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U.S. Farm Policy: The First 200 Years

Recent stresses in the agricultural economy, coinciding with the approach of the year 2002 when the current farm bill expires, have stirred debate about the direction U.S. farm policy should take in the immediate future. At the same time, passage into a new century and a new millennium heralds a time to consider the future of farm policy over the longer term, raising questions about the goal of public support for agriculture—what it has been and should be. Reflection on the precedents and origins of the policy can help frame the debate.

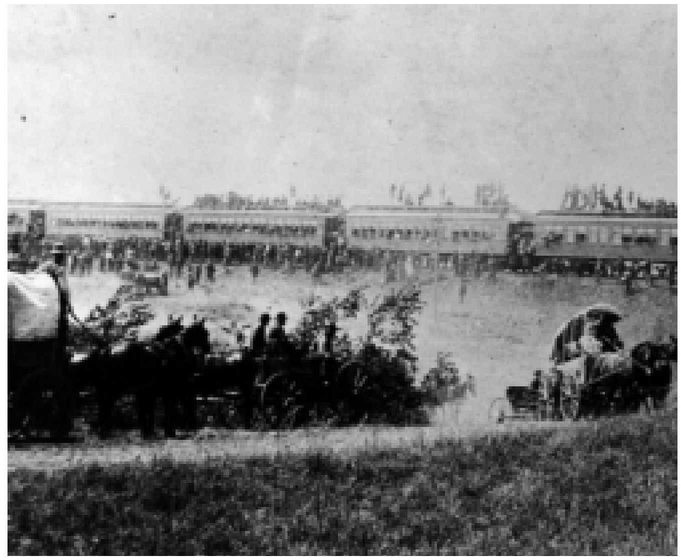
Reviews of the past as a backdrop for present and future policy often stop at the 1920's in their look backward. Although the last 70 years undoubtedly are critical for comprehending the rationale of current and recent policies, they mark a period when a single approach, one characterized by programs of farm income support, dominated farm policy. Since the founding of the national government more than 200 years ago, farmers have been supported by a series of markedly different approaches, which roughly coincide with four periods, all of which overlap through decades of debate and transition.

In the first period, roughly 1785-1890, the focus of "farm" policy was land distribution and expansion of settlement through numerous private farm operations. The second period, from about 1830 to 1914, focused on improving the productivity of farm operations, through support of research and education. The third period, approximately 1870-1933, ushered in limited regulation of markets, infrastructure improvements, and provision of economic information to help farmers compete. The fourth period, since 1924, focused on direct government intervention to provide farm income support. Whether we are currently in a time of transition toward a new type of policy remains to be seen, but over the last 15 years or so, debate about farm income support policies has accelerated. Movements toward more open global trade, an increasing emphasis on market-driven production decisions, and attention to environmental costs of agricultural production have all influenced current policy discussions.

"... any person who is the head of a family ... shall ... be entitled to enter one quarter section or a less quantity of unappropriated public lands ... for the purpose of actual settlement and cultivation."

The Homestead Act, 1862

Within each of these periods, public policy that addresses the needs of agriculture has faced conflicting interests, often grounded in the consequences of policies and developments of earlier periods. Although resolution of these conflicts has been different in each period, throughout the years a remarkably consistent public consensus has remained: that the problems inherent in farming warrant public support.



Promoting Agriculture in the New Nation

For the first five or six decades after the U.S. became a nation, the focus of national government was expansion and development. As land transfers, purchases, and treaties added territory to the U.S., policies were formulated to encourage the movement of population and industry to fill the space. Policy developments in this period that led to widespread access to land for farming, in a sense laid the foundation for public policy toward the agricultural sector.

Early Federal land policy favored sale of large amounts of land at relatively high prices, to bring revenues to the new government and to transfer public lands into private hands as rapidly as possible. Slow sales, however, and pressure from interests that favored transfer of public lands to small, independent farmers led to progressively more liberal laws governing sale of public lands. Minimum prices per acre were reduced and credit terms eased by legislation in 1790 and 1800. Later laws in 1820, 1841, and 1854 reduced prices further, forgave outstanding debts for land, provided means for illegal settlers—"squatters"—to gain title to land they occupied, and eventually, through the Homestead Act of 1862, provided for free distribution of land to anyone who would settle and farm it. Land distribution on these terms continued in unsettled areas into the 20th century, but the bulk of American farmland had been claimed and the traditional American frontier declared closed by 1890.

Debate over these land distribution issues reflected the conflict between two political-economic philosophies. Those in favor of selling large parcels at high prices believed public lands were an asset that should be sold to bring the greatest revenues to the government, reducing the need for taxes and assuring that the landowners could afford to develop it constructively.

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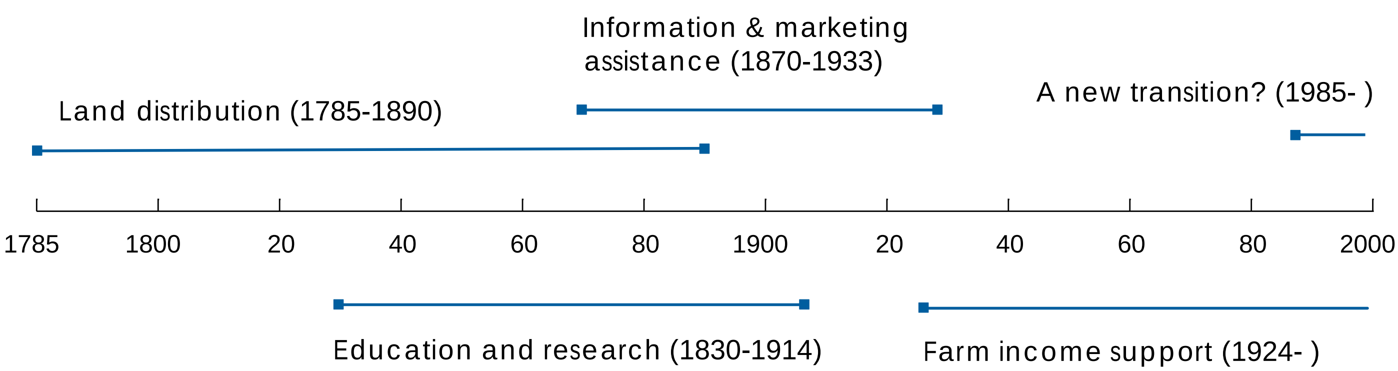
Policy Eras in U.S. Agriculture



Economic Research Service, USDA

Those who favored lower prices and smaller minimum parcels believed the best use of public land was to foster as much settlement as possible by small, independent farmers. Widespread settlement would support further development by increasing population in new areas, fueling economic growth, and in the earliest years, securing the territorial claims of the new nation. It would also assure the development in the new territories of a reliable independent citizenry not beholden to the politically or economically powerful. These citizens would own their own land and depend only on the labor of their own families for their well-being, exemplifying the agrarian ideal.

Debate between the two points of view was also embedded in the regional politics of the day. In the first decades of the 19th century, older states along the eastern seaboard resisted relatively open access to land for farming in the West. Settlement in the new areas threatened their political dominance and threatened the national treasury through loss of potential revenues from land sales and increasing demands for transportation developments to link the old and new regions.

In the decades preceding the Civil War, proponents of the southern plantation system of agriculture began to oppose the increasingly open access to public land. They viewed it as public promotion of an agricultural system based on an agrarian ideal that was at odds with their own system. With secession of the southern states in 1860, southern political leaders left the U.S. Congress, leaving proponents of free distribution of public land and other forms of assistance to small farmers virtually unopposed. Success in embedding this agrarian ideal in land policy, symbolized by passage of the Homestead Act, laid the basis for continued influence of that ideal in farm policy debates into the future. The national government had used its resources—in this case land—to encourage and support expansion of an agricultural structure of independent family farms. Thus Federal land policy created a precedent of Federal support for an independent family farm system, which has continued to be a prominent public goal of farm policy.

Moving Agriculture Toward Efficiency

As land policy continued encouraging increasing numbers of independent farmers across the U.S., improving American farmers' productivity and quality of life became a goal among progressive farmers, journalists, educators, and producers of commercial farm inputs. In the 1820's, farmers began to organize into state and county agricultural societies and to promote the need for specialized training and scientific research to advance the productivity and professionalism of the industry.

". . . in order to aid in diffusing among the people of the United States useful and practical information on subjects relating to agriculture and home economics, and to encourage the application of the same . . . there may be inaugurated . . . agricultural extension work . . . in cooperation with the United States Department of Agriculture."

The Smith-Lever Act, 1914

Much of the support for these ideas came from older farming regions of the South and East, which had begun to suffer from competition with newly opened lands in the West. The availability of extensive, fertile lands on which staples like wheat, cotton, and livestock could be produced more cheaply forced farmers in older, settled regions to evaluate their production methods. Years of cultivation without attention to preserving fertility of the soil had led to falling yields and even abandonment of land, particularly in areas growing cotton and tobacco. Some of these farmers saw potential for greater competitiveness through, for example, improved fertilizers and better methods of preparing soil for planting. Agricultural education and scientific research would be the source of these potential improvements.

Agricultural leaders looked to government for support of education and research programs. To a certain extent, the call for Federal support for improved productivity in farming grew out of the consequences of earlier land policy—Federal distribution of public lands in the West increased competition for farmers in the older regions of the nation, making the Federal government partially responsible for helping farmers in the older regions improve their productivity. But arguments for public support of agricultural education and scientific research rested largely on the belief that to be effective, advancements in agricultural productivity needed to be broadly accessible to the large population of independent farmers on whom the nation depended for food and fiber.

The U.S. was maturing as a nation and experiencing rapid urban and industrial growth in cities along the eastern seaboard. As manufacturing developed, employing increasing numbers of people, agriculture became a distinct economic sector, working in tandem with other industries to help the nation grow. Improving the productivity of this sector would support the development of other industries, by releasing labor for emerging factories, and by providing food and fiber for the increasing urban population, as well as inputs for these new industries—textile mills, for example.

Federally supported agricultural education and scientific research eventually took four major forms: establishment of the U.S. Department of Agriculture, authorization of a national system of agricultural colleges, appropriation of Federal funds to support agricultural science research at state agricultural experiment stations, and organization of an adult education system, USDA's Cooperative Extension Service. The first two of these took place in 1862, the year the Homestead Act was passed. Federal support for agricultural research at state experiment stations began about a decade later in the 1870's, while the Cooperative Extension Service was established in 1914.

Agrarianism Clashes with Industrialism

As agriculture, manufacturing, and other industries continued to expand, the increasing consolidation and wealth of urban-based industries began to contrast with the relative poverty and unconsolidated nature of agriculture. Beginning in the 1870's and lasting through the 1890's, chronic national surpluses of farm products depressed prices, while on a regional level repeated droughts, grasshopper infestations, and other natural disasters compounded problems for farmers in the recently settled lands of the Great Plains and Far West. Repeated national financial panics throughout the period made credit scarce and expensive. Meanwhile, as farmers saw their incomes falter, they watched the rising revenues and increasing political influence of railroads, processors, and urban financial interests, apparently the beneficiaries of regional monopolies, high interest rates, and high tariffs that protected manufacturing and other industries at the expense of farmers.

Demands from farm interests for Federal action drew on the same ideology that had supported free distribution of public lands. Free land turned out to be insufficient, particularly as farmers moved beyond self-sufficient frontier farming and became increasingly dependent on markets. Having settled western lands with Federal government support, farmers on these lands looked to the Federal government for new kinds of support when they began to face decades of harsh conditions.

Farmers, primarily in the West and South, organized to demand assistance in the form of Federal government regulation. Eventually forming the Populist Party in the 1890's, they advocated national government control of an expanded money supply, government ownership of transportation (railroads) and communication (telegraph) systems, an income tax to replace high tariffs as a source of Federal revenue, and continued government support for distribution of land to small, independent farmers.

> ***". . . it is hereby declared to be the policy of Congress to promote the effective merchandising of agricultural commodities in interstate and foreign commerce, so that the industry of agriculture will be placed on a basis of economic equality with other industries, and to that end to protect, control, and stabilize the currents of interstate and foreign commerce in the marketing of agricultural commodities and their food products."***
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> ***Federal Farm Board Act of 1929***

The Populist assumption that fostering agriculture was a proper concern of government remained essentially unquestioned, although not all participants in the debate believed government regulation of markets was the proper form of assistance. As Populist ideas spread, particularly in the Plains, other farm organizations proposed expanding education and research programs to help individual farmers compete in free markets. During the 1910's and 1920's, these programs were administered particularly through the Cooperative Extension Service and USDA's new Bureau of Agricultural Economics, established in 1924. During the same period, legislation exempting agricultural cooperatives from antitrust regulation left farmers free to join together for the purpose of purchasing inputs or marketing their products. Market information services and infrastructure development, especially farm-to-market roads, through Department of Agriculture programs equipped small rural producers with market access and economic information that larger commercial interests acquired privately.

Tackling Economic Depression & Chronic Overproduction

During the years 1910-14, the rise in population migration from rural areas to cities and the end of what had been a continual expansion of acreage in agricultural production led to slower growth in food production. With increased demand for food from growing U.S. urban populations and, during the second half of the decade, from a world embroiled in war, food prices reached

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levels at which farmers seemed to have achieved incomes on a par with other sectors of the economy. The U.S. farm population peaked around 1910 at about 32 million and the number of farms in the U.S. peaked around 1920 at about 6 1/2 million.

Soon after the war ended, however, international food demand plummeted as European production started to recover, and U.S. farm prices fell sharply. In response, farm leaders began laying out a proposal for a national program to support farm prices by controlling domestic supplies and using exports to absorb surpluses. Although Presidential vetoes held off the program during the 1920's, Congress twice passed measures providing for direct government intervention to lift farm prices by controlling supplies. The Federal government did implement some programs to regulate markets and to improve farm credit, but the limited intervention had little effect in improving the farm economy.

"It is hereby declared to be the policy of Congress . . . To establish and maintain such balance between the production and consumption of agricultural commodities . . . as will reestablish prices to farmers at a level that will give agricultural commodities a purchasing power . . . equivalent to the purchasing power of agricultural commodities in . . . the prewar period, August 1909-July 1914."

The First Agricultural Adjustment Act, 1933

It took a Depression to get the price supports farmers wanted. The demands of agriculture for an equal share of prosperity were swept up in a much broader package of direct Federal interventions as the economy at large faltered at the end of the 1920's. Beginning with Franklin Roosevelt's New Deal in 1933, the solution to rapidly falling farm incomes was primarily price supports, achieved through dramatic reductions in supply. Supply controls for staple commodities included payments for reduced planting and government storage of market-depressing surpluses when prices fell below a predetermined level. For perishable commodities such as milk and some specialty crops, supply control worked through a system of marketing orders that provided negative incentives for producing beyond specified levels.

The combination of price supports and supply management functioned as the essential outline of Federal farm policy from 1933 until 1996, and continues to figure in current debate, although the mechanisms and relative weights of the policies' components were modified by successive farm legislation. In some years, notably during World War II and postwar reconstruction, and again during the early 1970's and mid-1990's, global supplies tightened sharply, sending demand and prices soaring above farm price supports and rendering acreage reduction programs unnecessary. But for most of the period, repeated cycles of above-average production and/or reduced global demand put downward pressure on prices, keeping the programs popular and well funded.

Deepening distress in the agricultural economy in the 1920's and economic depression in the 1930's had fueled political support for a new direction in farm policy. Limited market regulation and programs to help farmers compete had not been enough to keep farm incomes from falling; the call for more direct intervention had gained support. Continued public support for direct intervention after World War II arose for different reasons.

Low prices and consequent low farm incomes of the 1920's and early 1930's had been the result of surpluses created by sharply reduced global and domestic demand, beginning with Europe's return to normal production after World War I and followed by the international economic depression of the 1930's. Surpluses in years following World War II resulted from rapidly increasing productivity, exacerbated by continuing high price supports that kept production above demand. The apparent success of production controls and price supports in raising and maintaining farm incomes by the mid-1930's, however, made a continuation of these policies publicly acceptable.

Nonetheless, intense debate between proponents of high price supports and those who believed farm prices should be allowed to fluctuate according to market demand continued from the mid-1950's to the mid-1960's. The debate was set in the context of large surpluses, low prices, and efforts led by the Eisenhower administration to return the U.S. economy and government bureaucracy to pre-New Deal, pre-World War II structures. Out of the debate—between advocates of very high price supports and mandatory production controls and those who wished to end direct government market intervention—came a compromise for farm policy. The Food and Agriculture Act of 1965 made most production controls voluntary and set price supports in relation to world market prices, abandoning the "parity" levels intended to support farm income at levels comparable to the high levels achieved during the 1910's. A system of direct income support ("deficiency") payments compensated farmers for lower support prices.

The debate over price supports and supply control recurred with enough intensity to divert the direction of policy in the mid-1980's. The new setting was the farm financial crisis and its aftermath, along with efforts by the Reagan presidency to end "big government" and place the American farm economy on a free-market footing. This time, with steadily increasing government stocks of program commodities and Federal budget deficits at record levels, the argument against continuing expensive government support of the farm economy gained support. At the same time, the farm crisis began to undermine some of the farm sector's confidence that domestic price supports and production controls were a very effective way to secure U.S. farm income in a global economy. Supported U.S. prices reduced international marketing opportunities and increasing global supplies undercut domestic production control efforts. Farm legislation passed in 1985 and 1990 maintained the traditional combination of price supports, supply controls, and income support payments, but introduced changes that moved farmers toward greater market orientation—i.e., lower price supports, greater planting flexibility, and more attention to developing export opportunities for farm products.

By the time of the Federal Agriculture Improvement and Reform Act of 1996, which legislated a dramatic shift in the character of Federal assistance to farmers, farm policy seemed to be again passing into a new period, pressed by the rising costs of farm income support programs and by the requirements of global agreements that farm income support programs keep production decisions tied to market signals. The new policy consensus behind the 1996 legislation held that farmers would be better equipped to compete in global markets under a system that allowed nearly complete planting flexibility and that promised continued government efforts to enhance access to international markets. To ease the transition from previous policy, the 1996 act offered a program of decreasing fixed income support payments no longer tied to production decisions.

Another Transition at Hand?

During the period of short supplies and high prices immediately following passage of the 1996 Farm Act, the consensus favoring the new policy direction held. With the return of low prices in 1998—the result of good weather and global financial crises—the debate has resumed about whether traditional policies of direct income support tied to price fluctuations are the most effective solution to farm income variability. But a host of post-World War II developments in agriculture has led to a markedly changed context for farm policy in the last decade and a half, and that new context has produced some new challenges.

Increasing productivity has reduced the number of people needed to work on farms and decreased profitability has reduced the number who can be supported by income from a single family farm. While many farm residents have left rural areas for employment in cities, others have stayed and found employment or developed businesses to supplement their household income. Sources of income to farm households have greatly diversified, complicating questions of how the appropriate level of farm income support should be calculated and how it should be delivered.

Also since World War II, the business of farming and food production has become increasingly consolidated and industrialized. Average farm size continues to grow. Contract production in poultry, hogs, and other commodities has become common. Consolidation is evident in the food processing, transportation, and trading sectors of the agricultural economy. Consumer preferences in diet and food preparation have changed dramatically. These and other developments have led to production processes and business relationships resembling other industries more than the traditional agrarian model of small independent producers—the model on which earlier periods of farm policy have been based.

International trade issues have grown in importance over the last 50 years, as soaring productivity of U.S. farms has created a need for additional outlets for U.S. goods, preferably in export markets. But these issues have gained increased significance in deliberations over domestic farm policy in the last 15 years as new global and regional agreements have been negotiated that require reduction in trade-distorting farm policies. Income support policies that have been traditionally used since the 1930's are limited in this trade environment because they can affect individual production decisions which in turn can affect global commodity markets.

Equally challenging will be integrating the increasingly complex and changing goals of environmental policy with agricultural policy. Conservation programs for agriculture began primarily as efforts to combat soil erosion, an objective driven largely by concern for improving productivity. More recently, efforts have focused on a broader array of issues—water and air quality, wildlife habitat, and open space and landscape preservation—not driven by concern for agricultural production, although they may offer such benefits. The goal, rather, has become controlling environmental impacts beyond the farm.

These postwar developments seem likely to produce some marked changes in the approach to farm policy, although they do not yet seem to have weakened public support for some kind of direct assistance to farmers. The tradition of public support for farmers has persisted through a long history of changing contexts and policy responses—from access to land to access to education and research and from marketing and information programs to income support programs.

All of these policies have been rooted in attempts to ensure opportunities for individuals and families to make a living at farming, beginning with Federal land policy. With its promise of virtually open access to land, the policy offered nearly anyone the chance to become a farmer with a minimal investment. Each period since has ushered in a new policy approach intended to help farmers improve their incomes in the face of ever-increasing production. Current challenges facing farm policymakers may test the strength of public support for the direct income support programs typical of the last 70 years, and will surely require creativity in crafting policies that function well in the new context of advanced structural change, global trade constraints, and new environmental goals. **AO**

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March Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

March

6 Aquaculture*
10 World Agricultural Supply & Demand Estimates (8:30 am)
13 Cotton & Wool Outlook (4 pm)**
Oil Crops Outlook (4 pm)**
Rice Outlook (4 pm)**
14 Feed Outlook (9 am)**
20 Agricultural Outlook*
22 Fruit & Tree Nuts*
24 U.S. Agricultural Trade Update (3 pm)
27 Wheat Yearbook*
28 Livestock, Dairy & Poultry (4 pm)**

*Release of summary, 3 p.m.
**Available electronically only