THE POLITICAL ECONOMY OF AMERICAN AGRICULTURAL POLICY: Three Approaches

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Here we examine three alternative approaches to the political economy of American agricultural policy: an "ethnocentric" approach, a more cosmopolitan "public choice" approach, and a modification of this more cosmopolitan approach that might be labeled a "social contract" approach. The ethnocentric approach is familiar and still widely in use, but badly flawed. The public choice approach represents a major improvement, but has serious limitations. The social contract approach, it is argued, corrects some of these limitations. The argument is illustrated through reference to several important features of past and present U.S. farm commodity programs.

An Ethnocentric Approach

The ethnocentric (or "parochial") approach has been pioneered by inward-looking students of American politics. This is the approach which assumes that the protectionist tendencies in American agricultural policy are sufficiently distinctive to require a distinctively "American" explanation. Those who adopt this approach have developed an impressive list of uniquely American cultural, historical, and institutional

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explanations for the tendency of U.S. policy to transfer income to farmers.

U.S. policy is said to protect agriculture because of something distinctive in our nation's ideology -- a "Jeffersonian" belief in the unique virtue of small yeomen farmers. Alternatively, it is because of something distinctive in our history -- such as the original need to win support from southern agricultural states for the U.S. Constitution. Alternatively, it is because of something distinctive in our national political institutions, such as our Constitutional "separation of powers" between the Executive and Congress, which is said to give farm lobby groups multiple points of access to the policy process. Our bicameral legislature is said to provide still more points of access, especially in the Senate, which by our unique Constitutional design over-represents sparsely populated farm states. Informal institutional characteristics are mentioned as well, such as the post-1974 weakening of the seniority system within Congress, and the accompanying proliferation of sub-committees, plus the recent weakness of our national two-party system, which further reduces the discipline and accountability of government in response to farm lobby demands.

If the U.S. were the only industrial country in the world to offer protection to its farmers, this long list of ethnocentric explanations for U.S. policy might be persuasive. In truth, of course, U.S. farm protection policies are not so distinctive
(World Bank 1986). The internal income transfer consequences of these U.S. policies do not differ dramatically from those in a dozen or more other advanced industrial states, including some states with distinctly non-American cultural, historical, and institutional characteristics.

The ethnocentric approach fails by providing a perfectly unique "American" explanation for a pattern of U.S. policy behavior which, in fact, is anything but unique. Protection for farmers is a cosmopolitan tendency, one which is strongly in evidence virtually throughout the industrial world. It does not seem to matter if countries have Jeffersonian traditions or not. It does not seem to matter if they are culturally Protestant or Catholic, Christian or non-Christian, European or Asian. It does not seem to matter if their governmental form is a strong presidential system (as in France), a congressional-presidential separation of power system (as in the U.S.), or a parliamentary system without any separation of powers (as in Canada). Neither does it seem to matter if the industrial state is a one party democracy (such as Japan, until recently), or a two party democracy (Great Britain), or a multi-party democracy (Germany and Italy). Given the recent tendency for some states with authoritarian regimes (such as South Korea and Taiwan) also to begin protecting farmers, the state in question may not even have to be democratic at all.

It is therefore seriously myopic to seek a uniquely American explanation for U.S. farm protection policies, almost as myopic
as seeking a uniquely American explanation for "why respect our flag," or "why we celebrate birthdays," or "why we watch television." For cosmopolitan behavior patterns such as these, a more cosmopolitan style of explanation is in order.

A Cosmopolitan "Public Choice" Approach

Fortunately, scholars have been able in recent years to develop a more cosmopolitan approach to the political economy of farm policy, including U.S. farm policy. The best known and most successful effort, to date, to explain why all industrial societies tend to protect farmers is a 1986 study by Kym Anderson and Yujiro Hayami (Anderson and Hayami 1986). At the heart of this study is a comparative examination of variations in the "nominal protection" of agriculture (the internal-to-border price ratio) in fifteen different industrial and industrializing countries, over the period 1955-1980. It is discovered that 70 percent of these variations in nominal protection can be explained, country by country, solely through reference to indicators of urbanization and industrialization (indicators such as land-to-labor ratios, and farm-labor to industrial-labor productivity ratios). Anderson and Hayami draw the conclusion that -- largely apart from a country's unique history, culture, or institutions -- the level of agricultural protection will tend to rise with industrialization, or more precisely "as comparative advantage shifts away from agriculture. . ." (Anderson and Hayami 1986, p. 45). As comparative advantage shifts from
agriculture to industry, the focus of public policy protection will shift from industry to agriculture. They provide their most complete examination of this "cosmopolitan" tendency in the East Asian context, where countries such as Japan, Korea, and Taiwan are shown all to have made a dramatic shift from taxing to protecting agriculture, once the process of rapid industrialization got underway.

The explanatory power of this less parochial approach is, by any standard, impressive. This approach not only predicts that U.S. farmers will receive protection; it also predicts with some precision the average level of that protection, which crops will be protected the most, and such things as the structural and demographic circumstances under which that protection will be extended.

The average level of U.S. protection, first, is expected to depend upon how much comparative advantage the U.S. agricultural sector has lost, relative to industry. Mostly because of generous land endowments, the U.S. agricultural sector, despite industrialization, has lost only part of its comparative advantage, more than in Australia and New Zealand, perhaps, but less than in Japan and in Germany. Anderson and Hayami, accordingly, would expect the overall protection level for U.S. agriculture to be somewhat higher than in Australia and New Zealand, but quite a bit lower than in Germany and Japan. This, of course, is just where the weighted average U.S. protection
level actually falls (World Bank 1986, pp. 112-13).

Differing protection levels among commodities are also well enough explained by this approach. U.S. nominal protection in wheat and coarse grain markets is much lower than in sugar and dairy markets. This fits the Anderson and Hayami expectation that comparatively advantaged export-competing crops will be less protected than comparatively disadvantaged import competing crops.

The structural and demographic circumstances under which the U.S. initially embraced agricultural protection also conform well enough to Anderson and Hayami's "cosmopolitan" expectations. In the 19th Century, before the maturation of the American industrial revolution, the U.S. agricultural sector received much less protection than did industry. Not until the mid 20th Century, with the industrial revolution complete, and with the farm sector shrinking rapidly in relative terms, did the U.S. extend direct price protection to farmers. This protection for agriculture was then retained and strengthened, from 1934 onward, even while protection for industry was actually being reduced, first under the provisions of the reciprocal trade act, and then later the General Agreement on Tariffs and Trade (GATT).

As a crude prediction device, therefore, the Anderson and Hayami approach is remarkably successful. By any standard it represents a vast improvement over the more parochial "ethnocentric" approach. As a descriptive model of the political
economy of U.S. farm policy, however, is has several serious
limitations.

Limitations to the Cosmopolitan Public Choice Approach

The Anderson and Hayami approach is first of all limited by its
uncritical embrace of an extreme version of "public choice"
theory (Downs 1957; Buchanan and Tullock 1962; Brown 1974), one
which rules out any possibility that governments will ever be
able to act free from societal constraint, in response to their
own autonomous public policy preferences. According to this
extreme version of public choice theory, governments only respond
to society. Rival politicians, seeking to maximize their chances
of remaining in office, compete with one another for society's
approval, inside what is viewed as a "political marketplace."

To their credit, Anderson and Hayami describe this political
marketplace in more than simple democratic terms, as a setting
which responds to more than just numerical voting strength. The
motivation and the ability to organize for political action, they
emphasize, will usually count for much more. They make a major
contribution by showing why it is that farmers, in rapidly
industrializing societies, will have both this motivation and
this ability.

Farmers in such countries will have the motivation to organize
because, as industrial productivity races ahead and as the
agricultural sector loses its comparative advantage relative to
industry, many of those who work on farms will experience income gains which lag behind. Farmers will have the ability to demand protection in part because their shrinking numerical strength, paradoxically, will become an organizational advantage. According to the logic of collective action, as numbers shrink contributions to political action become more likely, because of the diminished fear of having to share the benefits with large numbers of "free riding" non-contributors (Olson, 1965).

While farmers in highly industrialized societies are finding an increased means and motivation to make effective demands for protection, urban consumers and taxpayers are losing both the means and the motivation to resist those demands. Their motivation is diminished because, as they become more numerous and more affluent, they find it easier individually to afford both the high food prices and the high tax burdens that accompany agricultural protection. The total tax burden associated with subsidizing farmers can be contained in any case, because in highly industrialized countries the total number of farmers being subsidized will be rather small. The means of urban dwellers to resist farm subsidy demands will also be diminished, according to the logic of collective action, precisely because of their larger numbers.

Anderson and Hayami refine this basic argument about the protectionist tendencies of highly industrialized countries by noting that added costs to taxpayers (when seen in the form of
budget outlays) are more likely to be resisted than added costs to consumers (which are hard to distinguish from legitimate food costs in the marketplace). It is this insight which allows them to predict that net food importing countries, other things equal, will be able to offer their farmers more protection than net exporting countries. Net importers can throw the burden of protection entirely onto consumers (and foreign suppliers) through border restrictions, which do not have to carry any budget cost. Net exporters do not enjoy this political luxury.

As powerful as this line of argument might appear, the underlying assumption that governments respond only to demands from society, and never to their own judgments or preferences, distorts what we know of government, even in democratic society (Nordlinger 1981). Even in those policy areas where governments do eventually become constrained by society -- including agriculture -- the initial actions of governments can exhibit significant autonomy.

The public choice view also distorts reality by assuming that, when governments are constrained by society, the constraint takes the form of a power-maximizing calculation, a calculation of the marginal political cost of offering one more unit of protection to farmers, compared to the marginal political revenue. This is a misapplication of the marketplace metaphor. When governments are constrained to extend protection to farmers, it is not so much in response to their daily re-calculation of
power-maximizing marginal political costs and revenues. More likely it will be in response to a static set of quasi-contractual "obligations," accepted by the state toward the farm sector.

How these obligations originally form is sometimes haphazard, but once the state commits itself to a minimum level of price protection for farmers, and once farm asset values and production patterns then adjust to become dependent on that protection, and once farm groups, aware of their dependence, then organize politically to resist any withdrawal of their protection -- once all this happens, what may have originally been a "farm program benefit" will eventually come to be seen, on all sides as something much closer to a farm program entitlement. Public policy will then cease to resemble the daily re-calculation, by politicians, of a dynamic equilibrium between producer, consumer, and taxpayer demands. The dynamic interplay of forces in the political marketplace will give way to a more static recognition, on all sides, that farm protection policies must continue, roughly within their already established parameters, for government simply to honor its commitment to society.

What is it, exactly, that prompts governments to act, in the first instance, to create these contractual obligations? Here the Anderson and Hayami approach is again limited, because it focuses only on the gradual demographic and intersectoral shifts which accompany the process of industrialization. In doing so it
ignores external shocks to the system, including the profound macroeconomic and macropolitical shocks (the Great Depression and the Second World War) which contributed so much to the growth of industrial world protection in the middle years of this century. Anderson and Hayami look only at the more gradual, more glacial demographic and intersectoral processes that accompany peacetime industrial development. They can get away with this limitation, to an extent, only by selecting 1955 as the starting point for their cross-national study. Had they examined the growth of industrial world protection from 1929, or even from 1939, they might have found it more difficult to dismiss the impact of macro shocks, such as global depressions and world wars.

**Need for a Social Contract Approach**

To illustrate these limitations, consider several important features of U.S. farm policy which are not well explained by Anderson and Hayami's society-centered "public choice" approach. Each of these features can more readily explained by introducing elements of a state-centric "social contract" approach.

First, considering the origins of U.S. farm policy, **autonomous government actions** played a large role in the initial extension of price protection to U.S. farmers, under the Agricultural Adjustment Act (AAA) of 1933. The AAA was drafted not by the Farm Bloc in Congress, or by the American Farm Bureau Federation, but instead by an insular group of relatively autonomous technocrats inside the Department of Agriculture, led by President Franklin
D. Roosevelt's "Brains Trust," made up mostly of former Ivy League university professors. So high was Roosevelt's popularity and prestige at the time, that the Farm Bureau nonetheless sought to claim authorship for the AAA after it was unveiled (Kirkendall 1966, p. 50). The AAA sailed through Congress without significant opposition during Roosevelt's remarkable "first hundred days." Never before, in peacetime, had the U.S. executive branch enjoyed so much freedom from societal constraint, to act as it saw fit in response to the economic emergency. Society wanted Roosevelt to act, but it did not at first constrain the direction of his actions, in farm policy or anywhere else.

Only after several years passed under the intrusive new regime of the AAA did private lobby groups come to enjoy something close to their current level of control over the policy making process. More than anything else, it was the AAA provision for grass roots production controls that gave them their political opportunity. The Farm Bureau used the county-level production control committees created by the AAA as a venue in which to recruit and organize new members (Campbell 1962, p. 89). As a consequence, between 1933 and 1940, Farm Bureau membership nearly tripled (Finegold 1982, p. 9). Not surprisingly as a result, the first major Congressional renewal of farm legislation, in 1938, "incorporated most of what the Farm Bureau had asked" (McConnell 1969, p. 79). By the middle of Roosevelt's second term, therefore, newly dependent and increasingly well organized farm
lobby groups were beginning to transform what began as an improvised, emergency "farm benefit" program into a more permanent set of quasi-contractual farm protection "entitlements." To the degree that early U.S. farm policies were set in a society-dominated "political marketplace," therefore, it was a political marketplace shaped by a prior set of significantly autonomous emergency government initiatives.

Second, consider that the actual level of protection granted to U.S. farmers, from the the 1930s onward, continued to respond to macro shocks. A discontinuous sequence of such shocks -- depression, war, inflation, recession -- seems to have had as much influence on the level of price protection offered to U.S. farmers as the more gradual and glacial shifts in demography and inter-sectoral terms of trade stressed by Anderson and Hayami.

If it was the Great Depression emergency of the 1930s that led to the creation of intrusive commodity price supports, it was the Second World War emergency in the early 1940s that encouraged the setting of support rates at extremely high levels -- 90 percent of parity. Then, in the late 1940s, it was a "cold war" emergency -- which stimulated foreign demand by way of the $12.3 billion Marshall Plan -- that helped to sustain those high support levels (Benedict 1953, p. 172).

Following the collapse of the Korean War commodity price boom, and from the mid 1950s onward, macropolitical and macroeconomic conditions were no longer appropriate to sustain such high levels
of farm price protection, and so commodity loan rates were adjusted downward. In real terms, between the early 1950s and 1968-72, U.S. price supports for wheat, corn, and cotton were reduced by roughly 60 percent. Even with direct payments factored in, U.S. wheat farmers saw their guaranteed returns per bushel fall by 40-50 percent during this period (Johnson 1987, p. 172). Of course, nominal price protection levels eventually rose again, during the 1970s decade of inflationary growth. Then when inflationary growth was replaced by recession, early in the 1980s, these higher price protection levels were judged excessive, and another phase of politically painful downward adjustment had to begin.

The net effect of a macroeconomic cycle on aggregate farm protection levels appears to be positive. On the upside of a macroeconomic cycle, nominal price protection levels can usually be increased generously without much of a battle in the political marketplace, because temporarily high market prices will mask the implied cost to taxpayers. Then on the downside, even when these implied costs to taxpayers become fully apparent, farmers usually will not have to suffer a fully compensating downward adjustment in price protection. This is because their own cyclical financial stress will manifest itself as a "farm crisis," and will engender wide sympathy in government and society. The government, having assumed a quasi-contractual obligation to protect the welfare of farmers, will thus be inhibited on the downside from asking farmers to give away all that they earlier
gained on the upside. In unstable macroeconomic times, protection levels will ratchet upward.

Third, the Anderson and Hayami analysis fails to account adequately for the poor targeting of benefits within the U.S. farm community. Market by market, benefits from price protection are distributed roughly as the Anderson and Hayami model might predict. Farm by farm, however, they are not. The generalized model envisions industrial country farmers organizing for political action because of the relative disadvantage that they feel in the economic marketplace. The recipients of most government payments, however, are those that have been least hurt by the economic transformation process -- the fully modernized, highly capitalized, large sized commercial farmers who produce the vast majority of supported farm commodities. Three quarters of all U.S. commodity program budget outlays go to the wealthy minority of U.S. farmers (22 percent) who are in the $100,000 sales class and above. The average government payment to each of these farmers in 1986 was $42,000, well above the $27,735 total median family income of the not-so-wealthy average taxpayer being asked to pay for the benefit. Meanwhile, nearly one half of all financially stressed U.S. farmers in 1986 received no program outlays at all from the U.S. government (U.S. Department of Agriculture 1987a, p. 3). Nothing explicit in the Anderson and Hayami argument explains this skewing of protection away from the large numbers of U.S. farmers who have been left behind in the economic transformation process and are genuinely vulnerable.
It might require a tedium set of arguments and assumptions to explain this skewed distribution of intrasectoral benefits using public choice theory. By using a more static "social contract" approach, however, the analysis becomes simple. When the original social contract to support U.S. farmers was first forged, during the Great Depression more than 50 years ago, farm size and farm structure were far more homogeneous. It seemed both equitable and just, at that time, to allocate farm program benefits through price guarantees, on a "per bushel of production" basis. In the intervening years, through an uneven process of consolidation, U.S. farm structure became increasingly skewed, and a wealthy minority of large sized farmers eventually came to produce the majority of all supported farm products -- thus capturing for themselves the majority of all support benefits. This was not what either the government or the larger society originally intended. By then, however, farm program price guarantees had long since been capitalized into asset values, thus taking on the character (at least for those who owned land) not of a program benefit but a "property right."

Finally, a "social contract" approach also helps to explain what is perhaps the single most curious tendency of all in U.S. agricultural policy. This is the tendency, in a highly competitive global market environment, for U.S. policy to render some parts of U.S. agriculture less competitive, by removing tens of millions of acres of good cropland from production every year, in the process boosting prices for overseas competitors, who
chose to exercise no such comparable production restraint.

If there is anything "uniquely American" about U.S. farm policy, this is it. Other industrial countries do impose various forms of production control, but mostly on non-traded, or comparatively disadvantaged dairy and poultry products. The EC milk quota system, for example, does not actually idle any potentially competitive European farm resources. To the contrary, this system encourages dairy producers to liquidate milk cows producing at high cost (Avery 1988, p. 529).

Some foreign countries have occasionally tried to reduce surplus field-crop production through land diversion schemes. Japan, for example, has diverted paddy land to the production of other crops. But this differs dramatically from the fallowing of productive farm acreage, a practice which the land-scarce Japanese, least of all, would be prepared to tolerate (Australian Bureau of Agricultural and Resource Economics 1988, p. 112). The EC launched a pilot acreage reduction program for cereals in 1988, but in its first year it produced only token cutbacks of less than 2 percent. Even if the EC were to go forward with a more substantial land idling program, a crucial difference would remain. The EC, compared to the U.S., is on average a relatively high cost producer of most field crops (Ortmann, Stulp, and Rask 1987). It makes sense for high cost producers to cut back. It is a different matter when a relatively low cost producer such as the U.S. unilaterally employs large set-asides. For the U.S. to
idle its highly productive cropland is only to invite someone else abroad to bring their own less productive cropland into use (Agricultural Policy Working Group).

Whenever the U.S. exercised unilateral production restraint in the 1980's to boost prices, opportunistic foreign competitors expanded their own production. In 1983, under the Payment in Kind (PIK) program, the U.S. unilaterally idled 77 million acres of land. Foreign competitors were delighted with the price-firming consequences of this unilateral U.S. cutback. They responded by increasing their planted acreage by 63 million acres, nearly offsetting the entire U.S. cutback (R.Paarlberg, 1988:81-82). Between 1981 and 1987 overall, largely because of massive cropland set aside, annual U.S. wheat and flour production fell by 19 million tons. Non-U.S. production during this same period increased by 75 million tons (U.S. Department of Agriculture, 1985, 1988a).

Why does the U.S. so often lapse into this suicidal posture of unilateral production control? The vision of policy as a social contract helps, to some extent, to provide an explanation. Today's large Conservation Reserve and Acreage Reduction Programs (ARPs) are to some extent just a continuation into the 1980s of farm policy habits formed in the U.S. many years before, as far back as the original AAA, but beginning especially in the 1950s, when similar Conservation Reserve and "Soil Bank" programs were initiated. Back then, perhaps, it made sense for agricultural
producers in such a large country with so much market power to boost prices through unilateral production cuts; the spillover gains to foreign competitors were still tolerable.

Since the 1950s, however, the responsiveness of foreign competitors to world prices has increased. European agriculture has recovered from the war and has become fully modernized and highly capitalized. Highly responsive "green revolution" seed varieties have been spread into the developing world. Massive foreign investments have gone into agricultural production in high-potential developing countries such as Malaysia and Brazil. Now, when the U.S. cuts its own production unilaterally to boost prices, these foreign competitors are able to respond quickly to fill the hole in the market, making this strategy self-defeating for the U.S.

Why, then, has this strategy been continued? The reason is that the only other available means to control farm program costs, when markets go slack, is to cut farm prices, which is seen as a violation of the fundamental social contract between government and the farm sector. Ever since the 1930s, U.S. farmers have been inclined to judge the amount of support they are getting from the government in terms of price guarantees (or in terms of price-related income guarantees, such as "target prices"). Large ARPs the most obvious way to make these high price guarantees affordable to the government. Low cost U.S. farm producers would probably be better served in the long run by
more competitive prices and fewer idle acres. But the farm
lobby, having organized itself to defend minimum price
guarantees (or in this case target price guarantees) would
rather have the traditional appearance of protection than the
contemporary reality.

Conclusion

What is being suggested here is an approach to the political
economy of American farm policy which is more than ethnocentric,
more than parochial. This approach must be cosmopolitan enough
to distinguish those few features of U.S. farm policy which are
uniquely American from the majority of features which are part of
a larger industrial country pattern.

At the same time, however, this approach must be historical
enough (in some ways, parochial enough) to appreciate the
specific macropolitical and macroeconomic circumstances that can
alter the context in which policy is made. It must also be
state-centric enough to appreciate the considerable room which
governments have in some circumstances, at least initially, to
act autonomously, relatively free from societal constraints.
And, most of all, it must be an approach which understands that
the farm program benefits which are sometimes initiated by these
governments, as "benefits," can eventually be transformed and
contractualized into something closer to a quasi-legal
"entitlement."
Once a benefit comes to be viewed as an "entitlement," of course, it will be removed from, and to an extent untouchable by, the normal workings of the so-called political marketplace. Once this contractualization of farm program benefits occurs, the politics of those benefits will not any longer resemble the workings of a competitive marketplace. More likely, it will resemble the conduct of an exclusive legal or administrative procedure, in which only the beneficiaries -- the farmers themselves -- enjoy full rights of participation. At this point the marketplace metaphor preferred by the cosmopolitan public choice theorists will become as useless as the parochial vantage point of the ethnocentric theorists. A contractual metaphor -- drawn from legal studies, or more likely from social anthropology -- may at that point prove most useful.

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