abroad, both to reduce the need of government payments to farmers, and to offset the negative balance of trade, much of which was incurred by the importation of foreign oil.³⁸

In 1970, U.S. farmers exported \$6.7 billion worth of agricultural products. In 1981, just eleven years later, the value of U. S. farm products shipped abroad was \$43.8 billion. American farmers were using two acres out of five to produce crops for export. More than half of U.S. wheat, cotton, rice, soybeans, and grain sorghum were being sold to foreign markets. These crops provided about one-fourth of the total farm income.³⁹

³⁶Dan Morgan, "New Study Finds Small Farms Hurt by Many Federal Policies." *Washington Post*, January 14, 1981.

³⁷ Bruce L. Gardner, *American Agriculture in the Twentieth Century: How It Flourished and What It Cost*, (Cambridge and London: Harvard University Press, 2002), 19.

³⁸ Block Testimony, 434.

³⁹ The source for this portion of the chapter is a an undated White House memo circulated in 1981 in which the writer sets out the President's and the administration's assessment of the state of the agricultural economy when the administration took office, its plans to improve the agricultural economy, and its ideas for the upcoming bill containing federal policy for agriculture for the next four years. The memo is entitled "Draft of Presidential Speech," and is found in Agriculture Box 2, Folder L-OA12162, Ronald Reagan Presidential Library.

There was an added bonus in the farmers' ability to market their products abroad. Agricultural exports were a major contributor to the economic well-being of the entire country. Each dollar of the \$43.8 billion earned by farm exports in 1981 translated into \$2 of business activity in the overall economy. The \$88 billion worth of farm business activity generated 1.2 million jobs and \$5 billion in tax revenue.⁴⁰

Agricultural exports held down the cost of federal farm programs while they stimulated the farm production that allowed U.S. consumers to feed themselves on a comparatively small share of their after-tax income.⁴¹ Even with the rise in food prices in the late 1970s, U.S. consumers, on average, continued to spend a smaller share of their total expenditures on food than anyone else in the world—and that share was dropping. In 1950, U.S. consumers devoted an average 28 percent of their total consumer expenditures on food; in 1980 it was down to 16.5 percent. In the United Kingdom and Japan, the 1980 share was about 25 percent, in the USSR about 32 percent, in the People's Republic of China 55 percent. In developing countries, two-thirds of an average citizen's resources went to food.⁴²

Agriculture's contribution to the balance of payments became all the more critical because of the growing annual deficit in nonagricultural trade. The projected cost of imported petroleum for 1982 was approximately \$30 billion. The agricultural trade surplus projected for 1981 was \$29 billion."⁴³ In effect, the United States was trading

⁴⁰ "Presidential Speech."

⁴¹ Ibid.

⁴² Ibid.

⁴³ Block testimony, 434.

food for oil. In addition, agricultural assets in the United States exceeded 1 trillion dollars. Maximizing exports also affected revenue. Agricultural export revenue in 1982 was 500 percent of that of 1970 in constant dollars. Twenty-five percent of farm income came from exports. Forty percent of agricultural acres were devoted to export.⁴⁴

However, the emphasis on maximizing exports impacted the very essence of farming in the United States. It affected which crops were planted. For instance, the acreage of soybeans, a major export in the 1980s, was too insignificant to count in 1919. Then it grew to 58 million acres (equivalent to the entire surface area of the states of Illinois and Indiana) by 1990. Grain sorghum, unheard of in 1919, covered 10 million acres in 1990.⁴⁵ Clearly, federal farm policy greatly affected life on America's farms, and because of the importance of agriculture to the general economy, it was incumbent on the Reagan administration to tread carefully as it proposed changes to that policy.

David Stockman grew up on a dairy farm in Wisconsin and thus had a personal agenda when it came to agricultural policy. An episode described in the *New York Times* highlighted his thinking. In a particularly heated session in Stockman's office, Secretary of Agriculture John R. Block and Deputy Secretary of Agriculture Richard E. Lyng were debating Stockman's proposed cuts to the farm budget. At one point, in a discussion of dairy price supports, Stockman pointed to the wall and said: "See that picture? That's a farm where I milked cows until I was 15 years old. Don't talk to me about farming."

⁴⁴ Morgan, "New Study," 14.

⁴⁵ Ibid.

Recalling the incident later, Mr. Lyng remarked that Stockman "had some strong and deep biases" against the farm program. He would like to see farmers treated exactly like everyone else," the former head of the American Meat Institute said with some wonder. "We pointed out that there are some differences in agriculture."⁴⁶ Stockman, however, wanted farmers to be treated like the rest of the nation's businessmen. To him, that meant no direct governmental payments to farmers. Loans were one thing, but direct payments had no place in his ideology.⁴⁷

The existing federal policy on agriculture when Reagan took office was, he felt, both expensive and intrusive. Reagan wanted to trim the expense and limit the intrusiveness, but many in Congress were not of a like mind. The administration's proposals were controversial, and the battle over those proposals were intense.

The previous farm act was passed under a Democratic president and a Democratic Congress. The new bill was deliberated under much different circumstances. The change to a Republican administration and to Republican leadership in the Senate would prove key to the final form of the 1981 farm bill. The Senate worked hand-in-hand with the administration regarding all of its important legislative initiatives in that

⁴⁶ Ann Crittenden, "Reagan's Agriculture Policy Emerges as Budget Cutters Clash," *New York Times*, April 10, 1981.

⁴⁷ Stockman biographer Owen Ullmann claims that Stockman's opposition to farm subsidies stems from his Libertarian view that the proper role of the federal government was not interfering in the private economy. The conversation with Richard Lyng and John Block centered on Stockman's desire to do away with the dairy price supports. Lyng retorted that such a move would cause a shortage of milk. Stockman replied that there wouldn't be a shortage of milk because the price would go up and some people would stop buying milk. He believed in the market system and the market would adjust to the change. In recalling the conversation in later years, Stockman said that he was trying to explain that his parents got out of the dairy business because they couldn't make a profit, and that was also a part of the market adjustment. Owen Ullmann, *Stockman: The Man, The Myth, The Future*, (New York: Kensington Publishing Corp. 1987), 211, 440.

first Reagan Congress. The economic package that included a budget reduction for fiscal year 1982 of \$35.2 billion and a huge three-year tax cut represented major administration victories. In both cases, the Senate passed bills reflecting the administration position before the House even took up the legislation.⁴⁸

In previous years, the Senate had reliably passed legislation favorable to the farm sector. Almost every Senator had some farm constituency. In the House, however, a large number of members were urban-centered and had little concern for farmers and their problems. As a consequence, the House often would moderate farm bills. This all changed in in the 97th Congress.

Budget constraints were the theme of the 97th Congress first session. The first budget resolution set targets for revenues, spending, and the deficit. After it passed, the administration chose the reconciliation process to implement the "Reagan budget." That meant that existing law had to be brought into conformity with the resolution budget totals. Under reconciliation, individual committees were required to pass budget-neutral legislation. Thus, increasing existing appropriations required either increasing revenues or decreasing other expenditures. Consequently, reconciliation imposed a tight spending lid on farm bill programs early in the legislative process, and gave the administration a basis for threatening a veto for any farm bill that exceeded the budget limits.

Largely under the impetus of Stockman's zeal, the administration's proposals for the upcoming farm bill aimed to reduce the cost of farm programs. They included doing

⁴⁸The description of the passage of the 1981 Farm Bill draws largely from Craig L. Infanger, William C. Bailey, and David Dyer, "Agricultural Policy in Austerity: The Making of the 1981 Farm Bill," *American Journal of Agricultural Economics* 65 no. 1 (Feb., 1983): 1-9.

away with some of the subsidies to grain farmers by abolishing target prices and deficiency payments. They also proposed to reduce low-cost loans to farmers by \$2.8 billion in direct and guaranteed lending by the Farmers Home Administration. There were two proposals for major changes in Rural Electrification Administration (REA) loans. The first was a 25 percent reduction in all direct lending activities for REA, which was consistent with the reduction in credit programs in the Farmers Home Administration. The second proposed change for REA was to eliminate the Federal Financing Bank as a source of funds for the loans guaranteed under the program. These loan activities were to be shifted to the private sector, where Stockman maintained that everyone should to get their loans.

Other proposals included doing away with the major subsidies for child nutrition in families earning in excess of 185 percent of the poverty level; removing from the Food Stamp Program people whose gross income was above 130 percent of the poverty line; cutting the Women, Infants, and Children Program by \$325 million; changing the cost index adjustment for the Dairy Payment Program from semiannually to annually; eliminating the allocation system for peanut growing; continuing to allow domestic sugar prices to be determined by the market; saving \$312 million from the farm storage facility loan program; deleting the first-year interest waiver on reserve grain loans; and setting interest rates on loans at the full cost of money.⁴⁹

⁴⁹ David Swanson, "1981 Farm Bill Proposal," Agriculture Box 1, Folder OA10315, Ronald Reagan Presidential Library.

The president did not suffer from the angst over farm subsidies that Stockman did. He was a pragmatist; he had specific goals in mind for agriculture that would fit within his plans for the general economy. Therefore, some of the proposals, such as the elimination of the target prices and deficiency payments on grain and the changes in the REA, were ideological preferences. They were advocated by Reagan and Stockman but not as essential to their plans as the tax cuts. They were thus available as trading chips for votes on that issue. Others—for instance, the proposals on the programs for dairy farmers, peanuts growers, sugar raisers, and for food stamps—were more key to the president's economic program. They will be treated in more detail in subsequent chapters.

Another of Reagan's goals was to keep the farmers on his side. Thus his appointments to the Department of Agriculture were all designed to be popular with the farm community. The new Secretary of Agriculture was John R. Block, an Illinois hog farmer. Block's chief deputy, Richard E. Lyng, was a former president of the American Meat institute. The assistant secretary for marketing and transportation services, C. W. McMillan, had been a vice president of the National Cattlemen's Association. The assistant secretary for natural resources and environment, John B. Crowell, had been chief officer for Louisiana-Pacific Corporation, a major forest product company.⁵⁰ It was definitely a home team that the president presented to America's farmers in hopes that they would support his changes in agricultural policy.

⁵⁰ Wehr, "Agriculture," 533.

The deliberations in Congress over the 1981 Farm Bill were both interminable and bitterly contentious. The 1977 act expired on September 30. Due to the rancor over the proposed changes, several continuing resolutions were necessary to allow the provisions of that act to remain in force until its successor could be enacted. The Reagan team wanted to end target prices and deficiency payments, deeming them far too generous to farmers and far too costly to taxpayers. While their proposal would have substantially reduced the cost of the farm bill to the taxpayers, it had no chance of even being considered by Congress. Such a change would be too unpopular with the farmers and therefore politically risky to both parties. A brief look at how this long battle played out is in order.

The Senate approved a bill which total cost had been reduced to \$8.7 billion. The House, anticipating continuing inflation, voted for price supports even higher than those in the 1977 bill. There was no sugar program in the House version. Substantial opposition to a sugar program came from urban representatives who anticipated a rise in food costs for their constituents because of rising sugar prices. The Democratic leadership also refused to back the sugar program because it was supported by Southern conservative Democrats who had deserted their party's caucus to vote with the president on the budget and tax bills. The House was much more generous to the farmers than the Senate and passed a bill very similar to the 1977 act, costing roughly \$14.1 billion. Thus the major hurdles for the conference committee were the level of price supports for crops, the sugar program, and the level of the dairy price supports.

The Senate-House Conference began on November 5, 1981 and did not conclude until December 8 (an extremely long time for a conference committee to meet). The

committee members had a very difficult task. Not only did the two pieces of legislation differ in cost by \$5.4 billion (House bill \$14.1 billion vs. Senate bill \$8.7 billion), but if a bill were not reported, the 1948 law would be the default legislation and its provisions would be much more expensive than even the 1977 bill. The conference sessions were agonizing. Votes on issues were often along straight party lines. The Republican-controlled Senate rejected Democrat-controlled House suggestions on the basis of cost; the House decried inadequate price or income protections for farmers in view of the depressed farm economy.

Congress anticipated that inflation would continue and drive commodity prices up along with everything else. The hope was that the political expedient of giving farmers higher target prices would cost nothing because the inflation-driven market prices would equal the target prices. Thus the final bill contained crop loan rates higher than those in the 1977 act. Target prices for commodities were less than those found in the House bill, in an attempt to save the government money; however, they were still above those in 1977. (For every one cent that Congress raised wheat price supports, the Treasury paid \$20 million.) This political gamble turned out to be a colossal miscalculation when the Reagan-Volcker initiative stopped runaway inflation. The farm bill ultimately cost the taxpayers billions in government payouts to farmers and helped to scuttle Reagan's plans for moderating government expenditures. In addition, the final conference bill included both a peanut program and a sugar program—both of which were very expensive for the American consumer.

Even after more than a month of reconciliation conferences, passage of the bill in the House was not a foregone conclusion. During discussion on the House floor, conference members told their colleagues that the choice was either to accept the conference bill or revert back to the permanent legislation of 1948 at substantially increased cost, because no more compromise was possible. While urban representatives feared higher food costs and farm supporters wanted more increases, the final vote was 205-203 in favor. One changed vote would have sent agriculture into total chaos.

Several aspects of the Agriculture and Food Act of 1981 evoke comment. This law reflected the ambivalence in Congress about the goal of its farm programs. Was the goal of Congress to stabilize domestic farm prices, to enhance agricultural exports, to ensure an adequate income for farmers, to upgrade the quality of rural living, or something else entirely? It was not possible to tell by reading the final bill. The crop loan rates in the 1981 bill were significantly increased over 1977, and that was a clear call to farmers to increase production. Left behind was the compromise of 1965 containing low crop loan rates, which had led to increased commodity exports.⁵¹ With the increases in the release price for grain in the farmer-owned reserve, American grain was priced out of the world market.

Obviously, Congress had not bought into the goal of low governmental costs and high export levels championed by the administration. If the goal was to supply the world market, then a small reserve, low loan rates, high target prices, and aggressive export

⁵¹ See Chapter 2 for the details of the compromise of 1965.

subsidies would have been much more appropriate. If price stability was the goal, then the 1981 program would have made sense. However, the cost of that price stability would have been shrinking exports and the need for high import barriers to keep out lower-cost commodities from the world market. The crux of the matter was that the farm bill was a political mechanism to curry favor from the farm vote for incumbent Senators and Representatives—and a tool used by the administration to barter for Congressional support for their other economic proposals. There was simply no underlying economic philosophy in the law that Reagan signed.⁵²

Members of Congress, in an attempt to please their constituents, tried to draft a bill that would stabilize farmers' incomes. They had not yet come to the realization that many factors outside the control of Congress impacted American agricultural economics. The monetary and fiscal policies of other nations, their trade barriers, and their domestic political pressures often played just as big a role in U.S. farmers' welfare as did the American farm bill.⁵³ And, while most in the Reagan Administration favored gradual reduction of government subsidies for agriculture with an ultimate goal of abolishment, there were other goals higher up on the agenda. The president was not willing to spend political capital on the farm bill rather than on issues more important to him. Thus he signed the bill into law.

The administration's strategy was clearly illustrated by their maneuvering in regard to several of the programs contained in the 1981 farm bill: food stamps, the sugar program, the

⁵² William C. Bailey, " Implications of the Agriculture and Food Act of 1981: Discussion," *American Journal of Agricultural Economics* 64 no. 5 (Dec., 1982): 965-6.

⁵³ *Ibid.*

dairy program, and the peanut program. These all show the administration at work and need further elucidation.

Chapter 4

The Food Stamp Program

The Reagan administration's focus for the first year of his presidency was to improve the domestic economy.¹ A major component of the plan was to reduce the rate of increased federal spending. Because inflation had been a part of the American economy for more than a decade, each year's spending had to be greater than the year before simply to maintain the status quo. Therefore, the president went directly to members of Congress to ask for their help in reducing federal spending. He told them:

I'm asking that you join me in reducing direct Federal spending by \$41.4 in fiscal year 1982, and this goes along with another \$7.7 billion in user fees and off-budget savings for a total of \$49.1 billion. And this will still allow an increase of \$40.8 billion over 1981 spending.²

With the exception of the Department of Defense, each department and agency in the federal government was being asked to reduce its anticipated increases in spending. The Department of Agriculture was in line for its share of cuts, and since the quadrennial farm bill was due for enactment in 1981, the timing for making changes was fortuitous. However, it became clear that the agriculture cuts would not be routine when the administration separated the deliberations for the food aid programs from the remainder of the agricultural appropriations.

¹ Ronald Reagan: "Inaugural Address," January 20, 1981. *Public Papers of the Presidents of the United States: Ronald Reagan, 1981* (Washington: United States Government Printing Office (GPO), 1982), 1.

² Ronald Reagan: "Address Before a Joint Session of the Congress on the Program for Economic Recovery," February 18, 1981, *Public Papers of the Presidents of the United States: Ronald Reagan, 1981* (Washington: GPO, 1982), 109.

One of the reasons that the administration wanted to separate food stamp provisions from the rest of the farm bill was that, unlike most agriculture programs, the constituency for food stamps was largely urban rather than rural — and thus more Democratic than Republican. There had been several previous attempts to move the food stamp program out of the Department of Agriculture and into the Department of Health and Human Services. However, the USDA fought vigorously to keep the program, because it provided a great bargaining chip when negotiating passage of other farm programs. Rural legislators would usually readily agree to provide generous benefits for food stamps in return for support from urban legislators in passage of crop support programs. Before 1981, it had always worked. This time, however, the rules had changed.

The proposed cut of \$41.2 billion from federal spending amounted to an approximate 7 percent overall reduction from that which would be required to maintain the then current services; however, the administration proposed \$2 billion in cuts from the food stamp program. That would amount to an 18.1 percent cut in food stamps.³ Such a cut was inordinately severe. It asked the poor to assume more than their proportionate share of the burden of federal retrenchment. Had such proposals come in the context of a complete overhaul of the welfare system with phased-in cuts and alternative

³ See the testimony of Ellen Haas, Community Nutrition Institute, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 346.

programs to ease the way, perhaps an argument to justify the cuts could have been made. Such, however, was not the case. The president, of course had his reasons.

Like many conservatives, Reagan did not support the bulk of the federal public assistance programs which were in place when he took office. He thought that they were too expensive, too easily exploited by the undeserving, and did not deliver the resources where they were intended to go (to the poor). Reagan wanted to make substantial cuts to the food stamp program.

When Ronald Reagan decried the intrusiveness of the federal government into the lives of its citizens, one of the main things that he was talking about was welfare. Despite the fact that New Deal relief programs had provided jobs for his father and brother during the Depression, Reagan was not a supporter of federal welfare, at least the kind that he found when he came to the presidency.⁴ This was not a new phenomenon. As a candidate for governor of California, welfare had troubled him. He made welfare fraud a cornerstone of his reelection campaign in 1970 and emphasized the issue in his presidential campaigns of 1976 and 1980.⁵ Reagan believed that the welfare programs that he found both in California and in Washington were being exploited by many who were undeserving. He argued:

When grant levels are too high there is no incentive to work. Not only have we accepted the questionable premise that welfare is a right, we have carried that to the extreme of believing certain types of jobs are more disgraceful than welfare. It is time to disabuse ourselves of the idea that any job is somehow disgraceful or dishonorable. ...The billions of dollars that are being spent on the urban poor by all levels of government go mainly to support a growing welfare bureaucracy of teachers, aides,

⁴ Lou Cannon, *President Reagan: The Role of a Lifetime* (New York: PBS Public Affairs, 1991), 84.

⁵ *Ibid.*, 456.

youth workers, clerks, supervisors, key punchers, and people's lawyers. The bureaucracy is sustained by the plight of the poor, the threat of the poor, the misery of the poor, but it yields little in the way of loaves and fishes to the poor. When the old programs demonstrably fail, they are re-baptized and refunded.⁶

Reagan began his campaign against welfare by trying to change the system in California. He spoke of his ideas in private correspondence as far back as 1970, saying, "I am convinced that our answers lie in the proven rules of private enterprise and that the dole, except for the aged and disabled, should be eliminated and a government work force be instituted for the able bodied."⁷ Several years later, he explained his plan to reform California's welfare system to the readers of the *New York Times*:

Our plan calls for the removal of the aged, the disabled, and the blind from the welfare rolls, because they are really pensioners. We don't need to check every month to see if they are still old. We would pay them through an automated system similar to social security. We will insist that able bodied welfare recipients participate in a public work force if they are not engaged in job training. They will receive the same benefits they now receive but they will be expected to work on projects that benefit their communities and the state. And while every effort will be made to find them employment in the private sector, we will insist that they participate in either the interim public work force or in job training, or they will be denied welfare assistance.⁸

As governor, Reagan made welfare reform the centerpiece of his second term. Working with both Democratic and Republican leaders in the legislature, he was able to enact legislation that both tightened and clarified welfare eligibility requirements and at

⁶ Ronald Reagan, *Reagan, In His Own Hand*, eds. Kiron K. Skinner, Annelise Anderson, Martin Anderson (New York: The Free Press, 2001), 390.

⁷ Ronald Reagan to Charles Broskas, 1970, in *Reagan: A Life in Letters*, eds. Kiron K. Skinner, Annelise Anderson, and Martin Anderson (New York: Free Press, 2003), 201.

⁸ Ronald Reagan, "Welfare is a Cancer," *New York Times*, April 1, 1974.

the same time increased funding for the state's poorest recipients.⁹ These actions received deserved praise, both for their bipartisan nature and their fairness. However, when he got on the national stage, his rhetoric on welfare took on a different tone.

During his 1976 campaign for the Republican presidential nomination, Reagan used several different anecdotes to point out his concern regarding the incidence of fraud in the welfare system. One of his favorite tales was that of the Welfare Queen from Chicago:

"She has 80 names, 30 addresses, 12 Social Security cards, and is collecting veterans' benefits on four nonexistent, deceased husbands. And she is collecting Social Security on each of her cards. She got Medicaid, is getting food stamps, and is collecting welfare on each of her names. Her tax-free cash income alone is over \$150,000."¹⁰

While these numbers were impossible to verify, they set the tone that Reagan was seeking. An alternate to the "Welfare Queen" was the story of the man who received welfare under 127 different names and had 55 different Social Security numbers.¹¹ There was a good deal of bombastic rhetoric in these stories that Reagan told. He was, however, completely serious in his desire to change the federal welfare system as he found it. He said several times, "One of the ways to reduce the federal bureaucracy would be to turn a number of programs, such as welfare, back to the states with no federal jurisdiction at all and, of course, to turn back with them the sources of revenue to

⁹ Cannon, *President Reagan*, 456.

¹⁰ "'Welfare Queen' Becomes Issue in Reagan Campaign," *New York Times*, February 15, 1976.

¹¹ Ronald Reagan to Kevin Weyl, February 11, 1982, in *Reagan: A Life in Letters*, 310.

fund them."¹² He sent that proposal to Congress in 1983; however, Congress failed to act on it.

Reagan's was not a lone Republican voice crying in the night. Conservative intellectuals also strongly opposed the welfare system. In his influential book *Losing Ground*, Charles Murray, speaking for many conservatives, argued that federal social policy since 1964 had created among America's poor a myriad of problems, including increasing unemployment, higher rates of illegitimate births, and chronic welfare dependency. He maintained that the poor, given the rules of the federal welfare game, were making rational choices when they engaged in behavior or made decisions that led to those outcomes.¹³ Murray's proposal for a way out of the dilemma, which had been initiated by the architects of the Great Society, was to scrap the entire federal welfare and income-support structure for working-aged persons. He would abolish aid for dependent children, Medicaid, food stamps, worker's compensation, subsidized housing, disability insurance, etc. The sole program that he would leave in place would be unemployment insurance. Murray would leave the working aged person with no recourse whatsoever except the job market, family members, friends, and local public or private services.¹⁴ This was the only way, in Murray's view, to reverse the self-destructive behavior that had been embedded among the poor by federal social policy. Reagan and the conservative intelligentsia saw eye to eye. Therefore, it was no surprise

¹² Ronald Reagan to Mr. Roberts, November 15, 1979, in *Reagan: A Life in Letters*, 231.

¹³ Charles Murray, *Losing Ground: American Social Policy, 1950-1980* (New York: Basic Books, 1984), 154.

¹⁴ *Ibid.*, 227-8.

that Reagan's first proposed Agriculture Bill did not deal generously with the food aid programs.

Those who supported the food aid programs, especially food stamps, argued that they were the most important programs that aided the poor. That opinion was not shared by the president; when he announced his budget proposals in February in an address to a joint session of Congress, he declared:

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty-stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety net of programs they depend on are exempt from any cuts.¹⁵

However, the “social safety net” as defined by the administration was made up of Social Security retirement and survivors' benefits, Medicare, veterans' compensation and pensions, Supplemental Security Income, free school lunches, Head Start, and summer jobs for youths. It did not include the Food Stamp Program; that program was to be a part of the “substantial reduction in the growth of federal expenditures” for which the president was aiming. The problem with that scenario was that the administration's “social safety net” had very little to do with the poor. Of the dollars spent on those seven programs, 80 percent went to people who were living above the poverty line, and over 50 percent went to benefit people living above two times the poverty line. Actually, 85 percent of the outlays for the “Safety Net” programs went to Social Security and Medicare. Among those receiving Social Security benefits, 87 percent lived above the poverty line, as did 86 percent of those on Medicare. Two-thirds of the money

¹⁵ Reagan, “Inaugural Address,” 110.

going to the other five programs was directed to veterans, the majority of whom lived above the poverty line. Only 5 percent of the federal spending for the "Safety Net" went to projects that were primarily directed at the poor. While 75 percent of the 25 million indigent in the United States in 1981 received some aid from these seven programs, 25 percent of the poor received nothing at all.¹⁶

The administration's critics maintained that the real safety net consisted of a series of programs that were income-tested and targeted for the poor. They were expensive, but not nearly as expensive as Social Security and Medicare. These programs were Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), food stamps, Medicaid, and various housing and low-income energy assistance programs. With the sole exception of SSI, every one of the programs for the poor was targeted for sharp cuts by the Reagan administration in 1981. Many of the cuts in the various programs hit the same families. The combined impact on families living far below the poverty line promised to be devastating. For example, the average food stamp benefit was 44 cents per person per meal. The maximum for a household with no disposable income was 64 cents per meal. There was not a single state in the United States where combined AFDC and food stamp payments equaled the poverty line. In over half the states, the combined benefit level was below 75 percent of the poverty line.¹⁷ Nevertheless, when appropriations for the Food Stamp program came due, the Reagan Administration sought conservative advice.

¹⁶ David E. Rosenbaum, "Reagan's Safety Net Proposal: Who Will Fall," *New York Times*, March 17, 1981.

¹⁷Ibid.

One of the conservative voices that the Reagan administration seems to have heard clearly was that of the Heritage Foundation. In *Mandate for Leadership*, the Foundation insisted that only roughly 50 percent of food stamps were used for the purchase of additional food. Their data suggested that the remainder was used for non-food purchases and in effect became an income supplement program. This, they maintained, was redundant and unnecessary. Therefore, they recommended retrenchment, including eliminating as recipients those at the upper level of income eligibility, students, and anyone who voluntarily withdrew from the work force. Heritage also recommended using a stricter assets test for eligibility and removing the overlap between school lunches and food stamps.¹⁸ Reagan included all of these recommendations in his proposed bill, and the wrangle that ensued was among the most bitter during the Reagan presidency.

Under the food stamp program's evolution since its creation in 1961, the Department of Agriculture provided stamps — a kind of currency that could be used only to buy food. Each state distributed stamps each month to citizens who could prove their need. Food stamps were the only major federal benefit paid strictly on the basis of poverty; anyone poor enough could get stamps regardless of age, health, family status, or work history. The number of stamps one received depended on one's financial status; the higher the income, the lower the benefit. The average allotment was about \$41 per month per person. Approximately 22 million people (about one of every ten Americans)

¹⁸ Don Paarlberg, "Agriculture," *Mandate for Leadership: Policy Management in a Conservative Administration*, ed. Charles L. Heatherley (Washington, D. C.: The Heritage Foundation, 1981), 27.

received food stamps in 1981.¹⁹ The average annual income of food stamp households in 1980 was about \$3, 900 a year, well below the poverty level.

Its supporters insisted that food stamp benefits protected the nation's poorest people against the most devastating effects of inflation and unemployment. Of all food stamp households, 66 percent included children under the age of 19; 42 percent were families in which no husband was present; and 17 percent were made up of persons 65 or over. Food stamp households were 63 percent white, 35 percent black, and 10 percent Hispanic.²⁰

The Food Stamp Program began as a set of pilot projects initiated by an executive order from President John Kennedy in 1961. The goal of the program was to use up surplus farm products and alleviate hunger among the poor in America. The original eight pilot projects served about 140,000 persons a month at a federal cost of \$13.1 million a year.²¹ However, in 1962 in the midst of the Civil Rights upheaval, Michael Harrington published a book entitled *The Other America*,²² in which he described the degree to which poverty was pervasive in the United States. In response, President

¹⁹ T. R. Reid, "The 1982 Federal Budget; It's Tough to Trim--Whether From a Line Item or a Big Project: Juicy Target: Food Stamps" *Washington Post*, January 16, 1981.

²⁰ "Census Finds US Benefits Reach 1 Out of 3 Families," *New York Times*, March 13, 1981.

²¹ Joe Richardson, *A Concise History of the Food Stamp Program* (Washington, D. C.: Library of Congress, Congressional Research Service, 1979), 1.

²² Michael Harrington, *The Other America: Poverty in the United States*, (New York: Macmillan, 1962).

Kennedy ordered his staff to begin an attack on poverty; the importance of the Food Stamp Program grew.²³

Before anything meaningful could be done to alleviate poverty, however, Kennedy was assassinated. After the assassination, President Lyndon Johnson took the baton. He ordered the Council of Economic Advisors to estimate the number of poor people in America. In order to do that, the Council used a study by the Social Security Administration (SSA) on the income needed to support a nonfarm family of four. The SSA looked at the cost of feeding this theoretical family while remaining consistent with the food preferences of the lowest third of the population in terms of income and the need to avoid nutritional deficiencies. The cost of that diet was multiplied by 3.3 on the assumption that a low-income family spends roughly one-third of its income on food. The SSA determined that the mythical family required a budget of \$3,995 to feed itself adequately and to carry out the normal functions of life. The number presented a real problem. That sum of money was much higher than what welfare agencies across the country were willing to allow for families receiving public assistance. To accommodate the needs of those agencies, the SSA conducted further study and designed a second economy budget, one based on a deficient diet that was designed for use after a nuclear attack. The second diet, admittedly nutritionally deficient, resulted in a yearly budget of \$3,165. That number was used as the basis for the figure of \$3,000 of annual income

²³ For the Politics of the initiation of the war, see Carl M Brauer, "Kennedy, Johnson, and the War on Poverty," *Journal of American History*, 69 (June 1982). For the most current assessment, see Council of Economic Advisers, *The War on Poverty 50 Years Later: a Progress Report*, (Washington, D. C.: Executive Office of the President of the United States, Council of Economic Advisers, 2014). For a relatively recent scholarly appraisal, see Robert F. Clark, *The War on Poverty: History, Selected Programs, and Ongoing Impact*, (Lanham, Md.: University Press of America, 2002).

that the Council adopted as the poverty line for food supplementation. The number of people in poverty was thus the number of Americans who had an annual income of \$3,000 or less in 1964.²⁴

With the poverty line established, a food plan accepted, and the Food Stamp Program serving 370,000 persons a month at an annual federal cost of \$30.5 million, the Johnson Administration submitted a proposal for a Food Stamp Act to Congress.²⁵ The program was enacted into law in 1964. Its passage depended a great deal on the national guilt surrounding the Kennedy assassination and the civil rights agitation. At first, states were given wide latitude in deciding how to dispense food stamps. Many states did not even participate in the program during the early phase of program implementation.²⁶

The major boost to the Food Stamp Program came with the publication in 1967 of the Field Foundation investigation of hunger in the United States.²⁷ The Field

²⁴ For the history of the poverty line, see Gordon M. Fisher, "The Development and History of the Poverty Thresholds," *Social Security Bulletin*, 55 no. 4 (1992); Tim Callan and Brian Nolan, "Concepts of Poverty and the Poverty Line," *Journal of Economic Survey* 5 no. 3 (1991): 245; Connie F. Citro and Robert T. Michaels, eds, *Measuring Poverty: A New Approach*, (Washington, D. D.: National Academy Press, 1995); also see the testimony of Rev. George A. Chauncey, chairman of the Interreligious Taskforce on Food Policy, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 253.

²⁵ Richardson, "A Concise History," 2.

²⁶ *Ibid.*; and Steven Roberts, "Food Stamps Program, How it Grew and How Reagan Wants to Cut It Back," *New York Times*, April 4, 1981.

²⁷ Senate Committee on Labor and Public Welfare, Subcommittee on Manpower, Employment, and Poverty, Hunger, and Malnutrition in America, 90th Cong. 1st sess., 1967, a team of six physicians presented the results of a field trip into six counties in which they surveyed the health and living conditions of black children. The report was filed by Dr. Joseph Brenner of the Massachusetts Institute of Technology, Dr. Robert Coles, of Harvard University Health Services, Dr. Alan Merman of the Department of Pediatrics, Yale University, Dr. Milton J. E. Senn, Milton Professor of Pediatrics, Yale University, Dr. Cyril Walwin of Yazoo City, Mississippi, and Dr. Raymond M. Wheeler, of Charlotte, N. C., Chairman of the Executive Committee of the Southern Regional Council, the report was published as, Joseph Brenner, et al., *Hungry Children*, (Atlanta: Southern Regional Council, 1967).

Foundation was established in 1940 by Marshall Field III, a Chicago banker, publisher of the *Chicago Sun-Times*, and grandson of the founder of the Marshall Field and Company department store in Chicago. The foundation provided support to organizations promoting civil rights, civil liberties, and child welfare, and to other groups and individuals working for social change.²⁸ Their findings reported that hunger, malnutrition, and starvation were widespread in Appalachia, the Southwest, and in inner-city slums. Physicians who conducted the study described children with swollen bellies and glassy eyes who were suffering from growth retardation, mental retardation, and illnesses that would shorten their lives. They found that the elderly were also starving in those areas; so, too, were expectant mothers. The rate of miscarriage due to malnutrition was much higher in those pockets of poverty than in any other areas of the country.

Both in moral terms and in fiscal terms, this situation promised disaster for the United States. The responsibility for providing for these malformed and chronically ill citizens would fall on the federal government. The supporters of the Food Stamp program argued that it would be much cheaper, as well as more humane, to simply feed these people. That would provide healthier and more productive citizens, and it would prevent the serious disabilities for which the federal government otherwise would have to provide.

²⁸ By 1988, the foundation had distributed its funds and ceased to exist. Field Foundation Archives, 1940-1990, Dolph Briscoe Center for American History, The University of Texas at Austin, <http://lib.utexas.edu/taro/utcah/00091/cah-00091.html> (accessed February, 17, 2014).

The positive relationship between the nutrition of the mother and the outcome of the pregnancy had been proven by many medical studies. The rapid growth of the fetus during pregnancy required an extra intake of calories, protein, vitamins, and minerals. There was considerable evidence that the nutritional health of the woman and her diet during pregnancy influenced her weight gain, which had in turn been demonstrated to determine infant birth weight. Women who were malnourished when they became pregnant or who failed to gain enough weight during pregnancy were at a greater risk for having low-birth weight babies. Such babies were more likely to suffer from physical and mental handicaps than normal-birth weight infants. Statistics indicated that a low birth-weight baby was 20 times more likely to die than a normal weight infant. Low birth-weight ranked as the eighth leading cause of death for infants in the United States in 1980.²⁹ Prior to the Food Stamp program, significant numbers of preschool children suffered from malnutrition. This is why the program was so vital for the poor. Following the Field Foundation study, support for the program rose significantly.

In the late 1970s, the number of Americans receiving food stamps increased dramatically. There were two main reasons for the remarkable expansion of the Food Stamp Program at that time. One was the rise in unemployment and inflation during that decade. The other was the removal, in 1978, of the requirement that participants

²⁹ See the testimony of Aaron Shirley, M.D. a practicing pediatrician in Jackson, Mississippi, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 519-22.

buy their food stamps on a sliding scale based on the amount of their income and the size of their family. This provision was replaced by a policy of providing free stamps.³⁰

The positive side of the program was that it worked. In a retrospective investigation ten years after the first Field Foundation report, the investigators found major improvements:

Our first and overwhelming impression is that there are far fewer grossly malnourished people in this country today than there were ten years ago ... This change does not appear to be due to an overall improvement in living standards or to a decrease in joblessness in those areas. In fact, the facts of life for Americans living in poverty remain as dark as or darker than they were ten years ago. But in the area of food there is a difference. The Food Stamp Program, the nutritional component of Head Start, school lunch and breakfast programs have made a difference.³¹

In other words, the Field data indicated that food stamp benefits were effective in helping meet the nutritional needs of households and in preventing hunger and malnutrition. This was particularly true in those pockets of poverty hardest hit by unemployment and recession. Food stamps also supported the economies of these same areas by boosting retail food sales and farm income.³²

³⁰ Jean Mayer and Kenneth Schlossberg, "Tighten Food Stamps But Don't Deprive the Needy," *New York Times*, February 7, 1981.

³¹ Nick Kotz, *Hunger in America: The Federal Response*, (New York: The Field Foundation, 1979), 7, see also Raymond Wheeler, "Hunger in America Revisited: A Follow-up of the 1967 Field Foundation Study," in *Optimal Nutrition and Disease Prevention: Proceedings of Public Health Nutrition Update, May, 1980, Chapel Hill*, (Chapel Hill: Health Sciences Consortium, 1980); and Citizens Board of Inquiry into Hunger and Malnutrition in the United States, *Hunger U. S. A. Revisited*, Published in cooperation with the National Council on Hunger and Malnutrition and The Southern Regional Council, 1972.

³² See the testimony of Robert Fredericks, Assistant Commissioner in the Division of Income Maintenance, NYS Department of Social Services, Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 225.

The problem lay in how poverty was perceived by the non-poor. Many Americans were not aware of how low the official poverty line actually was. Most were under the impression that both current law and the Reagan proposals were too generous and allowed many not-truly-needy to benefit. In reality, the “not-truly-needy” were already ineligible for food stamps.³³ The official poverty line used in 1981 to determine eligibility for food stamps was based on the one devised in 1964 — not to determine how much food people needed to escape poverty, but to meet the administrative needs of the welfare agencies. Subsequently, a few modest adjustments had been made in determining the poverty line base, and the figure was adjusted annually in light of increases in the all-item Consumer Price Index (although the rise in the all-item CPI was less than the rise in food costs).

Supporters of food stamps argued that the program was the only safety net for a large number of the poor in America, while the administration countered that over the years, changes in eligibility standards had caused the program to expand its coverage to the extent that it had seriously drifted from its original goal. The administration described the current program as one that was not clearly targeted for the nutritional assistance of low-income households; rather, they maintained that middle income households had been able to use it as an income subsidy program. Therefore,

³³ Fredericks, *Hearings*, 225.

unnecessary program costs that strained Federal resources could not be allowed if federal expenditures were to be substantially reduced.³⁴

The contention that the Food Stamp Program was being used by middle-income households as an income subsidy program simply could not stand the light of day. United States Department of Agriculture survey data for 1980 showed that more than 50 percent of Food Stamp households had gross incomes of less than \$300 per month, while ninety percent had gross incomes below the poverty line during the period they received food stamps. Ninety-three percent had liquid assets of less than \$500 and more than fifty percent had no liquid assets at all. Over 50 percent of households did not own a car or other means of transportation. Seventy-eight percent of those receiving food stamps were children, elderly, disabled, or single-parent households.³⁵

There was no question that the recipients of food stamps were poor. Food stamps were the only assistance available to the eligible working poor, intact families, and individuals who did not qualify for any other type of public assistance or income security programs. Eleven percent of food stamp households were headed by adults who worked full time and still did not earn enough to pull above the poverty line. In many states, food stamps were the only form of help offered to families with both parents present and unemployed. They were often the only assistance available to couples without children and people who were too old, unskilled, or sick to work yet too young for other benefits. The Food Stamp Program filled in gaps in the welfare

³⁴ See the testimony of Richard Lyng, Deputy Secretary of Agriculture, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Congress, 1st sess., 1981, 601-2.

³⁵ See the testimony of Robert Greenstein, Director for the Field Foundation, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 206.

system because it was the only nationwide, non-categorical program. Significant new limitations on eligibility would cause serious hardship for many people and would cripple the emergency resources of state and local governments and private charities.³⁶ No matter what the savings, the hardships caused would be great.

Reagan's major concern with the program was that the federal government would spend \$9.7 billion on food stamps in 1981 and was projected to spend \$12.9 billion for the same program in fiscal 1982, a 33 percent jump in one year. The food stamp budget had grown by 95 percent over the previous three years. The *Washington Post* described its growth this way: "If you make a chart of the program's 17-year life, the graph looks like the side of the Empire State Building -- there are a few ledges, but mostly the dollar curve goes straight up."³⁷ This type of escalating cost obviously did not fit with Reagan's plan to sharply reduce the rate of growth of non-defense federal spending. However, there was significant disagreement within the government concerning what constituted public assistance and which citizens should receive it.

The administration estimated that their food stamp proposals would save \$2 billion in Fiscal Years 1982 and 1983. This would represent a 16 percent decrease in program costs in Fiscal Year 1982. Savings would grow to \$3 billion in Fiscal Years 1984 and 1985. Thus, they projected a total budget savings of \$10 billion during the next four fiscal years. They claimed

³⁶ See the testimony of John T. Dempsey, Director of the Michigan Department of Social Services, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 231.

³⁷ Reid, "1982 Federal Budget" *Washington Post*, January 16, 1981.

that their intention was to protect benefits for households, following the original purpose of the program, and also to significantly reduce spending.³⁸

Viewed from the standpoint of the poverty of the recipients of food stamps, the proposals put forth by the Reagan Administration were harsh. The first proposal from the administration concerning food stamps was to restrict eligibility for food stamps to households with gross monthly incomes at or below 130 percent of the poverty line. This proposal would eliminate poor people with unusual expenses, such as very high medical or housing expenses. Most of the non-poor had already been weeded out of the program's rolls. Between the Food Stamp Act of 1977 and the one of 1980, eligibility for the program had been reduced by over 6 million people. More than 1.5 million actual participants were dropped. In 1981 fewer than 30 million people, even with the high unemployment rate at the time, were eligible for the program. This was 6 million fewer than were eligible in 1975. The Reagan proposal would reduce the eligibility of at least two million additional people. The estimated savings was \$273 million in Fiscal Year 1982, to be accomplished primarily by eliminating low-income working families with incomes between 130 and 150 percent of the poverty line and who had high shelter or child care costs.³⁹ Ironically, the cut would hit hardest at those people who were trying to work their way out of dependence on public programs.

But this irony seemed to be lost on the general population. It was the perception of taxpayers that food stamp recipients simply did not work hard enough.⁴⁰ This type of

³⁸ Lyng, "Hearings General Farm Bill 1981," 607.

³⁹ *Ibid.*, 608.

⁴⁰ "'Welfare Queen' Becomes Issue in Reagan Campaign," *New York Times*, February 15, 1976.

thinking led to the unpopularity of the program and its susceptibility to budget cuts. Ironically, the plan to limit eligibility for Food Stamps to those with gross income below 130 percent of the poverty line, while continuing to base allotments on countable income, would create a serious work disincentive. In order to maintain their eligibility for the program, these families would have to work less. That would, of course, lead to higher food stamp costs and more recipient dependency on the federal government.⁴¹ If a recipient household earned one dollar more than 130 percent of the poverty line, they would lose all of their benefits. That loss would amount to a reduction of \$120 to \$876 a year depending on the size of the household. Almost half of the households on the Food Stamp Program in 1979 contained someone who was employed. Twenty-five percent of the households had workers employed for 40 weeks or more. Of the 1.5 million households on the program who had annual gross incomes over 130 percent of the poverty line, seventy-nine percent held jobs. So the potential for 1.2 million households to work less in order to maintain eligibility was great.⁴²

It was the overlap of the Food Stamp Program and the National School Lunch Program that led to the Administration's second proposal for reducing the cost of food stamps. Their argument was that most school-age children whose families got food stamps were also eligible for free school lunches; thus, the Federal government bought these kids two lunches every school day. It seemed appropriate to the Administration

⁴¹ See the testimony of Timothy Smeeding, Associate Professor of Economics, University of Utah, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 683.

⁴²*Ibid.*, 690.

that a reduction in food stamp benefits received by families with students eligible for free school lunches was in order. If this proposal were to be implemented in a timely manner, the estimated savings would be \$522 million in Fiscal Year 1982.⁴³ Two-thirds of the households and 71 percent of the children who would be affected by this proposal lived below the poverty line.⁴⁴

The claim that the Food Stamp Program duplicated the school lunch program can be described most kindly as artful. Food stamp benefits were inadequate to provide a growing child with adequate nutrition. The food plan menus published by the Department of Agriculture were found to contain less than the recommended dietary allowances in 8 of the 17 food groups contained in the Thrifty Food Plan. The USDA acknowledged that in its most recent statistics for 1981, only 16 percent of those who spent the amount of money prescribed by the Thrifty Food Plan would achieve 100 percent of the Recommended Dietary Allowances; only 50 percent of these households would achieve two-thirds of the Recommended Dietary Allowances.⁴⁵ In 1977, Congress acknowledged that the Food Stamp Program did not provide a complete diet, but rather a supplement intended to help low-income families improve their diets. They altered the mission statement to read, "The purpose of the program is clear; it exists to...permit low-income households to obtain a more nutritious diet." Language stating that the purpose of the program was to provide a "nutritionally adequate diet" was

⁴³ Lyng, *Hearings*, 609.

⁴⁴ *Ibid.*, 686.

⁴⁵ See the testimony of Lynn Parker, Nutritionist for the Society of Nutritional Education, House Committee on Agriculture, Subcommittee on Domestic Marketing, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 491.

dropped.⁴⁶ One of the reasons originally cited by the Department of Agriculture to justify the inadequacy was that it would be supplemented by school lunches. Now the administration found a duplication in the two programs.

The free lunch a low-income child received was not an extra or duplication of benefits, and it was certainly not a fourth meal. If the value of a child's free lunches were to be subtracted from the benefits his or her family received from the Food Stamp Program, the result would be a further decrease in the nutritional adequacy of the diet that the family would be able to afford.

In April 1980 the United States Department of Agriculture stated in the Federal Register:

The Department recognizes that a number of factors make it difficult for many families to obtain an adequate diet on the amount of money which represents the cost of the Thrifty Food Plan. In fact, data on food consumption among low-income households indicates that fewer than one in ten families spending an amount of money equivalent to the cost of the Thrifty Food Plan received 100 percent of the Recommended Daily Allowances. Less than half received even two-thirds of the Daily Allowances. . . The average food purchaser, without specific nutritional skills and training, would find it difficult to make the food choices which provide an adequate diet on the amount of money which represents the cost of the plan.⁴⁷

Indeed, it would have been difficult for a qualified nutritionist to provide a nutritionally sound diet for most families on food stamps.

⁴⁶ Parker, *Hearings*, 491.

⁴⁷ "Cutting the Food Stamp Program; Could Mean Even Poorer Diets for Some," *Washington Post*, February 12, 1981.

While food stamps never provided an adequate diet, neither did food stamp allotments keep up with inflation. Food price inflation was 11.5 percent in 1978 and 10.1 percent in 1979; the value of the plan increased 9.7 percent and 7.3 percent, respectively.⁴⁸ Approximately 43 percent of all food stamp households would receive fewer food stamp benefits due to the proposal to count free school meals as income.⁴⁹ This would reduce the already inadequate supplement targeted for children at high nutritional risk. However, there was worse to come.

Certainly the harshest of all the proposals emanating from the Reagan Administration concerning food stamps affected Puerto Rico. All of the food assistance programs to Puerto Rico were to be covered in a block grant. The administration reasoned that programs designed for the continental United States were not necessarily compatible with local needs in other areas. Therefore, the rhetoric went, state authorities were in the best position to “formulate, establish, and administer” the programs in these areas so as to best respond to the needs of their own citizens. A block grant would provide the greatest latitude possible for local administrations.⁵⁰ This proposal sounded reasonable and perhaps even sensitive to local needs — until the bottom line appeared. It was to be funded at 75 percent of what would have been granted to Puerto Rico under the categorical programs that the 50 states would receive.

⁴⁸ “Cutting Food Stamps.”

⁴⁹ See the testimony of Rev Donald Gall, National Council of Churches, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 261.

⁵⁰ Lyng, *Hearings General Farm Bill of 1981*, 617-8.

That meant that in addition to the 18 percent cut that affected Americans on food stamps, Puerto Ricans would get an additional 25 percent reduction.

In March 1981, the USDA estimated that a total of 1,775, 041 Puerto Ricans (who were American citizens and paid taxes to the federal government) were receiving food stamps. More than 50 percent of the island's population was eligible for those benefits. This represented 9.4 percent of all Americans participating in the program. Ninety-two percent of households in the program in Puerto Rico had a gross monthly income of less than \$600 per month. Seventy-seven percent had incomes of less than \$400 a month. Not one household in the program had a gross yearly income of \$12,000.⁵¹ In addition, because 70 percent of the food that the islanders ate was imported from the mainland, food prices were 20 percent higher there than in the continental United States. Puerto Ricans also received no Supplemental Security Income from the federal government. Medicaid was capped at \$30 million — \$60 million less than if it were a state. Aid to Families with Dependent Children was capped at \$72 million per year. The average grant under AFDC on the mainland was \$224.12 each month. In Puerto Rico, a family of four received \$47.31 a month.⁵² In light of all this discrimination, how could Puerto Ricans reconcile their American citizenship with the manner in which they were treated by their own government?

⁵¹ See the testimony of Baltasar Corrada, Resident Commissioner from Puerto Rico to the United States, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 176.

⁵² *Ibid.*, 177.

Invoking the goals of economic recovery and enhanced national defense, the Reagan Administration prepared to slice off a large chunk of the budget of the program designed to help America's poorest get enough to eat. The richest of the poor (a family of four earning \$11,001, regardless of how high their housing and medical expenses might be) were to be eliminated altogether from the program. The administration planned to dock the children who qualified for free school lunches 67 cents a day (one half of their daily allotment) no matter how many or how few school lunches they actually ate. They planned to require the nation's most poorly educated to fill out and return monthly forms on income; if they couldn't do it, they were to be removed from eligibility.

These proposals were, to say the least, controversial — the pundits raced to choose up sides. Because of its enormous size, the program came to symbolize diametrically opposite views of the role government should play in American society. To Senator Jesse Helms, Republican of North Carolina, food stamps represented "a welfare program that has run out of control." Representative Frederick W. Richmond, a Democrat from Brooklyn and the chairman of the subcommittee on food stamps, stated: "We would be taking an evil, backward step to ruin this program, and take food from the mouths of millions of hungry Americans."⁵³ In the past, liberals and conservatives had been generally able to settle their differences on farm issues. Those who favored food stamps supported subsidies for such commodities as cotton and wheat, while the advocates for

⁵³ Steven V. Roberts, "Supporters and Opponents Prepare to Battle on the Scope of the Program", *New York Times*, February 14, 1981.

farmers, in turn, voted for food stamps. However, because of the across-the-board cuts being proposed by the Reagan Administration, the usual accommodations were in jeopardy. The visibility of the food stamp program added to the controversy. Because people used the coupons in supermarkets every day, the program generated a widespread philosophical debate. To Senator Helms, for instance, the program symbolized the unbridled power of Washington over the states, and over individuals. At the same time, Democratic Senator William Proxmire was outraged that food stamp recipients used the extra cash to buy "cigarettes and booze."⁵⁴ In the end, the view of Senator Helms won the day.

The administration got most of what it asked for. Congress placed a cap on food stamp expenditures for Fiscal Year 1982 of \$10.5 billion, which amounted to a reduction of about \$1.5 billion, rather than the \$2 billion called for in the administration's proposal. The proposal to reduce food stamp benefits for families with children eligible for free lunches, however, was rejected. Despite this major legislative victory, the results were not all that the Reagan team had hoped.

In September, Agriculture Secretary John R. Block announced that the food stamp program would cost the government at least \$12.1 billion in the fiscal year 1982, an increase of \$1.5 billion over earlier estimates by the Administration. However, the Secretary stressed, the White House was sticking by its proposal that Congress appropriate only \$10.6 billion.⁵⁵ New cuts were obviously necessary. They were to

⁵⁴ Roberts, "Supporters."

⁵⁵ Stephen V. Roberts, "Food Stamp Trims Sought by Reagan," *New York Times*, September 23, 1981.

come in two phases: a six-month delay in updating food stamp benefits for inflation (at an estimated savings of \$700 million) and cutting benefits to all recipients by 12 to 15 percent.

Rather than accept Secretary Block's suggestions, members of Congress reached a compromise with the White House. They agreed to the six-month delay in adjusting food stamp benefits for inflation, but they demanded in return an increase in the annual spending level to \$11.3 billion.⁵⁶ Then, one month after agreeing to delay the annual increase of food stamp benefits for six months in order to save \$700 million, House-Senate conferees on a new farm bill decided to adjust food stamp benefits for inflation six months earlier than previously planned. The Agriculture Department said the step could save \$700 million in the fiscal year 1982 because the rate of inflation was expected to be lower at that time. Seemingly, Congress had saved \$700 million by moving the date forward and then saved \$700 million more by moving it back to its original date.⁵⁷

The Reagan proposals for the Food Stamp Program were an arguably unfortunate aberration when viewing the remainder of their proposals for the Farm Bill of 1981. The administration's reduction of the food stamp program's allocations was not a high point of the Reagan presidency. The recommendations did not implement the plans outlined by Charles Murray and the conservative intellectuals; they simply took food from the

⁵⁶ Steven V. Roberts, "Accord is Reached on New Food Stamp Cuts," *New York Times*, October 2, 1981.

⁵⁷ Seth King, "Food Stamp Bill Changed in Farm Bill Compromise," *New York Times*, November 20, 1981.

mouths of poor Americans. At least \$1 billion in food stamp benefits was taken directly from the tables of those living below the poverty line.⁵⁸

However, regarding negotiations on the dairy, sugar, and peanut sectors of America's agriculture, Reagan would prove much less dogmatic and much more flexible. In that context, the food stamp controversy proved an exception, not the rule.

⁵⁸ See the testimony of Robert Greenstein, Director for the Field Foundation, House Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 208.

Chapter 5

Political Considerations in the Farm Bill of 1981

The new president's overarching goal was righting the domestic economy. His strategy with farm policy reflected this goal. He wanted to promote farm exports to the ultimate degree to help rectify the balance of payment for trade. Otherwise, he wanted to minimize expenditures on farm programs. Reagan's plan was transparent in several of his administration's dealings with specific farm policies: the dairy program, the peanut program, and the sugar program.

We have seen that Reagan considered many, if not most, federal programs as "runaway" concerning their costs. Certainly, the term aptly portrayed some of the agriculture programs, and none more than the dairy program. The law in 1981 required the Commodity Credit Corporation (CCC) to buy all dairy products produced in the United States in excess of consumer demand. Thus, every dairy farmer in the country had a guaranteed market for every drop of milk he or she could produce, regardless of how much the consumers would buy. The estimated cost to taxpayers of this program for 1981 was to be \$2 billion; in addition, those subsidies added an estimated \$1.5 billion to the retail price of dairy products. This program also drove up the cost of the School Lunch program and the food stamp program because milk was such an integral part of both.¹ It is not hard to see why the administration fought early and long to change the dairy program. A reduction would clearly help the domestic economy.

¹ For a sample of public opinion on the Dairy Program, see Ann Crittenden, "Federal Support for Dairy Prices Criticized Anew," *New York Times*, February 16, 1981; Robert G. Kaiser, "Dairy Finds Decades-old

The Dairy Price Support Program, originally authorized by the Agricultural Act of 1949, directed the establishment of a price support level of milk between 75 and 90 percent of parity. The Food and Agriculture Act of 1977 amended the 1949 act to provide an increase in the minimum support level from 75 to 80 percent of parity. The amendment also called for an adjustment of the support price at midpoint of each market year to reflect any change in the parity index during the first six months. The CCC could not buy milk because it was perishable, so it purchased powdered nonfat milk, cheese, and butter. Since these products were processed, the CCC did not interact directly with the farmers. It had to deal with processors. Thus, the federal subsidy to dairy farmers was indirect.²

The problem was unsustainable overproduction. At the end of 1980, the CCC held over 1 billion pounds of processed milk products, and the estimates for 1981 called for dairy production to exceed demand by 10 percent. If so, the 1981 surplus would be the greatest in 20 years and would overwhelm the government's existing storage facilities. Since dairy products were not exported, they did not help to pay for imports, and were very unpopular with the Reagan administration. They were losing favor with the public as well.³

Several citizens' groups and a growing number of corporate purchasers of milk products believed the dairy program was the result of a well-financed, special-interest

Subsidies Are Not Sacred Cows," *Washington Post*, March 28, 1981; and Robert J. Samuelson, "Dairy Price Supports Help Pile Up Surplus," *Washington Post*, May, 19, 1981.

² Crittenden, "Support for Dairy."

³ Ibid.

lobby having its way contrary to the broader public interest.⁴ Furthermore, opponents of the dairy program pointed out that most of the federal support payments went to the largest farmers, who needed them the least. According to the Community Nutrition Institute, a Washington-based consumer group, 50 percent of the subsidy benefits went to the largest 15 percent of dairy farmers, while only 6 percent went to the smallest 45 percent of farmers.⁵

While every administration during the preceding 20 years had tried to cut the dairy program, the subsidies not only continued but were regularly increased. The dairy industry, in the words of the *New York Times*, was a "sacred cow."⁶ The dues farmers paid to their dairy cooperative financed the dairy lobby—one of the biggest spenders in Washington. According to Common Cause, a nonprofit group lobbying for government reform, the political action committees of the three largest dairy cooperatives contributed more than \$1.2 million to candidates during the 1980 federal elections.⁷ Between 1974 and 1978, dairy groups gave \$487,251 to members of the Senate and House Agriculture Committees alone. Jack Anderson of the *Washington Post* reported that the dairy industry made political contributions to members of the House committee that totaled \$213,310 in 1979-80.⁸

Stories of the political power of the dairy lobby abounded in Washington. In 1971, the industry promised the Nixon campaign a contribution of \$2 million. Not long

⁴ Crittenden, "Support for Dairy."

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ Jack Anderson, "The Power behind the Dairy Industry," *Washington Post*, March 16, 1981.

thereafter, the Nixon White House countermanded a decision by Agriculture Secretary Clifford Hardin to lower dairy support; dairy prices were raised instead.⁹ In 1980, then-Agriculture Secretary Bob Bergland introduced legislation that would have enabled him to stop a scheduled increase in dairy price supports. However, Vice President Mondale intervened; the increase, which raised dairy prices by an estimated \$1.6 billion that year, went through.¹⁰ Along the same vein, the Community Nutrition Institute asked Bergland to hold hearings on the price of reconstituted milk, which is similar to whole fresh milk and far cheaper. President Carter was immediately inundated by letters from 104 Representatives and 41 Senators asking that the proceeding not be held. It was not.¹¹

Common Cause later calculated that 81 percent of the Representatives and 78 percent of the Senators who had signed the letter received contributions from dairy political action committees.¹² Anderson described the dairy program in starkly simple terms: “Congress authorizes twice-a-year increases in dairy prices; the dairy industry collects the increase no matter how much it produces or how little its production costs have risen. Then the industry's political action committees make fat campaign contributions to members of Congress who control dairy price-support legislation.”¹³

⁹ Anderson, “Power.”

¹⁰ Ibid.

¹¹ See Steven M. Gillon, *The Democrats Dilemma: Walter Mondale and the Liberal Legacy*, (New York: Columbia University Press, 2009); and Jimmy Carter, *Keeping Faith: Memoirs of a President*, (Toronto; New York: Bantam Books, 1982). While the Gillon and Carter books do not corroborate the press accounts of intervention into public policy on behalf of contributors, one would not expect those in high office to volunteer such information in memoirs or retrospective accounts.

¹² Crittenden, “Support for Dairy.”

¹³ Anderson, “Power.”

Other issues with the program had nothing to do with politics. There would have been no problem if Americans just drank more milk. In 1960, per capita milk consumption was about 33 gallons, more than twice that of the soft-drink consumption of 14 gallons. By 1979, Americans were buying 38 gallons of soft drinks compared with 28 gallons of milk. Beer was up about 33 percent since 1960 and had moved ahead of milk.¹⁴ The advertising budgets of the various drink producers determined some of that change. Budgets totaling \$435 million advertised soft drinks and beer in 1980, while advertisers spent only \$21 million on milk.¹⁵

In addition, the federal milk programs were simply not keeping up with the times. Despite all the economic changes that had taken place in since 1949, the milk programs remained largely unchanged. The need for any support program for milk was not clear. There were no support programs for beef, poultry, pork, or eggs. The best justification for price supports was that they prevented excessive fluctuations in supply and prices. The government bought milk products during periods of peak production to prevent a price collapse. It was argued that such a collapse would force so many producers out of the business that a price explosion would result later. Still, stabilizing prices did not require the automatic parity index, nor did it require the purchase of 7 percent of the industry's output.¹⁶

¹⁴ Robert J. Samuelson, "Dairy Price Supports Help Pile Up Surplus," *Washington Post*, May 19, 1981.

¹⁵ See the testimony of Larry R. Shover, Iowa Dairy Industry Commission, House Committee on Agriculture, Subcommittee on Livestock, Dairy, and Poultry, *Hearings on General Farm Bill of 1981*, 97th Cong., 1st sess., 1981, 6-8.

¹⁶ Samuelson, "Dairy Price Supports."

The real problem was an oversupply of milk stimulated by the dairy program.¹⁷ Milk production in 1980 increased to a record of 128.4 billion pounds, a 4.1 percent increase, while sales declined 0.8 percent. Also in 1980, the CCC purchased 8.5 billion pounds of milk, about 7 percent of the farm market.¹⁸ The year 1981 continued this pattern. On a daily basis, February milk production was up 4.85 percent. The number of cows was up 1 percent and production per cow was up 3.8 percent. Unfortunately, milk sales were unchanged. For January and February, the CCC purchased 48 percent of the butter production, 22 percent of cheddar cheese, and 63 percent of nonfat dry milk.¹⁹

There were many reasons behind the continued increase in milk production, but the central one was the guaranteed profit provided by the federal milk program. Many farmers found that lending institutions preferred to lend to dairy operations over other farming ventures.²⁰ Another factor was the depressed markets for grain, beef, and pork products. When the price of grain was low, the grain became feed for cattle. When the price for beef was low, marginal dairy cows that would usually be culled and sent to slaughter stayed in their herds. Sometimes farmers transformed beef herds into dairy herds in search of better monetary returns.

Yet another cause of the dairy surplus was a quirk in the program. Under federal regulations, processors could obtain loans on their dry milk, cheese, and butter at 80

¹⁷ Samuelson, "Dairy Price Supports."

¹⁸ See the testimony of Robert Cropp, University of Wisconsin, Platteville Extension, House Committee on Agriculture, Subcommittee on Livestock, Dairy, and Poultry, *Hearings on General Farm Bill of 1981*, 97th Cong., 1st sess., 1981, 31-33.

¹⁹ *Ibid.*

²⁰ See the testimony of Larry R. Shover, Iowa Dairy Industry Commission House Committee on Agriculture, Subcommittee on Livestock, Dairy, and Poultry, *Hearings on the General Farm Bill of 1981*, 97th Cong., 1st sess., 1981, 7.

percent of parity. They could then either repay the loan or allow the CCC to keep their produce in lieu of repayment. Under the current program, they could buy back their production from the CCC later for 105 percent of the loan. Because of high interest rates, some producers who had to borrow to cover production costs could benefit by selling their crops to the CCC in lieu of storing it, and then buy it back if prices rose. In effect, the CCC was a cheap form of storage.

There were also several reasons why domestic demand for dairy products had stagnated. The general economic slowdown was an important factor. Cheese purchases were especially weak when times were hard and meat was cheap. Recent increases in dairy product imports had also depressed the sale of domestic dairy products. The dairy industry argued that cheese imported into the United States was unfairly subsidized by the exporting governments. Both the administration and the dairy producers agreed that the 36 million pounds of cheese imported in 1980 had caused 36 million pounds of American cheese to be purchased by CCC.²¹

But they did not agree on the effect of the importation of casein. The dairy industry's position was that imported casein was the direct cause of the dairy surplus in the United States. A study by the U.S. International Trade Commission in 1979 indicated that 79 percent of the U.S. casein used in 1978 went into food and feed products; it projected that such use would rise to 81 percent during 1979.²² Casein had a wide

²¹ See the testimony of Earl Baudler, dairy farmer, House Committee on Agriculture, Subcommittee on Livestock, Dairy, and Poultry, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 36.

²² See the testimony of Patrick Healy, Secretary, National Milk Producers Federation, House Committee on Agriculture, Subcommittee on Livestock, Dairy, and Poultry, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 100.

range of uses, including in imitation dairy products, coffee whiteners, frozen desserts, whipped toppings, bakery products, breakfast foods, diet foods, calf milk replacers, animal feed, and pet foods. In these uses, the industry argued, casein displaced domestic skim milk, which then was forced into the CCC through Dairy Price Support Programs. The USDA disagreed with these allegations. In two separate studies, it found no overlap between imported casein and the dairy industry.²³

The administration and the dairy industry also disagreed on the need for a surplus of milk. It appears that the industry believed that a certain surplus of milk production was mandatory. Patrick Healy, Secretary of the National Milk Producers Federation, argued before Congress that a CCC stockpile of 3 billion pounds was necessary for the country to have enough milk. "If we are one load short in Boston, it does not help us a bit to have two loads too many in Salt Lake City. So, there must be throughout the year a little bit too much in order to have enough."²⁴ The dairy industry also argued that the Department of Agriculture used 2.5 to 3 billion pounds of milk a year to feed the poor and the young, and as part of its foreign aid programs. That amount, in their view, was exactly the surplus needed to have good distribution and sufficient milk everywhere. In essence, in the industry eyes, there was never a surplus.

That kind of reasoning was completely lost on the Reagan administration. They wanted no surplus and no deficit in the CCC, especially not one of \$2 billion per year.

²³ US International Trade Commission, "Casein and its Impact on the Domestic Dairy Industry," Report to the Committee on Ways and Means of the United States House of Representatives, on Investigation 332-105 Under Section 332 of the Tariff Act of 1930, as Amended, USITC Publication No 1025, 1979.

²⁴ Healy, *Hearings on General Farm Bill of 1981*, 101.

Therefore, it made two specific proposals for the Dairy Price Support Program: Abolish the bi-annual price changes and go back to an annual adjustment, and reduce the support level of dairy products from 80 percent of parity to 70 percent.²⁵

The dairy industry countered that milk was produced and marketed in a much different manner than other price-supported crops. In the case of most other commodities, a single crop was harvested once a year and thus a price support level could be determined for the year. Because the dairy “crop” was harvested and marketed daily, the semiannual adjustment was simply an attempt to provide a more uniform degree of price assurance to the dairy farmer throughout the marketing year.²⁶ Because inflation had been so high, the price support eroded significantly every month. Thus, in the absence of the semiannual adjustment, the real level of price support provided to the dairy farmer in September—the last month of the marketing year—was often markedly lower in terms of constant dollars than it had been when the support level was established 12 months earlier. Thus, the semiannual adjustment partially offset the effects of inflation.

The administration claimed that farmers produced for the dairy program and not the market, and under those circumstances a surplus was inevitable. The industry claimed that a surplus was necessary; because milk was produced daily, a midyear adjustment was mandatory to allow dairymen to survive a constantly changing market. The

²⁵ See the testimony of John R. Block, Secretary of Agriculture, House *Committee on Agriculture, Hearings on General Farm Bill of 1981, 97th Cong., 1st sess., 1981*, 431.

²⁶ Healy, *Hearings on General Farm Bill of 1981*.

administration did not accept this argument and sprang into action early in an attempt to implement their proposals.

The dairy battle posed a crucial test for the new administration. Because the index adjustment would occur automatically in March, it had to take vigorous and decisive action. Without such action, the subsidy for milk would increase 8 cents per gallon, butter 10 cents per pound, and cheese 9 cents per pound.²⁷ Reagan was determined to implement his economic plans. As he told the people on national television:

. . . we cannot delay in implementing an economic program aimed at both reducing tax rates to stimulate productivity and reducing the growth in government spending to reduce unemployment and inflation.²⁸

He needed to demonstrate his commitment to cut unnecessary government programs and convince Congress to approve his tax cuts. He also needed to show that he could work with the legislature to turn his proposals into law. Therefore, it was incumbent upon Reagan to reel in this “runaway” dairy program. The administration’s backers began by introducing a one-sentence bill in the House of Representatives to slash the semiannual price adjustment for the dairy programs.

The dairymen’s backers in Congress did not yield easily. The dairy committee in the House rejected the Reagan proposal. The Senate proved more amenable to the administration’s program. Still, there were many amendments and much last-minute finagling before the measure passed in the Senate. The House reluctantly followed suit and the administration won its first crucial victory, albeit a small one. The change

²⁷ Crittenden, “Support for Dairy.”

²⁸ Ronald Reagan, “Address to the Nation on the Economy, February 5, 1981,” *Public Papers of the Presidents of the United States: Ronald Reagan, 1981*, (Washington: GPO, 1982), 80.

promised to save the government only about \$147 million.²⁹ The real problem was what to do about the \$2 billion that the Treasury stood to lose unless the government did something about the fundamentals of the existing dairy program.

The problem posed by the dairy program for the federal budget was the fact that the price support guaranteed that dairy farmers could increase their revenues by increasing production regardless of the relationship between supply and demand. By October 1981, from California to Georgia, government stores were up to 777 million pounds of nonfat dry milk, 544 million pounds of cheese, and 274 million pounds of butter. Fifty percent of that inventory was committed to the federal school lunch program, the military, the international Food for Peace program, and export sales. The rest was surplus. Except for certain "restricted sales" and donations, the CCC was prohibited from selling the surplus domestically in a way that would depress the market.³⁰ Collectively, farmers were producing too much milk, and the taxpayers were forced to pay the bills.

In the economic worldview of the Reagan administration, that situation simply could not be allowed to continue. Marginal and inefficient farms would have to go. Those marginal and inefficient farmers, of course, would not go without a fight, and they waged it within Congress. The dairy portion of the Farm Bill was among the most contentious.

²⁹ Steven V. "Roberts, "Bill to Block Dairy Support Rise Survives Bids to Cripple Proposal," *New York Times*, March 25, 1981.

³⁰"As Big Dairy Surpluses Grow, So Do US Wishes to Shed It," *New York Times*, October 3, 1981.

After compromises by both sides and hours of dispute over how much the dairy supports would actually cost, stakeholders finally hammered out the provisions on dairy programs in the Farm Bill of 1981. At first glance, the bill appeared to have abandoned the concept of parity. The dairy price supports for 1982 would continue at the current level of \$13.10 per hundred pounds of milk. For the following three years, the rates would be \$13.25, \$14.00, and \$14.60, respectively.³¹ These rates were figured in dollars with no mention of parity. That would have been a major improvement, because parity was a flawed concept. It did not reflect the major gains in farm productivity, nor did it reflect the markedly reduced number of farmers among whom the total was divided.

However, parity was not dead. The new bill provided that, beginning in 1983, the minimum support would be 70 percent of parity in any year in which anticipated federal purchases of dairy products were less than \$1 billion. The USDA estimates at the time of the bill's passage forecast 70 percent of parity to be \$13.97 per hundredweight in 1983, \$15.53 in 1984 and \$17.40 in 1985.³² Further, if the amount of milk the government had to buy decreased to less than 4 billion pounds in 1983, 3.5 billion in 1984, or 2.69 billion in 1985, the support level would rise to 75 percent of parity, or about \$18.63 per hundred pounds. The government expected to buy 8.6 billion pounds of dairy products in 1982.³³ While these changes were only modest and parity was still alive, they were indeed changes—in the direction the administration wanted.

³¹ Seth King, "Conferees Agree on Dairy Supports," *New York Times*, November 7, 1981.

³² *1981 Congressional Quarterly Almanac*, 97th Congress 1st sess. Volume XXXVII, (Washington, D. C.: Congressional Quarterly Inc. 1982), 535-36.

³³ King, "Conferees Agree."

The administration did about as well as was politically possible with the dairy program. It was correct in that the program was flawed and rewarded over-production despite falling demand. It also cost consumers as well as the federal government much more than necessary, with a negative effect on the domestic economy. However, the abolishment of parity as a concept and the complete elimination of the support system had to be left for another day.

While the dairy program had been complicated, the domestic sugar industry was simple. Since sugar was not exported, it was not supported. Sugar was imported into the United States at a price less than domestic producers could match. Therefore, domestic consumers benefited. Since there was no price support program for sugar in the United States, the administration proposed to keep it that way.

However, the negotiations over the sugar policy in the Farm Bill of 1981 provide a window into the political machinations involved in fashioning Reagan's overall economic policy. Even though the administration had the sugar policy exactly right, there were other economic considerations of a higher priority. We have seen that Reagan wanted to reduce the cost of governmental programs. He also wanted to remove government interference in business. But what he wanted most was to improve the general economy through tax cuts and spending slowdowns. When the opportunity came to trade the institution of a sugar price support program for Congressional votes in favor of his tax cut program, Reagan took the deal without a backward glance.

The problem was that domestic producers could not satisfy American's voracious appetite for sugar. Approximately 2.7 million tons of sugar was produced domestically

from sugar cane grown in Louisiana, Florida, Texas, and Hawaii. The remainder of the domestic production came from beet sugar raised by farmers in California and the upper Midwest. Sugar marketed from U.S.-grown sugar cane and sugar beets had an estimated value of \$3 billion annually. Sugar ranked sixth in value among field crops after corn, soybeans, hay, wheat, and cotton. However, by 1980, Americans were consuming approximately 10 million tons of sugar annually. The deficit was 4.5 million tons that had to be imported. That meant that the United States bought 25 percent of the world's exported sugar.³⁴

Sugar had enjoyed a price support program for forty years. During that time, the prices that sugarcane and sugar beet farmers received were relatively stable. Consumer prices were stable as well. In 1974, the House of Representatives decided that the cost of the sugar program was too high. They defeated a bill to continue the program and left sugar producers to the free market.

Since 1975, the sugar industry had undergone a period of widely fluctuating prices. During this period, production in the domestic sugar beet industry had decreased by nearly 1 million tons of sugar. Because of depressed prices, factories closed and growers changed to other crops. Unfortunately, most growers switched to crops that did have a price support system and were already in surplus.³⁵ Then, in 1980, because

³⁴ See the testimony of Robert Hughes, President, Hawaiian sugar Growers Association, House committee on Agriculture, Subcommittee on Cotton, Rice, and Sugar, *General Farm Bill of 1981*, 97th Cong. 1st sess. 1981, 44.

³⁵ See the testimony of John Heussner, President of American Sugar Beet Growers Association, House Committee on Agriculture, Subcommittee on Cotton, Rice and Sugar, *General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 86-7.

of a bad production year in many sugar-producing countries such as Cuba, the Soviet Union, Poland, and India, sugar prices rose substantially.

The United States was now dependent upon a world market that the major exporters heavily controlled. Eighty percent of the 90 million tons of sugar produced worldwide each year was consumed in the countries producing it. About 5 percent of production was traded under long-term agreements between nations, most of which were in the Soviet bloc. Only about 15 percent of the world's sugar was traded on the open market.³⁶ Thus, fluctuations in production put extreme pressure on prices. In years of production shortfall, prices skyrocketed. When there was excess production, prices plummeted; because of the need for hard currency in the producing countries, sugar was then sold on the world market below the cost of production of even the lowest-cost producing areas.

This is what happened in 1976 through 1979. Industry backers maintained that the open market was simply a dumping ground for exporting countries for their production in excess of their long-term contractual commitments.³⁷ Therefore, they argued, the United States needed its own sugar program with effective tariffs to protect domestic producers.

It was true that U.S. sugar producers bore some costs not born by foreign competitors. Sugar beet growers in California, for example, had to pay both the

³⁶ See the testimony of David R. Bowen, Member from Mississippi, House Committee on Agriculture, Subcommittee on Cotton, Rice, and Sugar, *General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 35.

³⁷ See the testimony of Danny Akaka, Member from Hawaii, House Committee on Agriculture, Subcommittee on Cotton, Rice, and Sugar, *General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 40.

minimum wage and overtime wages established by the Industrial Welfare Department of California. They also had to comply with stringent regulations relating to working conditions, hours, days of work, housing, and other employee protections. Growers and processors also had to meet certain environmental and worker safety standards. All of these regulations added cost without increasing price, and such regulations were not incumbent on foreign producers.

However, domestic sugar producers were mainly concerned about the sugar programs administered by the governments of competing producing nations. Many foreign governments, they argued, determined the size of their farmers' production and subsidized their prices without regard to normal economic factors.³⁸ They also argued that the U.S. government subsidized competitors through low-cost loans from its Export-Import Bank and through the World Bank.³⁹

The sugar farmers also complained that the International Sugar Agreement, under which sugar was traded worldwide, had never worked. They maintained that during the first two years of the agreement, world sugar prices were well below the lower end of the agreed price range of eleven cents a pound. Then, in 1979, prices exceeded the top of the range and remained above the twenty-three cent maximum.⁴⁰

³⁸ Many countries needed dollars to buy oil, because oil was traded in dollars worldwide. Therefore, some producing countries would sell to the United States below cost to get the dollars.

³⁹ See the testimony of Ramon Billeaud, President, American Sugar Cane League, House Committee on Agriculture, Subcommittee on Cotton, Rice, and Sugar, *General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 45.

⁴⁰ See the testimony of David C. Carter, President, American Beet Sugar Association, House Committee on Agriculture, Subcommittee on Cotton, Rice and Sugar, *General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 93-4.

The Trade Act of 1974 ostensibly provided protection for U.S. industries and workers when those industries were affected by unfair foreign competition; action had been taken under the Trade Act. However, by the time the four years of hearings and investigations required before remedies elapsed, thirteen factories and some of processing companies had already gone out of business.⁴¹

The sugar industry pushed for a non-recourse loan program similar to those for other agricultural commodities. They asked that the loan level be consistent with that of other subsidized crops. They wanted the loan rate adjusted annually to reflect the impact of increased costs of production. They argued that they were only asking for a simple loan program to serve as a safety net during periods of depressed prices. Further, they promised that this program would have little or no cost for taxpayers and a minimum of government involvement in the marketplace. By providing some protection to sugar producers, they maintained, such a program would assure consumers a stable, reliable, domestic supply of sugar—and producers would not be forced out of production by severely depressed prices such as those experienced in recent years.⁴²

In reality, the program the industry proposed would not operate like those for grains, cotton, and other commodities. For example, in most other commodity programs, loans went directly to the farmers raising the crop. However, because sugar cane and beets

⁴¹ Carter, *Hearings on General Farm Bill*, 94.

⁴² Billeaud, *Hearings on General Farm Bill 1981*, 45.

were not storable and had to be processed immediately, sugar loans went to the processors, who in turn would pay the growers a predetermined amount.

Even the sugarcane and sugar beet industries were different. The sugarcane processors were also growers of sugar cane. In the case of sugar beets, the processor was not normally a grower. Beet growers and processors established agreements before planting for a specific acreage. The proceeds for the sale of the sugar were then divided, with a specific ratio between the grower and the processor. The producers hoped that the new program would establish a mechanism for withholding excess sugar during good years and then making the excess available during years of poor production. This would stabilize prices and prevent the need for farmers to switch from sugar to crops that were more profitable.⁴³ Thus, for the sugar industry to say that they just wanted a program like all of the other commodities was somewhat disingenuous.

Opponents of the program within the administration pointed out the major drawback to the proposal: it would cost American consumers a great deal of money. They argued that Caribbean producers were happy to deliver sugar to the American market at about 18 cents a pound. Conversely, they maintained that the proposed loan price of 19.6 cents a pound was not the only cost that the program would incur. To induce domestic producers to sell their output rather than leaving it in government warehouses, the deal had to cover interest and shipping. Thus, if the government were to get its loan money back, fees on imported sugar had to be set to ensure that

⁴³ See the testimony of Horace D. Godfrey, Vice President, Florida Sugar Cane League, House Committee on Agriculture, Subcommittee on Cotton, Rice, and Sugar, *General Farm Bill 1981*, 97th Congress, 1st sess., 1981, 141-43

domestic American prices would stay above 24 cents a pound. Every penny increase in price would raise the consumers' annual bill for sugar and competing corn sweeteners by about \$300 million; a 6-cent increase from the 18 cents the Caribbean producers would charge to the 24 cents the program would demand would amount to \$1.8 billion in cost to America's shoppers. Why, the opponents argued, burden Americans for a business that had no real strategic value? Sugar represented just 1 percent of the acreage and revenues of the farm sector. Moreover, few sugar farmers were poor; multimillion-dollar corporations produced most sugar.⁴⁴

The industry argued that, if properly administered, a sugar support program would have no impact on the budget. Rather, they claimed that the sugar support program conducted by the Carter administration for 1977, 1978, and 1979 actually registered a profit. Further, the proposed program should have no cost to the government. In their view, the administration would have numerous options to prevent American-produced sugar from burdening the Treasury. Fees, tariffs, or even quotas could be placed on imports until any sugar under loan was redeemed.⁴⁵

In the end, the administration's position on sugar, as commendable as it was, was not strong enough to prevent it being available for trade. When crunch time came during the voting for tax cuts and increased defense spending, members of Congress from sugar states used the sugar policy as a swap in voting for administration positions

⁴⁴ Block, *General Farm Bill of 1981*, 431.

⁴⁵ See the testimony of David C. Carter, President, American Beet Sugar Association, House Committee on Agriculture, Subcommittee on Cotton, Rice and Sugar, *General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 93-4, 160.

on the higher-priority measures. "I went with the best deal," said Representative John B. Breaux, a Democrat from Louisiana, one of 29 Democrats who joined the Republican side. Somebody wondered if that meant Breaux's vote could be "sold." Breaux responded, "It can be rented."⁴⁶ The "deal," as Breaux and four other Louisiana Democrats understood it, was a commitment from the White House to accept a potentially costly price support program on sugar. Louisiana was a major sugar cane-producing state. Budget Director David Stockman remarked that the sugar issue was one of the items "brought to our attention. We listened and took it into consideration."⁴⁷

The administration's offer to the sugar industry was very explicit. It would agree to a sugar program only if it were to "be operated at no cost to the Federal Government in any given fiscal year."⁴⁸ In order to assure this, the administration would increase duties to the maximum allowable level and add fees to all imported sugar. Should these prove insufficient to prevent cost, an import quota system would be implemented on a country-by-country basis. Such a quota system would require a Presidential Proclamation (which Reagan ultimately issued in May 1982.)⁴⁹

The president's involvement in the decision to implement a sugar policy seems clear. David Stockman claimed at the time that Reagan was a party to the sugar deal.

⁴⁶ Ward Sinclair, Peter Behr, and Richard L. Lyons, "White House Horse Trading Helps Cinch Vote," *Washington Post*, June 27, 1981.

⁴⁷ See Sinclair, Behr, and Lyons, "White House Horse Trading;" and David Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed*, (New York: Harper & Row, 1986), 222.

⁴⁸ Danny J. Boggs, Executive Secretary of the Cabinet Council on Food and Agriculture, "Review of Sugar Import Quota System," August 22, 1983, Agriculture Box 3 L-OA12164, Folder-Cabinet Council on food and Agriculture, Jan (6), Ronald Reagan Library.

⁴⁹ Ibid.

Stockman also complained bitterly about the change of position on sugar in his book *The Triumph of Politics*.⁵⁰ It is not likely, even given Reagan's hands-off management style, that administration officials would completely change the official position on a sugar policy—going from no program to a program involving federal intrusion into the marketplace—without Reagan's consent. After all, the new program would require the implementation of increased duties and fees, and a presidential proclamation setting up a quota system, not to mention the president's signature on the Law itself. The implementation of a no-cost provision also is indicative of the president's position. This was a team decision and Reagan was the captain of the team.

Following the administration's agreement not to oppose the program, the sugar lobby prevailed upon some of its supporters in both the House and the Senate to reintroduce a sugar support program. The initial proposal called for a minimum price support level of 44 percent of parity or 19.6 cents a pound. That level was about 2.5 cents above the world price.⁵¹ It maintained that sugar growers should be able to borrow from the government on their 1982 crop at the equivalent of 19.6 cents a pound. If the market rose above that level when the loan came due, they could sell their sugar on the open market and repay the loan. If it did not, sugar producers could turn their crop over to the CCC, which would have to store it until the price rose above the loan level. In this form of support, the additional cost of raw sugar caused by the protective duties and fees would be passed on to the soft drink and candy

⁵⁰ Stockman, *Triumph of Politics*, 222.

⁵¹ Seth King, "Senate Farm Unit Backs A New Sugar Loan Program," *New York Times*, May 2, 1981.

manufacturers—the biggest users of sugar—and to consumers who bought packaged sugar in the supermarkets. The Treasury, in turn, would collect the duties and fees as income.⁵²

The sugar support system was included in the Farm Bill of 1981, thanks to the culpability of the administration, despite its initial opposition. It sold out the American consumer and the poor sugar-producing countries of the Caribbean in exchange for votes on taxes and defense. This was politics at its most base level.

The program was a disaster from the beginning. By artificially keeping the domestic price of sugar at about 18.5 cents a pound, while the world price for sugar drifted to as low as 7 cents a pound, it added immensely to the cost of refined sugar, soft drinks, and candy. Based on per capita consumption, each 1-cent-a-pound increase in the price of sugar added at least \$300 million to the national sweetener bill. A 13-cent difference between world prices and American prices meant the sugar program would raise the American sweetener cost by almost \$4 billion annually.⁵³

The chief folly of the program was that fructose producers became the main beneficiary. Because of their ability to undersell sugar, the fructose producers gained an even greater share of the sweetener market than they had before the program.⁵⁴ Sugar consumption dropped, while the use of fructose increased. United States per capita consumption of sugar from cane or beet—sources of sucrose that are indistinguishable—fell to 79 pounds in 1981 from 102 pounds in 1970. During the same

⁵² King, "Sugar Loan."

⁵³ Dan Quayle, "Sugar Policy: A Bitter Pill to Swallow," *New York Times*, July 28, 1982.

⁵⁴ H. J. Maidenberg, "Commodities; Sugar's Pyrrhic Victory," *New York Times*, December 21, 1981.

time, the consumption of corn sweeteners rose to the equivalent of 43 pounds per capita from 19. Most of the increase was accounted for by fructose; the rest was from dextrose, which was also made from corn.

During year of 1981, the United States produced 2.7 million metric tons of beet sugar, 2.6 million metric tons from cane, and imported 4 million tons. The total sucrose supply on hand to start the New Year, 9.3 million tons, exceeded the projected domestic use of 8.7 million. The fructose producers made the equivalent of 3 million tons of sugar and were able to capture the soft drink market, because liquid fructose was very convenient for that market and producers always kept their prices below that of sugar. Thus, fructose producers could raise their prices and still under-sell sugar.⁵⁵

In the absence of politics, the United States would have bought its sugar from Brazil, the Philippines, and the Caribbean islands. Those countries could have supplied all of America's needs at a very low cost and without U.S. government involvement. However, the United States had sugar growers too, and most could not operate profitably in an open world market. Therefore, they used political influence to create a federal sugar program.

The sugar program could work reasonably well if world prices remained at 10 cents a pound or more. In that case, the government could maintain the artificial domestic price level by imposing duties and fees on imported sugar. However, when world prices dropped below 10 cents a pound, foreign sugar would be so much cheaper than domestic sugar that even duties and fees could not make up the difference in price.

⁵⁵ Maidenberg, "Commodities."

Below 10 cents, the government was forced to buy all of the domestically grown sugar under the provisions of the program, or find a way to keep out unwanted foreign sugar altogether.

The other casualties of America's sugar policy were struggling countries such as the Dominican Republic, where about 10 percent of the population worked in the sugar industry and its subsidiaries, and 95 percent of its sugar was sold to the United States. This accounted for over a third of the nation's export earnings. Under a quota system, it stood to lose more than \$136 million in 1982. Other countries severely affected were Guatemala, Panama, Barbados, Colombia, Brazil, Thailand, and the Philippines.⁵⁶

In the final analysis, the U.S. sugar program was bad for consumers and bad for the administration's efforts to expand free trade. It was contrary to the administration's avowed desire to reduce governmental intrusion into the economy and to minimize economic expenditures on agricultural commodities not exported at a profit. The Reagan administration had been right when it sought to prevent reinstatement of a federal sugar program. But agricultural policy was not a high priority for the president. He was quite keen on passing his tax cut proposal, and a relatively small sugar program was a small price to pay for congressional support on tax cuts. Reagan was a willing and very able negotiator.

In addition to the dairy and sugar sectors, the peanut industry became a third arena where negotiations became possible in forging the new administration's approach to agriculture. When Reagan campaigned for the presidency, he often spoke of the federal

⁵⁶ Quayle, "Sugar Policy."

government dominating people's lives.⁵⁷ An example that he could have used was the federal peanut allotment system. In the words of David Stockman, "The peanut growers had, in effect, a government-subsidized producer's cartel... it was a pure corruption of state power."⁵⁸ It was restrictive. It was intrusive. It was unfair. It was archaic, and Reagan wanted to change it.

Like most of the federal agricultural policy in effect when Reagan took office, the peanut program had started during the Great Depression. Under that policy, no farmer could grow more than one acre of peanuts for sale without a federally-issued allotment. Those who obtained the allotments originally paid nothing for them. However, the program prevented American farmland not already used to grow peanuts from being converted to that use. Anyone who owned land with a peanut allotment and did not want to raise peanuts could rent the allotment to someone else. The allotment did not accrue to the land. A rented allotment could be used on any land within the same county as that of the owner of the allotment. Approximately 70 percent of the peanuts produced in 1980 grew in rented allotments.⁵⁹ No other edible agricultural commodity had a federally granted allotment and production-control program similar to peanuts. In addition to the domestic production control of the program, the federal government imposed a virtual peanut import embargo. Peanut allotments were a government-

⁵⁷ Andrew E. Busch, *Reagan's Victory: The Presidential Election of 1980 and the Rise of the Right*, (Lawrence, Kansas: University of Kansas Press, 2005), 84.

⁵⁸ Stockman, *Triumph of Politics*, 264.

⁵⁹ See the testimony of James E. Mack, Peanut Growers Association, House Committee on Agriculture, Subcommittee on Tobacco and Peanuts, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 93.

bestowed privilege granted to the few—and, from it, those few received a real financial windfall.

The result was that domestic consumers of peanuts had to pay unnecessarily high prices, while the taxpayers paid for the allotment holder's windfall.⁶⁰ By 1977, it was apparent that costs were becoming unacceptable. The cost in that year alone was in excess of \$100 million. Therefore, Congress enacted legislation to restrict the authorized acreage and to impose production quotas.⁶¹

The parameters for the program were set out in the 1977 Act. For 1981, the allotment was 1,610,000 acres. From this acreage, the government agreed to guarantee the price of 1,410,000 tons of peanuts (the quota). The price that the administration agreed to support was \$455 per ton. Any farmers who grew peanuts on allotted acreage could sell their peanuts for any price they could get. If the offered price were below \$455 per ton, they could elect to sell their crops instead to the CCC for the agreed-upon support price. The government-purchased peanuts would be crushed and converted into peanut oil that could be stored or sold. The peanuts grown on the allotted land in excess of the quota, approximately 35 percent of the total crop, could only be sold to shellers for export or crushing. If neither of these markets were available, the farmer could borrow from the government at a rate of \$250 per ton.

⁶⁰ See the testimony of James C. Kalbach, President, Peanut Butter and Nut Processors Association, House Committee on Agriculture, Subcommittee on Tobacco and Peanuts, *Hearings on General Farm bill of 1981*, 97th Cong. 1st sess., 1981, 100-01.

⁶¹ *Ibid.*

The production of the additional peanuts provided a way to ensure a regular supply of U.S. peanuts to the export market. Such a supply was essential in continuing to expand those markets. The additional production also ensured a backup supply for any shortage of domestic production. The loan rate for additional peanuts approximated world market prices. The cost exposure of the CCC decreased from 700,000 tons under the program prior to 1977 to an estimated 105,000 tons under the new program.⁶²

The Reagan administration was anxious to change the policy on peanuts. Its goal was to see the United States become more competitive in peanut production and export. American exports increased from 434 million pounds in 1975-76 to 1.1 billion pounds in 1979-80. The United States' share of annual world peanut exports increased from about 13 percent in 1976 to nearly 51 percent in 1978-79.⁶³ In an attempt to continue this upward trend, the administration proposed the elimination of acreage allotments and the reduction of poundage quotas by 10 percent annually over the next 4 years. By reducing marketing quotas gradually rather than immediately eliminating them, it hoped to protect the allotment holders against an abrupt adjustment in their asset base. To develop markets that otherwise might not be available to the United States because of a lack of purchasing power by prospective buyers, the administration

⁶² See the testimony of Emmett Reynolds, President of the Steering Committee of the National Peanut Growers Group, House Committee on Agriculture, Subcommittee on Tobacco and Peanuts, *Hearings on General Farm Bill of 1981*, 97th Congress, 1st sess., 1981, 110-12.

⁶³ See the testimony of Richard E. Lyng, Assistant Secretary of Agriculture, House Committee on Agriculture, Subcommittee on Tobacco and Peanuts, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 8-9.

increased the loan guarantee level for the CCC's export credit program by \$300 million for the remainder of 1981.⁶⁴

The peanut farmer perspective was much different from that of the administration. The farmers argued that rather than a price support, the quota was in reality a price ceiling. No shellers would buy for more than the quota price. Since peanuts could not be stored effectively through the summer unless they were stored in expensive cold storage units, the farmers had to sell at the quota price. The shellers, according to the farmers, were getting \$1400 a ton.⁶⁵ Because peanut production was a highly sophisticated and expensive operation, inflation had raised the cost of production to about \$600 per acre in 1981. With a national average yield of 2,378 pounds per acre, the peanut farmers predicted that the administration's proposed changes would cause peanuts to be sold below the cost of production in 1981.⁶⁶

Here again, political considerations proved paramount. The president was determined to cut taxes and to build up the nation's military defenses. Considering the Congressional bickering over those two issues, the administration agreed to drop its demands for the abolishment of the peanut allotment in return for the support of the Representatives and Senators from the peanut-growing states on taxes and defense.⁶⁷

Again in the words of David Stockman:

The peanut program is a wasteful boondoggle. By every surface measure, it should have expired for want of votes long ago. It is of

⁶⁴ Block, *Hearings on General Farm Bill of 1981*, 400-01.

⁶⁵ See the testimony of Gene Miller, peanut farmer, House Committee on Agriculture, Subcommittee on Tobacco and Peanuts, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 81.

⁶⁶ See the testimony of Marvin Meek, peanut farmer, House Committee on Agriculture, Subcommittee on Tobacco and Peanuts, *Hearings on General Farm Bill of 1981*, 97th Cong. 1st sess., 1981, 64.

⁶⁷ Sinclair, Behr, and Lyons, "White House Horse Trading."

consequence in only a few dozen counties in Georgia and Texas—out of the nation's four thousand counties. Only a dozen congressmen care about it, along with a handful of senators.

But despite its midget constituency, it survives handsomely because there is always an opportunity for deals. It means almost everything to its handful of legislative guardians and almost nothing to everyone else. No one can resist the temptation to trade...⁶⁸

As part of the budget reduction campaign, the president had made it clear that he would veto any farm bill that carried a price tag of above \$10.5 billion. That changed the entire working environment in Congress. Before, the farm states would band together to help each other increase the size of the entire farm budget. In this relationship, the dairy state people would back tobacco, wheat or sugar bills—and expect support from the champions of those commodities in return. However, in 1981, Reagan had in effect already determined the size of the pie by specifying a farm bill target cost. The normal cooperative efforts dissipated as special interests vied with each other for as much of the pie as possible.

Despite the administration's deal with the peanut states' Representatives and Senators, the latter were still forced to accept a compromise that eliminated the allotment system by their Congressional colleagues.⁶⁹ Yet, the peanut growers did retain quotas, and they received a more generous support of \$595 per ton than the administration had offered. Veteran observers of Congress said that it was the first time in over ten years that Senators from farm states had fought each other over the protection of commodities their states produced. For example, several Senators

⁶⁸ Stockman, *Triumph of Politics*, 265.

⁶⁹ Sinclair, Behr, and Lyons, "White House Horse Trading."

representing several dairy and wheat states who had lost battles for increased subsidies abandoned solidarity and voted for the abolishment of the allotment system.⁷⁰

The recounting of the various political machinations that went into the final shape of the farm bill paints the clear picture that agriculture was not the central focus of Reagan and his administration. They were willing to compromise conservative principles in the farm bill in order to solidify political support in an area in which they believed very deeply: tax cuts. In fact, nobody seemed to care very much about the Agriculture and Food Act of 1981. After all of the rancorous debate, the endless reconciliation meetings, and the hard-fought compromises, the House still passed the measure by only one vote. One vote stood between American agricultural economy and chaos. And, as we shall see, all of the economic premises on which the act was based would change suddenly and dramatically—such that for many in farming, chaos came anyway.

⁷⁰Seth King, "Peanut Measure Splits Farm Vote," *New York Times*, September 17, 1981.

Chapter 6

Circumstances Change: The Farm Crisis of the 1980s

The Reagan administration's plans for reducing the rate of increase in federal spending on agriculture evaporated in 1982 with the onset of what became known as "the farm crisis of the 1980s." All of the economic considerations on which the Agriculture and Food Act of 1981 were based changed dramatically. Consequently, the act's provisions mandated that the USDA spend amounts on commodity price supports that were substantially greater than the administration wanted.

The causes of U.S. agriculture's sudden downturn were many and varied. Clearly, the boom in the industry between 1973 and 1980 had been an aberration rather than a fundamental change in the dynamics of its economics. The 350 percent increase in U.S. farm exports during that eight-year period was the result of many coincidental changes, including production shortfalls in other grain-producing countries, the fall in the dollar's real exchange rate (following the switch to floating value for the dollar), rapid growth in real foreign incomes, and the federal government's strong encouragement of U. S. farmers to expand output. Concurrently, a rising U.S. inflation rate, tax advantages associated with farm ownership, and the incentives of commodity programs to expand production resulted in a significant appreciation of farmland value.¹ The rapid appreciation masked the fact that farmers were earning a relatively low return from

¹ Michael T. Belongia, "The Farm Sector in the 1980s: Sudden Collapse or Steady Downturn?" *Federal Reserve Bank of St. Louis Review*, (November 1986), 17.

farming itself; their chief gains were from the inflation-driven rise in land prices. In other words, the future was unlikely to be more of the same; those with large debt were in jeopardy.

Two factors leading to the crisis were more fundamental than others. These factors were globalization and the high inflation that plagued the domestic economy throughout the 1970s.² As more U.S. agricultural commodities were sold on the world market, federal farm bills could not provide as much economic security to the nation's farmers. When the Federal Reserve in 1979 abruptly reversed the inflation-causing federal monetary and economic policy, many American farmers fell into extremely perilous economic straits.

A brief description of the economic evolution that occurred between the end of World War II and the Reagan inauguration can help to better understand how these two economic factors led to the brink of the farm crisis.

The economic carnage following World War II spared only the United States among the world's economic powers. Following the war, most countries clung to the antiquated idea that high tariffs would protect domestic industries and promote economic recovery. The Americans, to their credit, worked hard to promote open international trade that would allow the war-torn economies a better chance at recovery. The United States championed measures including: the Bretton Woods

² For an in-depth study of the effects of globalization, see Niall Ferguson, et al, eds., *The Shock of the Global: The 1970s in Perspective*, (Cambridge, Massachusetts: Belknap Press of the Harvard University Press, 2010). For inflation in the 1960s and 1970s, see Robert J. Samuelson, *The Great Inflation and Its Aftermath: The Future of American Affluence*, (New York: Random House, 2008).

Agreements to fix the rate of international monetary exchange, using gold as the standard; the formation of the International Monetary Fund; the World Bank; the General Agreement on Trade and Tariffs (GATT); and the formation of the European Payments Union.³ While those steps were underway, the United States saved the economies of Western Europe singlehandedly through the Marshall Plan.⁴ Consequently, the 1950s saw the beginnings of world economic recovery and the onset of the rapid-growth phase of the economies of Japan and Europe.⁵

During the 1960s, it became clear that tariffs were standing in the way of continued growth in world trade. A multilateral tariff reduction was undertaken under the auspices of the GATT. The Kennedy Round of GATT cut tariffs and lowered trade barriers among developed countries. Later, the Tokyo Round of GATT further decreased the remaining tariffs to almost insignificant levels, especially in manufactured goods. By the early 1970s, world trade was growing at a rate of 9.1 percent annually; trade in manufacturing was growing at a rate of 10.4 percent; and the share of world trade carried on by the developed countries increased from 61 percent in 1950 to 72 percent in 1972.⁶

Despite the fact that world trade was improving during the 1960s and the early 1970s, the American trade situation began to worsen. Because of the gold standard, the

³ Anne O. Krueger, "Protectionism, Exchange Rate Distortions, and Agricultural Trading Patterns," *American Journal of Agricultural Economics*, 65(5) (December 1983), 865. The European Payments Union was a very tentative first step that would ultimately culminate in the European Economic Community.

⁴ Wexler, Imanuel, *The Marshall Plan Revisited: The European Recovery Program in Economic Perspective*, Westport, Conn: Greenwood Press, 1983).

⁵ For a scholarly look at the economy in the 1950s, see Harold G. Vatter, *The U. S. Economy in the 1950s: An Economic History*, (New York: W. W. Norton & Company, 1963).

⁶ Krueger, "Protectionism," 865.

dollar became overvalued. This overvaluation was important because a foreign importer of U.S. farm goods had to pay for such goods with U. S. dollars. The price paid for a U.S. commodity was determined not only by the dollar cost of the commodity, but also by the price in terms of the buyer's own currency needed to acquire the dollars used in the sale. For example, if the U.S. dollar cost more to buy than an Australian dollar, a Korean importer could buy the same bushel of wheat for less of his own currency from the Australians compared to the Americans.⁷ Consequently, the balance of U.S. trade became negative. For this reason, President Nixon abandoned the Bretton Woods Agreement and the gold standard it demanded in August 1971; no more U.S. dollars could be redeemed for gold. In December 1971, Nixon devalued the dollar by 7.9 percent, and in January 1973 by another 11 percent. Consequently, the price of the dollar was no longer an impediment to U.S. exports, and markets for U.S. agricultural products began to open.

As the 1970s progressed, many developing countries also began to move away from the protectionist philosophy. These countries began to realign their exchange rates to keep up with those of advanced economies. Countries also removed restrictions on imports, reduced tariffs to more import-friendly levels, and provided export incentives to try to better reposition themselves within the world economy.

⁷ Chester Baker, *Current Financial Stress: Sources and Structural Implications for U. S. Agriculture*, (Ithaca, N. Y.: Department of Agricultural Economics Cornell University Experimental Station, New York State College of Agriculture and Life Sciences a Statutory College of the State University Cornell University 1986), 9.

The countries that changed their economic policies noted higher growth rates than those that did not. Most of these policy changes were targeted at the manufacturing sector, but unexpectedly, both agricultural production and exports in those developing countries increased as well. For example, in South Korea, farm trade rose from an annual growth rate of 2.5 to 4.5 percent in the fifteen years following the change in policies. This growth in trade largely was attributable to a more realistic exchange rate.⁸ Brazil also reduced barriers to imports and realized significant increases in exports. For example, prior to the liberalization, Brazil exported almost no soybeans, orange juice, or poultry. After policy changes, Brazilian exports led the world in those commodities⁹. Interestingly, both developed and developing countries noted a marked increase in agricultural exports. As developing countries entered the world economy, more markets for U. S. agricultural commodities emerged.

One of the new markets for American products emerged in the Union of Soviet Socialist Republics (Soviet Union). The Soviet government decided in 1973 to increase national per capita meat consumption. To produce more meat, the Russians would need substantially larger stocks of feed grains. Because Russia's farms lay in the far north, they had perpetually marginal growing conditions. If everything went perfectly, Soviet farmers could produce enough grain to be self-sufficient. However, things seldom went perfectly, and in 1973 things went terribly. The country experienced very little rain, and the centrally planned heavy industry failed to produce enough tractors

⁸ Krueger, "Protectionism," 866.

⁹ Ibid.

and harvesters to sow and reap what grain the rain would otherwise have allowed. The crops that were produced rotted on the ground for want of trucks to carry the grain to market. The Soviets needed to import grain to make their plans work. Seizing the moment, the Nixon administration, aiming at detente as well as new markets, negotiated a deal to sell 19 million tons of grain (one-fourth of the American crop) to the Soviets at reasonable prices, thus providing a huge new market for U. S. farmers.¹⁰

Also in 1973, the international trading system was destabilized by the Organization of Petroleum Exporting Countries (OPEC). In response to the devaluation of the U.S. dollar and to the American support of Israel in its war with the Arab nations, OPEC quadrupled the price of exported oil and embargoed the shipment of petroleum to the United States. This action reverberated throughout the world. The international flow of funds resulted in massive transfers of incomes among countries. OPEC countries had huge trade surpluses, while developing nations importing oil and manufactured goods had huge deficits. Commercial banks, bulging with OPEC money, were willing to make huge loans to those developing countries; accordingly, new credits increased on average 20 percent per year during the 1970s.¹¹ Non-oil-producing developing countries' total external debt rose from \$130 billion in 1973 to \$612 billion in 1982. These new loans were in U.S. dollars, were relatively short term, and had floating interest rates tied to

¹⁰ Richard S. Kirkendall, "Up to Now: A History of American Agriculture from Jefferson to Revolution to Crisis," *Agriculture and Human Values*, 4 (Fall 1987), 15.

¹¹ Vernon L. Sorenson and George E. Rossmiller, "Future Options for U. S. Agricultural Trade Policy," *American Journal of Agricultural Economics*, 65 (December 1983), 895.

U.S. prime rates.¹² This move by OPEC slowed the economic growth in the Organization for Economic Cooperation and Development countries, and stimulated huge capital accumulation in some oil-rich nations.¹³ Initially, OPEC's action worked to the benefit of American agricultural exports. Developing countries such as South Korea, Brazil, Mexico, Nigeria, and Argentina used loans to improve the diets of their people, in part by buying American foodstuffs.

Because of the changing world situation, the United States encountered new, apparently stable markets for its farm commodities. In 1972, world food production declined by 33 million tons, representing the first such decline in over twenty years.¹⁴ Then, such a poor crop emerged during the 1973-74 growing season that millions in Asia and Africa died of starvation or malnutrition.¹⁵ The United Nations World Food Conference met in Rome in 1974 and concluded that world production of cereal grain would need to increase by at least 25 million tons each year just to keep up with the increasing world population.¹⁶ Thus, it appeared in 1974 as if it were the duty of every American farmer to produce as much food as possible, and for as long into the future as

¹²Dale E. Hathaway, "The Challenge of Building Demand for U. S. Farm Exports," *Economic Review-Federal Reserve Bank of Kansas City* (February 1986), 23.

¹³ The OECD was formed in 1961 to build strong economies in its member countries, improve efficiency, hone market systems, expand free trade, and contribute to industrialized as well as developing countries. Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States were members in 1982.

¹⁴ Gary Comstock, Ed. *Is There a Moral Obligation to Save the Family Farm?* (Ames: Iowa State University Press, 1987), 105.

¹⁵ Kirkendall, "Up to Now," 15.

¹⁶ Thomas G. Weiss and Robert S. Jordan, *The World Food Conference and Global Problem Solving*, (New York: Praeger, 1974); also *The World Food Conference: Things to Come, the World Food Crisis and the Way Out*, (Rome: Food and Agricultural Organization of the United Nations, 1974).

foreseeable; the market seemed inexhaustible for everything those farmers could grow.¹⁷

Responding to a hungry world, Earl Butz, the Secretary of Agriculture, relaxed controls on agricultural production and urged U. S. farmers to plant their crops "fence row to fence row." Each year, grain exports rose. The United States became so prolific an exporter of grain and other agricultural commodities that it accounted for virtually the same percentage of the world's food exports as the OPEC nations provided of the world's oil exports. Thus, in a sense, the United States had become the OPEC of food. By 1980, export volume of American grain had reached 162 million metric tons, as compared with a baseline of only 64 million metric tons in 1970. The increased demand for grain was accompanied by a doubling of the world prices for wheat, rice, feed grains, soybeans, and other farm products from 1972 to 1974. Net farm income soared in 1973, and remained high in both 1974 and 1975.¹⁸ This rapid expansion of demand was fueled by strong economic growth abroad, readily available world credit, the opening of trade with the Soviet Union and China, and a weak dollar.¹⁹ Additionally, Third World countries became important buyers of U.S. farm goods. During the 1970s, the real gross domestic product of developing countries grew at an annual rate of 5.2 percent, against 3.0 percent in industrial countries. By 1980, almost half of U.S. farm exports were sent to developing countries.²⁰ The United States supplied more than half of the world's

¹⁷ Comstock, "Moral Obligation," 105; Kirkendall, "Up to Now," 15.

¹⁸ Kirkendall, "Up to Now," 17.

¹⁹ In late 1975 the Ford Administration finalized an agreement to sell at least 6 million tons of grain per year to the Soviet Union from 1976 to 1980, Mark Drabenstott, "U. S. Agriculture: The International Dimension," *Economic Review, The Federal Reserve Bank of Kansas City*, 70 (November 1985), 4.

²⁰ Ibid.

total grain exports, compared to the one-third it supplied in the late 1960s, and the one-fourth in the mid-1950s.²¹ Thus, the 1970s seemed the perfect time for American farmers to mechanize their farms completely and add to their land holdings.

The list of reasons for farmers to buy more land was long and substantial. The United Nations Council on Food proclaimed that there would be a never-ending increase in the number of mouths on the planet. Trade was becoming more open and many emerging nations were joining developed countries in importing food. Continuing inflation in the United States made the real cost of borrowed money extremely low; there seemed to be no shortage of credit available for loans. Land prices had kept ahead of inflation, and the tax code made land purchase advantageous. Those farmers who made the decision to borrow money and purchase additional land in the late 1970s made logical choices, given the data at hand.

The problem lay in the fact that this mechanization and expansion would have to take place in an environment of economic instability characterized by rapid inflation, and in many cases farmers would have to borrow money to achieve the end goal. By 1976, inflation seemed a permanent part of the American economy. It began in 1968, when Lyndon Johnson gambled that he could conduct a foreign war and attack America's economic inequality simultaneously. Johnson called his domestic plan "the Great Society." In order to protect the funding for his Great Society, Johnson continually downplayed the significance and cost of the conflict in Vietnam. Later, he refused to agree to a tax increase to pay for both the war and the Great Society, fearing

²¹ Kirkendall, "Up to Now," 15.

that Congress would demand that he dismantle his monument as payment for funding the war. Paying for both huge projects without a tax increase or other spending cuts proved to be inflationary.²² Richard Nixon, who also invested heavily in entitlements—especially while preparing to run for a second term—provided a second boost to the inflationary spiral. Moreover, there was a rapid increase in oil prices following the embargo. Thus, by the time Jimmy Carter entered the presidency, the inflation rate had reached 14 percent.²³

During inflation, farmers paid back their debts with money that had depreciated in value throughout the loan period. The real interest rate at that time was the nominal interest rate minus the rate of inflation. Therefore, if the interest rate was 15 percent and the inflation rate was 14 percent, then the real interest rate was 1 percent. Since interest payments were also tax-deductible during this period, the cost of borrowing during the late 1970s was extremely low.²⁴ Moreover, as if to validate the decision to leverage and expand farm holdings, the price of farmland increased at a rate greater than inflation.²⁵

The rise in farmland prices at an accelerated rate after 1973 suggested that investor expectations for increased earnings had risen as well. This anticipation was based almost exclusively on three factors: a widespread feeling among demographers that the

²² Robert M. Collins, "The Economic Crisis of 1968 and the Waning of The American Century," *American Historical Review*, 101, no. 2 (April 1996): 396-422.

²³ For the economy under Carter, see Robert L. Samuelson, *The Great Inflation and its Aftermath: The Past and Future of American Affluence*, (New York: Random House, 2008); W. Carl Biven, *Jimmy Carter's Economy: Policy in an Age of Limits*, (Chapel Hill: University of North Carolina Press, 2002).

²⁴ There were short periods during this time when the real cost of borrowing was negative (a concept while counter-intuitive is actuarially true).

²⁵ Samuelson, *The Great Inflation*, and Biven, *Jimmy Carter's Economy*.

burgeoning world population would strain the planet's ability to produce enough food, the unexpected sales of wheat and feed grains to the Soviet Union that reduced domestic stockpiles and increased prices, and a marked decline in production of Peruvian fish meal that led to a shortage in world protein supplies and an unexpected increase in demand for soybean meal.²⁶ At the same time, wage-price controls, environmental regulations, sharp increases in energy prices, and a severe drought in 1974 hampered U. S. agricultural production.²⁷ Consequently, overall demand for feed grains soared while production remained static, and a onetime bulge in farm earnings ensued. The problem lay in judging the duration of the prosperity.

The newfound profits encouraged farmers to try to expand their operations. However, those who borrowed against their higher-priced land did so against gains in wealth that were not related to current income from farming, making future cash flow problems inevitable. The strategy of borrowing in order to expand was viable only so long as land prices continued to rise fast enough to support the higher debt load that ensued.²⁸ Thus, during the 1970s, while capital gains were positive, they were not driven by farm income except during 1972 and 1973. For example, in 1972, while farm income was producing a 2.9 percent return on equity, capital gains (the appreciation of farmland prices) produced a 10.6 percent return.²⁹ By the late 1970s, the percentage of total gains produced by capital gains had become even larger. Farm income as a

²⁶ J. D. Looer, "Food, Famine, and a Realistic View," in *Yearbook of Agriculture, 1981: Will There Be Enough Food?* (US Department of Agriculture, 1981), 2.

²⁷ *Ibid.*, 19.

²⁸ Belongia, "Farm Sector," 18.

²⁹ *Ibid.*, 22.

percentage of equity averaged less than 1.5 from 1976-1979, while farmland price appreciation produced an average return of about 9.5 percent.³⁰

There was another reason that there were fewer eligible buyers for farmland: there were fewer farms. By the time Ronald Reagan was elected president, there were less than half the number of farms in the United States than at the start of World War II. Modern farming techniques required larger farms. Two-thirds of the nation's food supply was produced by only 10 percent of the nation's farms. More than half of the remaining 90 percent were part-time or hobby farms—actually little more than rural residences—often producing annual sales of less than \$2,000.³¹ As farm numbers declined, the average size of farms increased because each farm that stopped operations was absorbed into neighboring operations. Average farm size increased from 196 acres in 1945 to 450 acres in 1980.

Constant technological breakthroughs clearly influenced U. S. agriculture toward larger and more specialized farms. Four-wheel-drive tractors, electronically-controlled harvesters, hybrids, livestock-disease-controlling drugs, and high-energy feeds all reduced the unit cost of production, but at the same time required large amounts of land to maximize the effectiveness of these new advances.³² A \$100,000 tractor would not help a farmer with 400 acres. However, that tractor would allow a single farmer to farm 1,000 acres without an increase in hourly input. Hence, it seemed only logical to

³⁰ Belongia, "Farm Sector," 22.

³¹ Marvin Duncan and Ann Laing Adair, "Farm Structure: A Policy Issue for the 1980s," *Economic Review* The Federal Reserve Bank of Kansas City, 65 (November 1980), 15.

³² Lyle P. Schertz et al., *Another Revolution in Agriculture?* (Washington, D. C.: USDA, 1979), 49.

buy the tractor—and with it, more land. Non-farming investors needed to either hire farmers to work their land or simply rent the land to those farmers. In either case, efficiency of scale would demand that a large enough tract of land be purchased to maximize the latest technologies and minimize unit operation costs. However, before a decision to purchase could be made, the availability of credit was often a crucial element.

In 1980, credit for agricultural endeavors was available from a variety of sources—including national and foreign money markets, insurance companies, commercial banks, sellers of agricultural inputs (e.g., farm machinery, fertilizers, seeds, and weed suppressants), the farm credit system, Farmers Home Association, Commodity Credit Corporation, sellers of farm land, and private sources including family and friends.³³ The use of credit for agriculture had increased since World War II. In 1950, total farm debt was \$12 billion. By 1978, this debt stood at \$120 billion. This jump was attributable to inflation, the increasing cost of machinery, fertilizers, and pesticides, as well as government programs that kept commodity prices in a definable range. Even though farm-related incomes increasingly were unable to pay for a farm in a farmer's lifetime, capital gains associated with farmland ownership still made it an extremely attractive investment, and so the use of credit increased tenfold. Government support programs were an important part of the equation.

U. S. commodity programs further accelerated the shift to larger farms. These programs supported prices that led to the creation of a minimum world market price.

³³ Schertz, *Another Revolution*, 56.

Thus, they precluded catastrophic price declines and reassured both borrowers and lenders of the stability of a credit transaction. Government programs that provided income supplements through direct payments, support prices, and CCC loans facilitated the investment in farmland by supporting the long-term outlook for profitability of the endeavor. The mitigation of the risk of farm prices falling below the support levels also encouraged lenders to make capital available; as noted, the returns from farm assets increased markedly during the 1970s.³⁴ Because of the appreciation of farmland by the late 1970s, investors outside of agriculture began to look into the possibility of acquiring farmland as a long-term hedge against inflation. In the 1960s, the capital gain return from farming was only 33 percent of that from common stocks. In the 1970s, the capital gains from farming were over 11 percent, while that from common stocks was less than 1 percent.³⁵ Thus, the pressure on American farmers to expand farming and modernize their equipment during the late 1970s was intense, and while the absolute number of farmers leveraging their holdings to expand was not great, it represented a large percentage of the whole.

Moreover, there were advantages to borrowing in an inflationary period. Inflation increased the assets of those who already owned land. This increased wealth made landowners more credit-worthy; thus, lenders looked approvingly on them as customers. Inflation reduced the real cost of borrowed money to very low rates,

³⁴ Duncan and Adair, "Farm Structure," 20.

³⁵ David Lins, *The Financial Condition of U. S. Agriculture: Past, Present, Implications for the Future*, ESCS Staff Report, Economics, Statistics, and Cooperative Service, U. S. Department of Agriculture, June 1979, as quoted in Schertz, *Another Revolution*, 39.

sometimes bordering on zero. The appreciation of the value of farmland historically outstripped inflation. Since 1940, the average value of an acre of U.S. agricultural land had increased 2.6 percent more per year than inflation. Beginning in 1972, those values rose almost 9 percent per year, faster than the general inflation rate.³⁶

However, there was a downside to borrowing during an inflationary cycle: Beginning farmers were unable to enter the business. Inflation increased the cost of land and thus reduced the pool of potential buyers. Further, during this high inflation, the demand for land went up; purchase bids placed on land rose even higher. This led to competition and a dilemma. By 1980, with an average interest rate of 10 percent on a farmland purchase loan, and an average return on investment in either crops or land rental of 5 percent, the cash flow on land purchased on credit was negative. The historic land appreciation of 6-7 percent per year still made the deal positive within two scenarios: either one had an outside source of income to make up the cash flow difference, or the bulk of the land could be purchased without substantial borrowing.³⁷ There needed to be outside income to make up the deficit between production and costs, or the ability to invest equity and reduce interest payments, at least initially. Thus, bidders were either established farmers who already owned some land and wanted to expand, or investors with cash looking to hedge on inflation and take advantage of favorable tax

³⁶ Neil A. Stevens, "Rising Farmland Prices and Falling Farm Earnings: Is Agriculture in Trouble?" *Federal Reserve Bank of St. Louis Review*, (May 1978), 17.

³⁷ In the long term, given a state of constant high inflation, the cost of borrowing would have been very low; however, in the short term--years one, two, and three--there would have been a short-fall between income and the interest and principal due; thus, young farmers had a very hard time acquiring farm land.

regulations. Both of these groups were interested in the current agricultural commodity markets and their potential for future growth.

Inflation colored almost every economic calculation in the 1970s, and inflation told farmers to buy more land. Between 1972 and 1980, the value of farmland rose 152 percent. In comparison, the median price of a single-family home rose 115 percent, the price of gold increased 526 percent, and the value of stockholder equity in all manufacturing corporations rose 79 percent.³⁸ The key to what happened next lay in the fact that the appreciation of the price of farmland was not because of higher profits from farming itself, but rather from speculation.

Thus the stage was set for the Reagan administration. The 1970s had seen the United States become the OPEC of food. Federal programs had put a floor under farm commodity prices, and world population increases seemed to create limitless markets for U.S. farmers. Technology had made it possible for fewer farmers to manage much larger farms and realize larger profits. Credit was readily available, and with ever-increasing inflation, the cost of using borrowed money was very low. Many aggressive farmers borrowed and expanded to their credit limits. The problem resided in the fact that this grand strategy did not account for the success of Ronald Reagan's and Paul Volcker's economic plans to cure inflation. When inflation came to a halt, so also did the viability of the American farmers' expansion plans in the 1970s.

³⁸ Belongia, "Farm Sector," 18.

Globalization of the economy and chronic domestic inflation were the controlling causes of the Farm Crisis of the 1980s, but the proximate cause was a decision made by the Federal Reserve Board of the United States that was not even aimed primarily at agriculture. On October 6, 1979, the Federal Reserve announced a series of complementary actions to assure better control over the expansion of money and credit, help curb speculation in financial foreign exchange and commodity markets, and ultimately dampen the inflationary pressure. The new program had three parts. First, the Federal Reserve would attempt to restrict the growth of money within the economy to 5 percent in the fourth quarter of the year. Second, the board increased its discount interest rate by 1 percentage point to 12 percent. Third, the Board increased the required amount of money held in reserve by large lending banks by 8 percent.³⁹

This decision to restrict the availability of credit within the U.S. economy had immediate and long-lasting effects. It led to high nominal rates of interest that reduced economic activity within the United States. Subsequently, thanks to globalization, economic activity dropped around the world, initiating a global recession. These high interest rates led to a strong dollar in international exchanges. In some cases, the dollar appreciated by 35 percent against the currencies of customers of American farm products—and that fact depressed farm exports. At the same time, inflation dropped from the 13 to 15 percent range of 1980 to the 2 to 3 percent range eight years later.

³⁹ Alan H. Meltzer, *A History of the Federal Reserve*, vol. 2, book 2, 1870-1986, (Chicago and London: University of Chicago Press, 2009), 1031; "Treasury and Federal Reserve Foreign Exchange Operations: Interim Report," *Federal Reserve Bulletin*, 65 (1979): 953; William L. Silber, *Volcker: The Triumph of Persistence*, (New York: Bloomsbury Press, 2012).

Thus, increases in asset values from inflation, which were substantial during the 1970s, reversed dramatically into devaluation in the 1980s. Farm debt was left to be serviced from current income, and could not ultimately be offset by an appreciation in farm value.⁴⁰

The most heavily indebted farmers simply did not have sufficient income to pay the interest levels resulting from the decision made by the Federal Reserve. To enable the agricultural expansion of the 1970s, enormous amounts of capital had poured into the farm sector. Farm debt, hovering at about the \$80-billion mark in 1975, shot up to \$200 billion by 1984.⁴¹ As often happens with episodes of prolonged inflation in the value of fixed assets, the boom fed on itself. Current wisdom, then as now, stated that the commercial price for farmland was calculated as a discount of its future earning power. However, by 1980, land prices not only discounted earning power from annual harvests, but also anticipated a continued rise in land prices. They were roughly twice the level justified by current income from commodity sales. In other words, they were half paper.⁴²

Initially, American farmers failed to recognize the nature of their peril. In 1980 and 1981, agricultural exports remained high. It seemed to most observers that the farmers' problems stemmed from the recession in the U.S. economy. Even in a rich country such as the United States, demand for expensive foods such as meat, milk, fruits, and some vegetables remained sensitive to economic change. When the industrial recession hit in

⁴⁰ Neil E. Harl, *The Farm Debt Crisis of the 1980s*, (Ames: Iowa State University Press, 1990), 15.

⁴¹ Comstock, *Moral Obligation*, 105.

⁴² Harold F. Breimyler, "Agriculture: Return of the Thirties?" *Challenge*, (July-August 1982), 38.

1980-'81, bringing with it unemployment and underemployment, it coincided with a reduction in federal support of food stamps, school lunches, and the Women, Infants, and Children (WIC) programs included in the 1981 agriculture and federal spending bills. Thus, when discretionary income went down, consumers transferred their spending away from high-priced meats to less expensive sources of calories such as potatoes, cereal grains, and other vegetables. This was especially hurtful to the farmers because the percentage of the purchase accrued to them was much higher for meat than it was for cereal foods.⁴³

As is always the case with an individual farmer, his only defense for falling prices was to increase production. This happened in the early 1980s as well, but the cumulative effect of increased production in the absence of strengthened markets inevitably drove prices down even farther. This also led to enormous surpluses, much of which had to be purchased by the federal government under the provisions of the farm bill of 1981.

When the general recession began to ease in 1982, yet the agricultural economy continued to fall, it became apparent that something was horribly wrong with agriculture. The all-time record for agricultural exports was set at \$43.8 billion in 1981. The 1982 total reached \$39.1 billion. This represented the first decline since 1969 and was a major disappointment in view of the diminishing domestic market demand. The agricultural trade balance decreased to a positive \$26 billion. The volume of agricultural exports also decreased in fiscal 1982 to a level of 158 million metric tons.⁴⁴

⁴³ Breimyer, "Agriculture," 36.

⁴⁴ Duncan, "Outlook," 23.

During the subsequent five years, exports dropped yearly to a level of only \$26 billion in 1986. This represented a fall from 19 to 13 percent of total U.S. exports over the same period. The marked shrinkage in exports was unique to agriculture, because nonagricultural exports declined less than 5 percent from 1981 to 1986 while agricultural exports fell 40 percent. Even within agriculture, the decline in exports was confined essentially to wheat, corn, soybeans, cotton, and the refined products of those edible commodities. The grain-oilseed complex accounted for 94 percent of the decline in value and 91 percent of the loss of volume.⁴⁵

Grain-oilseed exports declined to every important country and region. Over those five years, exports to the industrialized nations of Canada, Japan, and Western Europe fell 33 percent, those to Latin America fell 48 percent, and distribution to the rest of the world fell 46 percent.⁴⁶

One of the major causes of reduced U.S. agricultural trade during this period could be laid at the feet of the members of the Federal Reserve Board. The practice in the early 1980s of large government deficits and nearly complete reliance on monetary policy to control the economy presented a real problem for foreign trade. A money policy tight enough to control inflation created high interest rates, international capital flows toward the United States and away from loans to developing countries, and a strong dollar that penalized U.S. farm products in international markets. Dollar appreciation in the early 1980s was significant. It made U. S exports more expensive to

⁴⁵ Hathaway, "The Challenge," 16.

⁴⁶ Ibid.

importing nations, thereby decreasing foreign demand and encouraging foreign internal production. During the period of appreciation, agricultural exports fell from \$43.8 billion in 1981 to \$26.3 billion in 1986, a 40 percent decline.⁴⁷ The value of the dollar rose and world commodity prices went into free fall. Huge debts accumulated, real interest rates rose, and export earnings and debt-servicing ability fell. In 1981, Poland was the first to declare that it could not service its debt. Mexico and Brazil followed in 1982; the world's commercial banks held their collective breath.⁴⁸

Data from the Bank for International Settlement indicated that \$54 billion in foreign exchange earnings or new loans would be necessary to service the \$420 billion short-term and intermediate-term outstanding debt of the emerging countries in 1982. However, new credit flow to those countries dropped more than 50 percent in 1982 compared to the 1981 rate.⁴⁹ This was in part because the European dollar market

⁴⁷ On the fall of agricultural exports, see Gerald H. Anderson, "The Decline in U. S. Agricultural Exports," *Economic Commentary-Federal Reserve Bank of Cleveland*, (February 1987), 1; Dallas S. Batten and Michael T. Belongia, "The Recent Decline in Agricultural Exports: Is the Exchange Rate the Culprit?," *Review-Federal Reserve Bank of St. Louis*, (October 1984), 14; Hilary H Smith, "Agricultural Lending, Bank Closures, and Branch Banking," *Economic Review*, Federal Reserve Bank of Dallas (July 1988): 14-25. There is a contrarian opinion that the decline in exports was only marginally affected by the exchange rate and that the major determinant was the real income of the importing countries. Hilary H. Smith (footnote 71) claims that for exchange rates, their effect on share of trade is inelastic in most all statistically significant cases. Thus, it would appear that the 1982-86 decline in U. S. farm exports was only marginally related to the change in export competitiveness brought about by appreciation of the dollar against currencies of U. S. export competitors. The more likely answer lies with demand. Batten and Belongia maintain that most economists who argued that increases in the foreign exchange value of the dollar were responsible for declines in exports of U. S. agricultural commodities based their statements on simple comparisons of exchange rates and exports and did not recognize the essential distinctions between real and nominal exchange rate changes. They went on to aver that more detailed evidence on factors affecting the volume of U. S. agricultural exports showed the real exchange rates were related negatively to exports, but their impact was overwhelmed by the level of real GNP in the importing nations. Overall, they concluded that there was a weak link between U. S. money growth and real exchange rates and that foreign income--not exchange rates--was the primary determinant of agricultural exports.

⁴⁸ Anderson, "Decline," 2.

⁴⁹ Sorenson and Rossmiller, "Future Options," 895.

shrank as OPEC countries withdrew petrodollar deposits to finance their own balance of payment shortfalls.⁵⁰ For the 21 major emerging economies, short and medium-term debt service required 80 percent of their foreign exchange earnings. Most of that resulted from a fall in real prices of the emerging economies' exports of 13 percent in 1981 and a further drop of 17 percent in 1982.⁵¹

By 1983, approximately 40 countries had, or were attempting to reschedule, existing debt; many had already missed debt payments. The failure to service foreign debt had several consequences for debtor countries. Some of them voluntarily restricted agricultural imports in order to conserve foreign exchange. Many more had austerity programs mandated for them—by either the International Monetary Fund or the creditor banks with which they were working—as a condition for restructuring existing loans, not to mention making new ones. Those austerity programs usually included reduced imports, increased exports, and reduced domestic government spending and lower budget deficits.⁵²

Such austerity caused debtor-nation income to fall and demand for foreign goods to plummet. In other words, recessions and stagnant or falling real per-capita incomes occurred in countries that had enjoyed high rates of income growth in the 1960s and 1970s. Many of these nations had been subsidizing food imports to prevent social

⁵⁰ Many of the oil-producing countries had borrowed heavily in the hey-day of OPEC. When world oil markets in the United States, Japan, and Western Europe contracted during the worldwide recession, they were also in financial trouble. Venezuela, Nigeria, and Indonesia joined the debt parade. The World Bank estimated that the total debt of the developing nations reached \$895 billion in 1984. Hathaway, "The Challenge," 23.

⁵¹ Ibid.

⁵² Ibid.

unrest within their borders, and with austerity those subsidies had to be withdrawn. In the absence of import subsidies, there was no alternative to promoting internal production. In some countries, this increase in internal production obviated any subsequent return to the import market. In other debtor nations—such as Argentina, which already competed with the United States for agriculture exports—the austerity programs encouraged greater agricultural exports in an attempt to increase earnings of foreign currency.⁵³

Many of these debtor nations had been growth markets for U.S. agricultural exports. Agricultural imports from the United States for a group of 10 major debtor nations declined 24 percent between 1981 and 1984. Additionally, U. S. agricultural exports to Latin America, which included most of the large, heavily indebted nations, fell by 50 percent between 1981 and 1986. U. S. exports of agricultural goods to Mexico, where debt problems were severe, fell nearly 60 percent.⁵⁴ The problem with American agricultural markets in the developing countries was easy to understand: market growth stopped because real income growth ceased, and serious balance-of payment problems precluded a return to growth.

These disparate factors combined to bring about this decline in trade: a strong U.S. dollar (compared to the currencies of its trading partners), limited credit to finance farm export sales, the reluctance of the Soviet Union to buy U.S. grain in the wake of the heightened tensions during the Cold War, and weak economies abroad. During most of

⁵³ Anderson, "Decline," 2

⁵⁴ *Ibid.*, 3.

the 1970s, the U.S. government and commercial lenders had provided ample credit to Third World countries to purchase U.S. farm products. High interest rates in the United States had drawn a great deal of foreign capital to U.S. investments. Additionally, the dollar had been the world's favorite currency during this period of both political and economic turmoil; thus, ample lendable cash was available.

The Reagan administration would emphasize cutting the growth of non-defense government spending and the economic recession brought on by tight money at the Federal Reserve. Consequently, the availability of credit for such sales shriveled. The world recession brought economic growth in most debtor-nations to a standstill. This, coupled with political instability within those countries, rendered them unable to stay current on their debt service payments. That led to delinquent loans and the need to reschedule debt repayment. Consequently, credit for export sales to debtor countries no longer existed. The outlook for foreign sales of U.S. agricultural products appeared grim.

As mentioned, grain sales to the Soviet Union dwindled in the face of an increasingly rancorous Cold War. An embargo on some grain sales to the Soviet Union by the Carter administration in retaliation for the invasion of Afghanistan sent the Russians looking elsewhere for grain imports. Soviet reluctance to buy from the United States grew even stronger when the Reagan administration applied economic pressure on its allies to limit access to Western technology for construction of the European gas pipeline. Unfortunately for U.S. farmers, that situation dovetailed with other world economic woes and forced the administration to rethink its strategy.

The events surrounding the onset of the Farm Crisis of the 1980s illustrated many of the themes emphasized in this study. The globalization of the world economy placed the U.S. agricultural economy outside the protection of strictly domestic policy. Attempts to incubate farming from the vagaries of the world market proved enormously costly. Federal monetary and economic policy throughout the 1970s caused chronic high inflation rates and turned what might have been merely a business downturn into a full-fledged farm crisis. However, the administration would soon turn to a very uncharacteristic new program in an attempt to improve a deteriorating agriculture economy.

Chapter 7

The Reagan Response to the Farm Downturn

By 1983, agriculture had not joined the rest of the domestic economy in its recovery from the "Volcker recession." Thus, pressure on the Reagan administration to help the ailing farm community increased daily. Reagan had not given up on the idea of slowing the rate of increase of federal spending; he had been quite distressed when in fiscal year 1982, the government spent \$12 billion on agriculture. The ten-year average for the cost of farm programs from 1971 to 1981 had been \$4 billion per year.¹

These were unique times. The president felt compelled to try unconventional remedies to relieve the political pressure building on his administration to do something more for the farmers than what was contained in the farm bill of 1981.² Working through the Department of Agriculture, the president tried in several different ways to relieve the farmers' distress, hoping they would not require additional budgetary outlays.

An individual vignette helps to illustrate this relentless pressure. By the fall of 1981, Charles Bodrey had to quit farming. He had won numerous awards for having the most productive farm on a per-acre basis in Georgia. He had twice been on the cover of *Progressive Farmer* magazine. He farmed almost one thousand acres of prime farmland

¹ *Agricultural Initiative*, Internal White House Memo, December 1, 1982, Folder CCFA-OPD Issues, Box L-OA12164, Ronald Reagan Presidential Library; and "Agriculture Overview, *Congressional Quarterly Almanac*, 1982, 38th ed. (Washington, D. C: Congressional Quarterly), 351-2.

² Ronald Reagan, "Remarks at the Annual Meeting of the American Farm Bureau Federation in Dallas, Texas, January 11, 1983," *Public Papers of the Presidents: Ronald Reagan, 1983*, vol. 1 (Washington: United States Government Printing Office, 1984), 28.

and used the most modern irrigation system available. Local dealers constantly asked Bodrey to endorse farm products. However, he was also caught in the farm price squeeze. Planting his corn crop cost \$2.63 per bushel due to seed, fertilizer, herbicide, irrigation, and gasoline for his machinery. Other costs included 25 cents for harvesting, 17 cents for drying, and three cents for hired labor, per bushel of corn.

All these costs did not take into account the full-time labor of Bodrey, his wife, and his son. The family spent \$3.08 per bushel to produce the crop. The best price available for corn in Georgia that fall was \$2.60 a bushel. Bodrey did not have enough money to pay the interest on his production loan, much less pay the principal. With very little equity remaining in land and equipment, he could not qualify for another production loan for the spring planting. There was no way forward. The Bodreys were forced to auction off everything they owned to try to pay down part of their remaining debt. At 44 years of age, Charles Bodrey, a dedicated, talented farmer, was looking for a new career.³

The central problem for these young farmers was economies of scale. Following the amazing increase of farm prices in the early 1970s, many young, college-educated farmers like Bodrey had been taught to make use of the latest technology to achieve maximum economies of scale. Because they were young and had little equity, these farmers had to borrow large sums of money in order to farm enough land and make maximum use of their equipment. When commodity prices began to fall in the late

³ Bodrey's story was featured in David Kline, "The Embattled Independent Farmer," *New York Times*, November 29, 1981. This vignette is based on Kline's story.

1970s, they remained financially sound as long as land prices stayed high and interest rates remained stable. However, such was not the case after the Federal Reserve raised interest rates in 1979. Farmers' costs soared while their incomes dropped. A comparison of the boom years of the 1970s with the early 1980s showed that average gross farm income went down only 6 percent; however, operating costs had been forced to absorb a 50 percent rise in the cost of borrowed money, so net cash flow fell approximately 31 percent.⁴ The farmers' only defense against such increased costs was to increase production. However, there were no new buyers for their crops, and increased production yielded only increased surpluses and lower prices.

As farm incomes fell in the 1980s, so too did the value of the farms. Nationwide, the real value of farm real estate fell 32 percent from 1980 to 1985. In many parts of the country, the declines were even steeper, reaching 60 percent in some parts of Iowa. Long-term loans on land and equipment, adequately secured at the once-higher land prices, had to be refinanced after land prices fell—often at higher interest rates. Many farmers who had to refinance their long-term loans on land and equipment also began to have problems finding short-term loans with which to purchase seed, fertilizer, and pesticides to plant their crops. Falling income and falling asset values together made many farm loans unpayable and uncollectable. Such was the case with Charles Bodrey.⁵

The U.S. Department of Agriculture used two parameters to evaluate the financial status of participants in federal farm programs during the Farm Crisis of the 1980s. The

⁴Richard M. Todd, "Taking Stock of the Farm Credit System: Riskier for Farm Borrowers," *Quarterly Review*-Federal Reserve Bank of Minneapolis 9 (Fall 1985): 18.

⁵ Ibid.

first, the debt-to-asset ratio, compared the amount of money a farmer owed to creditors for the investment in land and equipment to his equity. The second, the farm's cash flow, reflected its ability to meet production expenses, repay interest and principal on current debts, and provide for living expenses. At the interest rates and commodity prices prevalent in 1982, financial stress was defined as a debt-to-asset ratio of greater than .40 because, at that ratio, significant cash flow problems were likely. At a ratio of .70, most farms were in danger of insolvency.⁶

Financial stress was spreading throughout America's farmland. In 1981, the farm sector's average debt-to-asset ratio stood at a healthy 16 percent.⁷ By 1983, the ratio had climbed to 20.3 percent and was continuing to rise.⁸ In general, commercial farms had higher debt-to-asset ratios than hobby farms. Farms that produced more than \$40,000 worth of agricultural commodities required the labor of at least one full-time operator, and were dependent on the sales of the commodities for their livelihood, were designated as commercial farms. The debt-to-asset ratio tended to increase as the size of the farm increased. Average equity declined in commercial farms after 1981 by approximately 30 percent. By the summer of 1982, unofficial USDA estimates had put net farm income at \$15 billion, down from \$32.7 billion in 1979 and \$19 billion in 1981.⁹

⁶Jim Johnson, Kenneth H. Baum, and Richard Prescott, "The Current Financial Condition of Farmers and Farm Lenders," *USDA, Agricultural Information Bulletin No 490* (March 1985): 12.

⁷Marvin Duncan, "Financing Agriculture in the 1980s." *Federal Reserve Bank of Kansas City Economic Review* 68 (July-August 1983) : 5.

⁸David H. Harrington and Thomas A. Carlin, "The U. S. Farm Sector: How is it Weathering the 1980s?" *USDA Agricultural Information Bulletin No 506* (1987): 2.

⁹ *Ibid.*,3.

Marketplace developments exacerbated the dismal financial picture. For the first time in ten years, U.S. agricultural exports fell in value in 1982. This downturn coincided with the second consecutive year of record grain yields. Year-end surpluses were the largest in over twenty years. Ending domestic stocks (unsold grain) held enough grain to meet the nation's needs for almost an entire year.¹⁰ Even worse, rising world production of grain had led to increasing world stocks as well. This was the highest world stock-to-usage ratio in over ten years, and 60 percent of that stock was in the United States.¹¹

The Reagan administration, itself fiscally stressed, clearly did not want to spend more money on agriculture. Nevertheless, the Farm Bill of 1981 placed the burden on the federal government to keep the supply-demand ratio in agriculture under control. The government had two options when addressing supply and demand: It could reduce supply through production control programs, or it could create demand by essentially buying the crop off the market. Either direction was expensive for the U.S. Treasury. To assure participation in a production control program, the government had to provide incentives to farmers of either cash or payment in kind (crops). To create demand, the government had to buy the commodity and either store it or subsidize its sale abroad. Most economists agreed that it was cheaper to block production in the first place than to have to deal with the crops once they were harvested.

¹⁰ "Agricultural Initiative," *Congressional Quarterly Almanac*, 98th Congress, 1st Session, vol XXXIX (Washington, D. C.: Congressional Quarterly, Inc.), 351.

¹¹ "White House Briefing Paper", 1983, Agriculture-Box 17, Folder 060000, Ronald Reagan Presidential Library.

Considerations of cost were becoming a prime driver of policy. The Congressional Budget Office had estimated the total cost of the Agriculture and Food Act of 1981 at approximately \$10 billion over the four years covered by the act, but that figure was dwarfed in the first year.¹²

Historically, production controls set by the USDA had never achieved the goals set for them. For instance, in crop years 1981 and 1982, perfect weather led to huge crops for which there was no market, and world prices plummeted. The prices mandated by the Food and Agriculture Act of 1981 cost the Treasury record-breaking amounts of money. In addition, the farmers were very good at using the guidelines to manipulate the system. They enrolled their most marginal land in the production control programs and then increased the fertilizer on their best land in order to increase the yield. Consequently, the reduction in crop yield never matched the number of acres retired by the program.

USDA costs continued to grow rapidly in 1982. Farmers put a record number of acres of crops under loan, and deficiency payments skyrocketed because of sharply lower crop prices. Government outlay for agriculture for FY 1982 reached \$12 billion. USDA predictions for 1983 were for costs of approximately \$18.9 billion, with no prospects for improvements in the near future.¹³ A new program was needed to prevent further agricultural economic deterioration and to bring government spending under control. Clearly, the Reagan administration had to act boldly.

¹² "Briefing Paper."

¹³ "Farm Sector Prospects for 1983 and 1984," Internal White House Memorandum, February 22, 1983, Agriculture Box 3, Folder L-OA12162, Ronald Reagan Presidential Library.

The action the administration chose was quite out of character. Reagan had espoused full farm production with reduced federal farm programs during the 1980 campaign, and proposed major program reductions in the farm bill negotiations for 1981. He had always subscribed to the basic GOP philosophy that held that farmers should grow and sell all they could without interference from the federal government. As late as June 1982, Agriculture Secretary Block had stated that "we aren't going to be providing any encouragement to idle land or divert it from food crops. I hope we never again find ourselves in the position we were in during the early 1970s, when 62 million acres of farm land were out of production."¹⁴ However, by December 1982 the administration had made a 180° turn by proposing a huge land-idling scheme to Congress. The goals of the new program were to reduce production in 1983 by up to 50 percent and outlays by \$600 million; reduce outlays for 1984 by \$3 billion while raising commodity prices; reduce excess crops in storage; and increase farmers' incomes.¹⁵

Ironically, no previous administration had attempted a production control program of anywhere near this scope. In the PIK program, farmers would be paid with the surplus crops held in the farmer-owned reserve and by the Commodity Credit Corporation. The administration hoped the PIK would reduce production and stocks at the same time.¹⁶ President Reagan explained it this way:

The policy people called our proposal payment-in-kind. That's not very descriptive. It's really a crop swap. And this is how our crop swap plan would work.

¹⁴ "Agricultural Initiative," 362.

¹⁵ "Internal USDA Memorandum," *April 1983*, Agriculture-Box 3, Folder 133001-156000, Ronald Reagan Presidential Library.

¹⁶ "Memo."

A farmer who takes additional acres out of production would be able to swap what he didn't grow for a certain amount of the commodity already in surplus. And he can then do with it as he wishes. The crop swap program would reduce production through a further cutback in planting, decrease surplus stocks, and avoid increased budget out-lays that would otherwise be necessary under price support programs.

Now this plan is aimed at bringing supply more in line with demand and strengthening farm income in future years.¹⁷

To facilitate participation, the administration asked Congress to exempt commodity payments-in-kind from the already established \$50,000 limit on federal farm payments to an individual farmer. It also asked Congress to exempt the USDA from a requirement that commodities owned by the CCC could not be sold for less than 110 percent of the price at which grain could be sold out of the farmer-held reserve.¹⁸

The PIK program was also a way for the administration to avoid further Congressional action on forgiving farm loans, which would have resulted in even more money lost to the Treasury. By drastically reducing the number of acres planted, the program would greatly reduce a farmer's cost of production and need for further borrowing. With his administration's optimism about the benefits of the PIK program, the president asked Congress to pass enabling legislation.

Congress posed no significant opposition to the PIK program. The Democratically-controlled House approved the requested changes on December 18. However, the Senate version succumbed to political infighting. Agriculture Committee Chairman Jesse Helms had previously filibustered a gas-tax bill. Thus, when Helms brought the agriculture bill to the floor of the Senate, Senator Paul Tsongas objected to its

¹⁷ Reagan, "Remarks," 28.

¹⁸ "Memo."

consideration—even though he supported it. “I will not participate in anything that rewards obstructionists,” Tsongas declared.¹⁹

Even though it had not received the needed changes in existing law, the administration decided to forge ahead anyway.²⁰ It anticipated that, because of PIK and other crop reduction programs, the acreage of wheat, corn, rice, cotton, and grain sorghum would be cut by record-setting amounts in 1983. It hoped that the reduced plantings would result in a rise in both farm prices and incomes and that, by the close of the 1983-84 marketing year, stocks of wheat, rice, cotton, and corn would be down considerably. It predicted that even soybeans, which were not eligible for a PIK program, would see reduced acreage; nonparticipants would switch from soybeans to corn and cotton as the PIK program drove their prices up. With the PIK program, predicted net farm income was to be in the range of \$18--22 billion.²¹

The major economic aim of PIK was reduction of production costs rather than increase in cash receipts for farmers, without too great a negative effect on farm suppliers. Reduced plantings and harvestings would cut farmers' costs in seed, fertilizer, pesticides, and maintenance on machinery by at least 15 percent. Fuel use would also be cut. The administration hoped that the purchase of new machinery would be down only minimally. On the other hand, it recognized that PIK would result in some job loss in the industries that supplied agricultural inputs (seed, fertilizer, and pesticides). But

¹⁹ *1982 Congressional Quarterly Almanac*, 97th Congress 2nd Session, Volume XXXVIII, (Washington, D C: Congressional Quarterly Inc.), 534-44.

²⁰ USDA attorneys concluded that since the PIK program did not provide monetary reimbursement, the restriction to a \$50,000 limit to each farmer and each farm, did not apply to this program.

²¹ “Memo.”

PIK proponents hoped that only a few of those workers would be affected, and only in the context of shorter work weeks, rather than losing employment entirely.²²

The administration predicted that PIK would have very little effect on agricultural exports and retail food prices. Slightly higher export prices would offset a slight drop in export volume. Because the farmers' share of the retail price was low, a small rise in grain prices would be almost invisible to the consumers. Perhaps, by 1984, a small rise in meat prices would follow a rise in feed grain prices to the owners of livestock.²³ The major emphasis was still on reducing government outlays.

For all of these reasons, President Reagan announced on January 11, 1983, that the federal government would institute a program that would pay farmers with surplus wheat, corn, grain sorghum, rice, and cotton not to plant those crops in 1983. He said, "Because these are unusual and critical times on American farms . . . I am today announcing that within our current authority we will launch our crop swap program starting a week from next Monday."²⁴ Although Congress had failed to initiate the PIK program, Agriculture Department lawyers had resolved the legal questions to the administration's satisfaction. The lawyers argued that the program had neutralized the \$50,000 limit by ensuring that farmers received only crops and not cash. The president would institute the program administratively.²⁵ Thus, Reagan acted boldly and flexibly with his original goals still in mind.

²² "Memo."

²³ Ibid.

²⁴ Reagan "Remarks," 28.

²⁵ "Agricultural Initiative," *Congressional Quarterly Almanac*, 362.

The PIK program was controversial throughout its brief life and beyond. Many critics argued that the very aim of raising domestic prices for grain crops and cotton would further cripple an already ailing export market. Others feared that major reductions in production would spur U.S. competitors to take over more of the export market than they already had. A substantial dip in production also promised to cause major damage to the pesticide and fertilizer industry. However, the biggest complaint among pundits and farmers alike was that some of the largest farmers would see the biggest gains from PIK. Several farmers could each collect over \$1 million worth of crops and cash.²⁶

Initially, Agriculture Secretary John Block intimated that the grain and cotton used as payment in the PIK program was essentially worthless and that the cost of the program would be minimal. Citing depressed farm prices, he argued the federal government might never be able to sell the crops back into the world market, and it would cost \$1 billion a year just to store them. By giving the crops back to the farmers in exchange for idling crop land, Block suggested, the savings to the Treasury could be \$9 billion over three years in storage and price support costs alone. As it turned out, the commodities were actually worth about \$10 billion, and by canceling loans as part of the give-back, the Treasury lost \$1.2 billion each year in lost interest payments.²⁷

The USDA administered PIK through its Commodity Credit Corporation (CCC) and its Agricultural Stabilization and Conservation Service (ASCS). The CCC was a government-owned and -operated corporation established in 1933. Its aims were to stabilize,

²⁶Jeremy H. Bienbaum, "Agricultural Aid: Some Farmers Like it, But Critics Call PIK a Major Miscalculation," *Wall Street Journal*, July 19, 1983.

²⁷ *Ibid.*

support, and protect farm income and prices, to assist in maintaining balanced and adequate supplies of farm commodities, and to facilitate the distribution of these commodities. The CCC had no personnel; its operations were carried out primarily by ASCS' personnel and facilities.²⁸ To operate, the CCC borrowed funds from the U. S. Treasury and repaid those loans with interest from receipts and from Congressional appropriations to reimburse the CCC for net operating losses. By law, total CCC borrowings could not exceed \$25 billion.²⁹

ASCS had its headquarters in Washington, D.C., with 50 state offices and one in the Commonwealth of Puerto Rico. The Kansas City office ran the PIK program's commodity operations by acquiring, distributing, and allocating the crops to the individual offices across the country.

In addition to such difficult logistics, the implementation of PIK was error-ridden and troublesome. Each county office met with that county's participating farmers and issued them certificates redeemable for their PIK crops at designated warehouses. Simple arithmetic errors led to 245 counties accepting more than their allotted acreage for the program. USDA officials also unwittingly allowed farmers to inflate the number of acres eligible under PIK. Because of dubious calculations, 1.7 million acres appeared in commodity base figures between 1982 and 1983, allowing farmers to both retire those acres under the PIK program and plant them in other commodities.³⁰

²⁸ Charles A Bowsher, *1983 Payment-In-Kind Program Overview: Its Design, Impact, and Cost*, (Washington DC: GAO, 1985), 2-3.

²⁹ "Memo."

³⁰ Frederick N. Khedouri, "Background on Harvest PIK," Memorandum for Edwin Meese III, June 8, 1983, Agriculture Box 17, Folder 060001-081000, Ronald Reagan Presidential Library.

With Reagan's cost-cutting goals in mind, the USDA jettisoned the original concept that only farmers who actually had crops in the farmer-owned reserve could be eligible for the PIK, and that the compensation rate would be only 85 percent of what the newly idled land would have been expected to grow. Under that scenario, PIK obligations could never have exceeded the crops that were already in government hands. However, the new guidelines allowed any farmer to participate, and promised a 95 percent replacement rate. The new strategy backfired when participation increased to such a degree that the program had more new contracts than it had wheat and cotton on hand.³¹

Because the USDA did not have enough CCC-owned wheat, corn, grain sorghum, and cotton to pay the participating farmers, the government had to buy crops to make up the difference. The CCC fulfilled its obligations for corn and grain sorghum by buying crops that were under loan from the CCC but were not already being used in the PIK program. However, a shortfall in wheat and cotton still existed. Thus was born the "harvest for PIK" program. The biggest shortfall came in wheat, in which the USDA was contractually obligated to provide 80 million bushels more than it owned. Because "harvest for PIK" required the CCC to purchase new crops, it deviated from the original basis on which PIK was established—that all commodities would be purchased from prior years' outlays (already owned by the government). Thus the current budget made

³¹White House Memo from Frederick N. Khedouri to Edwin Meese III, June 8, 1983, Folder 060001-081000, Agriculture Box 17, Ronald Reagan Library.

no allowances for "harvest for PIK." The total cash needed eventually amounted to \$300 million.³²

Another glitch encountered by the USDA occurred with the determination (made by USDA lawyers) that the \$50,000 limit per farmer found in the farm act of 1981 did not apply to the PIK, because farmers were being paid in crops and not dollars. Farmers who otherwise could not have participated in PIK because of the size of their operations were now able to sign up. Thus 43,768 farmers received more than \$50,000 as part of the PIK program. Those farmers received cash and crops worth \$2.52 billion. Their contribution to the program totaled 15.75 million acres, or about 32 percent of the total acreage.³³

The GAO in its review of the program determined that the \$50,000-rule exemption awarded by the USDA was an error, despite the fact that the administration had asked Congress for legislation that specifically granted such an exemption. Since the bill did not become law due to procedural wrangling in the Senate, the GAO questioned the legality of an executive branch agency granting such an exemption on its own. However, without the exemption, the entire program would have been much less effective.

Any assessment of PIK's effectiveness was complicated by the fact that a severe drought occurred during the 1983 growing season in Illinois, Missouri, Kansas, Iowa, and Oklahoma—the prime producers of corn and grain sorghum. Because the drought had

³² Bowsher, *P-I-K*, 7.

³³ *Ibid.*, 22-3.

the same effects on the goals of PIK as the program itself, a computer analysis done by the USDA was the only way to separate the effects of the two. The results showed that PIK lowered production of the five crops by approximately 18 percent. It lowered the ultimate stock levels by about 35 percent. PIK eased the storage problems for the five crops by 43 percent and increased net cash income to farmers by approximately \$9.2 billion. Because the USDA had set no specific numerical goals, it was easy for it to declare victory for the program, just as it was easy for opponents to claim defeat. In the final analysis, most scorekeepers around the country questioned the cost of the program.³⁴

Cost estimates of the 1983 PIK program varied according to who was asked. The USDA maintained that the cost was roughly \$10.5 billion, the bulk being in crops and not cash. Although technically this figure was not a part of the \$18.9 billion spent by the USDA on other farm programs, it did account for \$9.4 billion worth of crops distributed in PIK payments for which the CCC received no recompense.³⁵ In other words, the CCC had a loss of \$9.4 billion, which would need to be made up in future Congressional appropriations. In non-government accounting, it would be considered as a one-year expenditure of \$29.4 billion, or 6.5 times as much as the cost of farm programs only two years previously.³⁶

³⁴ Bowsher, *P-I-K*, 23.

³⁵The \$18.9 billion in farm program payments was broken down into \$8.4 billion for CCC nonrecourse crop loans, \$3.5 billion on deficiency and land diversion payments, \$2.5 billion in dairy price support payments, and \$3.5 billion on interest payments.

³⁶ All cost estimates were made by Bowsher, *1983 Payment-In-Kind Program*, 39-40.

Cost, of course, was not the only source of controversy, especially among members of Congress. There were also issues of fairness. The average farmer received \$10,627. Twenty-eight percent of the PIK payments went to farms with less than 200 acres of cropland, 31 percent of the payments went to farms with 200-500 acres, and 41 percent went to farms of more than 500 acres. That is, for each of the five crops, the PIK payments were proportional to the number of acres withdrawn from production. Since the PIK program was designed to pay a predetermined amount for each acre taken out of production, larger farms that contributed more acres to the program would be expected to receive more in return than those that contributed less. Thus the program worked as it was designed.³⁷

Although PIK was by far the largest and most expensive program instituted by the administration, it was only the first prong in its two-pronged attack on the agricultural problems of 1983. The second prong was an attempt to persuade Congress to block the increases in target prices for wheat and other crops that were a part of the Farm Bill of 1981. Congress set target prices for the commodities that were supported by federal programs. If the market price fell below the target price for a supported commodity, the USDA paid participating farmers the difference in cash. The administration had tried unsuccessfully to end the target price program during the deliberations for the farm bill in 1981.

In 1983 the administration asked Congress to freeze target prices current levels, instead of allowing the automatic increases that were programmed into the law.

³⁷ Bowsher, *P-I-K*, 23.

Administration officials argued that since inflation was under control and the increases had been based on the assumption of continuing inflation, they were no longer necessary. Secretary Block believed that the increases encouraged farmers to overplant supported crops when massive surpluses were a severe problem. The administration pressed hard for action on the freeze, but neither chamber of Congress even put the measure to a vote.³⁸

The administration did celebrate a minor victory in 1983, when on July 28, Secretary Block and U.S. trade representative William Brock announced that the United States and the Soviet Union had concluded a new, five-year grain sales agreement. The agreement committed the United States to sell—and the Soviet Union to buy—at least nine million metric tons and up to twelve million metric tons of wheat and corn each year. President Reagan had ended the very unpopular Carter embargo in April 1981, but to protest the Soviet Union's implementation of martial law in Poland, he had refused to negotiate a new long-term pact. He had previously simply continued the existing agreement on a year-to-year basis. Most farm groups had decried that decision, arguing that the practice encouraged the Soviet Union to find other, more reliable providers of grain.³⁹ Therefore, the farm community received the news of a new long-term agreement with some satisfaction.

As 1983 ended, the administration had to come to grips with several ongoing questions. Should the PIK program be extended for a second year? Should the export

³⁸ Khedouri, "Background on Harvest PIK."

³⁹ "Agricultural Initiative," *Congressional Quarterly Almanac*, 387.

credit program be continued in 1984, and if so, at what level?⁴⁰ Was it wise to engage in any other export subsidies in order to combat the unfair trade practices of other countries, especially the EC?⁴¹ Should the commodity loan rates be lowered in 1984 to the maximum degree permitted by law?

The original plan for PIK had been for a two-year program—the assumption being that it would take two years to bring the surplus levels into an acceptable range. However, the response were greater than expected, and only wheat was considered for a second year of the program. The complicating factor for wheat was that the winter wheat had already been planted when the PIK program was announced in January 1983. The cost of planting the crop had already been incurred, so part of the savings inherent in the PIK program was lost. Many winter wheat farmers (winter wheat making up two-thirds of the total wheat crop) did not have the chance to participate, so the administration decided to extend the program to include the entire winter wheat season in 1984.⁴²

In the matter of export policy, the farm community worried that agricultural exports had fallen from \$44 billion in 1981 to \$35 billion in 1983. The projections for 1984 showed a small increase in exports, but only because of somewhat higher prices, not because of any increase in trade volume.⁴³ Because domestic consumption had

⁴⁰ Congress had mandated that at least \$175 million be spent on export promotion for FY 83-84.

⁴¹The Reagan administration had contributed \$400 million dollars to promote a large wheat deal with Egypt in 1983 to bring pressure to bear on the EC for its policy of subsidizing agricultural exports.

⁴² Bowsher, *P-I-K*, 26.

⁴³ "Farm Sector Prospects."

remained largely unchanged over the previous few years, the farmers' only hope for higher incomes lay with an increase in exports.

The administration believed that exports were slumping because of the world-wide recession, the strong dollar, East-West political tensions, and unfair trade practices used by U.S. trading partners.⁴⁴ The USDA had provided \$3 billion in agricultural export credit guarantees in 1983, and decided to increase that amount to \$4 billion for 1984. The administration had also instituted a blended credit program in October 1982 to facilitate exports of agricultural products to developing countries; in 1984 it expanded the program to include Morocco, Tunisia, Algeria, and Egypt so they could import wheat and flour from the United States.⁴⁵ In addition to concluding the trade agreement with the Soviet Union, the administration pointed out proudly that it had not succumbed to pressure to re-impose an embargo following the inexplicable shooting down of a Korean commercial airliner by the Soviet Air Force on September 1, 1983.⁴⁶ All in all, the Reagan team felt they were adequately addressing the question of agricultural exports.

The thorniest problem by far for the administration was that of the loan rates and target prices mandated by the Food and Agriculture Act of 1981. The administration argued that both were set much too high. The Secretary of Agriculture had some discretion as to where to set the loan rates, and it was an easy choice for John Block to put them as low as the law allowed. Because crop prices were low, the loan rate had

⁴⁴ "Farm, Sector Prospects."

⁴⁵ Shailendra J Anjaria, Naheed Kirmani, and Arne B. Petersen, *Trade Policy Issues and Developments, Occasional Paper 38* (Washington, D C: International Monetary Fund, 1985), 57.

⁴⁶ "Farm Sector Prospects."

been above the market price. Obviously, the farmers would elect to forfeit their crops and keep the loan money rather than sell their crops at the lower market price. In reality, the loan price had become the sale price. Consequently, the CCC purchased the crops at an inflated price. While it was possible CCC could eventually sell the crops and at least recoup some of its money, prospects for the near future were grim.

The issue of target prices constituted an even bigger problem. Congress set the target prices in 1981 when it had assumed that inflation would continue unabated. In that scenario, farmers' cost of production would have continued to rise, and target prices would have needed to escalate as well. However, the Federal Reserve had reeled in inflation, and the cost of production had not risen over the ensuing two years. Thus, target prices were too high and the payments were in cash straight from the U.S. Treasury. Consequently, the administration asked Congress to lower both the loan and the target rates, but was rebuffed because of Congressional concern over the continued lack of agricultural financial success.

By the beginning of 1985, nearly one-third of commercial farms had financial problems. Farmers with sales between \$40,000 and \$249,000 were at the highest risk, despite 28 percent of the average total household income coming from direct government payments.⁴⁷ About 20 percent of commercial farms had significant debt and negative cash flows. Another 10 percent had debt but were still managing to eke out a positive cash flow. The importance of this finding becomes clearer when we see that, although commercial farmers made up only 28 percent of all farmers, they

⁴⁷Harrington and Carlin, "The U. S. Farm Sector," 11.

accounted for 90 percent of all farm sales.⁴⁸ Overall, three of every ten commercial farmers in the United States were in serious financial trouble at the beginning of 1985, with 43,000 of those farms having debt-to-asset ratios of more than 1.0 and being technically insolvent. Fifty thousand commercial farms had debt-to-asset ratios of greater than .70; they were considered able to survive perhaps one and no more than two additional growing seasons. Another 160,000 commercial farms had heavy debt and needed substantial financial restructuring to continue.⁴⁹ However, even these startling figures do not convey the extent of the farm crisis.

The crisis affected old, established farmers as well as the young, and seemed to be centered in the Corn Belt, the Lake States, and the Northern plains. In 1984, 50 percent of the nation's farmers had negative cash flows, and 75 percent of those had substantial debt. Only 43 percent of the nation's farmers had both manageable debt and a positive cash flow.⁵⁰ More than 60 percent of the financially strapped farmers lived in North-Central states. Of those farmers who were technically insolvent, 55 percent also lived in those three regions. Further clouding the picture for that section of the country was the fact that by the end of 1985, farm land values there had fallen as much as 60 from their peak values in 1981.

The underlying message of the story of PIK seems to be that the federal government cannot support every farmer during sharp financial downturns. It could not do so during

⁴⁸Johnson, Baum, and Prescott, "The Current Financial Condition of Farmers," vi.

⁴⁹ Ibid., ix.

⁵⁰Robert W. Jolly, et al, "Incidence, Intensity, and Duration of Financial Stress among Farm Firms." *American Journal of Agricultural Economics* 67 (December 1985): 1109.

the Great Depression or during the Farm Crisis of the 1980s. Even in Iowa, which has arguably some of the richest soil for growing crops in the world, and despite more than \$10 billion spent on the PIK program, the average net worth of Iowa farmers with debt-to-asset ratios of .70 fell 88 percent.⁵¹ Thus, despite gallant efforts to remain in production, negative cash flow and falling land prices during 1984 drove most Iowa farmers at the .70 level to insolvency in a single year. Because of continually falling commodity prices and rapidly declining farmland prices, many more assets were put on the market in 1984 than were sold. Indeed, if the farmland market could rearrange ownership at the historical rate of 2-4 percent per year, the ownership change necessitated by events in 1984 would take more than a decade to occur.⁵² The problem was made worse by the Farm Bill of 1981, which failed miserably because the loan rates and target prices were not set at reasonable levels.

An interesting side note to the story of the farm crisis and the Reagan administration's first attempt to ameliorate it was how uncharacteristic the PIK program was for a president with as strong a conservative bent as Ronald Reagan. If one considers the conservative ideal as a small central government concerning itself primarily with defense, foreign affairs, providing infrastructure, promoting federalism and states' rights, and scrupulously avoiding intrusions into the free market, then the Payment-In-Kind program would not fit that mold. PIK was instituted by an executive order that contravened existing law. It intruded into the free market by supporting farm

⁵¹ Jolly, "Incidence," 1114.

⁵² Ibid., 1109.

commodity prices with more than \$10 billion dollars in one year.⁵³ It mandated central bureaucratic control over every state and virtually every county that had a farm, and in doing so bypassed both the voters and the state governments. PIK had no relationship to laissez faire. Certainly this was an unusual first foray for a conservative president. Yet, as he faced reelection, farming was still a problem.

Reagan, however, was upbeat about his progress with the crisis in farming and defended his record on the stump as he campaigned for reelection in 1984.

As he told farmers in Iowa:

We ended the embargo, and we've reestablished our sales to the point where, since last October, the Soviets have bought 23 million metric tons of grain. And, as you may know, I approved raising the ceiling so that they may buy an additional 10 million tons in the next year. And we'll raise the ceiling again if they use those up.

The effects of the grain embargo, combined with the bumper crops in '81 and '82, left us with huge carryover supplies. So, when action was stymied in Congress, we moved to develop the PIK program. And farmers set aside nearly 80 million acres and got paid in kind with reserve stocks. Now, that program and last year's drought cut the U. S. feed grain stocks by 73 percent.

And we're trying to help tens of thousands of farm borrowers hold onto their farms and stay in farming. The Agriculture Department is lending money to 270,000 beginning farmers and farm borrowers who can't get credit elsewhere. And in the last 3 years, the USDA Farmers Home Administration has doubled its regular operation loans for farmers.

And this week, we announced another major initiative to assist farmers trying to cope with debt burdens. The Farmers Home Administration will permit a deferral for 5 years of up to 25 percent of the principal and interest payments owed by farmers who need breathing room to return to a sound financial footing.⁵⁴

⁵³ Browser, *P-I-K*, 39-40.

⁵⁴ Ronald Reagan, "Remarks and a Question-and-Answer Session with Farmers in Norway, Iowa, September, 20, 1984," *Public Papers of the Presidents: Ronald Reagan, 1984, II* (Washington, D. C.: United States Government Printing Office, 1987), 1329.

And despite the ongoing financial stress in agriculture, farm states rallied to support the president. Only Walter Mondale's home state of Minnesota defected from a sweep of all 50 states in voting to reelect Ronald Reagan.

However, the central problem confronting the Reagan administration in farm policy as it faced its second term remained. It was the fact that the Agriculture and Food Act of 1981 had been passed with the idea that inflation would continue to rage as it had for the previous decade. Such was not the case. The Volcker initiative had slowed inflation markedly. However, while the general economy had emerged from the recession caused by that policy, farming had not. Because of the farmers' financial problems, the administration had tried the PIK program, a most uncharacteristic gambit. Even though it had been very expensive, it was only a stopgap measure that had made no real difference in the financial plight of agriculture.

The task that lay ahead for the newly re-elected president was to go back to fundamentals by approaching the 1985 Farm Bill with renewed vigor—and leaving behind both the traditional policy approach and the daring departure that had been so costly yet so ineffectual. The fight for a new direction in farm policy would be central to Reagan's final years in office.

Chapter 8

The Reelected Administration Envisions a New Beginning in 1985

Members of the Reagan administration entered 1985 elated at its reelection—but sobered by the fact that U.S. agriculture was in trouble both on the farm and at the federal policy level. The administration remained eager to minimize the cost of farm programs. Meanwhile, the farmers' existing credit problems intensified. Drought and shrinking markets increased the rate of fall of land prices and further reduced farm equity. Lenders were forced to tighten credit when farmers, who had borrowed with the expectation of continuing inflation and expanding exports, did not realize those expectations. Some farmers fell into arrears with their payments; lenders shied away from new farm loans. Great pressure built up on the government to fill the gap and provide billions of dollars in new credit and loan forgiveness, even as the federal cost of the existing programs soared. Crop subsidies that had cost \$1.2 billion in 1980 cost \$9.3 billion in 1983 and \$8.4 billion in 1984.¹ However, the biggest problem of all for the administration was really the only one that mattered in Washington: politics!

Because of the continuing farm crisis, Republicans were politically vulnerable in the farm states. There was anxiety that the farm issue could cost Republicans control of the Senate in 1986. In an April poll of its readers taken by *Successful Farming*, a major industry magazine, the president's job rating was at 39 percent approval and 42 percent

¹ *Farm Income and Wealth Statistics*, Economic Research Service of the United States Department of Agriculture. <http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.aspx#27415/> (accessed April 2, 2013).

disapproval, down from 51 percent and 26 percent, respectively, in December.

Secretary Block's numbers fell from 29 - 38 approval-disapproval to 18 - 54 approval-disapproval.² Specific problems cited by voters included: (a) the president's lack of concern about farmers, (b) the broken farm credit system, (c) low crop prices, and (d) the falling value of farm assets. Historically, farm revolts have led to disastrous election outcomes for incumbents—and six incumbent Republican Senators were facing elections in farm states. The political stakes were high.³

Politically and fiscally, the Republicans needed to approach the 1985 farm bill as a major agricultural initiative. The party would have to demonstrate that the president knew about the farmers' plight and knew how to fix it. It also needed to be a sweeping new approach, showing that the president and the Republicans cared enough about farming to work in an entirely new direction. The president ordered his Cabinet Council on Food and Agriculture to undertake a comprehensive review and assessment of current food and agriculture programs. Reagan had decided to depart from his earlier initiatives and start again.⁴

To an administration searching for an entirely new path for agriculture, the major problem with the 1981 law was that it was essentially a continuation of the original law enacted in 1933; it was no longer appropriate for modern farming. That law had been enacted before the increased productivity brought about by the second agricultural

² This poll was not published in *Successful Farming* Magazine but was available to the administration in "White House Memo for Alfred Kingon from William Lacey, July 15," 1985, Agriculture Box 6, Folder 291801-293999, Ronald Reagan Presidential Library.

³ Ibid.

⁴ "Briefing Paper and Talking Points for the President's Meeting with Farm Leaders, January 5, 1984," Agriculture Box 3, Folder 177001-190000, Ronald Reagan Presidential Library.

revolution had manifested itself. Because of its rich land, favorable climate, and advanced technology, U.S. productivity had increased without pause since 1940, and the relentless progress of technology promised continuing increases into the future. The solution proposed by the Agricultural Adjustment Act of 1933 was to reduce production, establish a price support system above the market-clearing level, and produce only for the domestic market. It was clear by 1935—and even more abundantly by 1985—that producing only for the domestic market would require U.S. farmers to cut back production by at least 50 percent. That solution was not politically feasible.⁵ Something else had to be done.

Doing nothing was not an option. If the 1981 farm bill were to expire without a replacement, agricultural research and foreign food aid programs would cease to exist. Price and income support programs would revert to the permanent legislation passed in 1938 and 1949, at substantially higher levels. Supports at this level would be unaffordable for the federal government, and the Republicans would become the minority party yet again. A new farm bill had to be passed, and the administration wanted it to look very little like the one that it was replacing. It wanted a new beginning.⁶ Toward that end, the administration called the new bill the Agriculture Adjustment Act of 1985. Somewhat ironically for a bold new beginning, the name

⁵ “Future Agricultural Policy—What Direction should It Take?” Remarks given by Assistant Secretary of Agriculture William Leshner at the Annual Meeting of the Indiana Farm Bureau Association, December 3, 1984,” Agriculture Box 5 OA12164, Folder 281001-288300, Ronald Reagan Presidential Library, 2.

⁶ “Long Term Agricultural Policy,” an undated White House memo Agriculture Box 6, Folder 297991-297939, Ronald Reagan Presidential Library, 4.

harkened back to the name of the very first farm bill that contained most of the current programs. Nevertheless, this was the fresh start that would replace the old ideas.⁷

The administration realized that it must reevaluate the entire farm program, ferret out the basic flaws, and completely restructure most of its original concepts. Thus the basic tools of the AAA—nonrecourse loans, support prices, supply control programs, income transfer programs, and large reserves that had been marginally effective in 1933—were in for a major overhaul in the changed agricultural reality of 1985.⁸

The bedrock of the federal farm program was the nonrecourse loan. This was part of the original farm bailout programs of 1933 and 1938. The fact that these loans interfered with the international marketability of U.S. crops had been apparent by the 1950s, yet they continued to be used as price floors, income supports, price stabilizers, and marketing tools, depending on the commodity and the time period.⁹ As price floors, the loan program had been employed as a kind of shock absorber to prevent sudden fluctuations caused by bad weather or unexpected over-supply. They allowed farmers to obtain cash for debts without being forced to sell a crop at the bottom of the market.

The administration argued that the programs might have had some value when U.S. agriculture was mainly directed at a domestic market, but by 1985, the loan programs were counter-productive; up to 40 percent of supported commodities were exported.

⁷"Statement of Reagan Administration Farm Policy and Principles," December 1, 1984, Burleigh Leonard, Cabinet Council on Food and Agriculture, Future Food and Agriculture Working Group, Box 1, Folder OA12162, Ronald Reagan Presidential Library.

⁸ Ibid.

⁹ "Market Oriented Price and Income Supports," an undated White House Memo, Agriculture Box 5, Folder 270001-2888300, Ronald Reagan Presidential Library.

The loan rates were set above those dictated by the market both domestic and worldwide, and since U.S. prices were often not competitive in the world market, participating farmers would simply forfeit their crops to the CCC rather than try to sell them. In effect, the U.S. government had become the market for participating farmers, and since the loan rates exceeded the farmers' average variable costs, at least one-half of the participating farmers made a profit from the nonrecourse loans themselves, without taking into account the other USDA programs. The result was excessive production, vanishing markets, and huge stock accumulations in the CCC.¹⁰

The loan program removed risk by guaranteeing a profit for all of the enrolled crops, regardless of demand. The loan rates set in the 1981 farm bill aimed to cover 98 percent of variable production costs. Consequently, farmers produced all that they could, expanding production to marginal and fragile land. When the marginal land became included in a farmer's base, he simply idled it to meet program requirements, and increased production on his best acreage.¹¹ By the 1950s it was clear that price support programs were causing production increases and rising government costs.

Hoping to decrease both cost and production, the USDA added a voluntary acreage reduction program. The idea was that farmers would continue to get income support and consumers would have a stable food supply, while the acreage reduction program would fine-tune production and avoid large surpluses and large government cost

¹⁰ Leshner in Indiana, 13.

¹¹ "Future Agricultural Policy--A Challenge for All," Remarks prepared for William G. Leshner Assistant Secretary for Economics, U S Department of Agriculture, at the Conference for Alternative and Food Policies and the 1985 Farm Bill, sponsored by the Giannini Foundation and Resources for the Future, in Berkley, California, June 11, 1984. Agriculture Box 5, Folder 270001-273500, Ronald Reagan Presidential Library, 15.

burdens. However, the results of the program were not as had been anticipated. Farmers who chose not to participate in the program often expanded production in order to take advantage of any higher prices caused by the voluntary acreage reduction, thus defeating its purpose. They thus would have increased base acreage should they choose to enroll in the program in future years.¹²

Under the voluntary acreage reduction program, production in the cultivated fields was increasing rather than decreasing. In 1981, when no reduction program was in effect, farmers planted 81 million acres of wheat. In 1983, farmers enrolled 28.3 million acres in the reduction program. While this represented a 25 percent reduction in harvested farmland, production fell by only 15 percent.¹³

There were several other major problems with acreage reduction programs. Twelve percent of U.S. farms marketed two-thirds of the crops. Since the 1981 farm bill prohibited more than \$50,000 to be paid in program benefits to any one farmer or any one farm, it was very difficult to induce large farmers to participate. Moreover, while the United States reduced production from its maximum potential, the drop in U.S. output was replaced on the world market by competing nations. Thus, the world supply remained unchanged, as did prices; the only outcome of the U.S. reduction program was a loss of market share by American farmers.¹⁴

Prior to the creation of the farmer-owned reserve (FOR) in 1977, the CCC had to cope with frequent farmer unrest. When market prices fell below the loan rate, farmers

¹² "Leshner, Berkley, California," 15.

¹³ Ibid.

¹⁴ "Leshner, in Indiana," 14.

forfeited their crops to the CCC. If prices improved and rose above the loan rate, the secretary of agriculture had the authority to sell the stock on the open market. This angered the farmers, who complained that they were in competition with their own government.¹⁵

The 1977 Farm Bill included the FOR concept to prevent such rancor. Under this program, a farmer could enter into a contract with CCC to hold his grain off the market for a period of three years. The farmers received incentives to store their grain. The grain would be stored until the market price reached a specified level, at which time all obligations ended and the farmer was free to do as he chose with his crop. Proponents of the program maintained that the process of adding stock during times of excess, and drawing down the stock during times of a tight market, reduced some of the instability and uncertainty of the market, and enhanced the nation's reliability as a supplier.

However, the FOR was also used to achieve political ends.¹⁶ In early 1980, the reserve was used to offset the negative effects of the Soviet grain embargo. The incentives to place grain in the reserve were enhanced—first by the president, and then by Congress. Again in 1982, under the burden of huge surpluses and depressed prices, Congress raised incentives for use of the reserve, and grain flowed into it rather than into the market. Reserve stocks of corn went from 185 million bushels in 1980 to 1.6 billion bushels in 1983. Wheat stocks rose from 360 million bushels in 1981 to 1.1 billion in 1983. Because of the temptation to use the reserve for political purposes, and because

¹⁵ Leshner in Indiana, 14.

¹⁶ John D. Gorley, "Background Information on Major Farm Program Provisions", a Memorandum for John A Svahn, September, 14, 1984, Agriculture Box 3, Folder 276930, Ronald Reagan Presidential Library.

of the absence of any data to show that it provided tangible benefits, the administration in 1984 advocated its abolishment.¹⁷

Target prices and deficiency payments were income transfer programs in which money was taken from taxpayers and distributed directly to farmers. The Agriculture and Consumer Protection Act of 1973 initiated this program, which continued in the farm bill of 1981. Each year Congress set target prices for wheat, cotton, corn, barley, sorghum, rice, and oats. In the years that the market price or the loan rate—whichever was higher—did not equal the target price, the difference (deficiency) was sent in a direct cash payment to farmers who had participated in the acreage reduction programs. It was envisioned that separating price support programs and income support programs would allow the loan rates to be set low enough to match the market-clearing price. That would increase exports, encourage domestic consumption, eliminate surpluses, and reduce the need for often ineffective and complicated production control programs.¹⁸

Often, the true market price was lower than both the loan price and the target price. Thus, the farmer received both the increment between the market price and the loan price, and the increment between the loan price and the target price. While the total of these payments could not exceed \$50,000 in one year for any farmer or farm, the administration still complained bitterly that they were made without any consideration of the need of the recipients; in effect, this was welfare for the well-off.¹⁹

¹⁷ “Leshner, Berkley, California,” 30.

¹⁸ Gorley, “Background.”

¹⁹ Ibid.

The deficiency payments program produced several unintended consequences. The price of farmland, either to the buyer or the renter, was determined by the potential income from the land. Thus, federal deficiency payments increased the cost of the farmland for all farmers who only rented it, and for those who contemplated buying more land. The cost of production rose as well. Consequently, the program reduced U.S. competitiveness in world markets. It encouraged farmers to expand even in the face of surpluses, and it distributed benefits without regard to need.

These unintended effects were quite striking. It became clear in the 1970s that basing target prices on the cost of production only added fuel to the inflationary flame. Including land cost in target prices increased the cost of land, which in turn increased target prices. Higher target prices induced farmers to expand production by buying or renting more land; the spiral went deeper and deeper.²⁰ By 1985, the USDA was projected to pay \$10 billion dollars per year in deficiency payments alone—not to mention loan payments, storage costs, paid diversions programs, and administrative costs, including interest.²¹

Target prices set above the market clearing level, such as those mandated in the 1981 farm bill, guaranteed the continuing need for crop reduction programs. Faced with such enormous federal outlays, the administration had no alternative. As U. S. production fell, competing nations increased production to take advantage of rising prices. Consequently, U. S. market share dwindled, forcing even more crop reductions.

²⁰ "Leshner, Berkley, California," 30.

²¹ *Summary of the Agricultural Adjustment Act of 1985*, an Undated White House Working Paper, Agriculture Box 6, Folder 297001-297938, Ronald Reagan Presidential Library, 8.

International competitors took note. They saw the price floors that protected U.S. producers from downside risk. They also saw budget pressures that mandated production controls. Reduced risk from smaller competing U.S. crops would lead to potentially higher world prices. This was an engraved invitation to agricultural exporting nations to expand production.²²

Unfortunately it was not just foreign farmers who were expanding. High target prices encouraged American farmers both to increase their acreage bases for the commodity programs and to increase their yields on the acreage still in production. Since loan rates covered 98 percent of fixed and variable costs, target prices set substantially above loan rates were incentive enough for farmers to build up their bases, simply to be able to participate in the commodity programs. That meant ploughing up fragile and highly erodible lands. As an example, the number of planted acres in the Mississippi delta and in the Southeast increased at a rate of 5 percent per year in the early 1980s.²³

The target prices were also inducing an alarming strain on water resources. Because federal investment in irrigation had been decreasing since the 1960s, most of the increase in irrigation came at private expense. Since most of the newly irrigated land was used to grow wheat, cotton, corn, and other program crops, there was no escaping the conclusion that it was the price and income support programs driving the irrigation; as a result, water tables were being depleted to produce large surpluses of crops.²⁴

The administration argued that support prices interfered with signals from the

²² "Leshner, Berkeley, California," 30.

²³ *Summary of the AAA of 1985*, 9.

²⁴ *Ibid.*

market. The program caused increased production costs, reduced competitiveness, increasing production abroad, and large surpluses both domestically and worldwide. Under current law, deficiency payments were made on the difference between the target price and the loan rate or the average market price, whichever was higher, for the first five months of the marketing year. The rationale for making payments based on only a portion of the marketing year was that the farmer would receive money at the time he needed to purchase seed, fertilizer, and other necessities for the next planting season. However, since the Secretary of Agriculture now had the authority to make advance deficiency payments, that rationale had become moot.²⁵

What the administration wanted was a clearer understanding of how much income transfer was needed and to whom it should go. In 1933, 6.8 million families lived on 6.8 million farms that sustained their livelihoods. By 1984, about 300,000 of the 2.4 million farms produced two-thirds of the agricultural output. The remainder produced only one-third of the total, making it apparent that there were two tiers of American farms—namely, commercial farms and farms operated for some other reason²⁶.

In 1984, 45 percent of the direct government payments went to the 13 percent of farmers who had more than \$100,000 in annual commodity sales. The remaining 55 percent went to the 87 percent of small farmers who earned the bulk of their living from off-farm employment. The question was, then: Who was the program intended to help?

²⁵ "Summary of AAA."

²⁶ "Developing a Comprehensive Dialogue and Review of Agriculture and Food Programs," Undated White House Memo, Agriculture Box 5, Folder 275901-281000, Ronald Reagan Presidential Library.

If that issue could be settled, the program could be changed to be both more effective and less disruptive to the marketplace.²⁷

The administration needed to break new ground in agriculture policy and for that reason it tended to evaluate the efficiency of the current programs as an all or none proposal. In its eyes, there was no partial efficacy. They did not acknowledge that current programs could be better than nothing but not as good as hoped. It wanted to both grab the headlines for political purposes and reduce the cost of the agriculture program as it battled to bring down the budget deficit. In its words:

In a time of large budget deficits, high interest rates, and a strong dollar, it is imperative that we exercise fiscal restraint and remove the entitlement nature of agriculture programs and policies. This new legislation recognizes the need to impose finite cost control over our farm programs. The Agricultural Adjustment Act is estimated to cost less than half as much as continuation of current programs over the FY 1987-91 period.²⁸

A meaningful transition period would allow farmers to be weaned off government supports and acclimate themselves to an open market. Therefore, a four-year farm bill, as had been the custom, would not do. This legislation would run until the new century, for 15 years. Farmers and agro-businessmen needed to know what the role of the federal government in agriculture would be in the years ahead. Long-term capital investments needed to be made in farmland, fertilizer and chemical production, farm machinery and other related industries if U.S. farming was to maintain its competitive advantage in world markets. However, such an investment would not be made if

²⁷ Leshner, Berkley, California, 28.

²⁸ "Summary of the AAA of 1985," 10.

investors could not be certain whether total agricultural capacity would be used—as in 1981—or if government programs would suddenly and without warning idle a large percentage of that capacity as they did in 1983 under the Payment-In-Kind program. Only with a long-term farm policy that clearly defined and limited the role of government in agriculture could U.S. farming reach its potential. That would improve American competitiveness in the world market and provide much more flexibility in dealing with changing world conditions.²⁹

The transition period would need to phase out the obsolete and restrictive programs of previous legislation and phase in the market-oriented ones. The goal of the transition was that all price and income supports would be set at market-clearing levels and be tied to a moving average of U.S. market prices for each commodity. The United States would no longer provide price supports acting as price floors for the entire world. Regulations providing such programs under existing permanent legislation would be repealed.³⁰

The administration understood that many of the current farm problems were of the government's making. Some farmers faced economic difficulties and would need time to reduce their dependence on federal policies. It also acknowledged that other government policies, such as the grain embargo and other inflationary programs, had been instrumental in creating the farmers' current dilemma. It was appropriate, therefore, for the government to provide the means to make the transition out of that

²⁹ "Long Term Agricultural Policy," undated White House Memorandum, Agriculture Box 6, Folder 297991-297939, Ronald Reagan Presidential Library: 4.

³⁰ Ibid.

dilemma. There would also need to be a move toward a unity of purpose within agricultural policy.³¹

International trade, natural resource conservation, agricultural credit, and grain reserve policies all had to be integrated with the commodity programs in order to ensure that these government policies would no longer work at cross-purposes. For example, loan rates set above the market clearing level had the effect of reducing exports, while at the same time encouraging farmers to expand production by planting on fragile soil. This, in turn, increased cost to the degree that the government had no choice but to pay farmers to set-aside acreage, while competitor nations expanded their production and seized U.S. market share. At the same time, other federal programs spent millions of dollars to expand trade and protect the environment. Further, they offered highly subsidized credit to attract more investment into agriculture while surplus commodities remained the major problem. The new AAA would change all of that.³²

Under the new domestic commodity programs, producers of wheat, feed grains, cotton, and rice would continue to be eligible for loans and income support through target prices that provided deficiency payments. Each year, the loan rate would be set at 75 percent of the three-year average of market prices. Target prices would be lowered over a five-year period. For the crop year of 1986, the various target prices would be set at 100 percent of the three-year moving average of market prices. In each

³¹ Long Term Agricultural Policy," 4.

³² Ibid.

subsequent year, the target rate would drop 5 percent, until the 1991 crop year would have a target price of 75 percent of the moving average. The target price would then have reached the level of the loan rate, essentially rendering one support price at or below the normal market-clearing level.³³

In the new plan, ultimately there would be neither minimum loan rates nor target prices. During the transition period, there was still some financial aid as federal policies moved to a more market-oriented approach; the plan would provide some direct payments during periods of unusually low world prices. Yet the economic support would no longer be high enough to stimulate excessive production either domestically or abroad. In addition, after 1989, no acreage reduction or other supply control would exist. And—perhaps most importantly—by markedly reducing direct payment to farmers, it would allow the United States to aggressively attack the unfair trade policies of competitors and bring about a free-market global environment.³⁴

The administration wanted federal farm policy to reflect true market conditions, while at the same time protect farmers from extreme market variances. It planned to accomplish that with the use of the three-year rolling average market price. Under the Agricultural Adjustment Act of 1985, payment levels were designed to reflect the actual movements of the market. This ensured that those levels corresponded to the true

³³ Since under the 1981 law, loan rates were set above market prices and target prices were substantially above loan rates, the farmers stood to receive significantly less federal aid under these proposals. See White House memo "Summary of the Agricultural Adjustment Act of 1985" Agriculture Box 6, Folder 297001-297938, Ronald Reagan Presidential Library.

³⁴ "Summary of AAA of 1985."

economic environment faced by the farmers, and not some intra-seasonal variation in prices.³⁵

As we have seen, the Dairy Price Support Program had given the Reagan administration headaches virtually since Day 1. Despite several Congressional votes to slow the rise in dairy support prices, the administration continued to wring its hands at the enormous price of the program. The AAA of 1985 proposed a direct payment to dairy farmers; the goal was to do away with the current system that required the CCC to purchase, store, and dispose of huge quantities of dairy products. The current dairy program would continue for fiscal years 1986 and 1987. Then, beginning in 1988, the program would convert to one of a direct payment to the producer, with the target price being a declining percentage of the rolling three-year market average in the same manner as the other commodities.³⁶

The administration reasoned that such a program would be much more market-oriented and that the market-clearing prices would fluctuate according to supply and demand pressures. There would be no government purchase, storage, and disposal cost; the entirety of the dairy program expenditures would go directly to the dairy farmers. As a result, consumer prices of milk and dairy products would be closer to that of other foodstuffs. Furthermore, dairy policy would be more closely linked to other commodity programs and would be substantially less costly for the federal

³⁵ "Deficiency Payments Based on Season Average Prices," undated White House Memorandum, Agriculture Box 6, Folder 297001-297938, Ronald Reagan Presidential Library, 1-3.

³⁶ "Summary of AAA of 1985," Ronald Reagan Presidential Library.

government.³⁷ The government would finally be out of the dairy product storage business; its outlay for dairy would be substantially reduced.

The new legislation would also abolish the old system for peanuts and sugar. Loan rates for peanuts would be set at 75 percent of the three-year market average and would be available to all producers. Those who had allotments would be paid a direct payment based on a declining percentage of the preceding three years. After that, peanut farming would be a free-market endeavor. Sugar growers would be eligible for direct payments, while sugar processors would continue to be eligible for price-support loans.³⁸

A major problem with past commodity support programs was determining the beneficiaries. The purpose of the payment limitations incorporated into every farm bill since 1970 had been to target federal aid to middle- and low-income farmers and to minimize government costs. Nonetheless, economists believed that the large rise in farm benefits during the 1970s led to the rapid increase in farmland prices during that period. The phenomenon of passing price supports into the cost of land was given the name "capitalization."

It had become evident that, at least in part because of the price-support programs, farms were becoming fewer and larger. Large farms provided an average annual household income of \$82,000 at a time when the average household income of all Americans was \$29,000. These farmers clearly did not need income support. However,

³⁷ "The Dairy Purchase Program and a Direct Payment Program," undated White House Working Paper, Agriculture Box 6, Folder 297001-297938, Ronald Reagan Presidential Library, 1-4.

³⁸ "Summary of the AAA of 1985," 3.

large farms were vital to the success of farm policies. Ten percent of farmers produced about 50 percent of the supported crops. Obviously, programs designed to limit the production of any of those crops would be greatly affected if the large farmers did not participate because of income limitations.³⁹

Limitations affected different crops and different areas of the country in varying ways. Rice and cotton farms tended to be larger than corn and wheat farms. Therefore, they were more likely to be affected by the limitations. In 1982, rice growers planted an average of 280 acres, cotton growers planted 255 acres, wheat farmers planted 160 acres, and corn farmers 100 acres. Under this scenario, 45 percent of the rice crop and 43 percent of the cotton crop would be produced on farms subject to the limitation, as compared to only 2 percent of the wheat crop and less than 1 percent of the corn crop.⁴⁰

The impact of the limitation also varied greatly according to region. In California, cotton yields were over 1,000 pounds per acre, with an average planting of 440 acres. In Texas, however, the average yields were less than 400 pounds an acre and the average plantings were about 280 acres. Thus, 80 percent of the California cotton but only 20 percent of the Texas cotton would be subject to the limitations. Other crops told a similar story. Program yields for wheat in Washington averaged about 48 bushels per acre on an average planting of about 435 acres, while in Texas the yield averaged 25 bushels on farms averaging 225 acres. For rice, the average yield per acre in California

³⁹ "Payment Limitation," undated White House Working Paper, Agriculture Box 6, Folder 297001-297938, Ronald Reagan Presidential Library, 1-6.

⁴⁰ Ibid.

was 6,500 pounds on 430 acres as compared to Louisiana, where the yield was 4,100 pounds on 230 acres. Kentucky dairy farms averaged 25 cows producing about 10,000 pound of milk each year, compared to an average herd of 200 cows in California producing more than 15,000 pounds per year.⁴¹

The AAA of 1985 intended to phase out acreage reduction programs and, with them, the need to worry about effect of income limitations on participation. Moreover, the new bill called for limiting payments to \$20,000 in 1986, \$15,000 in 1987, and \$10,000 in 1988 and thereafter. In that way, the entire program aimed at helping only the very neediest of farmers. The remainder would be engaged in the free market, where deficiency payments would be the only authorized government support. The compensation rate was the difference between the target rate and the loan rate or the season average market price, whichever was higher.⁴²

All loans and direct payments made under the new legislation were directed at medium and small producers. A benefit limit of \$10,000 would assure that only farmers in need of assistance would receive benefits. In 1981, only 2 percent of farmers would have lost benefits had the \$10,000 limit been in effect, but the savings would have been over 20 percent. The effects would be greater in crops where the average plantings were higher. In 1981, a \$10,000 limit would have affected 12 percent of cotton farmers and the savings would have been over 33 percent. In the other commodities, that limit would have affected less than 1 percent of all farmers.⁴³

⁴¹ "Payment Limitations."

⁴² Ibid.

⁴³ Ibid.

The new bill also addressed changes in federal farm lending. Beginning in 1986, all commodity loans would be nonrecourse loans up to a limit of \$200,000. Beyond that level, the producer was expected to repay the loan with interest, just as in any commercial transaction. With the exception of dairy products, virtually all of the changes that the administration planned in federal policy for agriculture were designed with the goal of increasing exports of U. S. farm products.⁴⁴

In conjunction with the new AAA, the administration was ready to promote agricultural exports. It was willing to provide credit to countries that represented growth markets, particularly higher-income developing countries. Some of the money could be used to build storage and handling facilities to receive U.S. exports. The administration clearly and unequivocally reiterated that no restrictions or embargoes would be placed on agricultural shipments, either for the purpose of taking advantage of rising prices or for foreign policy reasons. It was willing to enter negotiations with trading partners to implement reductions in restrictive trade practices regarding agricultural products, including during the interim period while free trade was being established. However, if such negotiations should fail, the administration was prepared to support U.S. farmers with restrictive practices of its own.⁴⁵

The changes proposed by the Reagan administration caused significant pressure for policy change by both U.S. competitors and customers. The trade section of the proposed bill called for all nations to cooperate with the United States for a stronger

⁴⁴ "Summary of AAA of 1985."

⁴⁵ Ibid.

free market in agriculture. That is, the United States expected the rest of the world to abandon the unfair trade practices that had limited market access and diminished market share for American farmers. Failure to do so would bring about retaliatory policies by the United States.⁴⁶

The belief was that Japan and the EC would need to change their policies over time. Their current policies reflected an entrenched political consensus among a wide group of political and private interests. Change, although of necessity, would be gradual over the five transition years of the proposed bill. Although the domestic agriculture policies of those countries did have some trade implications, they were primarily implemented to redistribute income among farmers, consumers, and taxpayers.

The EC would probably leave its support levels unchanged over the short haul, but it would certainly be forced to raise its export subsidies substantially in order to maintain status quo. The likelihood was that with such increases in cost, European taxpayers would gradually force supports down, even though the EC had resisted major changes in the price supports despite increasing costs. Only the high cost of the U.S. dollar had staved off significant pressure for some kind of change. The strong dollar made EC commodities more competitive in both domestic and third-world markets and narrowed the difference between world and EC prices, thereby allowing export subsidies to remain stable. However, a lowering of U.S. loan prices would lower world prices and put extreme pressure on the EC.⁴⁷

⁴⁶ "Foreign Response," undated White House Memorandum, Agriculture Box 6, Folder 297002-297938, Ronald Reagan Library, 3.

⁴⁷ Ibid.

The Reagan Administration believed the other major competitors would also change policies in response to the new U.S. policy. They felt that Australia would gradually lower its internal farm prices. As a result, Australian wheat production would decrease and internal consumption would rise. Both lower world and internal wheat prices would discourage Australian exports. Canada, too, would have to react to the new situation. The administration felt that the Canadian wheat board would gradually raise support prices for wheat at first, but that would require rising consumer prices. Canadian wheat exports would rise initially as the Canadians lowered their own prices in response to the American move. However, over the five-year period, the financial pressure of supporting exports would force Canada either eventually to lower supports or to face substantial financial hardships. Brazil and Argentina both faced such great need for hard currency that they could not get along without their current level of wheat sales. However, expansion of exports would be unlikely in the face of falling prices and a more competitive American product. Clearly, other commodities would have different dynamics than those of wheat. Thus, the impact of the proposed bill would influence each commodity in a different way.⁴⁸

The final goal was to bring some equity to the farm programs. Previously, each commodity was treated in a unique fashion. The new law would treat all commodities in exactly the same manner. Subsidy rates would be calculated based on 75 percent of the three-year rolling average of market prices for every commodity.⁴⁹

⁴⁸ "Foreign Response."

⁴⁹ "Summary of the AAA of 1985."

The administration anticipated significant benefits if Congress passed the AAA of 1985. Direct government payments to farmers would be reduced to zero by 1990. The CCC would be disbanded and the cost and administrative problems associated with the government storage of the huge surplus of grain would disappear. The volume of exports of corn, wheat, cotton, and soybeans would likely be greater, as would the value of exports in the long run. This would help greatly in the balance-of-payments problem.⁵⁰

However, there was political risk in passing the AAA of 1985 as well. Net farm income under the program would be 20 percent lower in 1987 and more than 30 percent lower in 1990. Variability in commodity prices and farm income would be greater as the price floors provided by loan rates were lowered and acreage set-aside programs removed. The decline in net farm income would accelerate the trend toward fewer and larger farms, and would increase the share of total income earned by larger farms. The fall in income would lower demand for farm machinery. The lower farm incomes would be reflected in lower economic activity in rural communities, and public services to rural America would be reduced.⁵¹

This, then, was the sweeping new farm bill that the Reagan administration presented to Congress to address the pressing problems facing both the farm community and the federal government in 1985. As the president said on national radio:

⁵⁰ Council for Agricultural Science and Technology, "Expected Impacts of Agricultural Legislation: Comparison of the Administration's Proposed Food and Agriculture Program with an Extension of the Agriculture and Food Act of 1981 as Amended," *Council for Agricultural Science and Technology, Report 104*, 1985.

⁵¹ *Ibid.*

The 1985 farm bill will create stability for the future through policies that permit U. S. agriculture to realize its full potential and be more competitive in world markets.

Our package will be market oriented, enabling farmers during a transition period to become more independent and make their own decisions in the marketplace again. Government will stop purchasing commodities, stop trying to manipulate supply and demand, refrain from quick fixes and extravagant new farm legislation, and move aggressively to expand markets for American farm products. The time is now for a fresh start for American agriculture.⁵²

The aim was to reverse the trend of falling exports by using a subsidy program that allowed U.S. commodity prices to be set by the world market. The huge strain on the U. S. Treasury and the American taxpayers would also be relieved. Equity between crops would be restored and the restrictive allotment system of peanuts would be abolished.

The elephant in the room, of course, was the politics of the situation. Could the administration really persuade Congress to accept such a bold new program?

⁵² Ronald Reagan, "Radio Address to the Nation on Farm Credit Programs, February 23, 1985," *Public Papers of the Presidents of the United States: Ronald Reagan, 1985 I* (Washington: United States Government Printing Office, 1988), 207.

Chapter 9

The Farm Bill of 1985

The deliberation regarding the 1985 farm bill began during a time of very high stakes. American farmers were enduring falling prices, shrinking markets, and rising costs. The Reagan administration faced rising budget deficits, and members of Congress needed to position themselves politically to improve their chances for reelection. Both Democratic and Republican parties viewed agriculture as a pivotal voting bloc in the upcoming 1986 Congressional elections.

The final farm act needed to fulfil a specific set of political needs for both the administration and for Congress. These included--insuring a suitable, inexpensive food supply, providing a financial safety net for America's farmers, maintaining a positive foreign trade balance in agriculture, protecting the environment, and maintaining rural economic development.¹ Simply extending current law was absolutely unacceptable to the White House. In such a scenario, exported U. S. agricultural commodities would continue to be noncompetitive in the world market. Ongoing domestic crop size restrictions would be mandatory. Commercial banks would withdraw from providing agricultural credit because of the uncertainty of the industry's financial outlook, and the government would be left to fill the void in farm lending. In short, extending the current law would expose the federal treasury to increasing outlays with no end in sight. The White House was still haunted by the farm law of 1981, which had been projected to cost \$9 billion over its four years in force, but ended up costing \$53 billion.²

¹ Personal communication from Abner Womack, former director of the Food and Agricultural Policy Institute of the University of Missouri whose job was to evaluate the effect of every clause of each farm act on U. S. agriculture.

² Roger B. Porter, "Memorandum for the Legislative Strategy Group," July 17, 1985, Agriculture Box 7, Folder 315201-318200, Ronald Reagan Presidential Library.

The only course, in the White House's view, was to make American farm products more competitive in the world market. Under the 1981 law, exports were dropping. In the year the law was written, the United States provided 48 percent of the world's exported wheat. Four years later, despite a growing world market, American wheat accounted for only 36 percent.³ While advancing technology increased agricultural production 2-3 percent each year, U.S. population would not double for 75 years. Domestic sales could not absorb what U.S. farmers grew in 1985 — and even less so as production increased each year. However, the global population would increase by more than the population of the United States every 3.5 years. Exports were the answer to the farm problem. In addition, the U. S. economy could not afford to continue to increase outlays to agriculture at the rate of the previous 4 years. The AAA of 1985 could change the direction of American agriculture. However, Congressional politics was the main obstacle to its passage.⁴

There was pressure on both political parties to end the farm crisis. Weak demand for farm commodities, both at home and abroad, had lowered prices — and with them, farmers' incomes. Concomitantly, the price of farmland was falling, the total farm debt was rising, and the number of bankruptcies among both farmers and farm lenders went up yearly.⁵ The greatest financial problems lay in the Corn Belt and the Great Plains, where a number of key Republican senators faced stiff battles for reelection in 1986 (Abner, Andrews, Dole, the seat opened by Senator Eagleton's retirement, Grassley, Kasten, and Quayle). Consequently, Republican members of the Agriculture Committee in both the House and Senate insisted that farm incomes be protected by the new bill. While they agreed that the budget deficit had to be

³ John Block, Secretary of Agriculture, Press Conference, February 22, 1985, Agriculture Box 5, Folder 288301-290000, Ronald Reagan Presidential Library.

⁴ Ibid.

⁵ Porter, "Memorandum."

brought under control, they argued that protecting farm incomes was even more important. In fact, the driving motivation of all the Republican committee members was to provide enough money to farmers in that bill — far enough ahead of the 1986 midterms to remove any threat to the reelection of farm state Republicans.⁶

While the budget deficit remained a political liability for the administration, such was not the case for the Congressional Democrats. Therefore, they were free to oppose any proposal that would reduce support to the embattled farmers in order to reduce federal spending, and they did. Philosophically, the Democrats were not as determined to get the federal government out of agriculture as was the administration. Senator Patrick Leahy, an influential Democratic Senator from Vermont on the Senate Agriculture Committee, argued “We have to consider what the economic effects are going to be 10 years from now if many of these farms go under. We also have to consider the effect on our national security if we as a nation withdraw federal support from financially struggling farmers and force as many as 30,000 of them out of business, thereby causing the nation to need to import food, and thereby impacting our security in much the same manner as does our need to import oil.”⁷

With such Democratic opposition, voting for the AAA of 1985 would require significant political courage for Congressional Republicans. Under the bill, commodity price supports would be reduced during the transition period and cut drastically thereafter. The reduction of price supports would affect both farmers' incomes and the capitalization of those supports into the value of farmland. With capitalization gone, lending institutions would hold loans on significantly overvalued land. The credit crisis already burdening farmers would be exacerbated.

⁶ Porter, “Memorandum.”

⁷ Statement of Senator Patrick Leahy, Hearings before the Committee on Agriculture, Nutrition and Forestry, United States Senate, 99th Congress 1st sess., March 7, 1985, 164.

While the long-term effects of the program would lead to increased U.S. agricultural commodity exports, farmers in financial peril would experience even greater difficulty in the interim.⁸

By July 1985, bills in committees of both branches of Congress looked very much like the 1981 law, causing significant unease within the administration. There was very little support for the AAA on either side of the aisle.⁹ Most proposals in Congress contained financial supports aimed at providing a “safety net” for agriculture. Nonrecourse CCC loans for storable agricultural commodities remained the core these proposals. Senator John Melcher, a Democratic member of the Senate Agriculture Committee argued:

The loan rate has been considered the safety net to establish a floor price that will keep those who produced the various commodities in business. Clearly, however, it is not good enough if you had to depend upon the price of the product just being at the loan rate year after year. It would not work because the cost of production is actually higher. But it has been historically the safety net so that if all else went to pot, there would be something left so that producers could pay their bills. Let us look at what the administration’s farm bill would provide for the loan rates for various commodities. The proposed rates are not very good any year, but the goal is to get to 1989 when the loan rate for wheat would be \$1.99, a nice round figure when the cost of wheat production per bushel would be \$4.75 per bushel. For corn, the loan rate would be \$1.72 and the cost of production is \$4.70 per bushel.¹⁰

Farmers’ groups called for loans that would allow farmers to spread sales over a period of time and allow them to take advantage of favorable marketing conditions and prices. To the administration’s opponents, however, target prices were a workable mechanism to provide partial income protection while markets were depressed through short periods of time.

⁸ "President Reagan Discussion on Farm Policy", undated White House Memorandum, Agriculture Box 7, Folder 306903-315200, Ronald Reagan Presidential Library.

⁹ Ibid.

¹⁰ See the Testimony of Senator John Melcher, Hearings before the Committee on Agriculture, Nutrition, and Forestry, United States Senate, 99th Congress 1st sess., March 7, 1985, 9.

¹¹Continuing current practice would cost \$50 billion over the next three years. To the administration proposals in Congress to freeze target prices at the current level for the 1986 crop and maintain the \$50,000 limit for benefits to each farmer were much too costly. Other aspects were almost as objectionable. There was to be no limit on the amount of crops that could be enrolled in each program. Nor was there any reduction of the dairy support prices for 1986 — despite the fact that dairy production continued to increase 3 percent per year in the face of enormous surpluses. The goal of the administration was to ensure a limit on the exposure of the federal Treasury to the farm crisis. To the White House, paying crop subsidies of \$16 billion a year was simply not supportable.¹²

However, a continually worsening Farm Belt economy put the White House and the GOP-controlled Senate on the defensive during the farm bill debate. In February, the entire South Dakota legislature flew to Washington to implore Congress for more farm benefits. Other large contingents from the North Dakota, Nebraska, and Kansas legislatures, accompanied by hordes of television and print reporters, also trooped to the capitol, seeking relief.¹³

The farm groups argued that the administration was putting too much blame for the collapse of the farm economy on the current, rigid farm policy when in reality the problem was excessively high interest rates, the historically high value of the U. S. dollar, and the loss of foreign grain markets subsequent to the Carter embargo. What they wanted was the continuation of the target prices and deficiency payments that the Agricultural Adjustment Act

¹¹ See the Testimony of Robroy Fisher, President, Association of Mississippi Agricultural Organizations, August 31, 1984, Hearings before the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices of the Committee on Agriculture, Nutrition, and Forestry: 34.

¹² Porter, "Memorandum."

¹³David Rapp, "Agriculture," *1985 Congressional Quarterly Almanac*, 99th Congress 1st sess., Volume XXXI (Washington, D. C.: Congressional Quarterly Inc., 1985), 515.

of 1985 proposed to abolish.¹⁴ They also argued that federal support of exports should be central to the administration's attempts to improve the farm economy. Public Law 480 was especially popular among grain farmers.¹⁵

Democrats immediately seized on the farm issue, and spared no effort to convince the nation that their party was much more concerned about the fate of the family farm than were their rivals. They argued that the "market oriented" farm bill that the administration proposed was not feasible, that a free market does not currently exist because our competitors have policies that influence grain prices worldwide. Senator Edward Zorinsky from Nebraska proclaimed:

Much rhetoric has been expended in support of the so-called market oriented approach to resolving the farm crisis. Let me say that orienting agriculture to the marketplace is a worthy goal. However, the international market in which our agricultural products are sold is not a free market system. By some estimates over 90 percent of the commodities traded in that market are subsidized by either the buyer or the seller. Our farmers can compete with farmers of other countries but they cannot compete with the treasuries of other countries.

To compel the American farmer to market his production at so called market clearing prices in such an international market without the benefit of a proven and effective safety-net (market loans, target prices, deficiency payments) could be damaging to our family farm system of agriculture and could have dire consequences for our national economy as well.

I am unconvinced that the current programs are totally and inherently ineffective. For years they have provided Americans with the cheapest, most bountiful food supply in the world.¹⁶

Republicans had to weigh party loyalty against the mood of their constituents.

By the time Congress returned for the fall session, the farm economy had continued to worsen. Farm prices kept sinking and farms were being lost. The House and the Senate

¹⁴ See the testimony of David L. Johnson, Grain Farmer from Hector, Minnesota, before the Committee on Agriculture, Nutrition, and Forestry, United States Senate, March 21, 1985, 234.

¹⁵ See the testimony of Sam J Darwins, Chairman, Wheat and Feed Grains Committee, Alabama Farm Bureau, before the Committee on Agriculture, Nutrition, and Forestry, 99th Congress, 1st sess., March 21, 1985, 294.

¹⁶ See the Testimony of Senator Edward Zorinsky, Hearings before the Committee on Agriculture, Nutrition, and Forestry, United States Senate, 99th Congress 1st sess., March 7, 1985, 5.

Agriculture Committees prepared to report bills designed to support farmers' incomes and to fight the deepening crisis. Target price freezes for at least four years were part of both bills. Political pressure remained too great on all farm-state representatives and senators for any meaningful reduction in benefits.¹⁷ By September, things were looking grim for the administration and its plans.

Both the House and the Senate passed bills that did not bear any resemblance to the Agricultural Adjustment Act of 1985. There was no trace of the goals of making agriculture more market-oriented and less dependent on federal largesse. Early in the session, a Congressional budget resolution had allocated a limit of \$34.8 billion for the farm and export programs over the next three years. The Senate version of the new farm bill was \$20 billion over the resolution, while the House version exceeded the limit by \$25 billion.¹⁸

It was clear that the Agricultural Adjustment Act of 1985 was not politically viable; an alternative would be necessary. Neither the Senate nor the House bills were acceptable to the White House. As the September 30 expiration of the old law loomed, the administration changed tactics and developed a two-year, stopgap farm bill containing some of the most important pieces from the AAA.¹⁹

There were several advantages to the new short-term proposal. It would reestablish the president as the leader of the farm debate and demonstrate anew his concern for the farmers' dilemma. It would short-circuit the current process that would surely result in a bill unacceptable to the administration. It would contain farm costs at least for the ensuing two

¹⁷ John R. Block and Joseph R. Wright, "What Should Be The Administration's Congressional Strategy on the 1985 Farm Bill?," Memorandum for the Chief of Staff, Agriculture Box 7, Folder 318201-326800, Ronald Reagan Presidential Library.

¹⁸ John R. Block, "Farm Bill Strategy," a Memorandum for Donald T. Regan, September, 4, 1985, Agriculture Box 7, Folder 318201-326800, Ronald Reagan Presidential Library.

¹⁹ "Two Year Farm Program Initiative," undated White House Memorandum, Agriculture Box 7, folder 318201-3267800, Ronald Reagan Presidential Library.

years, and it would position the president in a positive light for the impending farm credit debate.²⁰

The new program would have only four parts — all designed to reduce the cost of the farm program to the Treasury. It would reduce the loan rates and target prices of 1985 by 10 percent in both the 1986 and 1987 crop years. The current mandatory acreage reduction would be retained as a condition for participation in the farm program. The payment limit would be lowered from \$50,000 per farmer to \$25,000. The payments would be made through in-kind distribution of CCC stocks.²¹

Political strategy became crucial. The administration's new short-term proposal was to be broached quietly to responsive congressional leaders (Dole, Michel, Madigan, and Helms) with plans for a dramatic briefing-room announcement just prior to the expiration of the current law. The Republican leadership of both branches of Congress would join the president in pressing for speedy passage of a very short bill, extending the 1981 Act and authorizing the four changes.²²

The benefits of the new program would be clearly discernible. The goal of the dramatic announcement was to display presidential leadership and Republican initiative in dealing with the farm problem. It would disguise the total abandonment of the AAA of 1985 by Congress and achieve the policy objectives of lowering supports and enhancing export competitiveness. This program would result in significant budget outlay savings because in-kind payments would replace cash deficiency payments, using outlays from prior years to replace current year outlays. A potentially huge CCC stock build-up would be averted, and the farm credit problem would not be exacerbated.²³

²⁰ "Two Year Initiative."

²¹ Ibid.

²² Ibid.

²³ Ibid.

In the end, the administration could not generate enough support to make the two-year program viable. It was a last-ditch effort to avoid the likely disaster that the Conference Committee would produce from the Senate and House bills reaching a vote. However, the Republican leadership either would not or could not put their members facing reelection in the position of being on record in favor of lowering farm supports.²⁴ The dramatic announcement never came.

Finally, political considerations trumped all others in the writing of the Farm Bill of 1985. Most agricultural economists felt that the long-term answer to America's problem of surplus agricultural commodities would be to lower the domestic price to match the world market price, and sell the surplus to the burgeoning world population.²⁵ However, such a proposal could not gain Congressional approval. Reagan and his administration had no choice left but to determine whether to veto the new law.

The administration had many reasons not to like this legislation. It looked nothing like its original proposal. It was merely an extension of the current legislation. It would guarantee even more government involvement in agriculture, push more farmers to enroll in federal programs, increase the cost to the Treasury, and block the administration's primary objective of making U.S. agricultural commodities more competitive in the world's markets. John Block argued that time was of the essence. In his view, it was crucial to address the farm policy issue during the fall of 1985. If not done adequately, this would lead to political problems in the Congressional

²⁴ Block and Wright, "Strategy."

²⁵ Council for Agricultural Science and Technology, "Expected Impacts of Agricultural Legislation: Comparison of the Administration's Proposed Food and Agriculture Program With an Extension of the Agriculture and Food Act of 1981 as Amended," *Report no 104*, Council for Agricultural Science and Technology, May 1985.

elections in 1986 and in the Presidential election in 1988. Block wanted the president to veto the bill.²⁶

The timing of the bill was important. The farm bill would be the first authorization bill considered when Congress reconvened after the summer recess. As such, it would present a test case on the resolve of both the Congress and the Administration in correcting the deficit. If the administration were to accept a budget-busting farm bill, it would send a clear signal to Congress and to the American public that the White House lacked resolve regarding the budget.²⁷

The major risk of adopting a veto strategy lay in the possibility that the president could be seen as being insensitive to the economic plight of the farmers. Secretary Block felt that that risk could be minimized by having the president become more personally involved with the farm problem. He recommended that the president hold a White House meeting with farm leaders to explain the administration's position on the farm bill. That meeting would occur concurrently with the release of a letter from the President to all members of Congress outlining the administration's objectives for the farm bill. A second suggestion was for the president to make a trip to farm country and hold informal meetings with farmers on their own turf, perhaps over coffee or lunch, so that the president could be seen listening to and showing interest in the farmers and their problems. Press coverage of that event would be extensive. Plans for a post-veto strategy would also need to be implemented.²⁸ However, most of the Republican leadership on Capitol Hill urged the president to use the threat of a veto to get as much fiscal responsibility as possible from Congress — but ultimately to recognize the political reality of the

²⁶ Block, "Farm Bill Strategy."

²⁷ *Ibid.*

²⁸ *Ibid.*

situation.²⁹ Ultimately, the conference committee reported out a bill that had just enough positive elements in the eyes of the administration to forestall a presidential veto.

Comparing AAA to the conference bill will best illustrate the dilemma the bill caused for the president. The proposed Public Law 99-198 would have extended and revised federal agriculture and nutrition programs for five years, as opposed to the fifteen years envisioned by the administration. AAA was intended to repeal all permanent farm legislation. The bill amended and added to, but did not repeal, the permanent farm policy legislation of 1938 and 1949. The new bill kept non-recourse loans on wheat and feed grain, but dropped the rate to \$3 a bushel for wheat, and \$2.40 a bushel for corn in 1986. This was a drop in price from \$3.30 and \$2.55 in 1985. The bill authorized the secretary to set the loan rates for 1987-90 at 75-85 percent of the average domestic market price for the crops of three of the previous five years (excluding the highest and lowest years), but specified that the basic loan rate could not be reduced by more than 5 percent from the previous year.³⁰ A drop of 5 percent per year for the loan rate was much different than what the administration had fought for in the AAA. However, there was worse to come.

Deficiency payments were still very much a part of U. S. federal farm policy in the conference bill. The AAA had called for the target price to be reduced until it reached the level of the loan price, in essence abolishing target prices within four years.³¹ In the new bill, these payments were intended to make up for any shortfall between the national weighted average market sale prices received by farmers and target prices set by Congress. The target prices were frozen at

²⁹ Bob Dole, "Farm Bill Conference." Memorandum for Don Reagan, December 2, 1985, Agriculture Box 8, Folder 348001-356570, Ronald Reagan Presidential Library.

³⁰ Barbara C. Stucker and Keith J Collins, "The Food Security Act of 1985: Major Provisions Involving Commodities," *Agricultural Information Bulletin No 497*, Economic Research Service, United States Department of Agriculture (Washington, D. C.: USDA, 1986): 2.

³¹ "Summary of the Agricultural Adjustment Act of 1985," undated White House Working Paper, Agriculture Box 6, Folder 297001-297938, Ronald Reagan Presidential Library.

the 1985 levels of \$4.38 for wheat and \$3.03 a bushel for corn through 1987. Thereafter, a gradual reduction was mandated to 98 percent of the 1986 price for 1988, 95 percent for 1989, and 90 percent for 1990. At no time could the target prices be reduced below \$4.00 a bushel for wheat and \$2.75 for corn.³²

The changes that the White House had called for regarding the deficiency payment limit were also not forthcoming. The new bill retained the current \$50,000 limit on deficiency payments to individual producers — except that now, any payments resulting from the secretary's use of the loan-rate reductions, or any gains realized by repaying a loan at a level less than the original loan level, were exempt from the limit. In addition, any farmer who planted at least 50 percent of his permitted acreage, and who devoted more acres than required under the acreage-reduction program for approved conservation uses or non-program crops, was eligible to receive deficiency payments of 92 percent of the permitted acres.³³ The administration had hoped to reduce the limit to \$10,000 for all participants.

The acreage-reduction requirements that the White House had hoped to abolish were retained as a condition for receiving price-support loans and deficiency payments. Enrollees were required to idle 15 percent of their base acreage in the 1986 wheat crop; in the years of 1987 through 1990, a minimum of 20 percent of the acreage had to be idled. However, at the discretion of The Secretary of Agriculture, the reduction could be increased to 25 percent in 1986 27.5 percent in 1987, and 30 percent in 1989-90. This, of course, was very different from

³² Strucker and Collins, "Food Act," 3.

³³The entirety of the information concerning the contents of the Food Security Act of 1985 comes from *1985 Congressional Quarterly Almanac*, 99th Congress, 1st session, 1985, Volume XXXXI, (Washington, DC: Congressional Quarterly Inc., 1985), 518, or Strucker and Collins, *Agricultural Information Bulletin No 497*, that of the AAA of 1985 comes from "Summary of AAA of 1985", Agriculture Box 6, Folder 297001-297938, Ronald Reagan Presidential Library.

abolishment, and served as an excellent opportunity for U.S. competitors to fill the void by increasing their own acreage.³⁴

The dairy program, a persistent thorn in the side of the administration, was also retained in this bill. The USDA would continue to purchase surplus milk products from processors to provide a minimum price to dairy farmers during periods of surplus. The support price for 1985 of \$11.60 per hundredweight was retained for 1986. For 1987, the secretary was to drop the rate to \$11.30 on January 1, and again to \$11.10 on October 1. In each subsequent year until 1990, the Secretary was mandated to reduce the support price by 50 cents for any year when government purchases were projected to exceed 5 billion pounds. The AAA had envisioned completely revamping the program and paying farmers directly, with no more purchasing or storage of milk products.³⁵

Even more controversial was the provision in the new bill that required the secretary from April 1, 1987 to October 1, 1988 to make offers to buy the cattle of any dairy farmer who was willing to take his entire herd out of production. The cows, bulls, and calves would be either slaughtered or sold for export. Those farmers had also to agree to quit dairy farming for three to five years. This program was to be funded by an assessment on all milk producers of 40 cents per hundred pounds of milk produced from April 1, 1986 to December 31, 1986, and then by 25 cents per hundred until September 30, 1987.³⁶

The sugar title, which the administration had initially opposed in the 1981 bill, reappeared in 1985. The existing program featured price-support loans given to sugar processors, who then passed part of the support along to the growers of sugar cane and sugar beets. This was continued in the new bill. These loans were non-recourse, and the 1985 loan rates of 18 cents a

³⁴ Strucker and Collins, "Food Act, 4."

³⁵ Ibid.

³⁶ Ibid.

pound continued until the 1991 crop. Import quotas for sugar were also continued, with the 1985 price objective of 21.57 cents unchanged. Interestingly, this bill required the president to use all available authority to maintain the sugar program at a no-cost basis to the government. This provision forced the president to impose strict import quotas in order to keep domestic prices above the price-support loan rate. While the cost to the government would be low, the added cost the American consumers could range from \$3 to \$5 billion.³⁷ The AAA had abolished the sugar program.³⁸

The peanut program also survived the AAA axe in the 1985 bill. Most aspects of the previous program were retained. The national quota from price-supported peanuts remained at 1.1 million tons. Each peanut grower had an individual quota capping the amount of peanuts on which he could receive price supports. The 1985 price support level of \$559 per ton was also maintained. The administration's goal of abolishing the peanut quota system was not met.³⁹

The cotton program changed very little in the new bill. The 1985 cotton loan-rate formula, set at 85 percent of average market prices, remained. A floor of 55 cents on the 1986 crop changed to 50 cents for the four subsequent years. Target prices were frozen at 81 cents a pound in 1986 and were gradually reduced to 92 percent of that rate in 1990. The acreage reduction requirements for enrollment were set at 25 percent for the life of the bill.⁴⁰

The 1985 farm bill also increased federal expenditures for food assistance programs by roughly \$1 billion over the period 1986-90.⁴¹ Some of the funding for food stamps, lost in the 1981 bill, would be recouped under the new law. Most of the increase would be in added participation and higher benefit levels resulting from liberalized income deductions, providing

³⁷ Rapp, "Agriculture," 516.

³⁸ "Summary of AAA."

³⁹ Strucker and Collins, "Food Act."

⁴⁰ Ibid.

⁴¹ Ibid.

about \$100 million in new food spending. About one-quarter of the increase in federal expenditures would come from a cost-of-living factor incorporated into the Puerto Rico program that did not appear in the 1981 bill.⁴²

Total USDA expenditures for the 1986 food stamp program would be \$11.7 billion, a number virtually unchanged from that of 1985. It meant that 19.1 million participants would receive, on average, \$45.28 per person per month in 1986. Because of the number of new participants, the \$11.7 billion would lead to an increase in total food spending of approximately \$2 billion. That estimate was based on multiple earlier studies indicating that food stamp households spent between 11 and 30 cents of each food stamp dollar on additional food that they would not have purchased without the program.⁴³

In addition to putting new touches on old policies, the 1985 farm bill also broke new ground. Unfortunately for the Reagan administration, that new ground appeared in the conservation title — an area in which the administration had relatively little interest. Before the 1985 farm bill, the conservation activities carried out by the Department of Agriculture did not have a major effect on the way in which Americans practiced farming. However, several different aspects of the conservation title of the 1985 farm bill would make a substantial impact. A "sodbuster" program was begun to reduce or prevent future cultivation of fragile soils. Any farmer who planted crops on highly erodible land would be ineligible for price supports, crop insurance, FmHA loans, and other federal benefits for all of their crops. Furthermore, anyone who had plowed highly erodible land from 1981 to 1985 was required to begin using an approved conservation plan on that land by 1990 — or two years after completion of a soil survey of the land — and to complete such plans by 1995, in order to remain eligible for farm

⁴² Rapp, "Agriculture," 516.

⁴³ Ralph Parlett, Masao Matsumoto, and Dave Smallwood, "How the Food Security Act Affects Consumers," *Agriculture Information Bulletin No 527*, (August 1987), 5.

program benefits. A wetland conservation (swamp buster) program was instituted in which any farmer who converted wetlands into crop use would be ineligible for participation in any federal support program.⁴⁴

The conservation title also established a long-term reserve program through which farmers of highly erodible cropland could be assisted in conserving and improving their soil and water resources. The conservation reserve would establish 40 to 45 million acres of highly erodible land by 1990. Landowners interested in participating in the reserve had to agree to a plan approved by the local conservation district that would cover the land in grasses, trees, and other approved vegetation for a period of 10 to 15 years. In addition, the farmers had to agree not to harvest, graze, or make other commercial use of the reserve land for the duration of the contract.⁴⁵

The farmers were to be compensated for the land entered into the conservation reserve, either in cash or in kind. Each county had an upper limit of 25percent of cropland for land entered into the reserve. Any farmer seeking to place land into the program would submit the number of acres he desired to enter. The USDA would apportion the quota among the farmers seeking to participate. The total payment was not to exceed \$50,000 for each owner. However, that sum would not affect the total amount of payments the farmer could receive through other USDA programs.⁴⁶

In sum, Congress had presented a bill to the president about which there was very little to like and a great deal to bemoan. The Food Security Act of 1985 (as the farm bill was officially labeled) was huge, containing 15 titles and 773 pages. It was also the culmination of one year of

⁴⁴ Lewrene K. Glaser, "Provisions of the Food Security Act of 1985," *Agricultural Information Bulletin No 489*, (Washington, D C: USDA, 1986): 47-8.

⁴⁵ *Ibid.*, 48.

⁴⁶ Glaser, "Provisions," 48.

concerted effort by both the Administration and the Congress to fashion a sweeping reform of the federal agriculture policy. From the administration's perspective, there was relatively little to show for all the effort. There were two somewhat positive aspects of the law. Crop price supports were minimally reduced, helping to make U. S. exports somewhat more competitive. Since benefits would be available if only 50 percent of the historic acreage were enrolled into commodity programs, farmers were less likely to increase their plantings of a program crop simply for the purpose of receiving more federal payments. However, in many ways, the bill was a sheer disappointment.⁴⁷

Perhaps the biggest disappointment was the omission of several features for which the administration had worked so hard. Target price levels were not reduced enough to prevent farmers from continuing to increase their participation, at great cost to the Treasury. Moreover, the bill failed to completely decouple federal payments from planting decisions, thereby leaving in place a significant incentive to future over-production.

Several aspects of the bill were especially odious to the President. The worst was the dairy title. The administration had hoped to reduce price supports and allow less-efficient dairy farmers to liquidate their herds. Instead, the new law taxed all dairymen to support a plan mandating that the federal government buy the herds of inefficient producers — at even greater cost to the Treasury. Another aspect that the administration particularly disliked was the initiation of a mandatory three-year payment-in-kind export promotion program to counteract unfair trade practices by U.S. competitors. The program would use \$2 billion in government-owned commodities to subsidize trade into previously unsubsidized markets. This would essentially imitate the unfair practices it was intended to counter-act. Such a program

⁴⁷ David L. Chew, "Your Position on the Farm Bill," White House Memorandum for the President, December 18, 1985, Agriculture Box 8, Folder 348001-356570, Ronald Reagan Presidential Library.

could harm relationships with many currently friendly nations, and if implemented, could necessitate subsidizing grain sales to the Soviet Union and Eastern Europe in order to reach the required \$2 billion level.⁴⁸ In sum, it would be a major blow to free trade in agricultural commodities.

Yet another provision troubling to the administration called for drastic reduction in sugar imports to the United States. That, it was feared, could jeopardize relations with the Philippines and the island nations in the Caribbean basin. The provision would cost these nations hundreds of millions of dollars each year in lost exports, and essentially negate the entire U.S. aid program to them — not to mention the cost each year to American consumers.⁴⁹

The overall cost of the new bill to the government, however, might not be as bad as initially feared. The administration estimated the total cost of the bill at \$110.1 billion, including food stamps and other food entitlement programs. The Department of Agriculture estimated that the commodities programs in the bill would cost \$51.8 billion over the ensuing three years. The administration had proclaimed that its upper limit for commodities would be \$50 billion.⁵⁰ Therefore, the \$51.8 billion did not look so bad — especially if one realized that, if the 1981 law were simply extended, the cost would be at least \$3 billion more expensive than the new law.⁵¹

Reagan had no lack of opinions from which to draw on regarding whether to veto or sign the prospective law. From his unique position as the majority leader of the Senate and as a representative of a farm state, Robert Dole reminded the president of the costs of any prospective veto. He advised that the Republicans in the Senate could sustain a veto. However, he maintained that the only viable alternative to the bill on the president's desk was an attempt

⁴⁸ Chew, "Farm Bill," 4.

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ Ibid.

to write an entirely new bill during the last two weeks of December. He argued that members from the farm states were not interested in a one- or two-year stopgap bill. Nor were they interested in a simple extension of the 1981 bill. A veto would require a total reconsideration of a major farm bill, either before the next year's elections or during most of 1987.⁵²

If Reagan vetoed the current bill and Congress took no action, the permanent law of 1949 would become effective. Under its provisions, the dairy support price would increase by 40 percent on December 13. That change would bring the cost of the dairy supports to \$3.2 billion for 1986, or an additional \$2 million a day. Farmer referendums would have to be held for wheat, cotton, and peanut growers within a month of Congress' adjournment. Preparation for the peanut referendum would require exhaustive research to ascertain the holders of historical production allotments, meaning another costly administrative headache.⁵³

There were also major differences between the old statutes and the current law. Wheat loan rates rose from \$3.30 to \$4.20 per bushel in 1986, further pricing American wheat out of the world market, and encouraging widespread loan forfeitures at staggering cost to the Treasury. The same would be true for cotton, corn, and rice. Dole estimated the additional cost to the USDA at \$6 billion for 1986 and \$25 billion for the 3-year period.⁵⁴

The controversy and bitterness that would arise should those referendums be approved would be incalculable. Voting in the farmer referendums would be restricted to historical patterns that excluded Southern and Western wheat farmers and Southwestern cotton growers. Dole counseled working with Congress to get the best possible outcome.⁵⁵

⁵² Dole, "Farm Bill Conference."

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Ibid.

The Council of Economic Advisors had another idea. The message from the CEA was straightforward: "The draft farm bill approved by the House-Senate conferees must be vetoed."⁵⁶ Their reasoning repeated the arguments that the administration had been using throughout the consideration of the bill. The CEA argued that the new bill contained "market distorting policies that would continue to imperil American agriculture's viability for the foreseeable future." They anticipated government costs and mandated commodity purchases continuing at unacceptable levels throughout the life of the bill. Even with reductions in target prices for wheat in the last three years of the bill, the target price in 1990 would still be 50 cents a bushel higher than the market price in 1985.

By now, the Secretary of Agriculture had changed his position completely. John Block, who had been the most vocal proponent of the market-oriented farm bill among all of the White House guard, now came down strongly in favor of the president signing the Farm Security Act of 1985. There were several aspects of the bill that Secretary Block liked: lower loan rates, lower target prices in the out-years, the partial uncoupling of program payments from planting decisions, a reduction of dairy price supports, the establishment of a 45-million-acre conservation reserve, and the estimated cost of the bill (\$51.8 billion for the three years). The Secretary described the pending legislation as the best possible outcome that the administration could achieve, given the present agricultural economy.⁵⁷

The National Security Council did not agree with Block. The NSC, not usually an advisor on farm legislation, strongly objected to the bill's provisions on export subsidies and on the sugar quota. Both provisions ran counter to existing foreign policy. The sugar quota would interfere

⁵⁶ Beryl Sprinkel, Chairman of the Council of Economic Advisors, "Farm Bill," a White House Memorandum for Donald T. Regan, December 17, 1985, Agriculture Box 8, Folder 356512-365000, Ronald Reagan Presidential Library.

⁵⁷ John Block, To Donald Regan, "Memorandum on Farm Bill of 1985," December 18, 1985, Agriculture Box 8 Folder 356512-365000, Ronald Reagan Presidential Library.

with the administration's Caribbean Basin Initiative, while the export subsidy promotions could interfere with grain sales to the Soviet Union and other Eastern European countries.⁵⁸

The Office of Management and Budget also opposed the bill. Its opinion closely paralleled that of the CEA. Since the president would have no further chance to be involved with a farm bill, James Miller at OMB recommended a veto. As with all political decisions, it was a question of risk versus reward. The risk was that the veto would imperil Republican Representatives, and Senators seeking election in the 1986 election. The reward would be a different farm bill more amenable to the Republican philosophy.⁵⁹

President Reagan's chief political advisor, Mitch Daniels, suggested that the political consequences of a veto would be serious but sustainable. The ability to weather the damage would be greatly enhanced by the signing of acceptable farm-credit legislation, which would then show that the veto was about bad policy and not simply about dollars and cents.⁶⁰ However, there was little chance that a substantially better bill could be obtained from the next Congressional session; therefore, any damage sustained by Republicans would have been in vain. A better plan than a veto, he argued, would be to send specific changes to the bill to the next session of Congress.⁶¹

In the end, Reagan faced four options. He could veto the bill on policy grounds, indicating that it did not accomplish his policy objectives. It was over the \$50 billion limit; he would opt for a new bill next year and he would seek a simple extension of the current law before Congress

⁵⁸ Chew, "Farm Bill," The Caribbean Basin Initiative came into effect on January 1, 1984 in response to the leftist incursions in Nicaragua and El Salvador. It aimed to provide tariff and trade benefits to Central American and Caribbean countries who were not under the influence of Communists and who had not appropriated American property.

⁵⁹ Jim Miller, "Farm Bill," a Memorandum for the Chief of Staff, December 17, 1985, Box 8, Folder 356512-365000, Ronald Reagan Presidential Library.

⁶⁰ More on farm credit legislation in Chapter 10.

⁶¹ Chew, "Farm Bill," 4.

adjourned. Alternately, he could veto the bill on specific grounds, indicating that the sugar, dairy and export-promotion subsidies were completely unacceptable and that he would seek a new bill next year with changes in those specific titles. Third, he could sign the current bill, but point out specific concerns, indicating that he would vigorously seek new legislation or legal remedies next year to the sugar, dairy, and export-promotion subsidies sections of the bill. Finally, he could simply sign the bill without comment.⁶²

On December 23, 1985, President Reagan signed HR 2100, the Food Security Act of 1985, into law. He said of the bill:

The 1985 farm bill is, in my opinion and the opinion of a bipartisan majority in the Congress, a clear and obvious improvement over existing farm programs. Perhaps the most helpful thing it does is establish predictable long-term policies so that our farmers will be able to make realistic plans for investment and production. The farm bill gives the Secretary of Agriculture the flexibility he needs to maintain farm price supports at levels that reflect the realities of the market. This will help put our farmers back in a more competitive position in world markets. With this bill, we hope to ease American agriculture away from the heavy hand of government and toward a more market-oriented system. We're trying to free farmers from the influence and directives of government and encourage them to produce for the public market basket and not for government storage bins. The bill also contains income supports that will ease the problems that occur during the transition to a market economy. . . But there are problems with the bill. It continues the truly unhelpful Federal involvement in the dairy industry. It also expands government intervention in the area of export subsidies. In fact, the bill mandates subsidized export sales, meaning citizens of other countries could pay less for American grain than American consumers. These provisions are totally counter-productive, and we'll be working with the Congress to make appropriate changes next year.⁶³

The president signed the bill despite its flaws, because he saw it as a step in the right direction.⁶⁴

The Reagan administration's fiscal peril over of the farm crisis did not end with this major setback at the hands of Congress over the new farm law. The continued depressed farm prices

⁶² Chew, "Farm Bill."

⁶³ "Ronald Reagan Remarks and a Question-and-Answer Session With Broadcasters and Editors on the Food Security Act of 1985 and the Farm Credit Amendments Act of 1985, December 23, 1985," *Public Papers of the Presidents of the United States, Ronald Reagan 1985 II* (Washington: GPO, 1988), 1499.

⁶⁴ "Statement of the President Regarding H. R. 2100, The Food Security Act of 1985," undated White House Memorandum, Agriculture Box 8, Folder 370001-371326, Ronald Reagan Presidential Library.

pushed more and more commercial farmers into financial distress; subsequently the farm lending institutions faced red ink as well. Pressure on the administration from farm interests for aid to the Farm Credit System increased. Reagan considered such a move unnecessary and extravagant. However, midterm elections loomed.

Chapter 10

The Agricultural Credit Crisis

The agricultural credit crisis came at an extremely inopportune time for the Reagan administration. The President received a great deal of criticism during his first term from political opponents and the media because of the budget deficits that had resulted from his economic programs. Despite the relative ease of Reagan's reelection, the criticism continued unabated into the second term. The huge tax cuts and large outlays for refurbishing the nation's military, instituted during the first term, had led to more federal expenditure than income. In an attempt to balance the budget, David Stockman and his associates at the Office of Management and Budget (OMB) tried to reduce spending in other areas. However, that task proved exceptionally difficult. Reagan had forbidden reductions in defense spending and the "Safety Net" the government provided to its citizens in need.¹ That meant that all reductions had to come from the 27 percent of the budget that pertained to government services — namely, all of the cabinet departments, the FBI, the national parks, the county agents, the Foreign Service, the Weather Bureau, the post office, transportation infrastructure, and everything for which federal grants to the states helped pay.² Cuts in those programs proved politically unpopular. However, agricultural support programs were costing the

¹ Ronald Reagan, "Address Before a Joint Session of the Congress on the Program for Economic Recovery," February 18, 1981, *Public Papers of the Presidents of the United States: Ronald Reagan, 1981* (Washington, United States Printing Office, 1982), 110.

² William Greider, *the Education of David Stockman and Other Americans* (New York: E. P. Dutton, Inc., 1981), 18.

Treasury more each year. Thus, when pressure started to mount on the federal government to come to the aid of the farm credit system, the administration had available no easily-tapped source of funds.

By 1985, the financial strain that many farmers were experiencing was reflected in a decline in the quality of the loan portfolios of agricultural lenders. Commodity prices fell, and so did the value of farmland. When farmers' incomes declined, they were less able to keep current with their loan payments. The number of bank failures reached 100 in 1985, and 55 of them were rural agricultural banks.³ As prices for farmland continued to fall, many operating loans and long-term real estate loans on farmland became under-collateralized. Some farmers could pay nothing at all on their loans. While from a technical standpoint these bank failures did not affect the integrity of the banking system as a whole, they did have a significant effect on the social and political outlook of rural America.⁴

The administration's view on the farm credit crisis was that the current readjustment in the farm economy was a necessary process following the extraordinary agricultural boom of the middle and late 1970s.⁵ Those farmers who had expected continued strong markets both domestically and abroad had expanded capacity, bid up prices, and

³ "Farm Credit Situation and Outlook," undated USDA Memo, Agriculture Box 9, Folder 392286 (1 of 2), Ronald Reagan Presidential Library.

⁴ Roger G. Ginder, Kenneth E. Stone, and Daniel Otto, "Impact of the Farm Financial Crisis on Agribusiness Firms and Rural Communities," *American Journal of Agricultural Economics*, 67, no 5 (1985): 1184-90.

⁵ This review of the administration's view on the credit crisis was taken from Justine Rodriguez and Mark Wasserman, Office of Management and Budget, Memorandum to Ahmad Al-Samarrie, "Readjustments in the Farm Sector," Agriculture Box 9, Folder 392286 (1 of 2), Ronald Reagan Presidential Library:1-5.

incurred substantial debt. When markets weakened and land prices fell, many who had made that gamble found themselves in serious financial difficulty.

While real income on farm assets exceeded the level that existed before the boom, in many cases it was not enough to cover the growing real interest rates encountered as inflation moderated and nominal interest rates rose.⁶ Therefore, real income from equity had become negative for those with substantial debt. In addition, because of falling land prices, the total loss of equity had become quite large and often the value of the equity underpinning the debt became inadequate. Thus, in the eyes of the administration, such losses were the unavoidable adjustment to a more realistic assessment of the future income from farming.⁷

The White House was quick to point out that, while farmers reaped enormous gains during the years 1972 -1977 thanks to soaring farm commodity prices — the real return on farm equity averaged \$89 billion per year — the Treasury was not invited to share in those gains.⁸ Now, however, in the economy of the 1980s, with low inflation, a strong dollar, and slow growth in markets, the prospects for increased farm income were greatly reduced.⁹ In keeping with that outlook, farmland prices had adjusted

⁶ Paradoxically this was the case in 1982, for a full discussion of this, see Michael Mussa, "U. S. Monetary Policy in the 1980s in *American Economic Policy in the 1980s*, A National Bureau of Economic Research Conference Report, Martin Feldstein, ed. (Chicago and London: the University of Chicago Press, 1994),81-145; and William Greider, *Secrets of the Temple: How the Federal Reserve Runs the Country* (New York: Simon & Schuster Paperbacks, 1987).

⁷ Gary L. Benjamin, "The Financial Stress in Agriculture," *Economic Perspectives-Federal Reserve Bank of Chicago*, 9, no. 6, (1985): 3.

⁸ Rodriguez and Wasserman, "Readjustments," 2.

⁹ For a review of "Reaganomics," see Roberts P. Craig, *Supply Side Economics, Theory and Results: An Assessment of American Experience in the 1980s* (Washington: Institute for Political Economy, 1989); Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford and New York: Oxford University Press, 2000); Olivier Blanchard and Rudiger Dornbusch, "The U. S. Economy in the 1980's and Beyond," in *Keynes and the Economic Policies of the 1980s*, Mario Baldassari, ed. (Rome: St.

downward. Now farmers were asking taxpayers to share in the windfall losses. In the view of many within the administration, those losses were a clear signal from the market to move resources to more profitable uses, both inside and outside agriculture. To interfere with this necessary reallocation of funds through government policies such as forgiving farm indebtedness would, in the view of the administration, inhibit the natural workings of the market.¹⁰

The Reagan administration's greatest concern was about the political pressure that was building for what would amount to a federal bailout of the Farm Credit System. The reason for concern was that the federal government was already deeply involved in providing farm credit; it was losing money in that endeavor. The federal government helped farmers obtain credit in several ways. Credit assistance was provided through insured and guaranteed loans. Under a guaranteed loan, the government promised to pay all or a portion of a commercial loan should the borrower default. Because loan guarantees transferred some or all of the risk to the government, this effectively transformed a private loan into a government loan. Because of the governmental guarantee, the interest rates were usually below rates available on the open market.¹¹

For those farmers whose financial circumstances were so precarious that they could no longer qualify for loans from either commercial banks or the Farm Credit System,

Martin's Press SIPI, 1989). For a more technical look at the connection between consumption and growth in the 1980s, see David Gualerzi, *Consumption and Growth: Recovery and Structural Change in the U. S. Economy* (Northampton, MA: Edgar Elder, 2001). For a comprehensive treatment of the U. S. Economy see Martin Feldstein, ed., *American Economic Policy in the 1980s*, a National Bureau of Economic Research Conference Report (Chicago and London, The University of Chicago Press, 1994).

¹⁰ Rodriguez and Wasserman, "Readjustments,"3.

¹¹ Ibid.

there was an avenue of last resort—they could apply for credit directly to the federal government through the Farmers Home Administration. Direct loans were made by the government in order to channel funds toward a specific social purpose that even guaranteed loans would not reach. In order to ensure that the social function was achieved, federal agencies provided loans at interest rates far below those that would be available through any other market — and frequently at much longer maturities. Agriculture was the major recipient of direct government loans, accounting for 61 percent.¹²

By 1984, direct federal lending approached \$90 billion and accounted for 20 percent of the entire U. S. lending market. Of the direct federal loans, agriculture received 71 percent.¹³ Federal borrowing stood at \$281 billion for FY 1983, or 56.5 percent of all national borrowing. Capital raised for direct and guaranteed loans totaled \$80 billion in FY 1984. Thus, federal intervention into financial markets, which averaged \$32 billion annually through the first half of the 1970s, had more than doubled in the next five years.¹⁴

As the government-subsidized agricultural lender of last resort, the performance of the FmHA during the Farm Crisis of the 1980s was especially bleak. Borrowers from the FmHA were, by definition, of higher risk than what any other lenders were willing to accept. In fact, many within the Reagan administration argued that, in order for farmers

¹² Rodriguez and Wasserman, "Readjustments,"3.

¹³Kerry Webb, "The Farm Credit System," *Economic Review-Federal Reserve Bank of Kansas City* 65 (June 1980): 8.

¹⁴ Letter from William M. Isaac, Chairman of the Federal Deposit Insurance Corporation to Donald T. Reagan, February 1, 1985, , John Svahn Box, File OA13531 Ronald Reagan Presidential Library.

to qualify for an FmHA loan, they had to prove conclusively that they were unable ever to repay the loan. Not surprisingly, the portfolio of the FmHA deteriorated markedly during the 1980s. FmHA farm loan delinquencies grew forty-fold between 1976 and 1986, rising from \$164 million to \$6.8 billion. In 1976, just 3 percent of FmHA farm loans were delinquent. One reason for the mounting delinquencies was that, as the lender of last resort, the FmHA had a loan portfolio dominated by highly leveraged borrowers. The average FmHA farm borrower in 1985 had a debt/asset ratio of .80.¹⁵ In a loan portfolio of \$26 billion, \$11.8 billion (46 percent) was delinquent, and \$7.3 billion (28 percent) had been delinquent for four years or more. According to the FmHA, borrowers who were delinquent in their loans for more than three years were never likely to recover financial stability. Their loans usually ended in forfeiture or foreclosure.¹⁶ It was extremely troubling to the administration that FmHA was losing so much to write-offs, since balancing the federal budget had become such a priority. Thus, the Reagan administration felt that it was already more than adequately supporting agriculture in general and farm credit in particular, and Reagan did not want to add the responsibility for the Farm Credit System to the red ink he was already facing from the FmHA.¹⁷

Also playing into the reluctance of the administration to invest huge amounts into the agricultural credit system was the soaring cost of the existing farm programs. With

¹⁵Kim Norris, "The Farmers Home Administration: Where is it Headed?" *Economic Review-Federal Reserve Bank of Kansas City* 71 (Nov 1986): 27.

¹⁶Alan Barkema, Mark Drabenstott, and Landell Froerer, "A New Era in Farm Lending: Who Will Prosper?" *Economic Review-Federal Reserve Bank of Kansas City* 73 (June 1988): 30.

¹⁷ Norris, "The Farmers Home Administration," 28.

prices falling and markets shrinking, more farmers were enrolling in commodity support programs, and the cost to the government continued to rise. Congress passed a new farm law in 1985 that largely ignored the administration's wishes and did very little to ease the drain on the Treasury from agricultural costs. Thus, the Reagan administration found itself in a major dilemma. Critics continually raised the issue of the increasing budgetary deficit, and now it was being heavily pressured to funnel billions into the bailout of the Farm Credit System — this despite the fact that it was spending tens of billions on commodity support programs. Thus the increasing clamor by the media for even more federal aid to agriculture was more than unwelcome.

However, the individual stories of hardship that the media conveyed were real.¹⁸ The academic literature revealed that the farm crisis caused personal, social, and institutional pathology. The threatened loss of employment or a sudden economic setback could and did cause physical illness, emotional stress, depression, marital discord, alcoholism, and even suicide. It had been observed that the threatened loss of a farm caused a characteristic grief reaction involving denial, guilt, anger, confusion, and depression. During the Farm Crisis of the 1980s, financially-strapped farm families displayed various psychological and psychosocial pathologies, including anger, self-depreciation, loss of identity, diminished self-sufficiency and independence, substance abuse, interpersonal violence, and a marked increase in the incidence of suicide. Nearly all (94 percent) of those farmers with the highest debt/asset ratios surveyed reported

¹⁸ Laura B. DeLind, "The U. S. Farm Crisis and Media Coverage, an Example from the Mid-West," *Culture and Agriculture* 28 (Winter 1985): 11-14.

increased familial stress, while 41 percent of families with the lowest ratios reported similar stress.¹⁹ In Missouri in 1983, the occupation with the highest rate of suicide was farming.²⁰ The children of farm families also showed the results of stress. They exhibited marked increases in academic and behavioral problems during the crisis.

In addition, farm wives were often forced to change their life-styles completely in order to try to save the farm. In 1985, the U. S. census bureau estimated that 48.5 percent of such women had taken off-the-farm jobs. In many cases, this new income was all that saved the family farm from foreclosure. This profoundly changed the family dynamic. The wife was forced to undergo a complete change in lifestyle, now working an 8 to 5 job. Childcare was often an issue. So, too, was the loss of the companionship associated with being partners in the farming enterprise. All of the work around the farm that had previously been done by the wife now fell to the husband, on top of his normal chores. Some wives felt a new sense of self-esteem and freedom. Many, however, would have preferred to go back to the farm. Virtually all of the men felt diminished by the necessity of their wives taking off-the-farm jobs. Most were embarrassed at the fact that they could no longer provide for their families; status anxiety was wide-spread. The upheaval was not confined to personal change. Stress was also felt institutionally in schools, churches, and city, county, and state governments — and especially in agribusiness firms.²¹

¹⁹Gordon Bultena, Paul Lasley, and Jack Geller, "The Farm Crisis: Patterns and Impacts of Financial Distress among Iowa Farm Families," *Rural Sociology* 54, no. 4 (1986): 438, 444.

²⁰Andrew H. Malcolm, "Problems of Farms Take Toll on Family Life," *New York Times* November 20, 1984.

²¹ *Ibid.*

During the years 1980 to 1986, real net farm income averaged only \$25 billion in constant 1982 dollars, down nearly 40 percent from the average level of the 1970s and down 25 percent from the 1960s. State revenues, especially those based on state income taxes, decreased markedly in those states in which agriculture was an important industry. For local governments, the most important consequence of the crisis came from the resulting revaluation of farmland. Prior to 1981, farmland values had fallen only once in the post-World War II period. That was in 1954, when farmland dropped from \$83 to \$82 per acre.²²

Measured in constant 1982 dollars, the real value of farmland declined for six consecutive years from 1981 through 1986. During that period, the national average price of farmland dropped 40 percent. In some grain-growing areas such as Iowa, Nebraska, and Missouri, prices dropped as much as 60 percent. The USDA estimated that between 1982 and 1985, farmland values fell by \$146 billion — a figure equal to the combined current assets of IBM, General Electric, Eastman Kodak, 3M, Proctor and Gamble, Dow Chemical, McDonalds, RCA, Upjohn, Weyerhaeuser, and CBS.²³

Rural schools were hit very hard. Since property taxes were the basis for their support, there was a threefold problem. The tax base dropped each year of the crisis, many rural landowners could not pay the taxes they already owed, and those leaving farming took their children with them. Thus the enrollment in rural schools dropped substantially. In Iowa, thirty-nine counties had property tax delinquency rates in excess

²² Timothy J. Conlan, "Bitter Harvest: Intergovernmental Dimensions of the Farm Crisis," *Publius: The Journal of Federalism* 17 (Summer 1987): 146.

²³ *Ibid.*

of 10 percent as of May 1, 1986; in five of those counties, tax delinquency rates topped 20 percent.²⁴

Falling income, rising unemployment, and population declines forced record numbers of small banks and businesses to close in rural communities, further eroding the local tax base. Agricultural implement dealers were also hit hard. According to the Farm and Industrial Equipment Institute, farm tractor and combine sales fell 31 percent and 61 percent respectively between 1980 and 1985, causing one-quarter of the nation's implement dealers to go out of business during this period. Of those farmers who were forced off the land, 50 percent of those surveyed reported that they had accounts with agribusiness firms — such as implement, seed, and feed companies — that had not been paid in full.²⁵ Multiple uncollectable accounts put the agribusiness at risk as well. It was, in fact, a close race to see whether a greater percentage of farms or agribusiness firms would be lost. A great deal of economic woe was largely confined to the agricultural states, while the remainder of the economy recovered nicely. This disparity powerfully drove the pressure on the Reagan Administration to do more for agriculture. One of the loudest outcries called for federal aid to the Farm Credit System. That was because of the historical link between the federal government and the Farm Credit System. The credit needs of farmers seemed to justify such demands.

²⁴Elizabeth Flansburg, "\$145 Million in Taxes Owed to Iowa Counties," *Des Moines Sunday Register*, July 27, 1986.

²⁵William D. Heffernan and Judith B. Heffernan, "Impact of the Farm Crisis on Rural Families and Communities," *Rural Sociologist* 6 (1986): 165.

Most farmers needed two kinds of loans to carry out their business. One was a long-term (twenty-five to thirty year) loan for the purchase of land and farm equipment. The second was a short-term (six to nine month) loan for the purchase of seed, fertilizer, pesticide, and miscellaneous needs in order to plant a crop. Usually, the short-term loan was paid off with the proceeds from the yearly sale of the season's crops. Often, a farmer would have two different lenders for his two kinds of loans. Commercial banks were the largest lenders for the short-term or production loans, but the Farm Credit System was also an important player in this business.²⁶

The market for long-term agricultural loans for land and heavy-duty farm equipment was much more diverse. As 1985 began, only 7 percent of farm real estate debt was held by commercial banks. The federally chartered but privately owned Farm Credit System held 43.7 percent of that debt, and with each passing month of the farm crisis, the financial condition of that system worsened. Inevitably, the pressure for federal intervention increased. The Farm Credit System was essential to the success of U. S. agriculture. Were it to fail, almost half of the America's farmers would be without credit for their real estate loans, and U. S. agriculture would be set back to the era when farm credit was scarce.²⁷

Before the creation of the Farm Credit System, one of the major complaints of farmers who lived west of the Appalachians had been the lack of available credit. The financial capital of the country at that time was New York City; the further one lived

²⁶ Ronald Meekhof, "Federal Credit Programs for Agriculture: Background for the 1985 Farm Legislation," *USDA Agricultural Information Bulletin no. 483* (1984): 3.

²⁷ *Ibid.*

from that capital, the harder it was to obtain loans. The Populist movement was, in part, aimed at reversing the hard-money policy instituted after the Civil War that kept the country's money supply tight and made working capital so hard to obtain.²⁸ In the period between World War I and World War II, economic conditions in U. S. agriculture deteriorated significantly.²⁹ The marked improvement of farm prices, income, and land values experienced before and during the first war was followed by twenty consecutive years (1919-39) of falling land values and rising problems with debt repayment and rural bank failings. Farmers had a very hard time obtaining loans. On the demand side, farming was risky, returns were low, and farmers tried to avoid borrowing. On the supply side, because of that same riskiness, lenders tended to try to avoid agricultural lending. What money that was available was at prohibitively high interest rates and for no more than five-year terms. It was also customary for lenders to refuse to reissue agricultural loans to the same borrower.³⁰

Short-term farm credit faced similar problems. Farmers needed production loans for ninety days to one year. Often such loans were available for only ninety days. If farmers sought credit outside of lending institutions, such as from merchants or other

²⁸ For Populism, see Lawrence Goodwyn, *The Populist Moment: A Short History of the Agrarian Revolt in America* (Oxford: Oxford University Press, 1978); James Turner, "Understanding the Populists: *The Journal of American History*, 67, no. 2 (1980): 354-373; and Richard Hofstadter, *The Age of Reform* (New York: Vintage Books, a Division of Random House, 1955).

²⁹ For agriculture between the wars, see Gilbert C. Fite, "The Farmers' Dilemma, 1919-1929" in *Change and Continuity in Twentieth-Century America: The 1920s*, John Braeman, Robert H. Bremner, David Brody Eds. (Columbus, Ohio: The Ohio State University Press, 1968); Van L. Perkins, *Crisis in Agriculture: The Agricultural Adjustment Administration and the New Deal, 1933* (Berkeley and Los Angeles: University of California Press, 1969); David Hamilton, *From New Day to New Deal: American Farm Policy from Hoover to Roosevelt* (Chapel Hill: University of North Carolina, 1991); Howard Kester, *Revolt among the Sharecroppers* (New York: Arno Press and The New York Times, 1936); and R. Douglas Hurt, *The Dust Bowl: An Agricultural and Social History* (Chicago: Nelson-Hall, 1981).

³⁰ Meekhof, "Federal Credit Programs:" 3.

businessmen, the terms were often onerous. This lack of available and affordable capital had been a major factor in the emergence of the large number of tenant farmers, especially in the South, who lived in poverty.³¹ With the advent of the farming depression following World War I, the federal government responded by instituting programs designed to reduce the financial risk of farming. It sought to make credit available at more reasonable interest rates and at terms more attuned to the cyclic nature of the farming business. Most important among the institutions established to administer these programs were the banks of the Farm Credit System (FCS).³²

The government began its involvement in agricultural lending in 1916 when Congress passed the Federal Farm Loan Act, creating a cooperative system of twelve Federal Land Banks to provide long-term loans secured by real estate. The bill also created what is now called Federal Land Bank Associations, which were to act as the local lending agents of the Federal Land Bank (FLB) as well as to service their loans. This legislation was enacted both to alleviate farm mortgage problems, and to provide farmers with the opportunity to better control and manage their own sources of credit.³³

In the beginning, the twelve Federal Land Banks were capitalized by the purchase of stock by the U. S. Treasury. In the depths of the Depression, in the early 1930s, thousands of farm mortgages were being called in by private lenders. In order to keep many farmers from bankruptcy, the government provided an additional \$200 million to

³¹ Meekhof, "Federal Credit Programs:" 3.

³² George Irvin, "The Farm Credit System: Looking for the Proper Balance," *Economic Perspectives-Federal Reserve Bank of Chicago*, 9, no. 6 (1985): 9.

³³ Isaac, "Letter."

the Farm Credit System as a vehicle for refinancing farmers through land bank loans. Thereafter, as other sources of credit to farmers dried up, the land bank cooperative gained substantially in market share. This enabled the cooperatives to pay back to the Treasury all of the initial investment by 1947. After that date, Federal Land Banks, as well as all other Farm Credit System banks, no longer received money from the federal budget. They did not lend government funds, nor were their loans guaranteed by the government. They were all borrower-owned cooperatives, providing long-term credit at cost to members. However, implicit from the beginning was the idea that if ever the system should falter, the government would come to its rescue.³⁴

The FCS filled an essential need because, as a group, U. S. farmers were huge borrowers. At the end of 1985, farmers collectively owed \$194 billion. This sum was substantially more than the foreign debts of such borrowing nations as Argentina, Brazil, and Mexico. Just over a half of this debt consisted of loans secured by first mortgages on farm real estate. The remainder was made up of non-real estate loans backed by non-land physical capital such as equipment, livestock, or crops. The single biggest source of credit for American farmers was the FCS. At the end of 1985, it held \$61 billion of the agricultural debt.³⁵

Federal Land Banks made long-term loans to farmers, ranchers, agribusinesses, and rural residents. Roughly 91 percent of FLB loans were used for the purchase of new real estate, improving land and buildings, or refinancing previous real estate or other short-

³⁴ Webb, "Farm Credit:" 19.

³⁵ Richard M. Todd, "Taking Stock of the Farm Credit System: Riskier for Farm Borrowers," *Quarterly Review*-Federal Reserve Bank of Minneapolis 9, (Fall 1985): 19.

term loans. The other 9 percent of loans either went to purchase land bank stock, or for miscellaneous purposes. All loans were first mortgages, and no loan could exceed 85 percent of the appraised value of the security. Each borrower was required by law to purchase stock in an amount of no less than 5 percent nor more than 10 percent of the value of the loan. Once the loan was repaid, the stock was retired. Each stockholder had one vote in the association, no matter how many shares were held. The stockholder also was eligible to vote in the election of the board of directors and on any policy question that came before the association.³⁶

Each of the twelve Federal Credit System districts had a Federal Land Bank. The land banks operated through hundreds of local Federal Land Bank Associations that processed and provided advice on farmers' loans. There were several advantages to the borrower. FLBs had a lower interest rate structure than other lenders because they raised money through the issuance of bonds in national money markets and used the average cost of acquiring the money they lent. Thus, changes in new loan rates lagged behind those at commercial banks, insurance companies, and other lenders where the acquisition of funds was based on marginal costs of deposits (in small banks) and current market rates (for insurance companies and large banks). Therefore, especially during times of rising interest rates, FLBs often had lower rates than commercial banks and insurance companies.³⁷

³⁶ Webb, "Farm Credit," 19.

³⁷ Dean W. Hughes, "Financial Condition of Agricultural Lenders," *Economic Review-Federal Reserve Bank of Kansas City*, 69, no. 7 (1983), 22.

The Farm Credit System was not made up only of FLBs; there were several other branches within the FCS. While FCS district banks and local co-op associations were largely autonomous, the nationwide policies and regulations that governed the FCS were set by the Farm Credit Administration Board, whose three members were appointed by the president. Examination of FCS banks and associations was made by an independent agency of the executive branch of the government — the Farm Credit Administration.³⁸ Thus, the FCS was referred to as a federally-sponsored credit agency. Similar to other sponsored credit agencies like the Federal National Mortgage Association and the Federal Home Loan Banks, the FCS performed specialized credit functions. These agencies were privately owned, largely independent of the federal government and, because of their charter, had characteristics that provided significant advantages for their clients. Because of these advantages, the FCS was considered a federal agency by investors, even though technically this was not the case. Nevertheless, this perception allowed the FCS to obtain capital to lend at lower rates than their competitors.³⁹

The 1980s were not kind to the Farm Credit System. As of December 1985, the Production Credit Associations held \$15 billion in non-real estate loans to farmers. This made up about 25 percent of the FCS systems total farm loan portfolio and about 17 percent of American farmers' total non-real estate debt.⁴⁰ By 1985, over 200,000 farms were not generating enough cash to cover both interest payments and typical family

³⁸Todd, "Taking Stock," 16.

³⁹Webb, "Farm Credit," 17.

⁴⁰Todd, "Taking Stock," 16.

living expenses. By the end of 1985, the value of the FCS farm loan portfolio was down 19 percent from 1981. Most of the decline was in non-real estate loans, which were down 37 percent. However, FCS real estate loans were also down 9 percent.

A surge of farm lending by the federal government was one factor. Falling interest rates in national money markets was another. Lower interest rates reduced banks' marginal cost of funds, bringing it closer to that of the FCS's rates and narrowing the difference between bank charges and FCS charges. The marked decline in the quality of FCS loans was primarily due to the marked decline in farm income and asset values. However, those borrowers who left the FCS and took advantage of the more competitive interest rates at the commercial banks usually were the strongest borrowers.⁴¹

Both small rural banks and the FCS were hit hard by the agricultural recession. The FCS lost \$2.7 billion in 1985 and \$1.9 billion in 1986. Non-performing loans had been a growing percentage of the system's shrinking loan portfolio since the early 1980s. Total nonaccrual and other high-risk loans totaled \$12.8 billion in 1986 before shrinking down to \$9.4 billion in 1987. The deterioration in the quality of loans occurred while the size of the system's portfolio shrank 33 percent to \$52.5 billion in 1987.⁴² By 1987, the political pressure to intervene on behalf of the Farm Credit System was implacable.

Reagan's administration experienced intense frustration. It was shackled to a farm support system in which it did not believe, and which it had tried to change in the 1985

⁴¹Webb, "Farm Credit," 18.

⁴²Alan Barkema, Mark Drabenstott, and Landell Froerer, "A New Era in Farm Lending: Who Will Prosper?" *Economic Review-Federal Reserve Bank of Kansas City* 73, (June 1988): 30.

farm bill. It was prevented from making meaningful changes in the commodity support system largely because of Congress's habit of handing out government largess. Now, while being pilloried for deficit spending, Reagan's administration was being pressured, against its will, to spend even more on agriculture.

What were the facts? USDA estimated that one-half of all farmers were unable to meet their 1984 cash expenses, debt repayment costs, and living expenses from farm earnings and off-farm employment. By 1985, over 20 percent of farmers were reporting debt/asset ratios of .4 or greater. Over 200,000 farmers (10 percent) had experienced both sufficient loss of equity and negative cash flow, such that their ability to plant a crop in 1985 was in serious question.⁴³

While farmers in serious financial straits made up only 10 percent of the total, they accounted for more than 45 percent of the farm debt. Their problems meeting principal and interest payments had affected both the Agricultural Credit System and some agricultural banks. As farmland and farm machinery values declined and loan payments dwindled, the value of the loan portfolios depreciated and the liquidity of these agricultural lenders deteriorated. The fear, of course, was that the difficulty with these lending institutions was concentrated in rural areas of farming states; their distress might affect entire rural economies in the most affected areas, i.e. the Corn Belt, the Lake States, and the Southern Plains.⁴⁴

⁴³ "A Financial Profile of the Farm Sector," a White House Working Paper, June 6, 1985, Agriculture Box 9, Folder 394486 (2 of 2) Ronald Reagan Presidential Library, 1.

⁴⁴ Robert W. Jolly et al., "Incidence, Intensity, and Duration of Financial Stress among Farm Firms," *American Journal of Agricultural Economics* 67, (December 1985): 1109.

The Reagan administration, however, continued to maintain that the Farm Credit System was both solvent and competent to meet the current dilemma. It argued that in January 1985, 59 percent of outstanding FCS farm loans were in the hands of farmers with debt-asset ratios exceeding .40. However, 59 percent of the outstanding farm loans of commercial banks were also held by farmers with debt-asset ratios of .40. While this fact suggests, as the administration maintained, that FCS lenders were no more at risk from outstanding farm loans than commercial banks, the problems of the FCS were graver because of the higher percentage of farm loans in the FCS' portfolio. Even more, the problems of the FCS were worse because of the larger percentage of under-collateralized farm mortgage debt held by the FCS.⁴⁵ Because of this, the FCS felt that it needed federal help.

There was a major difference of opinion as to the needs of the FCS. What the FCA needed, in the eyes of the White House, was a thorough administrative reorganization; and the administration continued to stress this to Congressional leaders.⁴⁶ At the same time, FCA Governor Donald E. Wilkinson privately apprised members of Congress that the system was in trouble. When news reports and rumors about the trouble became rife, Wilkinson held a news conference to clear the air. What became clear to the public was that the FCS was going to sustain losses in the \$6 billion range, and that because of

⁴⁵W. D. Dobson and Freddie L. Barnard, "The Problems and Prospects of the Farm Credit System," *Agribusiness* 3, no. 3 (1987): 328.

⁴⁶"Farm Credit System," Memorandum for the President from the Economic Policy Council, November 1, 1985, Agriculture Box 9, Folder 392286, (2 of 2), Ronald Reagan Presidential Library.

its diffuse organizational structure and its fervent hope that the government would come to the rescue, it had not come to grips with its problems.

Governor Wilkinson outlined his proposals to Congress, asking for a line of credit to help the system pay for \$6 billion in bad farm debts. The president, however, would not agree to such a large credit line. Both the House and Senate introduced almost identical bills and put them on the fast track for clearance by the end of the year. Two of the most pressing objectives of the new legislation were to reassure financial markets of the soundness of FCS securities and to keep FCS farmer borrowers from withdrawing about \$5 billion in GCS stock they held, taking good loans elsewhere.⁴⁷ The only real controversy involved a dispute between healthy and distressed banks within the FCA. House and Senate Agriculture leaders divided the influence of the strong and weak banks on a new board that would have the power to redistribute funds within the system. With that agreement, Public Law 99-205 passed both Houses on December 18, 1985.

The new law, the Farm Credit Administration Act of 1985, created a an institution called the Farm Credit System Capital Corporation, which had the power to take over bad loans in the system and centralize about \$7 billion in surplus reserves. The Farm Credit Administration would be managed by a three-member board of directors nominated by the president and confirmed by the Senate. The president would

⁴⁷ Dobson and Barnard, 'The Problems,' 329.

designate a chairman. Not more than two board members were to be of the same political party. The FCA was in essence the FDIC of the Farm Credit System.⁴⁸

The nation's farm-credit problems, however, were not solved by the new legislation. Accounting released in September revealed that despite the reorganization package passed in 1985, the FCA still stood to lose from \$1.7 billion to \$2.9 billion in 1986.⁴⁹ The FCA lobbied fervently for federal money. However, there was a new development: the passage of the Gramm-Rudman-Hollings anti-deficit law required new federal spending to be balanced by new revenue or program cuts elsewhere. With no new revenue and no program that Congress could agree to cut, the best that could be done for the FCS was to change the accounting requirements and allow some interest adjustments to be made. The deficit-reduction bill passed by Congress on October 17, 1986 contained such provisions. Thereafter, all of the system's banks could set loan interest rates without approval by the Farm Credit Administration. In addition, the law allowed the system's banks to follow more lenient accounting practices that would allow some losses and interest costs to be spread over longer periods than were previously allowed. It also allowed system banks to write off losses that exceeded one-half of 1 percent of the outstanding loans and to amortize that amount over 20 years.⁵⁰

⁴⁸ *1986 Congressional Quarterly Almanac*, 99th Congress 2nd sess. 1986, Volume XXXXII (Washington, D C: Congressional Quarterly Inc., 1986): 534-44.

⁴⁹ *1985 Congressional Quarterly Almanac*, 1985, Volume XXXXI (Washington, D C: Congressional Quarterly In., 1985): 301.

⁵⁰ *Ibid.*

It seemed to the administration, however, that nothing was ever enough for the FCS. As soon as the new session opened in 1987, the FCS lobbyists were there again, proclaiming for the third year in a row that the sky was falling on their member banks.

On this occasion, the lobbyists assured Congress that the FCS banks were projected to lose an additional \$4 billion by the end of FY 1989. Even worse, they argued, ten of their thirty-seven banks were in danger of insolvency. In the two previous years, Congress had passed bills to help the system, but no money had changed hands. This time, the FCS declared there had to be federal money, or disaster was certain. They pointed out that the system had lost \$4.8 billion in the two preceding years and its only current reserve was the \$4 billion in stock bought by its farmer-borrowers. Because of the recent troubles, many of its best borrowers — afraid that their stock would be used to pay off losses — had begun to pay off their loans and seek loans from other sources.

Only a few years before, the FCS had held over \$70 billion of the nation's \$200 billion in farm loans. By the end of 1989, the system's loans would be down to \$45 billion, of which 25 percent were troubled. Both Congress and the administration understood that the political and economic ramifications of the system's collapse were too great to ignore; they signaled a willingness to consider reasonable proposals.

FCS officials proposed a \$6 billion line of credit from the Treasury, with a federal board to distribute the money and to enforce its repayment. Such a federal bailout would have dwarfed the previous bailouts of New York City and the Chrysler Corporation. While the White House agreed that there was a need to keep the system

afloat, it was determined to minimize cash outlays from the Treasury, and it wanted no increased benefits for farmers and commercial lenders.

The final impetus to action came when the Federal Land Bank in Jackson, Mississippi projected bankruptcy by the end year and froze the stock held by its borrowers. Despite the valiant delaying action that the Administration had waged since 1982, defeat was inevitable: Treasury money would, in the end, be sent to the Farm Credit System.⁵¹ The House and Senate cleared a bill in December 1987, which the President signed in January. One of the provisions of the new law was the reorganization of the Farm Credit System yet again.

The Farm Credit System Assistance Board was created to replace the Capital Corporation that had been instituted by the 1985 law. It was to be governed by the Secretary of Agriculture, the Secretary of the Treasury, and a President-appointed farmer who had experience in financial affairs. This board could authorize financial assistance for troubled system banks.⁵²

The law also established the Farm Credit System Assistance Corporation, which was to set up a revolving fund by issuing up to \$4 billion in 15-year bonds. The bond's interest and principal were guaranteed by the Treasury. There was also a new requirement that all federal land banks and production credit associations had to restructure troubled loans if restructuring would cost less than foreclosing on the loan.⁵³

⁵¹ John R. Block, "Agricultural Credit Outlook," a Memorandum for Cabinet Council on Food and Agriculture, January 27 1983, Burleigh Leonard, Cabinet Council on Food and Agriculture, Box 6, Folder LOA12164, Ronald Reagan Presidential Library.

⁵² 1987 Congressional Quarterly Almanac, 100th Congress 1st Session, 1987, Volume XXXXIII (Washington, D C: Congressional Quarterly Inc., 1987), 381-391.

⁵³ *Ibid.*, 385.

Federal land banks and federal intermediate credit banks in each of the system's 12 districts were to merge within six months of the enactment of the law. The law also created a secondary market for agricultural real estate and rural housing loans, establishing a Federal Agricultural Mortgage Corporation (Farmer Mac) within the Farm Credit System. System land banks and other farm lenders could package their agricultural loans for resale to investors as tradable interest-bearing securities.⁵⁴

The President, usually the gracious loser in negotiations such as this, could not help but rue the passage of the Agricultural Credit Act of 1987. In the law's signing ceremony he reflected:

Unfortunately, the Congress declined to require the system to provide as much self-help as we believed was appropriate and created new and potentially expensive Federal support mechanisms for secondary markets for private sector agricultural loans. The Congress also added other costly provisions that were not necessary to the health of the Farm Credit System. Of principal concern is the additional forbearance provided to producers that have been substantially delinquent on loans issued directly by the Farmers Home Administration of the United States Department of Agriculture. It makes little sense to add on new and unnecessary spending in this time of deficits, and I urge Congress to reconsider and to take its responsibility for the deficit seriously and to work with us to amend or remove these provisions as soon as possible.⁵⁵

It had been a long hard battle, and the loss rankled.

There was a final irony of this five-year campaign by the FCS to persuade the federal government to rescue it from imminent collapse. By year's end, rather than losing an additional \$4 billion, the FCS had balanced its books. The administration's position was

⁵⁴ *1987 Almanac*, 385.

⁵⁵ Ronald Reagan, "Remarks on Signing the Agricultural Credit Act of 1987, January 6, 1988," *Public Papers of the Presidents of the United States: Ronald Reagan, 1988 I* (Washington, United States Printing Office, 1990), 8.

ultimately vindicated. Finally, in 1987, the pendulum of farm finances began to swing back in the positive direction, and the farm crisis of the 1980s started to fade away.

The crisis had continually plagued Reagan's presidency, tearing its attention away from areas in which it had far greater interest. Now historians would have to assess the conduct of the Reagan administration in dealing with the promises candidate Reagan had made to farmers in his two successful campaigns. What are the lessons to be learned and conclusions to be drawn?

Conclusion

The story of the eight-year struggle between the Reagan administration and Congress over sending billions of taxpayer dollars to a minority of the nation's citizens—those engaged in farming—is little known. Nevertheless, it is important, because it highlights three widely held misconceptions concerning this era.

The first misconception concerns the manner in which the federal government affects farming. Most American voters are aware that Congress periodically passes laws creating farm policy, and take for granted the appropriateness of those laws. However, many voters are unaware of the impact of federal fiscal and monetary policies on farmers. In reality, poorly thought out federal agricultural, fiscal, and monetary policies together created the Farm Crisis of the 1980s.

The aftermath of World War I and the Depression of the 1930s shaped modern federal farm policies. After the war, farmers faced falling farm prices and land values, a sharp decline in agricultural exports, and an inability to obtain vital credit. By 1932, farm products prices had fallen to less than one-third of their 1919 level, largely because of export sales that declined to 40 percent of wartime levels. Land values mirrored farm product prices, declining by half. Short-term credit suitable to farm production cycles and fully amortized long-term credit was largely unavailable. Cash flow for farmers worsened with each passing year.¹

¹ This short review of the history of farm policy is taken from Marvin Duncan and Maria Borowski, "Agricultural Policy: Objectives for a New Environment, *Economic Review*, Federal Reserve Bank of Kansas City, 69 (June 1984): 21.

The Agricultural Adjustment Act of 1933 (AAA) was the nation's first comprehensive farm program. Its goal was to raise commodity prices by reducing crop production. Mandatory production controls for basic commodities and federal surplus disposal programs were the tools AAA used in the attempt to reach its goals. The Commodity Credit Corporation (CCC)—created the same year by Executive Order—made loans to farmers on their crops. The new law set loan levels above market rates, and set loan maturities so that farmers could keep their crops off the market until prices improved. The U.S. Supreme Court eventually declared mandatory production controls unconstitutional. That ruling forced Congress to restructure the program.²

New legislation passed in 1936 sought to increase farm income, promote soil conservation and ensure adequate food supplies for consumers. The new law instituted payments for soil conservation activities as well as acreage allotments for program crops and voluntary acreage set-aside programs to constrain production. The acreage reduction programs were not effective, however. By the end of the decade, the CCC was holding large stocks of program commodities.³

With the onset of World War II, the thrust of farm programs shifted from restricting supplies to maximizing production. Food aid to wartime allies markedly increased foreign demand for farm products. When the war ended, legislation extended high CCC loan levels in an effort to avoid a repeat of the disastrous decline in farm prices and income that followed World War I.⁴

²Duncan and Borowski, "Agricultural Policy," 21.

³ Ibid.

⁴ Duncan and Borowski, "Agricultural Policy," 22.

A surge in export demand in the early 1970s—driven by large sales to the USSR—combined with crop shortfalls in other major producing countries to cause an abrupt turnaround in the crop supply-demand situation. Surplus commodities were quickly exhausted and crop prices soared. High world crop prices spurred increased production both domestically and abroad. By the late 1970s, grain stocks were again becoming burdensome.⁵

Congress enacted a series of measures in the late 1970s and early 1980s to support farm product prices and the higher levels of income to which farmers had become accustomed during the export boom. However, the policy initiated during a time when most of the 6.5 million farms in the United States ran on animal power and without electricity and housed 25 percent of Americans was no longer appropriate for the economic realities of agriculture in the 1980s.⁶

The AAA had formed to aid an industry selling to a largely domestic market.⁷ However, technology had driven production increases that averaged 1.7 percent per year for the 50 years following 1935. During the 1970s, farm output increased 32 percent. The domestic market could not cope with the increased production. By the 1980s, America's farmers needed to find markets for from 33 to 40 percent of their

⁵ Duncan and Borowski, "Agricultural Policy," 22.

⁶ Kathryn L. Lipton, "Challenges in Designing U. S. Farm Policy," *Agriculture Information Bulletin Number 518*, United States Department of Agriculture, (June 1987): 1

⁷ "Statement of Reagan Administration Farm Policy and Principles," December 1, 1984, John Svahn, 0A13531 Folder (8), Ronald Reagan Presidential Library.

crops every year.⁸ Those exports became important to the U.S. domestic economy as well. Secretary Block, speaking to the Congress, said:

Agriculture's contribution to our balance of trade has become all the more critical with an annual deficit in nonagricultural trade now in the neighborhood of \$50 billion. The agricultural trade surplus projected this year is \$29 billion. Can you imagine, it is almost \$30 billion? It is amazing for one industry to produce that kind of surplus. We can all be very proud of it. Truly our farm exports are playing a big part in offsetting our imported oil bill.⁹

Reiterating that theme, the president proclaimed, "In 1981 the \$28 billion agricultural trade surplus offset almost half of our petroleum deficit. In fact, our agricultural exports account for about 40 percent of the world's total agricultural trade and one-fifth of America's merchandise export earnings."¹⁰

While farming had changed dramatically from 1935 to 1985, the farm programs had not. Nonrecourse loans began in the 1930s; in 1985, they remained the principal mechanism for supporting the price of storable commodities. However, the benefits of the federal commodity price support programs passed through to the cost of the land and benefitted the landowner, not specifically the tiller of the soil. Thus, rising land values, which resulted in rising farm costs, put pressure on Congress to increase the levels of benefits in the support programs; such an increase in benefits resulted in

⁸ Willard W. Cochrane, "The Need to Rethink Agricultural Policy in General and to Perform Some Radical Surgery on Commodity Programs in Particular," *American Journal of Agricultural Economics*, 67 (December 1985): 1003.

⁹ See the testimony of John R. Block, House Committee on *Agriculture, Hearings on General Farm Bill of 1981*, 97th Cong., 1st sess. 1981, 434.

¹⁰ Ronald Reagan, "Remarks on United States Agricultural Policy to Representatives of Agricultural Publications and Organizations, March 22, 1982," *Public Papers of the Presidents: Ronald Reagan, 1982, I* (Washington: United States Government Printing Office, 1983.), 346.

another upward movement in land values.¹¹ In this fashion, domestic prices for program crops rose above the world market price and reduced their attractiveness to importing nations. The huge stockpile of CCC-owned crops acted as a damper on domestic commodity prices (even though they remained above market-clearing levels). Land idling programs reduced the nation's output and served as incentives for competitor nations to increase their own production.

The Reagan administration tried to counter these shortcomings in federal farm policy by introducing the Agricultural Adjustment Act of 1985. It would have gradually removed price supports and land idling measures, and made U.S. agricultural commodities price-competitive in the world market. With American infrastructure and maritime capacity, U.S. farmers could have been in position to dominate trade in farm products. However, that was not to be; members of Congress were not prepared to change their outdated, outmoded policy.

Another important effect of the economic need to export large quantities of farm commodities lay in the fact that farm legislation passed by Congress was no longer sufficient to provide an adequate market for U.S. farmers. Now, the global market dictated the terms for farm exports. Federal monetary and fiscal policy had important roles in determining the global market during the 1980s.

From the late 1960s to 1979, both U.S. monetary and fiscal policy encouraged an expanding domestic economy—and with it, increasingly troubling inflation.¹²

¹¹ Cochrane, "The Need," 1006.

¹² For an excellent account of this phenomenon, see Robert J. Samuelson, *The Great Inflation and Its Aftermath: The Past and Future of American Affluence* (New York: Random House, 2008).

Consequently, the real cost of borrowing money became extremely low. Many farmers leveraged their holdings, seeing an opportunity to expand and maximize the utility of new and expensive technology at very attractive costs.

Then in 1979, the Federal Reserve System, under the direction of Paul Volcker, decided that it had to bring inflation under control. The Federal Reserve Board instituted a program to reduce the availability of credit and slow the expansion of the domestic economy.¹³ Suddenly, those farmers who had often paid less than 1 percent real interest on their borrowings faced costs of as much as 10 percent for a prolonged period.¹⁴

The cause of this prolonged period of tight money instituted by the Federal Reserve was the fiscal policy of Reagan's administration, which had led to a substantial budgetary deficit. Volcker argued that the Federal Reserve and the administration were pulling in opposite directions. Deficit federal spending was an expansionary force that, if unchecked, would lead to more inflation. To prevent that, the board held to a tight money policy much longer than normal.¹⁵ The resultant twelve months of high cost of borrowing raised farm costs exorbitantly and landed many farmers in financial difficulty.

It was not only the high cost of money, however, that hurt U.S. farmers. The Federal Reserve policy caused a worldwide recession; many Third World countries thus reduced

¹³ For an in depth evaluation of this complex episode, see Michael Mussa, "U.S. Monetary Policy in the 1980s, in *American Economic Policy in the 1980s*, ed. Martin Feldstein (Chicago and London: The Chicago Press, 1994); William Greider, *Secrets of the Temple: How the Federal Reserve Runs the Country*, (New York: Simon and Schuster, 1987); and William L Silber, *Volcker: The Triumph of Persistence* (New York: Bloomsbury Press, 2012).

¹⁴ Mussa, "Monetary Policy," 104-110.

¹⁵ *Ibid.*

their imports of U.S. foodstuffs. The combination of higher costs, lost domestic markets and the global recession led 14 percent of farms and ranches to liquidate all or part of their holdings in 1984.¹⁶ Thus, federal agriculture, fiscal, and monetary policy all combined to create the “Farm Crisis of the 1980s.”

The second misconception held by many conservative voters and propagated by conservative media such as Rush Limbaugh, Bill O’Reilly, Sean Hannity, and Fox News, is that Ronald Reagan was a stalwart paragon of conservative ideals. Recent scholarship, however, has not come to the same conclusion.¹⁷ Most current scholars conclude, as did Reagan’s Director of the Office of Management and Budget David Stockman: “Reagan was a consensus politician, not a conservative ideologue.”¹⁸ Certainly, this study would agree with the contention that Reagan was primarily a pragmatist.

Even in his first year in office, Reagan showed his ideological flexibility as he supervised his administration’s involvement in the passage of the Agriculture and Food Act of 1981. As we have seen, the final shape of the sugar, peanut, and dairy programs was far from what the administration had hoped. However, political gain was available through ideological compromise, and Reagan did not hesitate. His focus was to improve the general domestic economy by cutting the marginal tax rate and significantly slowing

¹⁶ Mark Drabenstott, “U.S. Agriculture: The Difficult Adjustment Continues,” *Economic Review, Federal Reserve Bank of Kansas City*, 69 (December 1985), 38.

¹⁷ For a broad spectrum view of recent scholarship, see W. Elliot Brownlee and Hugh Davis Graham, eds, *The Reagan Presidency: Pragmatic Conservatism and Its Legacies* (Lawrence, Kansas: University Press of Kansas, 2003); Kyle Longley, et al, *Deconstructing Reagan: Conservative Mythology and America’s Fortieth President* (Armonk, New York: M. E. Sharpe, 2007); Sean Wilentz, *The Age of Reagan: A History, 1974-2008* (New York: Harper Collins, 2008); Robert M. Collins, *Transforming America: Politics and Culture in the Reagan Years* (New York: Columbia University Press, 2007); and for a contemporaneous view, see David Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed* (New York: Harper & Row, 1986).

¹⁸ Stockman, *Triumph*, 9.

the rate of growth of federal expenditures. He understood that the farm bill of 1981 was subordinate to improving the general economy; he had no qualms about sacrificing certain considerations of conservative ideology within that bill in order to make strides toward his desired end.

Clearly, Reagan's basic approach was conservative. In the question of welfare, he wanted to help the truly destitute—but at the same time keep federal “handouts” to a minimum in order to promote the work ethic for which Americans had become famous. His approach to food stamps was in that vein. However, other aspects of his approach to agriculture showed the president in a flexible, pragmatic light that not many today seem to remember. A rigid ideologue would have insisted that a sugar price support was inimical to a free market. Don Paarlberg, writing in the conservative manifesto *Mandate for Management*, wanted no sugar support.¹⁹ Reagan, on the other hand, considered a sugar program that promised to be revenue-neutral to the Treasury a small price to pay for public support of his economic programs. Reagan simply weighed the options and took what he could get.

The peanut program was another example of Reagan at his most pragmatic. He wanted to abolish the program in its entirety. It was an example of extreme government intrusion; it abolished the free market in peanuts. Here again, however, it was a small program that could be traded for votes on his enormous tax cuts and other economic programs. This was an example of how the president worked. Reagan, from

¹⁹ Don Paarlberg, “Agriculture,” in *Mandate for Leadership: Policy Management in a Conservative Administration*, ed. Charles L. Heatherly (Washington, D. C.: Heritage foundation, 1981), 10.

his days as president of the Screen Actors Guild, always believed in taking what he could get in negotiations and trying for the rest next time.²⁰

The most eye-opening example of Reagan straying from the conservative path was his PIK program. He instituted, through executive order, the largest federal farmland idling program in history. Both aspects of this action contradicted conservative tenets. The use of an executive order contravened the idea of a small central government carefully observing the Constitution's separation of powers; it seemingly usurped a typically legislative prerogative. Certainly, a program that interfered with the business decisions of private farmers did not fit the conservative idea of *laissez faire*. This sounded much more like agriculture under Truman than agriculture under a conservative ideologue.

Nor was the decision to sign the 1985 farm bill the act of a rigid conservative. That bill differed so much from the Agricultural Adjustment Act of 1985, a truly conservative document, that it made him pause before signing. Even as he signed, he said:

I want to note here that the farm bill of 1985 is not exactly what we wanted, but in government you can't let the perfect be the enemy of the good. You can't let your desire for a superior product lead you to kill a bill that's pretty good. We worked closely with Congress on both these bills. And, as I said, a majority of Republicans and Democrats in both Houses came together to declare these bills the very best they could do. And we've accepted their honest efforts.²¹

²⁰ Lou Cannon, *President Reagan: The Role of a Lifetime* (New York: Public Affairs, 2001), 153; Craig Shirley, *Rendezvous with Destiny: Ronald Reagan and the Campaign That Changed America* (Wilmington, Delaware: ISI Books, 2009), 67.

²¹ Ronald Reagan, "Remarks and a Question-and-answer Session with Broadcasters and Editors on the Food Security Act of 1985 and the Farm Credit Amendments Act of 1985. December 23, '1985," *Public Papers of the Presidents of the United States: Ronald Reagan, 1985, II* (Washington, United States General Printing Office, 1988), 1499.

Reagan's ability to compromise often put him at odds with true ideologues. He complained to aides that true believers on the Republican right such as Senator Jesse Helms preferred to lose and keep their purity rather than take half a loaf and come back for more.²² Indeed, most of the farm bill of 1985 did not match Reagan's conservative bent. In describing its contents, he proclaimed:

Another high priority in 1987 must be to reform our agricultural programs. Besides costing tax payers \$34 billion this year alone, these programs divert land, labor, and other resources from their most productive uses. Most farm programs are costly and unfair because they give literally millions of dollars to relatively few individuals and corporations while many family farmers—who are those most often in need—receive little. In the process, farm programs raise the prices of many food items for all Americans, rich and poor.

Farm income support should not be linked to production through direct subsidies or propped-up prices for agricultural products. My Administration will seek a market-oriented reform package with two goals: gradually separating farm income support from farm production, and focusing that income support on those family farmers who need it most.²³

Thus, the scholarly conclusion proved correct. Reagan signed the farm bill of 1985 because he was a pragmatist. He did not like it because he was a conservative.

The last misconception under discussion was tightly held by the author and relinquished with great reluctance: that the purpose of federal farm policy was to support America's farmers, provide abundant, reasonably priced food for its citizens, and safeguard the quality of life in rural America. Unfortunately, this was not the case.

²² Canon, *Reagan*, 153.

²³ Ronald Reagan, "Message to the Congress Transmitting the Annual Economic Report of the President, January 29, 1987," *Public Papers of the Presidents: Ronald Reagan, 1987, I* (Washington, D. C.: United States Government Printing Office, 1989).

The Agricultural Adjustment Act of 1933 was enacted “to relieve the existing economic emergency by increasing agricultural purchasing power.”²⁴ The onset of the wartime economy engendered by the onset of World War II cured all need for the AAA. By 1948, it was clear that the economic depression that accompanied the end of World War I would not recur. However, Congress could not bring itself to abolish the temporary measures introduced to combat the Great Depression in agriculture.

After 1948, Congress could not agree on either a coherent rationale or a basic economic philosophy for its ongoing farm policy. Rather, it opted to extend programs no longer appropriate for the changing economy in agriculture. As we have seen, the Truman administration introduced an extremely liberal policy that some called “socialized agriculture.” The Eisenhower administration next tried a conservative approach. Then Kennedy attempted a middle-of-the-road program. Congress rejected all of these plans intended to rationalize federal farm policy.

What became clear from the White House memos during the demise of the Agricultural Adjustment Act of 1985 was that the overriding focus in Congress regarding federal farm policy was the attempt to curry favor with the farm vote. No specific economic philosophy, or even social need, was the driving force of legislators. It is small wonder, then, that there was such a disconnect between an administration bent on reducing federal outlays for agriculture and a vote-hungry Congress willing to send

²⁴ Public Law 73-10, <http://www.legisworks.org/congress/73/publaw-10.pdf>, (accessed August 7, 2014).

billions of taxpayer dollars to agriculture. A memo from Roger B. Porter to the administration's Legislative Strategy Group told the tale. It stated:

The driving motivation of most Agriculture Committee members (both House and Senate) is to provide sufficient income transfers to farmers to quiet agricultural interest sufficiently far enough in advance of the 1986 elections to ensure minimum election risks.²⁵

In the end, one gets the sense of a missed opportunity. What if the Agricultural Adjustment Act of 1985 had passed Congress? Its reforms taking place over 15 years would have allowed the U.S. agricultural economy to become more of a free market, making American farm commodities competitive on the world market. The inflated land prices caused by the old price-support system could have settled back to levels that were more appropriate. In the absence of the outdated programs, special, one-time Congressional legislation could have handled any large dislocation in the farm economy—such as the drought of 1988. Then the industry could revert to normal once the emergency had passed.²⁶ It did not happen. Perhaps it should have.

²⁵ Roger B. Porter, "Memo for the Legislative Strategy Group," July 17, 1985, Agriculture Box 7, Folder 315201-318200, Ronald Reagan Presidential Library.

²⁶ The Farm Disaster Assistance Act of 1987 established an acreage diversion program that waived the requirement to plant at least 50 percent of a producer's 1987 winter wheat acreage, where adverse weather prevented planting, in order for a farmer to receive deficiency payments. The same requirement would also be waived with respect to producers of 1987 crops of feed grains, wheat, upland cotton, and rice who are unable to plant their 1987 crop because of residual damage from 1986 natural disasters. The bill also: (1) made full payment to producers who had not been fully indemnified for losses due to natural disasters in 1986 because of the inadequacy of the \$400 million appropriated for it; (2) increased the acreage that would be taken into consideration when making prevented planting payments for the 1986 crops of soybeans, peanuts, sugar beets, and sugarcane; (3) required computation of upland cotton losses to take into account quality losses in estimating total losses required to qualify for payments with respect to the 1986 crop; and (4) required indemnification of certain producers of hay, straw, apples, and other commodities whose 1986 crop was lost due to bad weather. Ronald Reagan, "Statement on Signing the Farm Disaster Assistance Act of 1987, May 27, 1987, *Public Papers of the Presidents: Ronald Reagan, 1987* / (Washington: Government Printing Office, 1989), 574.

Epilogue

An in-depth look at the complexity of the Reagan administration's struggle to work with Congress in developing a federal farm policy capable of coping with the Farm Crisis of the 1980s stimulates one to wonder what happened with other administrations and other Congresses as they battled many of the same problems described in these pages. There have been five subsequent Farm Acts since Reagan left the White House, and a quick look at those laws makes it clear that the controversy that surrounded the passage of the Food Security Act of 1985 reverberated around Washington, D. C. for some time thereafter.

Ronald Reagan's goal was that the free market would set the world price for agriculture's various commodities. As a consequence, farmers would be able to select which crops to grow based on the anticipated world price and not on what government program might be the most profitable during the coming year. Thus Reagan worked to abolish federal programs that would support commodity prices, such as non-recourse crop loans, target prices, and deficiency payments.

Congress passed the Food, Agriculture, Conservation, and Trade Act on October 26, 1990, and President George H. W. Bush signed it into law on November 28. The act was very reminiscent of that of 1985. The dairy title continued the government purchase of cheese, butter, and nonfat dry milk. Commodity price support loans, target prices, and deficiency payments survived largely intact. The sugar program and the peanut program underwent little change. The acreage reduction program and the

conservations programs continued as well. While the act modified the base acreage and provided some planting flexibility, there were no startling changes.¹

The main goals of the 1990 legislation, did however, echo Reagan's attempts to facilitate market orientation, reduce government spending on agricultural programs, help maintain farm income through increased exports, and protect the environment. To lower budget expenditures and increase market orientation, the 1990 act reduced acres eligible for government programs and introduced planting flexibility. Farmers could respond to market signals in their planting decisions because they could plant alternative crops on the 15 percent of their land that was not eligible to receive income support payments²

Following the remarkable Congressional elections of 1994 during which the Republican Party gained 54 seats and gained a majority in the House of Representatives for the first time since 1952, the longest farm bill debate in U.S. history occurred. The outcome of that debate, the Federal Agriculture Improvement and Reform Act of 1996, was a milestone in the evolution of U.S. agricultural policy in that it fundamentally redesigned income support programs and discontinued supply-management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and upland cotton in the manner that Ronald Reagan had tried to implement in the Agricultural Adjustment Act of 1985.³ The new law did away with the decades-old policies of issuing subsidies when

¹ Susan Pollack and Lori Lynch, "Provisions of the Food Agriculture, Conservation, and Trade Act of 1990, *Agriculture Information Bulletin no 624*, USDA, June 1991.

² C. Edwin Young and Paul C. Westcott, "The 1996 U.S. Farm Act Increases Market Orientation," *Agriculture Information Bulletin no 726*, USDA, June 1996: 4.

³ *Ibid.*, 1.

market prices dropped and requiring farmers to plant the same commodities year after year. Instead, it guaranteed farmers fixed, declining federal payments regardless of market prices. By removing government planting restrictions, it allowed them to rotate their crops to take advantage of weather conditions and market prices. Further, the government could no longer require that subsidized farmers idle a portion of their land.⁴ “From now on, the federal government will stop trying to control how much food, feed and fiber our nation produces,” said Senate Agriculture Committee Chairman Richard G. Lugar, “farmers will be producing for the market, rather than being restricted by federal government supply controls, for the first time since the Great Depression.”⁵

The 1996 act replaced a system of deficiency payments—based on the difference between a pre-set target price and the market price—with a system of direct payments to farmers irrespective of current market prices. Furthermore, the new payments were largely decoupled from the decision on what crop to plant, since there was virtually no link between payments and current plantings. The act expanded planting flexibility and did away with Acreage Reduction Programs.⁶ These were all policies for which Reagan had fought long and hard.

The newly elected Republican Congressmen and Senators used rhetoric almost identical to that of Reagan when pushing their radical changes. They argued: that programs and provisions developed for conditions in the 1930s were no longer

⁴ “Longstanding Farm Laws Rewritten,” *Congressional Quarterly Almanac*, 104th Congress, 2nd Session, vol. LII. (Congressional Quarterly Inc. (Washington, DC, 1997), 89.

⁵ *Ibid.*

⁶ Young and Westcott, “1996 Farm Act,” 1.

appropriate in the middle of the 1980s; that the degree of government intervention necessary for the Great Depression was no longer necessary; that ARPs allowed foreign competitors to expand production and to take over market share that had once belonged to the United States; and that costs to the federal budget from agriculture were too high and too variable.⁷

With the increased emphasis on market orientation and reduced government involvement in commodity markets under the 1996 Farm Act, farmers were expected to face greater income volatility due to the end of supply-management programs (such as acreage reduction programs and the Farmer-Owned Reserve Program) and the termination of deficiency payments. Some expressed concerns at the time of the 1996 enactment that the reduction of government intervention in agriculture was too extreme.⁸

Such concerns proved prescient. High commodity prices world-wide led to record commodity production—not only in the United States but by its market competitors as well. In addition, an economic and financial crisis in Asia in 1997-99 slowed economic growth and weakened global demand for agricultural products. As a result, U.S. net farm income declined in 1998 and beyond, and cries went out from farm groups and farm backers for Congressional aid. The pressure was intense. In response, Congress

⁷ “1996 Fair Act,” 1.

⁸ Paul Westcott, Edwin Young, and Paul Price, “2002 Farm Act: Provisions and Implications for Commodity Markets,” *Agriculture Information Bulletin no-778*, USDA, (November, 2002): 2.

passed the first of five supplemental emergency assistance packages in October of that year.⁹

After passing five consecutive annual agricultural loss assistance payments, the fervor in Congress for another market-oriented farm act was substantially reduced in 2002. President George W. Bush signed the Farm Security and Rural Investment Act of 2002 into law on May 13. The new act was a clear step back from that of 1996 and the Reagan philosophy. The heart of the law was a new support program that provided increased payments when market prices fell, a so-called counter-cyclical payout. This was a price-support program of the type that Reagan abhorred.

The Act provided income support for wheat, rice, feed grains, upland cotton, and oil seeds through three programs: direct payments, counter-cyclical payments, and marketing loans.¹⁰ Coverage was expanded to include, soybeans, other oilseeds, and peanuts. The 2002 Farm Act continued the commodity loan program.¹¹ Clearly, the march away from Reagan was underway.

When the Food, Conservation, and Energy Act of 2008 was presented, it seemed almost prosaic in comparison to its two predecessors. It simply continued down the road away from the free market. Fixed payments, marketing loans with deficiency payments, and countercyclical payments were all renewed from the previous act. There was no talk of new market-oriented programs.

⁹ Westcott, Young, and Price, "2002 Farm Act," 2.

¹⁰ *Ibid.*, 4.

¹¹ *Ibid.*

Agricultural Act of 2014 changed the face of federal farm policy. In one swoop, the new law abolished most of the best-known federal supports for domestic agriculture—Direct Payments, Countercyclical Payments, and Average Crop Revenue Election. These were replaced by two new price support programs—Price Loss Coverage (PLC) and Agriculture Risk coverage (ARC). These were price support programs and this Act was a giant step away from the Reagan vision of market orientation. Fixed payments were gone. Decoupling was gone the days when payments were based on crops planted and market prices paid (that is, direct price supports) were back.¹²

The clearest signal that the Reagan initiative was gone was not that the two new programs were both price support systems, but that one was proposed by the Republicans and the other by the Democrats. Market orientation was nowhere to be found on either side of the aisle. The spirit and enthusiasm of the Republican surge to power in 1994 and the groundbreaking Farm Act of 1996 had been largely extinguished by the reality of the cyclic nature of agriculture and the demands for government support that followed poor crop years.

Thus, exactly thirty years after the proposal of the Agricultural Adjustment Act of 1985 federal farm policies were closer to the 1981 Farm Act than Reagan's free-market alternative. Reagan's proposal had limited participation to a maximum of \$10,000. Under current law a farmer and his wife farming together making up to \$1.3 million

¹² Anne Effland, Joseph Cooper, and Erik O'Donoghue, "2014 Farm Act Shifts Crop Commodity Programs Away From Fixed Payments and Expands Program Choices," available at <http://www.ers.usda.gov/amber-waves/2014-july/2014-farm-act-shifts-crop-commodity-pr...> 8/12/2014.

from their farm were allowed to realize \$210,000 in government subsidies. How could that be? The answer lay in the reality that federal agriculture policy affects almost 20 percent of the domestic economy and is therefore vital to the wellbeing of the nation. It must insure a suitable, inexpensive food supply. It must provide a financial safety net for America's farmers. It must maintain a positive foreign trade balance in agriculture. It must protect the environment, and it must provide for rural economic development.¹³ And that policy must be designed by the federal government functioning under the intense pressures with which it deals every day. Thus, sometimes philosophical concepts such as "market orientation" encounter the necessity of keeping the ship of state balanced, and philosophy must give way. So far, no one has devised a better system, and despite its occasional anomalies, it has kept the ship upright. No one would understand that situation better than the arch-pragmatist Ronald Reagan.

¹³ Personal communication from Abner Womack, former director of the Food and Agricultural Policy Research Institute of the University of Missouri.

Appendix

The Russian Grain Embargo

There is still a question left dangling in this study: What became of the grain embargo of the USSR? This was an important part of the dynamic of the presidential election of 1980 that brought Ronald Reagan to the Presidency, but a detailed examination of the matter did not fit easily in the flow of the remainder of this study. Hence, this information appears in the appendix for those who are interested or curious. For those not so inclined, it may simply be omitted.

The embargo created a great stir. Farmers resented it. Reagan sharply criticized the policy. However, the economic effect of the embargo on U. S. agriculture was not clear at the time. What were its effects? What did Reagan do about the embargo? A brief look at these questions will help to tie up the loose ends.

Carter's object in instituting the embargo was to deprive the Soviets of enough grain to force a wholesale slaughter of livestock, to stave off starvation.¹ This, it was thought, would cause a widespread shortage of meat that would lead to civil unrest and either a regime change — or, more likely — a policy change that would redirect the Soviet economy into consumables for the populace and away from defense spending. The embargo included wheat, feed grains, soybeans, meat, dairy products, poultry,

¹The following analysis of the embargo is based on "Embargoes, Surplus Disposal, and U. S. Agriculture: A Summary," *Agriculture Information Bulletin No. 503*, November 1986, Economic Research Service of the United States Department of Agriculture: 13-22.

animal fats, and agrichemicals. Feed grains accounted for almost 80 percent of the value of the U. S. agricultural exports to the U. S. S .R.

The Central Intelligence Agency estimated that a grain embargo would reduce meat consumption in the USSR by 20 percent. Such a result would assume full cooperation from all U.S. shippers as well as the total cooperation of all other grain exporting nations. At the same time, a Department of Agriculture analysis predicted only a 2 to 4 percent decline in Soviet meat consumption, even with full cooperation. The Carter Administration chose to accept the CIA analysis.²

At first, allied cooperation was effective. All but two trading firms agreed to stop shipping grain to the USSR in exchange for financial compensation. Among U.S. allies, only Argentina announced that it would not cooperate in the embargo. Australia, Canada and the EC agreed to ship no more than normal and traditional amounts of grain to the USSR.³

However "normal and traditional" amounts turned out to be a nebulous concept. For instance, Canada's agreement was good only for the remainder of the 1979-'80 crop year. In reality, the duration of the embargo and the conditions necessary to lift the embargo were left vague and unstated by the Carter Administration. With the passage of time, the United States clearly received less than full cooperation from other exporting nations, and Soviet meat consumption did not decline by the amount the CIA predicted; in fact, it did not decline at all.⁴

² "Embargoes," 14.

³ Ibid.

⁴ Ibid.

The Soviet response to the U. S. embargo was to substitute commodities from other exporters. In the end, the embargo had little effect on USSR grain consumption.⁵ Soviet wheat and coarse grain imports in the first year of the embargo were what would have been expected, given previous import trends and estimated USSR grain stocks at the time. Nor did the embargo have a significant effect on the volume of world grain trade. At the most, world grain trade fell 3 million tons, or less than 2 percent. All major U. S. competitors sold larger-than-expected amounts of grain to the USSR in 1980. Argentina and Australia accomplished this by selling grain that would have normally gone to other importers. Canada and the EC increased their export volume to meet the Soviets' increased need.⁶

The United States reduced wheat sales to the USSR in 1980 by 3.2 million tons and corn sales by 7.1 million tons. Increased U.S. corn exports to other markets helped to offset the reduced corn exports to the Soviets. However, alternate markets were not available for the embargoed wheat. The opposite was true for the USSR. The Soviets made up for the loss of U.S. wheat, but could not replace U.S. corn. Thus, they had to change their commodity mix of imports and pay a premium for Argentine grain. In sum, the short-term effects (1980) of the embargo amounted to a dislocation of less than 2 percent of world grain trade and were essentially negligible to the USSR.⁷

⁵ Clifton B. Luttrell, "The Russian Grain Embargo: Dubious Success," *Federal Reserve Bank of St. Louis Review*, 64, (August/September 1980), 2-8.

⁶ "Embargoes," 17.

⁷ *Ibid.*

Ronald Reagan knew that most farmers resented the partial Russian grain embargo, and he acted on that knowledge. The farmers felt that they and the U.S. Olympic athletes were being asked to bear the burden for the entire country in their government's attempt to show the Soviets that their aggression against Afghanistan was unacceptable. Reagan promised the farmers that if they supported him in his run for the presidency, he would end the embargo and try to reestablish grain sales with the Russians. The farmers took him at his word and proved instrumental in Reagan's election.

How, then, did he repay them for their faith? The president had wanted to raise the embargo immediately after his inauguration on January 20, as he had promised during his campaign, but it took somewhat longer than that. In April 1981 he explained:

As a Presidential candidate, I indicated my opposition to the curb on sales (of grain to the USSR), because American farmers had been unfairly singled out to bear the burden of this ineffective national policy. I also pledged that when elected President I would fully assess our national security, foreign policy, and agricultural needs to determine how best to terminate" the decision made by my predecessor.

This assessment began as soon as I entered office and has continued until now. In the first few weeks of my Presidency, I decided that an immediate lifting of the sales limitation could be misinterpreted by the Soviet Union. I therefore felt only when it was clear that the Soviets and other nations would not mistakenly think it indicated a weakening of our position.

I have determined that our position now cannot be mistaken: The United States, along with the vast majority of nation has condemned and remains opposed to the aggressive acts around the world. We will react strongly to acts of aggression wherever they take place. There will never be a weakening of this resolve.⁸

⁸ Ronald Reagan, "Statement on Terminating United States Restrictions on Agricultural Sales to the Soviet Union, April 24, 1981," *Public Papers of the Presidents: Ronald Reagan, 1981* (Washington: United States Government Printing Office, 1982), 382.

Reagan announced the termination of the embargo on April 24, 1981, in his first appearance in the West Wing of the White House since the attempt on his life on March 30. In addition to lifting the partial ban on grain sales to the Soviet Union, he lifted Carter's ban on shipments of phosphate fertilizers. The curtailment of Russian fishing privileges in American waters remained in place, as did the limitations on trade of high-technology products. Even so, the decision was controversial. The president, however, had promised the farmers.⁹

Despite lifting the embargo, Reagan could not repair the relationship between the United States and the USSR. Moscow clearly wanted to buy most of its grain from Canada, Argentina, South Africa, and the EC as payback for the embarrassment caused them by the grain embargo and the boycott of the Moscow Olympics. One major consequence of the embargo was a significant change in the relations between the Soviet Union and Argentina. The Russians wanted Argentina to become the major replacement for the United States as grain supplier to the Soviets. Almost a quarter of Argentina's total export earnings for 1980 came from grain sales to the Russians. The two countries signed a five-year trade agreement in 1980 in which Moscow agreed to buy a minimum of 4.5 million metric tons of grain from Argentina each year. That total amounted to 60 percent of Argentina's total foreign grain sales for 1980. In addition, they were scheduled to sell 12 million tons to the Soviets in 1981. In return, the Soviets

⁹ Steven R. Weisman, "Reagan Ends Curbs on Export of Grain to the Soviet Union," *New York Times*, April 25, 1981.

sought to sell Argentina arms, nuclear power, and hydroelectric power. With the communist agitation in Central America becoming increasingly troublesome, the Reagan administration looked on with alarm at the potential of a strong Soviet presence in Argentina. Consequently, the Reagan team went back to the conference table in October and offered up to 23 million metric tons of grain for sale to the Soviet Union.¹⁰

The Russians did not want to buy from the United States. However, circumstances were such that it was often unavoidable. The Soviet estimate for the 1981 grain crop was 180 million metric tons — in a year in which the target had been 236 million. Even worse, the three-year deficit stood at 150 million metric tons below the target set in the latest five-year plan. No other grain supplier could match the production and infrastructure of the United States. The problems created by shipping distance and national maritime capacity favored the Americans.¹¹ However, these negotiations were anything but simple.

There was significant disagreement within the Reagan administration over grain sales to the Soviet Union from the first days of its term. Secretary of State Alexander Haig was a hard-liner when it came to anything pertaining to the Soviets. He had been loud and persistent in his opposition to having any trade relationship with Moscow.¹² The president, while firm on the Cold War, also had political pressures with which to

¹⁰Edward Schumacher, "Argentina and Soviet are No Longer Just Business Partners," the *New York Times*, July 12, 1981.

¹¹John F. Burns, "U. S. Will Permit Russians to Triple Imports of Grain," the *New York Times*, October 2, 1981.

¹²Lou Cannon, *President Reagan: The Role of a Lifetime* (New York: Public Affairs, 1991, 2000), 256.

deal. He had promised the farmers and he intended to honor that promise. Finally, Haig's position became untenable. He resigned in July 1982, replaced by George Shultz.

Shultz proved to be more attuned to the president's way of thinking about selling farm commodities to the USSR than was Haig.¹³ Agriculture Secretary Block, arguing for the grain sales, maintained that the Soviets had only limited hard currency with which to trade. In his view, the more they spent on U.S. grain, the better for the American economy and the less the Russians would be able to spend on strategic goods involved in the Cold War. In fact, Block wanted to negotiate a new agreement in which the Soviets would be obligated to a higher minimum and maximum sale.

In this case, the State Department did not agree with Block's recommendation. They argued that while the Soviet Union was a low-cost producer of oil and natural gas and a medium-cost producer of heavy machinery, it was a high-cost producer of food. The high cost was a reflection of poor soil, poor climatic conditions and above all, a myriad of problems related to its socialist economic organization. Thus, from an economic point of view, it was much more profitable for the Soviets to import food for which they paid with the profits from exporting oil and natural gas. (Hence, the administration's intransigent opposition to the European participation in the planned gas pipeline construction that would provide natural gas for purchase by European countries.)¹⁴

A recent analysis had shown that in 1981, the Russians had imported 46 million metric tons of grain at a cost of 29.2 million metric tons of crude oil. Had the Soviets

¹³ Steven R. Weisman, "Soviet Grain Pact Expected to Get a Year's Extension," *the New York Times*, July 22, 1982.

¹⁴ Jan Vanous, "Why Russia Would Rather Not Feed Itself," *the New York Times*, November 19, 1982.

produced the grain themselves, it would have cost the equivalent of 159 million metric tons of oil. Thus, by importing the grain, they saved about 130 million metric tons of oil or \$32 billion. This policy allowed the Soviets to divert capital and labor into the production of more oil and gas and to use the increased earnings to buy more Western technology.¹⁵

The State Department did not like this idea either. It argued that negotiating an increase in sales would send the wrong message concerning Poland. A simple extension of the current agreement would accomplish both the economic and the international goals, the department maintained. That view also accommodated Reagan's political exigencies. Thus, the president announced on July 31, 1982 that he was extending the grain agreement for one additional year. At the same time, the president announced that because of the political climate, he would not allow negotiations for a new long-term agreement to take place at that time.¹⁶

To keep these negotiations in perspective, the Soviets bought about 17.3 million metric tons of American grain in 1982, while American farmers produced 400 million metric tons of grain that year. Domestic consumption of grain amounted to about 200 million metric tons. Thus, while the Russian purchase was very important, there were still 182 million metric tons of grain awaiting sale — the majority of which had been forfeited to the CCC because of a lack of markets.¹⁷

¹⁵ Vanous, "Why Russia."

¹⁶ Ronald Reagan, "Statement on an Extension of the United States-Soviet Union Grain Sales Agreement, July 30, 1982," *Public Papers of the Presidents: Ronald Reagan, 1982 II* (Washington: United States Government Printing Office, 1983), 994.

¹⁷ Seth King, "Food Sales by U. S. Called Peace Tool," *the New York Times*, October 3, 1982.

Before the embargo, the United States provided about 70 percent of the Soviet grain imports. After the embargo, that had fallen to about 30 percent. American grain farmers complained that but for the embargo, they might have sold 40 million metric tons per year instead of 17.¹⁸

This argument was bolstered by the performance of Soviet agriculture. In 1971, the Soviet Union had exported grain. By 1982, they were importing about 46 million metric tons per year. The Soviets were planting 500 million acres of grain each year as opposed to 350 million acres in the United States. However, while the American production was 331 million metric tons in 1981, the Soviet production was only 165 million tons. In addition, approximately one-third of the wheat crop spoiled because of faulty harvesting and transportation to storage.¹⁹

Soviet meat production was equally dismal. Despite the fact that the amount of grain fed to Soviet livestock had tripled from 40 million tons to 120 million tons from 1960 to 1980, meat production increased less than twice during that time, from 8.7 million tons to 15 million tons. At the same time, the United States produced 27 million tons of meat. It was clear that, except for the Cold War, the United States and the Soviet Union were perfect trade partners.²⁰

Reagan's decision to postpone negotiations for a new grain purchase agreement to replace the one scheduled to expire in September 1982 was very unpopular with

¹⁸ "Embargoes," 19.

¹⁹ King, "Food Sales."

²⁰ Ibid.

American farmers.²¹ Reagan had criticized Carter for playing politics with agricultural trade and had promised that he would never single out one area of the economy to bear the burden for international tensions. Nevertheless, the scenario seemed to be repeating itself. The farmers were angry; they were prepared to show that anger at the polls in the 1982 by-election.²² Not surprisingly, this political grumbling was heard in Washington. As a consequence, in January 1983, the president announced that he was signing a bill that would make it impossible for him to use political situations to block shipment of grain sales already concluded.²³ This was a measure urged by the farm sector to assure all U.S. trade partners, especially the Soviet Union, that the United States was a reliable trading partner. They hoped the statement would stimulate foreign sales of the huge grain surplus.

Then in July 1983, the Administration announced the signing of an agreement with Moscow that committed the Soviet Union to buy at least nine million metric tons of American grain in each of the subsequent five years.²⁴ That figure represented a 50 percent increase over that of the previous agreement. In addition, the Soviet Union could buy up to 12 million metric tons without prior U. S. government approval. In the first year of the agreement, the Russians had a better crop, harvesting 190 million metric tons or 30 million tons more than its previous harvest. Thus the Soviets'

²¹ Weisman, "Pact."

²² King, "Food Sales."

²³ Ronald Reagan, "Remarks at the Annual Meeting of the American Farm Bureau Federation in Dallas, Texas, January 11, 1983," *Public Papers of the Presidents: Ronald Reagan, 1983 I* (Washington: Government Printing Office, 1985), 34.

²⁴ "Statement by Deputy Press Secretary Speakes on a United States- Soviet Union Grain Sales Agreement," *Public Papers of the Presidents: Ronald Reagan, 1983 II* (Washington: United States Government Printing Office, 1985), 1098.

purchases from the United States in the first year of the agreement totaled only 14.4 million metric tons. This was a rather modest amount, but their total imports of grain amounted to only 30 million tons; the U. S. percentage of the total was higher than had been the average over the previous three years. 1984, though, had a different flavor.

The political situation in the Soviet Union had been unsettled for several years. Leonid Brezhnev had died in November of 1982. Yuri Andropov, the head of the KGB, took over as General Secretary of the Communist Party in a seamless transition. However, three months later, Andropov went into complete renal failure and never recovered. By August, he was in the Moscow hospital from which he would never emerge. By February of 1984, Andropov was dead, leaving a handwritten document naming Mikhail Gorbachev as his successor. That wish was not honored. Konstantin Cherenkov was named as Andropov's successor by the Politburo.²⁵

This political instability led to the decision by the Kremlin to insure that food supplies were adequate for its citizens. Meat shortages throughout the USSR during the previous year had caused considerable grumbling among the populace. Complicating that decision was the very poor domestic grain crop. Lack of rain had caused the harvest to drop from about 195 million metric tons to only about 165 million tons. The Russians were very reluctant to buy from the United States — especially in an election year for President Reagan. However, grain from the Soviets' other suppliers was limited. There was drought in Canada and South Africa, and Argentina's railroad strikes and harbor silting impaired its ability to ship grain. Consequently, in 1984 Moscow placed orders

²⁵Bill Keller, "Reagan's Russian Grain Harvest," the *New York Times*, September 9, 1984.

for 20 million metric tons of grain — the most since the ill-fated orders of 1980, and the most ever actually delivered to Russia by U.S. agriculture.²⁶ It seemed that political pressure influencing agricultural policy was not a phenomenon confined to the United States. In this case, ironically, political pressure felt by the Soviet government helped bolster the political position of the president of the United States.

The large Soviet grain purchase gave America's farmers a psychological boost during the election campaign and may have helped the president's reelection. However, there was really no danger that U.S. farmers ever considered dropping Ronald Reagan in favor of Walter Mondale. Every farm state voted for Reagan by large margins. Arguably, the state hardest hit by the farm crisis was Iowa. Yet that state still returned 53.3 percent in favor of Reagan, even though it did not re-elect the Republican Senator Roger W. Jepsen, who had been a faithful supporter of the president and his policies.²⁷ The "Teflon President" continued to command the loyalty of the farm vote despite his many controversial decisions; none was more controversial than his decision to send subsidized wheat to the "evil empire."

On August 1, 1986, President Reagan authorized the sale of subsidized wheat to the Soviet Union, ending a dispute between his farm policy advisers and his foreign policy advisers.²⁸ On the farm policy side, Secretary of Agriculture Richard Lyng, Senate majority leader Bob Dole, and Reagan's political advisers, had argued that the grain sale

²⁶ Keller, "Grain Harvest."

²⁷ John Woolley and Gerhard Peters, "The Election of 1984," *The Presidential Project*, <http://www.presidency.ucsb.edu/showelection.php?Year=1984.html> (accessed August 1, 2014.).

²⁸ "Statement by Principal Deputy Press Secretary Speakes on Grain Sales to the Soviet Union, August 1, 1986," *Public Papers of the Presidents: Ronald Reagan, 1986 II* (Washington: United States Government Printing Office, 1989), 1034.

would help to reduce domestic surpluses, help agriculture's bottom line, and boost the Republican Party's chances of keeping control of the Senate in the upcoming election. Twenty-two of the contested Senate seats in the November elections were from farm states.²⁹ Secretary of State George Shultz and Secretary of Defense Caspar W. Weinberger argued that subsidizing the sale would be tantamount to subsidizing the economy of our sworn enemy. Once again, politics held sway.

The persistent question of subsidizing wheat sales to the Soviet Union came up during the same summer when the Russians refused to complete the purchase of the four million tons of American wheat as obligated under the grain trade agreement in 1983. The Soviets argued that under the provisions of the farm bill of 1985, foreign wheat sales were subsidized by the U. S. government to other wheat buyers; therefore, so should theirs. Under the subsidized grain deal, hard red winter wheat from the United States would be shipped to the Soviet Union at the world price of approximately \$85 a ton rather than at the domestic price of \$110. This deal would involve approximately 12 percent of the total foreign sales for the year and would be worth about \$350 million.³⁰ Obviously, other grain-exporting nations were going not going to be undersold.

When the deadline for the agreement passed without a response from the Soviets, it was obvious that other negotiations were in the works. Three days before the American

²⁹ Roger B. Porter, "Memorandum for the Legislative Strategy Group," July 17, 1985, Agriculture Box 7, Folder 315201-318200, Ronald Reagan Presidential Library.

³⁰Keith Schneider, "President Decides to Let Soviet (sic) Buy Subsidized Wheat," the *New York Times*, August 2, 1986.

contract expired, the Soviets bought 1.1 million metric tons of wheat from France at \$80 dollars per ton. Then just after the deal expired, the Russians signed a five-year agreement to buy 25 million metric tons of grain from Canada, also priced at \$80 a ton. The American farm community was angry that the Reagan Administration had not matched the price. Republicans worried that the failure to follow through on the Russian opportunity could harm the election chances of their Congressional candidates.³¹ They were right to worry.

Clearly, the farm crisis led to the incumbent Republican Senators in North and South Dakota being beaten by Democratic challengers. It is less clear whether that same discontent also caused the Republican losses in Alabama, Georgia, Florida, North Carolina, and Washington. In sum, the elections of 1986 saw the Democrats pick up 8 seats in the Senate, moving from 47 seats and a minority position to 55 seats and a comfortable majority situation. The Soviet decisions on where to purchase grain and whom to spurn certainly played a role in the U. S. Congressional elections, but behind that factor were a new set of political equations inside Moscow.

Following the death of Konstantin Cherenkov on March 11, 1985 after only one year as General Secretary of the Communist Party, 54-year-old Mikhail Gorbachev became the youngest member of the Politburo, and the first General Secretary to have been born after the Revolution. Gorbachev had served on the Central Committee's Secretariat for Agriculture and had firm ideas about the reforms that were necessary if

³¹Keith Schneider, "A Grain Glut Has Growers Skirmishing For Markets," the *New York Times*, October 5, 1986.

Soviet agriculture was to be self-sustaining. He also knew that the entire Soviet economy was teetering on the brink of collapse. To Gorbachev, there was not enough hard currency to be spending any more than absolutely necessary on imports, especially grain that the Soviets should be able to grow for themselves. Thus, he wanted to spend as little and receive as much as possible on food imports.³² It was a global economy, and the political maze affecting agriculture on one side of the Cold War affected the very elections on the other. The Russians' 20 million-metric-ton purchases of American grain were a thing of the past.

The Soviets were concerned that the subsidies for wheat purchases offered under the Export Enhancement Program to them in 1986 were not as great as those offered to other U.S. customers. In addition, the Soviets were required to take delivery of the grain within a specified period of time, while other U. S. buyers were under no such constraints. During the grain purchasing year that ended September 30, 1986, Moscow bought 6.8 million tons of corn, 1.6 million tons of soybeans, but only 153,000 tons of wheat.³³ The very low purchase of wheat in 1986 and the prospects of no wheat deals in 1987 were designed to put pressure on the United States.

The Russian tactic worked. On May 1, 1987, the Administration announced that it was selling 4 million metric tons of wheat at subsidized prices to the Soviet Union. The wheat was to be delivered by September 30 and would fulfill the Soviet obligations under the trade agreement between the two countries. The administration declined to

³² Clyde Farnsworth, 'U. S.-Soviet Grain Talks Resume,' *New York Times*, February 24, 1987.

³³ Gary Klott, "Big Wheat Deal Set at Subsidized Rates," *New York Times*, May 1, 1987.

disclose the price of the wheat or the size of the subsidy at that time. However, the sales of subsidized wheat continued; by April of 1988, the United States had sold 10.8 million tons of wheat to the Soviet Union since the initiation of the subsidies.³⁴ From April 30, 1987 until April 30, 1988, the United States paid \$447.9 million in subsidies to American exporters of wheat, or \$35 a ton on total Soviet purchases of 12.8 million tons.

Then, as a kind of farewell offering to American's farmers from the president, the Department of Agriculture announced that the grain purchase agreement between the Soviet Union and the United States had been extended an additional two and one-half years to December 31, 1990. All of the previous parameters of sales were to remain the same.³⁵ And so, Ronald Reagan did what he said he would do — he lifted the embargo and worked diligently to reestablish the Soviet grain trade. But was that the correct thing to do? Had the embargo actually punished the Soviets for their invasion of Afghanistan? Was it an effective diplomatic tool, or as many farm groups maintained, did it cause the farm crisis of the 1980s and do nothing to the Soviets?

The longer-term effects of the Carter embargo were more difficult to calculate, especially in view of the fact that the U.S. share of the Soviet market would probably have gone down even without the embargo. After all, the Reagan Administration had largely discarded *détente*, and competing grain exporters expanded production. In 1981, the year following the embargo, increased sales to other countries offset the

³⁴ "More Grain Sold to Soviet," the New York Times, March 28, 1988.

³⁵ Julie Johnson, "U. S. and Soviet Union Extend Grain Pact," *The New York Times*, November 29, 1988.

effects of U.S. exports lost to the USSR. For instance, wheat sales to China helped offset lower Soviet sales. Argentina and other exporters increased their corn shipments to the USSR, allowing greater U.S. exports to Mexico and other emerging nations. The embargo did, however, change the Soviet grain import mixture. Since wheat was more easily obtained from other countries, the Soviets traded wheat for corn. But the United States was the largest supplier of corn. Thus, if the Soviets were to continue their previous greater use of corn for livestock feed, they would have no choice but return to using the U.S. as a supply source.³⁶

The USSR's shift away from U.S. supplies weakened after the embargo was lifted, although imports from the United States never recovered to levels that would have been obtained based on trends during the 1970s. Statistical analysis suggested that the embargo increased Soviet responsiveness to changes in the prices of corn and wheat. When U.S. prices were low or when Soviet need for corn was pressing, the Soviets continued to buy U.S. commodities.³⁷

In the final analysis, the effects of the export embargo on the U.S. agricultural economy in general, and farmers in particular, were minor. The major change was that several trading nations simply changed trading partners. For instance, the Soviet Union bought from the Argentines and the United States sold to the countries who used to buy from the Argentines. Federal actions by the Carter administration to compensate U.S. farmers for losses caused by the embargo included increased loan rates for wheat and

³⁶ "Embargoes," 22.

³⁷ Ibid.

corn. Call-and-release prices for grain in the FOR were also raised. First-year interest payments on corn entering the reserve were waived, and reserve storage payments were increased. The government agreed to purchase 4 million tons of wheat, including 3.7 million tons withheld from the USSR, and to assume contractual obligation for up to 10 million tons of corn.³⁸ However, the Reagan administration fulfilled both its promises and its obligation to U.S. farmers regarding the Russian grain embargo and its aftermath. The administration labored long and hard to reestablish trade of U.S. agricultural commodities with the USSR. Not a year went by that the president did not personally involve himself in the dealings, even to the extent of allowing subsidized grain sales.³⁹ In the end, the controversy over the Soviet embargo may have been much ado about nothing, but Reagan was true to his word.

³⁸ "Embargoes," 22.

³⁹ Clifton B. Luttrell, "Grain Export Agreements—No Gains, No Losses," *Federal Reserve Bank of St. Louis-Review*, 65 (Aug. /Sept. 1981): 23-29.

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