Course By Newspaper

It is now almost 50 years since the federal government assumed a major role in determining the production and pricing of farm products. The commodity programs--which were in full force from 1933 to 1973 and still continue on a reduced scale--were designed in part to save the family farm from threatened economic disaster.

Yet today, the independent family farmer seems to be an endangered species. An average of 2,000 farms have gone out of business every week since 1950. Although some 95 percent of U.S. farms are family owned, the U.S. Department of Agriculture predicts that "there will be a few large firms controlling food production in only a few years."

As commodity programs in agriculture phase down, it seems appropriate to assess the government activities begun during the Depression.

STATED PURPOSES

The major objectives of the commodity programs were to increase the prices of farms products; to stabilize supplies; to improve farm income; and to save the family farm. These objectives were to be accomplished mainly by paying farmers to curtail production, thus driving up prices.

The programs applied chiefly to wheat, corn, cotton, rice, peanuts, tobacco, dairy products, wool, and sugar. Meat, poultry, fruits, and most vegetables were never deeply involved. Inclusion was based mainly on the workability of controls and on politics. At the program's peak, commodities accounting for three-fourths of farm income were not controlled. Because the program's scope was limited, so too was its ability to achieve its objectives.

The measuring rod for prices was parity, that is, a given amount of the commodity should purchase the same goods and services as it did in the period 1910-1914, when farmers enjoyed a relatively good standard of living.

During the three Depression years 1930-32, immediately before the enactment of the commodity programs, farm prices averaged 72 percent of parity. During the last three years that the programs were in substantial full force, 1970-72, farm prices again were 72 percent of parity, the same as before the programs began. Forty years of effort had failed to achieve the parity price objectives.

Together with other government initiatives, the programs did bring about some stability. The disastrous price declines of 1920-21 and 1930-32, when few stabilization programs were in effect, were not repeated after World War II, when there were many such programs.

Supplies as well as prices were stabilized to a degree by storing, in government hands, the commodities that could not be sold at the government-supported price. These stocks assured consumers of steady supplies, but they also depressed market prices and required deep cuts in farm production.

Incomes of the farm population rose absoluteiy and relatively during the 40-year life of the programs. Before 1933, the average income for farm people was 70 percent of that for nonfarm people. Forty years later, their incomes were about equal. This gain in per capita farm income, however, was probably due not so much to the commodity programs as to the increase in farm size and efficiency, the decline in the number of farmers, and the increase in off-farm earnings of farmers, which came to exceed their incomes from farming.

Clearly, the program did not preserve the family farm. In 1930 there were 6.5 million farms; by 1970 there were 2.9 million, less than half as many.

This drastic decline in the number of farms was caused chiefly by technological change and resulting farm consolidation. The commodity programs actually speeded up this process by providing price incentives for greater yields per acre, stimulating the adoption of new large-scale technology.

A major purpose of the commodity programs--perhaps the main one, though not openly acknowledged--was to avert an agricultural uprising. The Great Depression was an unbelievable disaster to modern Americans. The farm mood in 1932-33 was grim.

The New Deal put into operation the programs the farmers themselves wanted and put farmers to work administering them. Checks began to flow into farmers' hands, and the mood changed for the better. Elsewhere in the Depression-cursed world, as in Germany and Italy, the open economic system gave way to Fascism. In the United States, the open system survived, though with modifications.

The stated objectives of the commodity programs were thus only partially achieved.

SIDE EFFECTS

The most profound effects, however, were unintended, and most of them were adverse in terms of program objectives.

The greatest benefits of the program went to the operators of the largest farms, whose incomes were already above the farm and nonfarm average. The top one percent of farmers received 21 percent of the payments. Average farm incomes increased, but only by widening the gap between rich and poor.

The big farmers used their payments to buy out their smaller neighbors, speeding up the demise of the small farm.

Benefits drove up the price of farm land. A tobacco or peanut allotment was worth more than the land on which the crop was grown. Thus the program meant a windfall to those who owned the land when the program began, but an added cost to the next generation.

The commodity programs also resulted in the United States losing markets for its exports. For example, from 1930 until 1961, the United States held its cotton production to 14.4 million bales. During the same period, foreign production of cotton doubled. By curtailing production and driving up our price, we priced ourselves out of the market.

The assessment that surplus production was the major problem for farmers became self-fulfilling. If the price of a competitive good is held substantially and continuously above its market price, a surplus inevitably develops, regardless of the original supply situation. The artificially supported price encourages production and discourages consumption: hence the pile-up of stocks in government hands.

The programs were costly to consumers and taxpayers. According to economist Charles Schultze, during the period 1964-69 the program increased the price of food by 4 percent each year above what it otherwise would have been.

A study initiated by Secretary of Agriculture Ezra Taft Benson placed the cost of the programs to the government at $18 billion for the period 1932-1959. Since then costs increased greatly, but Benson's accounting was attacked so strongly by farm interests that it was never updated.

GOVERNMENT CONTROL AND INDIVIDUAL FREEDOM

One effect, intended or not, was to substitute government decision making for individual freedom of management. The deep question, basic to the commodity programs and still unanswered, is the degree to which individual freedom is an end in itself, and the degree to which it is but one of several alternative means to the end called increased income.

Farmers who produced certain products--chiefly tobacco, peanuts, sugar, and dairy products--became so dependent on government programs that they resisted the trend toward market orientation that has become evident in the last 15 years.

A fair assessment of the commodity programs is that in the early years they helped to prevent political and economic disaster. But they were continued beyond their time, and with this extended life came an aggravation of their many problems. In the end, consumers, taxpayers, and many farmers themselves became disillusioned.

Hence the retreat--but not the defeat--of these programs.

We should read the lesson well, lest we repeat it.

ABOUT THE AUTHOR

DON PAARLBERG is Professor Emeritus at Purdue University, where he taught agricultural economics for many years. He has held appointments from Presidents Eisenhower, Nixon, and Ford, serving as Assistant to the President, Coordinator of the Food-for-Peace program, Assistant Secretary of Agriculture, and Director of Agricultural Economics. In addition, he has been economic advisor to Secretaries of Agriculture Benson, Hardin, Butz, and Knebel. His publications include "American Farm Policy"; "Great Myths of Economics"; and "Farm and Food Policy: Issues of the 1980's."

TAX TIPS '82

A Record Savings

By Henry W. Bloch, President H & R Block, Inc.

It is always surprising that the same cost-conscious consumer who would be meticulous in comparing the price of beef roasts or new furniture can be casual about tax filing and record-keeping.

This is especially notable when you consider that the amount of money to be lost—or gained—is much more significant.

The Economic Recovery Tax Act of 1981 promises some relief to all taxpayers, regardless of income level. However, it still will pay to become tax-wise, whether that means learning what the new laws hold for you, or simply taking advantage of tax breaks previously available.

• *Make use of retirement savings.* The IRS allows you currently to put aside $1,500 into an individual retirement account (IRA) for yourself, or $1,750 where an account was opened for a working and non-working spouse. For the next year, you'll be able to stock away $2,000 for yourself, or up to $2,250 where a non-employed spouse is included *whether or not* your employer covers you with a separate pension plan.

For two-career couples, each can have their own IRA, with a deduction of $2,000 each for a total of $4,000 a year. Essentially, this provides an available tax shelter for your savings, as well as encouraging set-aside for retirement. But don't forget that valuable deduction at tax time.

• *Dual-incomes should be figured carefully.* Whether it's the situation of a taxpayer holding two or more jobs, or a dual-career household, it will pay to consider filing strategy extremely carefully.

Would you benefit by income averaging, especially where your spouse has recently taken on a job? Are you having the right amount of FICA withheld? (Regardless of income, the top amount of FICA any taxpayer should owe is $1,975.05 for this year, and you won't get a refund unless you file for it.) The so-called "marriage penalty" is seeing some relief for tax year 1982, but that won't change the need for solid tax planning.

You may be able to save money the next time you pay your taxes.

• *Watch new tax breaks when buying or selling your home.* Among the many changes brought about by the 1981 tax legislation are those concerning the purchase or sale of your home.

One important change lengthens the period (currently 18 months) during which a person can save on taxes by re-investing proceeds into a new home of equal or greater value. Now, you'll get 24 months—good news for those bogged down on the current real estate market. The once-in-a-lifetime exclusion for home sales by persons 55 or over has been raised by $25,000, to $125,000, also good news to older people selling their principal residence.

• *If you need help, get it.* There's a good reason that more than half of all Americans now seek help with their taxes. It's hard to be a once-a-year tax expert, and that is especially true with many upcoming tax law changes.

You're almost certain to benefit from trained assistance if: 1) you have bought or sold a home, 2) your income level has changed appreciably, 3) you have investments income, 4) you have gotten divorced or became separated, 5) you have made a long-distance move to a new job or have been seeking employment, and in many other common lifestyle or income situations.

So if it looks as though you'd benefit from help, get it. Don't be penny-wise and pound-foolish.

For free information on what the new tax laws mean to you, write c/o "Tax Tips," H & R Block, Inc., 4410 Main Street, Kansas City, Mo. 64111.

Strawberries are an excellent source of Vitamin C and calcium and also include riboflavin and iron.

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