America's Permanent Dependent Class

It's Time to End the Farmer's Dole

Doug Bandow

It was to be the new gilded age of laissez-faire and limited government, but the "Reagan Revolution" died long before the Iran affair was revealed. Nowhere has Ronald Reagan failed more conspicuously than in his attempt to control federal spending: government outlays have jumped $424.6 billion since he was elected, an astounding 71 percent increase.

And no program has been mismanaged more disastrously than the farmers' welfare system. Direct payments to farmers ran $25.8 billion last year, a 545 percent jump over 1981. No sector of the federal budget has grown more.

Nor is that all the money received by rural America. In 1986, the federal government spent another $3.8 billion on crop research, soil conservation, and similar programs. Sugar quotas, peanut quotas, and citrus marketing orders provide billions more dollars to producers through higher prices instead of higher taxes.

At the same time, Uncle Sam has proved to be an incredible bungler as Farmer-In-Chief. Despite direct subsidies of $93.8 billion so far during Reagan's tenure—and at least $21.3 billion more this year—rural America is in disastrous shape.

For instance, the Farm Credit System, a cooperative rural network of 400 banks and associates, recently announced a $1.9 billion loss for 1986, on top of $2.7 billion in red ink the previous year. With farm bankruptcies continuing and almost one-fourth of the System's lending portfolio already foreclosed or impaired, a federal bail-out seems only a matter of time.

Despite several billion in export subsidies—$5 billion in short-term credit, $666 million in crop surpluses, and $500 million in longer-term credit a year—the American farmers' share of international food markets continues to shrink. Last year, food export earnings were down 60.5 percent from 1981. With China having passed the U.S. as a cotton exporter, Thailand now shipping more than twice the volume of rice as America, and Australia threatening the U.S. lead in wheat exports, few observers believe 1987 will be any better.

Finally, there's the simple human hardship of the 2,100 farmers who go out of business every week. Many borrowed heavily to purchase additional land and expand; since then export markets have shrunk, prices have fallen, and land values have plummeted. At least 178,000 of the 670,000 commercial farms are heavily in debt.

For many of the 29 percent of the farmers who own 83 percent of the agricultural debt, the burden has become overwhelming. Two-thirds of them owe more in interest than they earn from their crops. For many, bankruptcy has been the only option.

Bizarre Hybrid

Federal outlays are up, the Farm Credit System is tottering, exports are way down, and farms are failing. Something is obviously wrong. "How can so many farmers go broke if we're spending all this money to help them survive?" asks Senator Patrick Leahy (D-Vermont), chairman of the Senate Agriculture Committee. Unfortunately, it's all too easy to do when the federal government takes charge.

The "farm crisis" is a permanent part of American history. "When the going is good for" the farmer, H.L. Mencken wrote 60 years ago, "he robs the rest of us up to the extreme of our endurance; when the going is bad he comes bawling for help out of the public till."

The basic foundations of Uncle Sam's stint as Farmer-in-Chief are production restrictions and price supports. In fact, the federal government began with a variant of the sort of "supply management" program now being advocated by Senator Tom Harkin (D-Iowa) and Representative Richard Gephardt (D-Missouri). The 1933 Agricultural Adjustment Act set acreage limits for specific crops and paid farmers to reduce the amount of land they planted, in an attempt to push up producer prices. Cash subsidies, principally through "nonrecourse" loans, which allow farmers to forfeit their crops if loan rates exceed market prices, were originally only of secondary importance.

However, farmers continually lobbied to push up support levels—usually pegged to a mythical "parity" figure

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determined by the ratio of prices and costs in the years immediately preceeding World War I—in effect, preferring a cash welfare program to a cartel. Large surpluses naturally resulted. As federal stockpiles increased, the government increasingly attempted to limit what farmers could produce. The Agricultural Act of 1956, for instance, established an "acreage reserve" which paid farmers to let their land lie fallow or to convert it to a particular "conservation" purpose.

But surpluses have persisted as farmers became both more efficient technically and more adept at manipulating federal programs. Frustrated Presidents and Congresses have then responded by tinkering with the support system, turning it into a bizarre hybrid of price props, acreage limits, import restrictions, and export subsidies. The only constant has been the increase in federal spending and the number of Agriculture Department (USDA) bureaucrats per farm—up tenfold since 1929, even as the percentage of the population living on farms has fallen by more than 90 percent.

The five-year bill that President Reagan ultimately signed in December 1985 did include some very modest future reductions in price supports. Then Senate Agriculture Committee Chairman Jesse Helms called the legislation "the beginning of a slow, but decisive, transition to market-oriented farm policy."

Barely two months later, however, agricultural consultant John Schnittker observed that "you can't keep track" of federal farm spending because "it's mounting so fast." In early 1985, Congress has approved a budget resolution setting a three-year $34.5 billion limit on agricultural subsidies. The final Farm Bill, however, was expected to run $50 billion over the same period. But outlays were almost $26 billion last year alone; the Agriculture Department now expects farm spending from 1986 to 1988 to hit at least $70 billion.

The American people are also taking a hit as consumers as well as taxpayers. The milk, peanut, and sugar programs alone hike retail prices by $7 billion a year, estimates Ellen Haas, executive director of Public Voice for Food and Health Policy. The 1985 Farm Bill instituted new production cut-backs; milk, for instance, is expected to eventually cost an extra 10 percent.

Finally, the number of fat federal pay-offs to the rich only seem to increase after passage of the legislation. Archer Daniels Midland, a multi-billiion dollar agricultural processing firm, collected $29.2 million last year to underwrite its gasohol business. One cotton farm took in $20 million. California dairyman Joe Gonsalves will soon receive about $8 million to go out of business; "It's almost like one of those lottery tickets," he says. Crown Prince Hans Adam of Liechtenstein and International Paper Co., partners in the Farms of Texas Co., split federal subsidies of $2.2 million in 1986 for growing rice and other crops. Indeed, last year the largest 4,760 North Dakota farmers together collected more than $1 billion, about $211,000 per farm; Nebraska's biggest 8,260 farmers took home $1.7 billion in federal subsidies, about $200,000 each.

Unfortunately, it is hard to imagine a system that is not permanently biased toward richer, bigger farms. For so long as payments are determined by production, the largest farmers will receive the most money. According to a Joint Economic Committee report released last year, farms with sales in excess of $500,000 annually received 44.2 percent of federal payments; operations with receipts between $250,000 and $500,000 took in another 27 percent. As a result, barely 17 cents of every dollar in federal support goes to those farmers in greatest need.

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If nothing else, the 1985 Farm Bill proves that incremental changes will not solve the crisis that is overwhelming rural America and the U.S. budget. For the current programs are such a contradictory, inefficient mishmash that no amount of fine-tuning can put American agriculture on a sound footing or limit taxpayers' liabilities.

Dairy: Milking the Public

Perhaps the most abusive subsidy system is that which enriches America's dairy farmers, whose political clout is legendary. The federal government averages $2 billion a year—the actual figure has ranged between $1.5 billion and $2.6 billion during Reagan's tenure—to buy carlots of milk, butter, and cheese at legislated levels. The current federal support price is $11.60 per hundredweight, about two dollars above the market-clearing level.

Of course, as long as the government offers to buy any amount of dairy products at above-market prices, it will be overwhelmed by sellers. Last year, for instance, the federal government purchased 12.3 billion pounds of milk equivalent; in 1985 Uncle Sam bought 16 billion pounds worth. The result has been warehouses full of cheese, butter, and nonfat dry milk. In 1985, it cost Uncle Sam another $234 million just to process, transport, and store the surplus.

Lowering price supports is the obvious way to stop dairymen from producing mountains of unwanted milk; Congress instead created a multi-billion dollar "termination" program in 1985 to pay dairymen to go out of business.

Thus, after spending more than $14 billion so far this decade to encourage dairymen to produce as much as they want, the government is now forcing taxpayers to contribute $1.1 billion, along with $700 million in producer assessments, to convince those same farmers to retire. The individual "termination" checks range up to $10 million; all told, 144 dairymen are receiving more than $1 million each to quit their farms.

Ironically, this expensive slaughter of more than one million cows has had a devastating impact on the cattle industry. Beef prices fell 10 percent as soon as the termination program began the middle of last year; the value of producers' cattle inventories dropped by an estimated $2 billion. Complains John Ross, executive vice president of the California Cattlemen's Association, "We got kicked right in the teeth." The beef industry is one of the few agricultural sectors that receives no direct federal support.

Grains: PIKing Our Pockets

Though no more ludicrous than the price props for dairy products, the subsidy system for grain is more complex and more expensive. In 1985, for instance, wheat subsidies alone ran $1.95 billion, more than nine times the cost in 1980.

Three forms of supports operate side-by-side. First, farmers receive "deficiency payments" to cover the difference between the price they receive from selling part of their crops and the "target price" set by the government.

The only serious alternative is to make farmers, like everyone else, operate in a free market.

Second, USDA lends money to farmers at a specific "loan rate" and takes their crops as collateral. If, as is usually the case, market prices remain below loan levels—late last year a bushel of corn was selling at $1.75 but had a loan value of $1.84—the farmer abandons his produce and keeps the money. Thus, the federal government regularly accumulates a hefty stockpile of non-dairy crops. Last December, 2.7 billion bushels of wheat, 10.3 billion bushels of corn, and 325 million bushels of oats and barley languished in federal storage.

Third, to help reduce these huge surpluses, Congress has created a "diversion" program. To qualify for cash supports, farmers must take a certain percentage of their land out of production—at least 20 percent for wheat farmers and a minimum of 15 percent for feed grain producers. The 1985 law also authorized USDA to initiate a paid diversion program on top of these minimums.

So last year, right before the congressional elections, the administration announced the government would pay feed grain farmers to cut their acreage another 15 percent. On average, producers are receiving $2 a bushel not to grow anything; Mark Ritchie, an analyst with the Minnesota Department of Agriculture, expects the program to cost between $2 billion and $2.5 billion. Not surprisingly, farmers, who can earn more from idling their land than from planting it, like the program.

Also last year, the government issued about $2 billion worth of "generic payment-in-kind certificates" in place of cash subsidies, in an attempt to further cut production. Farmers could redeem their PIK certificates for crops (from the federal surplus), use the certificates to pay off their government loans, or sell the certificates.

But farmers and grain dealers soon discovered how to manipulate the certificates, which eventually sold for up to 40 percent above their face value. Until last October, when USDA finally changed the program's terms, farmers could take certificates issued in regions where crop prices were high, buy cheaper grain elsewhere, put it under federal loan, and then pay off the loans at a highly discounted rate. Farmers and grain firms pocketed an extra 10, 20, 30, or more cents a bushel. The PIK scam cost taxpayers about $400 million.

Corn producers also benefit from two additional programs. Sugar import quotas have sharply hiked purchases of high-fructose corn syrup. Subsidies for gasohol—produced by mixing gasoline with ethanol alcohol from corn—also increase demand for the grain. Last year alone, USDA gave $53.8 million to gasohol producers, most of the funds going to a handful of large firms.

Uncle Sam enriches the nation's rice farmers in much the same way that he supports the incomes of wheat and corn farmers. The federal government establishes both a loan rate, roughly 85 percent of the five-year average market price, and a target price. Growers who want to collect these subsidies must reduce their acreage by 35 percent; the government also pays rice farmers to cut their planting further.

The rice program is a relatively new one, dating from only 1976. But it has quickly become one of the most expensive agricultural boondoggles, with costs jumping from just $2 million in 1981 to $1 billion in 1986. The loan system guarantees huge federal surpluses—145,540,000 hundredweight of rough rice as of last December.

The case of rice illustrates how federal subsidies have undercut the competitiveness of U.S. agriculture. In 1981, Congress upped the rice loan rate on the assumption that world prices would continue to rise. They did not, so farmers chose to forfeit their crops and pocket the federal loans rather than accept lower prices abroad. The result was the virtually unprecedented increase in federal spending and surplus stockpiles.

Nonrecourse loans and deficiency payments are used to subsidize cotton growers as well. Cotton producers must set aside a quarter of their acreage to be eligible for federal payments. If domestic price support levels make U.S. crops uncompetitive internationally, USDA has authority to lower the repayment level necessary to redeem collateral crops. Thus, farmers can pocket part of the loan and still sell their crops; rice growers, too, can exercise this option.

Outlays for cotton growers have also run wildly out of control. In 1980, expenditures were $172 million; five years later Uncle Sam spent $1.1 billion on the program. Cotton stockpiles, like those for most other crops, are bulging. Moreover, the cotton farmers are still not satisfied with Uncle Sam's generosity; they are lobbying for import quotas.

Sugar's Daddy

If anything illustrates farmers' disproportionate political influence, it is the existence of $100 million in subsidies for the nation's 2,100 professional beekeepers. Though the Senate voted to kill the loan program in 1985, the House insisted on retaining it.

Honey price supports cause the same problems as do other subsidy programs. Taxpayer costs have skyrocketed, going from approximately $3 million in 1980 to $100 million in 1985; consumers pay roughly 23 cents a pound more than they should for honey. The government had 113 million pounds of surplus honey on hand last December.

Another sweet subsidy for farmers is provided by the sugar program, though its deleterious impact is largely disguised. Congress killed sugar price supports in 1974, but the Reagan Administration revived them in 1981 as part of an ugly political deal for the votes of several southern Democratic congressmen.

The price supports, in the form of nonrecourse loans, are only rarely used, however, for Congress imposed import quotas which raise domestic prices above the loan levels. World prices have fluctuated between three cents and eight cents a pound; the loan rate is 18 cents and domestic prices run about 21 cents.

Thus, while the program's budget costs are relatively small—the government ended up with 400 million pounds of surplus sugar last year, which it sold abroad at a loss of about $56 million—the consumer cost is horrendous, as much as $3 billion in higher prices, all to benefit just 12,000 domestic growers. To maintain the program at no budget cost has required the government to steadily tighten the quotas. Foreign sugar shipments ran about 4.8 million tons in 1981, but will be restricted to barely one million tons this year.

Not surprisingly, sugar demand has fallen as prices have risen. Most soft drink manufacturers, for instance, have shifted to high-fructose corn syrup. As a result, the sugar refining industry is suffering a depression: a half dozen plants have closed, many are operating at reduced capacity, and thousands of employees have been thrown out of work.

Wool price supports run about $100 million annually. Soybean growers are eligible for nonrecourse loans. In 1985 the Senate even voted to subsidize sunflower production—the scheme, rejected by the House, would have paid farmers two cents a pound or $35 an acre, whichever was higher.

Peanut and tobacco producers are eligible for loans, but they operate under domestic allotment and quota systems which restrict the supply to push up prices. Similarly, "marketing orders" are used to control the proportion of oranges, lemons, and other specialty crops that may be sold fresh domestically. Consumers, instead of taxpayers, bear most of these programs' costs.

Finally, USDA spends billions of dollars to benefit all farmers generally. Export promotion, credit assistance, crop research, disaster relief, rural development, and soil conservation all serve as fig leaves to justify huge financial transfers to the agricultural community. The 1985 Farm Bill, for instance, established a Conservation Reserve program whose ostensible purpose is to protect the quality of land. In essence, however, the Conservation Reserve is but another "diversion" program, with the government paying farmers to cut their acreage.

A system this complex has provided politicians with an unending opportunity to tinker at the margins. In January 1982, the administration inaugurated its first Payment-In-Kind program, which was to substitute crop surpluses for direct cash payments. The largest diversion program ever undertaken, PIK was a disaster: production fell only slightly; the government had to buy crops in some regions to meet its commitments; prices rose, making U.S. exports less competitive; sales of agricultural supplies plummeted. A program expected to cost $2.9 billion ended up costing several times more.

However much we may cherish the traditional "family farm," there is no reason to force other Americans to keep farms afloat any more than to save any other uneconomic family business, whether dry cleaners or corner drugstores.

Some Republicans are now promoting "marketing loans," which allow farmers to redeem their crops from federal warehouses by paying as little as half of the amount of the loan they received from the government. They can then sell their crops on the open markets. The proposal would help encourage U.S. crop exports, but would still require taxpayers to make up the potentially significant difference between the market price and loan rates.

Senator Rudy Boschwitz (R-Minnesota) has proposed that farmers' payments be "decoupled" from their production. Doing so would reduce crop surpluses, but what criteria would then be used to distribute Uncle Sam's largesse? If anything, Boschwitz's proposal points out how unjustifiable any farm program is: why do people who happen to grow food have an automatic claim on billions of dollars from their fellow citizens?

The Collectivist Solution

On the Democratic side, Senator Harkin wants the government to take a larger role in American agriculture, "managing" supply to fit demand, rather along the Soviet collectivist model. Under Harkin's proposal, farmers would vote on whether the government should control production. If they agreed—and Harkin would cut back their subsidies if they don't—USDA would set crop quotas and issue marketing certificates. No domestic food company could buy from anyone without a certificate, effectively forcing every American farmer to join the government-enforced cartel and barring any imported food.

Consumer prices would jump as much as $20 billion annually; farm exports would vanish. With lower crop production, rural employment would fall by an estimated 130,000. Moreover, Harkin's proposal would extend state power beyond anything previously imagined in this country. Millions of farmers would face economic ruin if they refused to join the agricultural cartel or jail if they violated the government's dictates. Big Brother would be the dominant member of rural families.

The only serious alternative to the Harkin approach is to make farmers, like everyone else in America, operate in a free market. Tens of thousands of farmers would go out of business as a consequence, but those who survived would be financially stronger and the U.S. would once again be competitive internationally. Most important, American taxpayers and consumers would no longer be forced to spend billions to keep small numbers of beekeepers and dairymen in their chosen livelihood. Price supports, deficiency payments, nonrecourse loans, quotas, allotments, and the myriad other rural subsidies should all be ended—completely and immediately.

Of course, even some advocates of less federal regulation propose a transition between state-controlled and market-directed agriculture. Republicans on the Joint Economic Committee, for instance, argue that "apart from compassion to those in need and fairness in allowing time to adapt to change, there is the fact that producers of price-supported commodities have been encouraged to ignore market signals." However, it is hard to have much sympathy for those who have lobbied so hard for the very subsidies that have distorted their behavior. It is, frankly, time to consider the interests of taxpayers and consumers first.

A quick aid cutoff, of course, is politically inconceivable. Probably the best hope is a modified version of the proposal offered by Republican presidential hopeful Pete du Pont, who would decouple aid from production and phase out crop supports over a five-year period, cutting payments 20 percent a year. Du Pont's program could be improved by immediately lowering the maximum payment per farmer from $50,000 to $10,000, as has been proposed by the Reagan Administration, and by closing loopholes that allow beneficiaries to subdivide their operations. Such subsidy restrictions also should be imposed on cotton and rice producers, who are currently exempt.

America's Permanent Dependent Class

However much we may cherish the tradition "family farm," there is no reason to force other Americans to keep farms afloat any more than to save any other uneconomic family business, whether dry cleaners or corner drug stores. Just 8 percent of America's full-time farmers produce two-thirds of the nation's food; there is no public interest in subsidizing the many small operations which contribute virtually nothing to the nation's food supply and which generate no net income, even after counting federal subsidies.

Half of U.S. farmers today receive no direct government aid. Livestock operators, poultry farmers, and producers of many fruits, vegetables, and specialty crops operate profitably without federal handouts. Some traditionally subsidized, but struggling, farmers in America's heartland have been prospering by diversifying their crops, avoiding debt, and improving their management skills. Thus, even many small U.S. farmers—who are the most productive in the world—would survive an aid cutoff through selective expansion, careful operations, and increasing non-food income sources.

Government subsidies have become a way of life for too many rural Americans, creating a permanent dependent class. However painful it may be to make those farmers stand on their own, we must do so. The country can no longer afford to continue spending tens of billions of dollars to pay for food that rots in government warehouses. More fundamentally, allowing farmers, whose average net income in 1982 was $25,618, to force taxpayers, with average earnings of $27,391, to pay billions in subsidies is simply legalizing theft. It's time that the congressional majority representing the 97.7 percent of us not working on farms finally told the nation's most insatiable lobby "no."

Department of Disinformation

Bedtime for Bonzo?

Elizabeth Temple

The de facto end of the Reagan presidency came at the precise moment—noon, November 25—the White House disclosed that proceeds from the arms sale had been laundered and funneled to the contras.
Fred Barnes, *The New Republic*, December 22, 1986

Perhaps the pundits are right this time. Perhaps Ronald Reagan's effectiveness as a president has finally come to an end. With his administration under siege for its handling of the Iran/Contra affair, everyone—from political scientist James David Barber to conservative activist Richard Viguerie—seems to be jumping on the Reagan Farewell Wagon.

But it's worth remembering that Ronald Reagan's political death has been reported many times before, and that ever since the *New York Times* unfavorably compared his acting talents with those of a chimpanzee, the nation's *cognoscenti* have been grossly underestimating Reagan's abilities. For more than 20 years, the "prophets" have predicted the end of the Reagan rise to power. Perhaps they have gotten wiser. But keep in mind all the times they were wrong.

Lights Out

[Universal-International has] come up with a chipper chimpanzee, name of Bonzo. And a good thing too. For without this frisky character, there would have been little comedy in this antic. As is, it is a minor bit of fun yielding a respectable amount of laughs but nothing, actually, over which to wax ecstatic. . . .

Ronald Reagan, as the professor, [and his co-stars] work hard but obviously ineffectively. They haven't a chance since Bonzo makes monkeys of them all.

New York Times, April 6, 1951

Reagan Can't Win

"If the Republican Party can't learn they can't win with a man of Reagan's philosophy, then I don't belong in politics."

George Christopher, Republican gubernatorial candidate, *Los Angeles Times*, June 7, 1966

Brown Can't Lose

"If Reagan were a more plausible candidate, we'd suffer more."

A "confident Brown campaigner," *New York Times*, September 18, 1966

Reagan's High Horse

"I'm tired of this great handsome knight on a white charger who has been created by a political management firm."

George Christopher, *Los Angeles Times*, June 7, 1966

'Citizen Politician'

Brown said that Reagan's jump from film to "citizen politician" reminded him of an airline passenger:

"You're sitting in a big jet. You're ready to taxi out and a nice-looking middle-aged man in a uniform comes up the aisle heading for the controls. You stop him and say you're a little nervous because it's your first flight.

'Mine too,' he says. 'I'm a citizen pilot. But don't worry. I've always had an active interest in aviation.' "

Governor Pat Brown, *Los Angeles Times*, June 17, 1966

That's a Take

"While we were building a dynamic working society in California, he was off making such film epics as *Bedtime for Bonzo* and *Tugboat Annie Sails Again.*

This actor hasn't had so much as three minutes in public service of any kind, nature, or description.

He has been auditioning for governor for more than a year now and has flunked the audition on every score that matters."

Governor Pat Brown, *Los Angleles Times*, October 6, 1966

Inevitably, Hollywood got into the act—on both sides. . . . [S]uch Democrats as Kirk Douglas, Burt Lancaster, Gene Kelly, Dan Blocker and John Forsythe appeared on television and radio, all uttering variations on this theme: "I could play a governor in a movie, but I don't have the ability to be one."

John Wayne, Pat Boone, Chuck Connors, Roy Rogers,