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DILEMMAS OF AGRICULTURAL POLICIES IN THE UNITED STATES OF AMERICA

Is contemporary America experiencing a farm crisis? The question even for a mere layman must sound a little short of absurd. Taking into account the abundance of food products in American shops and markets or the scope of food assistance US governmental agencies and private organisations provide to various countries all over the world, a negative answer to this question seems much in evidence. Moreover, once the main determinant of the crisis is defined as the inability of American farming to comply with the food demand of its citizens, a negative answer seems even more valid and Americans are definitely far from experiencing such a crisis. Yet, it is still tempting to ask another question of whether having chosen such criterion, we get a true picture of the situation in American agriculture. We must bear in mind that agriculture is not simply an “[...] occupation of cultivating land and rearing crops and livestock [...]” as a dictionary (*Collins* 1992) suggests but a complex system of environmental, economic, political, social and cultural interdependencies with a whole range of *actors* taking part in the performance. Hence, e.g. the farmers’ point of view could totally differ from that of the owners and employees of big agribusiness corporations’ and, in turn, from politicians’ and finally general customers’ in particular. Under these circumstances it is hard to be objective – the statement that there is a crisis depends on the point of view one tends to favour. Take food prices – falling prices are, in the eyes of consumers, evidence of prosperity and at least stability in the agricultural sector. Farmers, on the other hand, perceive falling prices of food in the context of their decreasing income and, consequently, increasing poverty. Therefore, judgement of these facts including an attempt to answer the original question should be preceded by a presentation of factors contributing to both success and failure of the farming policies in the United States of America. In this sense, the following paper is meant to continue the debate on the condition of American agriculture in *Studia Anglica Resoviensia* 2 (see Pyrkosz (2001)), which focused on the strengths of US farming and the determinants of its success.

Manifestations of the crisis

American agriculture does not maintain in its development with other sectors of national economy. Although technological progress has substantially contributed to the success of American farming, the rate of the changes has not helped agriculture maintain its position within the national economy. The major symptom of that change is verified by the decrease of *agricultural income in the total value of the Gross National Product*. Woś (1971:193) indicates that the agricultural share of the national product grew in the post-war period at a much lower rate compared to that yielded by nonfarm sectors of American economy. It increased in the whole post-war period in nominal terms at an average annual rate of 1.4–1.6%, lagging behind a 3.2% average annual growth rate of total GNP. No other sector of the American national economy developed at such a slow rate. The figures indicate that the American economy has been less and less dependent on agriculture in its development.

The parity of prices received to prices paid by farmers is another measure assisting in the determination of the farmers' situation. The term *parity* implies that index of prices paid by farmers for goods and services equals index of prices received by farmers for their produce. In that case the parity rate is 100%. However, *the disparity of prices received to prices paid* by farmers much more often is used with regard to American agriculture. The data gathered by Tomczak (1990:296) clearly shows the discrepancy – in the years following World War II¹ index of prices paid by farmers increased at a much higher rate than index of prices received by them, and in 1986 the disparity reached 49%. In other words, farmers continuously had to pay relatively more and more for goods and services compared to the prices they received for their produce.

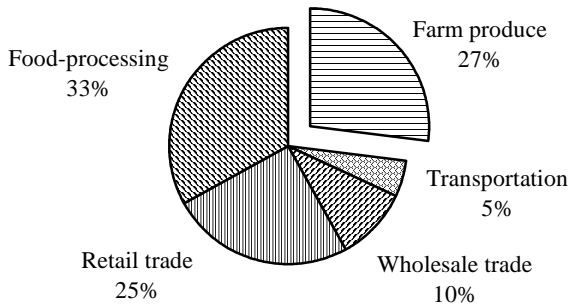
The immediate consequence of the price disparity is low level of *farmers' income* – another symptom of the contemporary farm problem. Farmers more than any other social group are susceptible to experiencing low income resulting from downturns in the national economy. That is the case when farmers' incomes do not increase at the same rate as that of the nonfarm population, and consequently, farmers experience gradual decrease of the real value of their money. To remedy the situation, over the last seventy years US government developed an elaborate system of federal subsidies in favour of American farmers. They took the form of farm produce price support programs, deficiency payments or financial compensation for participation in acreage reduction program as well as many others. However, a number of circumstances seem to verify their failure to fully compensate the loss of farmers' income.

¹ Years 1910–1914 are considered to be the reference point indicating 100% parity for parity/disparity measures.

The decrease of the real farmers' income is moreover exemplified by farmers' falling *value of work*. It is symptomatic that, as Heady (1967:29) points out, in 1966 only 38% of the final food value was contributed by American farmer. It means that for \$1 worth of a food item, the American farmer received only ¢39. However in 1990 the farmer's share dropped to ¢29 and in 1994 it was as low as ¢24 (see Tracy (1997:75)).

Figure 1

The Structure of Food Value Purchased by Consumers in the USA in 1991



Source: Tracy (1997:76).

American farmers are heavily indebted and the increase of *farm debt* is another manifestation of the agricultural crisis. According to the data provided by the US Department of Agriculture in 1985 the total real and non-real estate debt of the American farm sector was \$203.9 billion. The origin of this situation can be traced to the specific course of action undertaken by the US government. A number of American economics (Bosworth *et al.* (1987:108–126)) imply that federal farm policies in the United States have tended to promote decisions in favour of the growth of profit from invested capital and the income from owned land. Possession of agricultural land was considered an attractive protection against inflation since its value appreciated faster. This approach to capital and land as production assets resulted in the continuous increase of the value of land since the 1930s. In the decade of the 1970s the price of farmland grew 7.1% every year compared with 2.5% during the previous twenty years. Simultaneously, total farm debt grew quickly at the annual rate 12.3% compared with 5.7% in the proceeding three decades, mounting to \$160.7 billion by the end of the decade. However, the farmers' debt-asset ratio did not increase since land values appreciated even faster. Then, inflation of the 1980s came and farmers faced serious economic straits when their debts did not shrink even though the value of their land dramatically fell and, as a result, their income as farm owners experienced a 40% decline. The American government struggled with inflation in the 1980s by means of

cuts in federal expenditure and tax increase. As a result, it was agriculture which had to pay the biggest share of adjustment costs – much higher interest rates pushed many farmers into insolvency. Many farmers found themselves hard pressed to keep up payments on loans and mortgages which were taken earlier when prices and incomes were higher (high prices were also caused by rapid increase of government agricultural price supports). Others lost their farms and equipment was sold to pay their debts.

A direct consequence of the growth of farmers' debt and other financial burdens of American agriculture is *poverty* among American farm population. In 1976 the US Census Bureau established the, so called, *poverty line* for a typical four-member nonfarm family at \$5,814. Those families whose annual income was below that sum were considered to be living in poverty. In 1976 this category encompassed 21 million American families, which makes up 27% of the total population. *The Report of the Secretary of Agriculture 1978* acknowledged that about 20% of all farm population lived below the poverty line. This did not change much during the next decade. In 1990, 18.9% of the people inhabiting farming-dependent counties² were regarded as poor. According to the study conducted by Brewster (1979:5), nonmetropolitan America is home to 27% of the American population. However, at the same time, nonmetropolitan, though not agricultural, America comprises 40% of American poverty.

For many reasons poverty among rural communities is the final consequence of all the previously mentioned aspects of the farm problem and exemplifies their mutual interrelation. Nevertheless, by no means should the sources of poverty, i.e. dramatic diversity of income and, in consequence, huge stratification of American farm population, be solely identified in the economic system. Wilensky (1975:1) emphasises that it is primarily the political system which accounts for the fact that the rise of the welfare state has never been an ambition of the United States of America. Paradoxically, the system was based on the American system of values originating in a great part from agrarian tradition and so strongly stressed independence, individualism, self-sufficiency, private possession, and above all, freedom. Today, the same values do not allow the United States to follow the concept of the welfare state to the same extent as it is pursued in many other well-developed countries. Furthermore, Wilkin (1986:112) points out that unlike the rich, the poor, regardless of their origin and

² The United States Department of Agriculture classifies American nonmetropolitan counties on the basis of either the primary economic activity of different county economies or other themes of special policy significance. Since 1993, the county typology has identified 11 types of rural counties: farming-, mining-, manufacturing-, government-, service-dependent and nonspecialized (nonoverlapping economic types) as well as retirement-destination, federal lands, commuting, persistent poverty and transfers-dependent (overlapping policy types) (cf. "County Typology Codes").

profession, have never managed to organise an efficient lobby and exert pressure on the legislative and executive branches in order to narrow the income discrepancies and perpetuate a more justified distribution of social funds.

Farmers' opposition against government farm policies can be considered another manifestation of the American farm problem and a proof of the inefficiency of federal programs. The American intervention policy in agriculture, and resulting farm programs, has often been strongly criticised by farmers themselves. The biggest farmers' organisation in the United States established in 1920, *The American Farm Bureau Federation*, which has a membership of nearly 2.5 million, has always advocated more market oriented measures in dealing with the farm problem. *Get the government out of agriculture* has been the slogan of this organisation, which best represents its views, Olson (1971) stresses. *The Farm Bureau*, considered the biggest of four currently active farm organisations in the United States, opposed the majority of government programs of production control and farm price support. Government programs supporting farm prices and income are most firmly opposed by small farmers since the bulk of the governmental agricultural benefits goes to big farm producers.

As a matter of fact, the *predicament of small family farms* is regarded as a final manifestation of the crisis of American agriculture. A number of economists, for example Sonka (1979) or Kwieciński and Tomczak (1993), emphasise that the development of American agriculture has always been an unfair competition of the small family farms against large ones. Particularly Tomczak and Kwieciński suggest that the history of American agriculture has been, contrary to the officially acknowledged policy, the story of liquidation of family farms and the displacement of small farmers by large agribusiness companies and corporations. In historical perspective though, the American farmer and his family farm have always been considered a cornerstone of American society. When Thomas Jefferson (1984:290) in his "Notes on the State of Virginia" appreciated the farmers' role in creation of the American values, he meant and referred to small farmers cultivating their land with help of their families. It was small family farms and their inhabitants who were the originators and centres of agrarian tradition – independence, individualism, diligence, love of freedom and strong emotional ties with the native land in particular; they all have become apotheosised in the cultural, political and economic traditions of the United States. Unfortunately, government farm programs have turned out to be particularly unfavourable to small family farms and, as a result, have caused the collapse of many farm communities. The relationship between the economic status of small farms and the status of small town communities in rural areas cannot be denied. These communities used to be the trade and service centres of local farmers. For many years now these local centres have been losing their economic role in rural areas of the United

States. Concentration of land, introduction of new technology, decline of farm employment, development of transportation and many other factors have accounted for this situation, such as when a group of local residents who provided services to local farmers, consequently lost their work opportunities due to the above mentioned circumstances and facts in their community. Farmers more and more frequently avail themselves of the services of large specialised firms, and prefer to do their shopping in large supermarkets situated on the precincts of larger towns or cities which offer a much wider choice of goods, often at lower prices. On the other hand, recession of small towns has also had a negative effect on farmers themselves, particularly smaller farms. Firstly, their employment opportunities in nonfarm sectors decline,³ and secondly their access to different kinds of services and social facilities become more limited. As a majority of the farm population continues to live on small farms, problems of small farms and small rural towns have to be considered as parts of the same overall problem, namely, the *farm problem* of the United States.

Sources of the farm problem

Specific conditioning. Agriculture is the sector of the national economy affected by specific natural, production, and social factors. Wilkin (op. cit.) emphasises that at the core of the contemporary farm problem lies *incompatibility* of agriculture with the nonfarm sectors of the American economy. In practice, it accounts for all the hot issues that make up today's farm problem: overproduction of farm products, disparity of farm income and farm debt, disproportions in social status either inside rural population and between urban and rural populations – all being the result of structural changes and intense government intervention in agricultural production and market, etc. Farming remains a specific sector of the American economy for several reasons. Agriculture, more than any other sector of economy, yields to the rule of the free market. However challenging it is, the majority of American farmers guard against any limitation on competition in agriculture. Farmers ward off any

³ A number of researches conducted in the USA in recent years confirm the fact that employment in nonfarm sectors of the economy is the main source of income for a substantial number of farmers, particularly smaller farms. *Part-time farming* is more and more popular among farmers and the share of nonfarm income in the total income of farms is continually growing. In 1974 about 52% of all farmers, mainly small, declared their nonfarm occupation as their primary source of income. In 1977 as much as 57% of the personal income of the farm population, on the whole, came from nonfarming sources (cf. Wilkin op. cit.) and in 1994, in nearly 62% of farm households, a family member (the operator, the spouse, or both) worked off farm (cf. Korb (1999)).

attempt to monopolise the farm sector and influx of nonfarm capital into agriculture, which would inevitably increase its dependence on nonfarm sectors. Therefore, there are many legal safeguards limiting the possibilities of establishing corporations within agriculture, and, as a matter of fact, farming remains the least monopolised sector of the American economy. In spite of the most advanced technologies and strong influence of commerce, American agriculture has prevailed to remain a “different” sector of the American economy. The link between the place of work, i.e. farm and lifestyle is stronger than anywhere else. Mobility of capital and the work force is less intense, though. Moreover, many farmers are deeply convinced of their special social role as the originators and carriers of American values. All these factors account for the existence of farms whose income is much below average and whose return on invested capital is much lower compared to other sectors of the economy.

Excess farm labour. Economic growth requires shifts of labour and other resources from agriculture to other sectors of the economy. Excess resources, especially human labour, have also been identified as one of the main sources of the American farm problem and instability in the agricultural sector. In the free market system, expected income determines distribution of labour resources, both within agriculture and between agriculture and other sectors. Following the data in the *Statistical Abstract of the United States 1986*, in 1950 there were 9.9 million workers employed on farms of a population of 152 million, whereas in 1985 there were only 3.6 million farm workers in a population of 239 million. However, Pasour (1990:61) stresses that the decrease in farm employment rate is substantial, but the change in the numbers of workers in nonfarm agribusiness firms providing services and goods to agriculture lags behind.

Inelastic demand for food has been identified as one of the main historical explanations of the US farm problem. The demand for agricultural products increases mainly due to increases in population and consumer income. Unfortunately it has not increased at the same rate as the supply of farm products. Demand increases resulting from population growth are gradual. Demand shifts affected by increases in consumer income hinge on economic growth and income elasticity of the demand for farm products which is relatively low compared to that for nonfarm products. As Freeman (1962:120), the US Secretary of Agriculture in the 1960s, states:

The main fact we have to take into account is that American agriculture produces more than we can use. Demand for food is inelastic. If your income goes up twofold, you are likely to buy twice as many clothing, cars, or televisions. Unfortunately, you are not likely to eat twice as much.

The bottom line is that a smaller and smaller part of the household budget is spent on food as economic growth occurs. This statement expresses the main idea of a

law first articulated by Ernst Engel, known as the *Engel's Law*. It holds that the income elasticity of the demand for farm products is less than one, which means that the elasticity starts to rapidly fall soon after the income level of any person becomes quite low. The demand for farm products at the farm level is also considered to be quite inelastic with respect to price. When demand is highly inelastic, a small increase in productivity can result in a large decrease in price. Furthermore, the more inelastic demand is, the larger price decreases.

Growth and overproduction. American agriculture has achieved a significant success due mainly to its spectacular growth, but paradoxically the growth has proved to be a double-edged sword and has contributed most to the current farm problem. The main source of the current farm problem of the United States is the chronic overproduction of agriculture – farms produce more food than domestic and foreign American markets are able to absorb. In economic terms, supply grows faster than demand. The agricultural production surplus harms the economics of farms through escalation of the trend to decrease farm prices which, as a result, often have to fall below the production costs and that, consequently, leads to the decline of farm income. That, in turn, causes the disparity of farm income and low return on capital investments. In this way, sustained crisis of farm overproduction initiates a cause-effect chain of dependencies between different agricultural and non-agricultural elements.

Technological development based on the scientific research and the federal extension system has been considered to be one of the strengths of American agriculture. Mechanisation and development of new pesticides and herbicides have significantly increased food supply and contributed to the growth of agricultural sector. However, the widely admired technological advancement of American agriculture has paradoxically turned against American farmers. Agricultural development promotes chiefly large farm producers. In relation to work input, capital investments are relatively cheap, thus only those producers who can effectively use them, i.e. large farmers, are able to decrease the production cost and enlarge their profits. This puts small farmers at a disadvantage. Firstly, small farms cannot afford large investments, i.e. purchase of modern machines and other expensive farm equipment. Secondly, farm machines cannot be put into efficient use in small farms and their use may even bring losses – they would incur high maintenance expenses instead of profits. In that respect, technological progress has contributed to the process of decline in the status and number of small farms and increase of the average farm size. While the high productivity of American agriculture has kept food prices low for consumers, it brought misfortune to farmers. Crop surpluses and low prices have made it hard for many farmers to make a profit. On the other hand, costs of the products farmers buy, e.g. tractors, fertilisers, pesticides, have risen faster than the prices they receive for their crops. This absurd situation, when

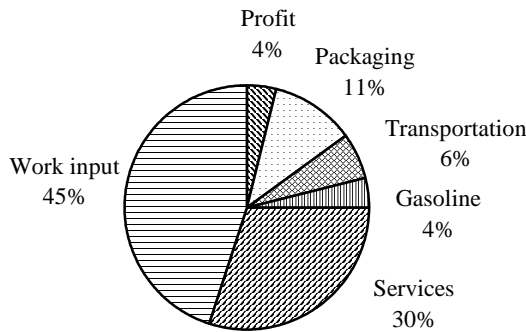
the results of technological advancement strike directly at its founders, was described by Berry (1977:42) in words:

[...] every abundance of products is illusory if it does not secure the status of its producers, and American agriculture has actually accepted the principle which lets the bounty of farm products destroy farm producers.

The problem was soon perceived – as early as in 1960, the Conference on Economic Progress, a government institution established to deal with the issues of American farm policies, stated that on the whole it was the American society that benefited most from the technological development of agriculture, not the American farmers.

Figure 2

The Structure of Food Production Costs in the USA in 1991



Source: Tracy (1997:76).

Development of agribusiness, i.e. all farm-related industries, either the suppliers of farm equipment and chemicals or consumer industries (e.g. food-processing companies, transportation companies, etc.), has brought the decrease of the farmers' share in the total value of food production (cf. *Figure 1*). Both the wholesale and retail prices of food have fast been growing, unlike the prices received by farmers. The remaining growth is absorbed at various food-processing and distribution stages, e.g. packaging, storage, transportation, advertising, refining, and different commercial services. Therefore, prices of food products bought directly at farms are much lower than consumer prices at stores and retail shops. The largest difference in prices refers to highly processed products – here the farm resources constitute only a small percentage of the final food value. *Figure 2* shows that the before-tax profit of food companies makes about 4% of the total volume of food production. In many cases consumers pay more for nice packaging or food processing which is to save their cooking time.

Development of new technologies has also contributed to the rapid *degradation of natural environment*. Since the 1940s, American farmers have proliferated the use of artificial fertilisers and chemicals designed to kill weeds and insects as well as to protect against crop diseases. The data collected by Espelin *et al.* (1991) reveals the rate of proliferation – in 1964 about 320 million pounds of pesticide were used in the USA, in 1974 – 600 million, in 1984 – 850 million and 1989 – 810 million. As we can see, the use of pesticides has played a growing role in increasing crop yield, yet they have caused many problems. Rainfall that seeps through or runs off the soil has moved fertilisers into ground water, lakes and rivers, causing harm to the quality of water and stimulating the growth of undesirable water plants. Septic farm chemicals, often carcinogenic or causing other diseases, have polluted water, food and air in spite of constant vigilance by state and federal government taken to protect these resources. In some cases, they have caused harm to farmers and farm workers as well – it has happened despite the declarations of chemical companies that their products are safe if used according to directions. Finally, over the years, many farm pests have become resistant to milder chemicals, so farmers have had to turn to stronger and more expensive ones.

Economies of scale are one of the most serious reasons accounting for the disadvantaged situation of small farms.⁴ At present, the economic calculation of costs and prices promotes farms that can afford large capital input in their production. Economies of scale can be applied only in large-scale farming. Sonka (1979:33) points out that a research made in the state of Illinois in 1976 proved that the production costs (per a bushel of maize) were the lowest in the farms of 1100 acres. Economies of scale, therefore, actually stimulate the trend towards “getting bigger”. In this situation many small farms are neither able to compete with big producers nor to adjust to market changes resulting from federal economic policy.

⁴ The definitions of a farm and its typology have been subject to change over the last thirty years. A report *Status of the Family Farm* (1979) defined a farm as [...] *any establishment from which \$1,000 or more of agricultural products were sold or would normally be sold during the year [...]*. Government payments were included in sales. A *small farm* was considered a farm of less than \$20,000 of annual agricultural sales; there were also medium farms (\$20,000–\$99,999) and large farms (\$100,000 and more). However, the present farm typology identifies the following groups of farms: small family farms (with sales less than \$250,000) including limited-resource, retirement, residential/lifestyle, farming-occupation/low-sales, farming-occupation/high-sales; large family farms (sales between \$250,000 and \$499,999); very large family farms (sales of \$500,000 or more); nonfamily farms – organized as nonfamily corporations or cooperatives as well as farms organized by hired managers (cf. *America's Diverse Family Farms. Assorted Sizes, Types and Situations*. 2001).

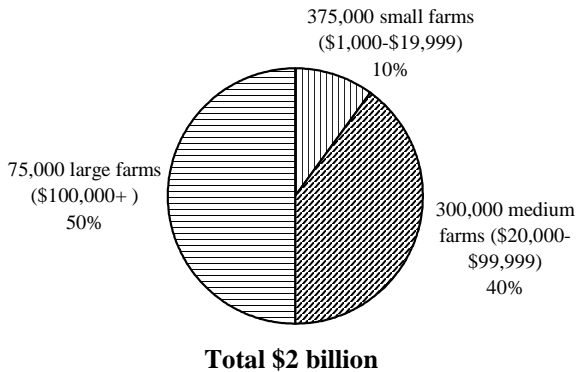
Though economies of scale and the resulting trend have undoubtedly contributed to the predicament of small family farms, Thompson (1978:37) tends to favour the idea that the problem has its roots in vivid overall discrepancies between small and large farms. He lists a number of them and his account actually constitutes a very apt summary of the problem. Big farms, though they represent a small percentage of agricultural operations, yield the substantial majority of farm production. They concentrate on capital-intensive production. They employ the majority of farm workers, mostly small farmers, and farming provides them with a majority of their total income. Moreover, they are much better organised economically and politically which enables them to obtain most of the federal farm subsidies, as well as research and technological assistance provided to the American agriculture industry. On the contrary, small farmers provide a small percentage of agricultural production, represent a huge majority of farm operations and concentrate on laborious crop cultivation and a small-scale livestock breeding. They rarely employ hired workers; rather they make use of free work contribution of family members. Their farming income does not allow them to survive so they often turn to work in other sectors of the economy (which is why terms *part-time farming* and *off-farm income* so often relate to the situation of small farmers). Finally, Thompson (op. cit.) finds that small farmers are not organised, both in a political or economic sense, and, to a very limited extent, participate in federal farm subsidies and technical assistance. After all, their inability to organise themselves as to lobby government is also a result of their low social status, which conforms to the idea presented by Wilkin (op. cit.).

Small farms have been at a disadvantage also as a result of *government farm policies*. Problem of small farms may be regarded as structural in its nature; nevertheless, it was the governmental farm policies which have brought its inception and perpetuation. For a long time in the 20th century one could observe a trend in the continuous decrease of the number of small farms. In 1979 there were 1.5 million of farms which were regarded as small, which made up 65% of the total farm number (2.3 million). In 1993 there were only 59.7% small farms. Until the 1970s, government agricultural policies totally disregarded this fact. Federal farm programs actually promoted the trend towards bigger farms and small farms were treated as a marginal element of American agriculture. Olson (1976) aptly points out that agricultural policies were in fact a *get-big-or-get-out* type of policy and assumed that small farms would either be taken over by big farm corporations or converted into recreation areas. Furthermore, government-funded research did not concentrate on the problems of small farm populations. Consequently, the lack of interest and knowledge about the problems of small farm populations affected existing government farm programs and accounted for absence of small farm issues on governmental agendas.

Administration of government subsidies is another element contributing to the unfavourable situation of American small farms. The way the system is organised gives preference to large agricultural producers at the cost of smaller ones. These are the large farms that benefit federal farm subsidies most – again, the economic pie of federal benefits is not distributed fairly among farms and the biggest ones get the largest share. This observation is verified by the distribution of federal farm subsidies. According to *Status of the Family Farm* (1979), a report of the US Department of Agriculture, in 1978 the total amount of federal subsidies reached \$2 billion and was distributed among 750,000 eligible farms participating in various farm programs (cf. *Figure 3*). Out of the total of \$2 billion, small farm operators received on average \$460 each, medium – \$4,280 each, and large farms – \$10,900 each. Therefore, it comes as no surprise that large farms benefit from federal subsidies most and can afford to invest in capital, expand their acreage, develop farming technologies, and consequently, enlarge their profits. Similarly, the distribution of federal appropriations for agricultural research is another factor putting small farms at a disadvantage. For many years the research programs have concentrated on solely the economic problems of large farms and agribusiness, disregarding small farms completely.

Figure 3

Distribution of Federal Farm Subsidies Among Farms by Class Sales in USA, 1978



Source: *Status of the Family Farm* (1979).

Finally, it is mainly the *inefficiency of government programs* that has put the fortune of American agriculture at stake. Many agricultural programs initiated in the 1930s have turned out to be inefficient in solving farm problems. Originally the farm problem was associated with the chronic excess supply of human resources, incomes below those outside farming, and relatively unstable agricultural markets. The solution was government intervention in agriculture. It was meant to keep prices at “fair” levels, which in practice meant above market

prices, and to stabilise markets by buying when prices were low and selling when they were high. To achieve this goal government has had to resort to a vast range of measures effecting farm income and supply including:

– *price support programs* – for a long time have been used as one of the main tools to increase farmers’ income. In spite of efforts, the programs failed, primarily because of the distribution of farm subsidies (cf. *Administration of government subsidies*). The final result of those programs was the large farms receiving most of the benefits. Furthermore, they did not improve the farmers’ income because these have been increasingly determined by nonfarm income (cf. footnote¹) and dependence on farming as a source of income continues to decline. Finally, price supports contribute in a large part to maintaining excess labour as well as the phenomenon of *high entry cost* for new farmers who want to launch a farming business. Antle (1988:87) notices that a price support policy raises farmers’ incomes and, consequently, they do stay in agriculture. As a result, the value of their assets increases though the economic viability of their operations remains the same. Farmers who want to get involved in farming have to pay the extra value of the farm programs, i.e. they need more financial capital to enter the farming industry. Once they do, paradoxically, they are dependent for their economic existence on support programs – they need the high program prices and income transfers to break even. However, if the market prices were lower or there were no income support, farmers who remained in business despite low prices, would go bankrupt. Such a situation may finally result in the destabilisation of the food market;

– *deficiency payments*,⁵ though said to be much more advantageous in terms of the federal budget since they shape farm production in accordance with the state of the market, do have one very serious handicap – they are set up in a very arbitrary way by government officials, usually the Secretary of Agriculture. Target prices, the basis for determining the deficiency payments, are subject to policy shifts, personal opinion or wrongful reasoning and, consequently, may distort agricultural markets. Since there are no guidelines as to how to estimate the target price, evaluation of the target price policy can be made only after all its effects have been known which is usually too late for the government to act and only a remedial program can be implemented. Antle (op. cit.) points out that if the target price is set too high, it is likely to destabilise not only the farm sector but the whole economy and the federal budget as well. If it is too low, it does not achieve its basic goal of farm income support or in extreme cases may even harm the economical status of farmers. As Johnson (1981) concludes, it comes as no surprise that the successive administrations of the American federal government

⁵ Deficiency payments are based on a difference between a commodity’s market price and its target price set by the government.

have had continuing difficulty in establishing an effective system to determine target prices;

– *acreage reduction programs* have also failed to be an efficient tool in curbing the agricultural supply. The main rationale behind the set-aside programs was to pay farmers for leaving a contracted plot of their land fallow. However, the increase of farm prices generated by other farm programs stimulates agricultural production and makes farmers intensify their production on arable lands. Consequently, farmers make use of all available means that may result in the growth of crops – they use more artificial fertilisers,⁶ pesticides, introduce improved types of seeds and plants, and introduce more efficient farming technologies. They also let the least fertile piece of land lie fallow. In effect, relatively higher prices of farm produce increased by government payments for participation in acreage exclusion program, foster the growth of farm production. This occurrence, known as *slippage*, accounts for the fact that production control is always less effective than the amount of land contracted that the set-aside program might imply. As concluded by Woś (1971:299), the costs of acreage reduction program increase for two reasons. Firstly, each acre of the arable land used in production gets more productive and the cost of acreage reduction systematically increases. Secondly, the growth of productivity compels the government to exclude more and more arable land, which, in turn, adds to taxpayers' costs. Paradoxically, the acreage reduction policy gave farmers good incentives to increase production efficiency, whereas the main problem of farm overproduction remained far from its solution. The continuation of acreage exclusion programs over many years has brought an escalation of costs – every subsequent year meant more money spent from the pocket of the American taxpayer.

Conclusions

Though American agriculture is considered to have achieved success, at the same time, at the turn of the 20th and the 21st centuries, there are many factors indicating that America has not solved its agricultural problems. It is symptomatic that in such an industrialised country as the United States, the so called *farm problem*, has, since 1930s, still been much more widely debated than any other economic problem of the nation, still raises much fervor among American society, and still preoccupies the bulk of governmental activities. On the whole, the farm problem has not been solved, and conversely, government policies have contributed to the rise of others like the *high entry cost* and *slippage* phenomena, the increase of farm debt, poverty, the problem of small

⁶ According to Heady and Egbert (1959:718), an extra ton of fertilizer is enough to compensate for the loss of 23 acres of arable soil.

farms or decline of both the farmers' social status and rural communities. Apparently, this is why in the 1990s a number of authors (cf. Gorlach (1995) or Browne *et al.* (1992)) actually believed the farm problem to be actually much further away from its solution than it had been eighty years ago despite a vast array of governmental programs which account for billions of dollars spent every year.

The intervention of American government in agriculture in the form of past farm programs failed mainly because of their inherent contradictions. In the first place, farmers, enticed by the policies, concentrated more on farming activities yielding short-term profit in the form of governmental subsidies rather than taking advantage of the land's remarkable natural endowments of soil and climate. Secondly, different programs often worked against one another – the government paid farmers for removing one piece of land from production while giving them tax breaks for cultivating another piece of land. In the same fashion farmers took advantage of changing farm policies and shifted their production accordingly – they tended to grow those crops that were most heavily subsidised and *slippage* added to the cost of government intervention. Another contradiction was that the policies promoted high farm prices contrary to the general trend to lower farm prices as a result of the development of farm technology. Finally, even the least efficient farmers tempted by government subsidies, remained in business, which is regarded as the main impediment in limiting excess labour in agriculture. Farm programs administered by American government failed because, as Vollrath (1985) states, they minimized the influence of the natural bounty of soil, farmer's diligence and farm development – paradoxically, the very same resources that brought about the success of American farming. They opposed general trends of nature, civilisation, and disregarded the human element; therefore, they did not solve the American farm problem.

Over the last seventy years, the rise of government intervention in agriculture has come to a point where, as a result of escalation of spending, any further attempts to continue such policies would pose a threat to the stabilisation of the American agricultural market and overall economy. The escalation of government expenditure was generated by farm programs which contradicted the rule of free market. Once they became inefficient, the American government abandoned the idea of those *New-Deal-like* measures and turned to more market oriented policies. In 1971 Woś (1971:114) wrote:

The emergence of the idea of a free market, after having been ignored for such a long period of time, presents clear proof of a crisis in American farming policy. The point is that government intervention has failed to deal with fundamental issues of the American farm problem, particularly in the area of farm income. The ill-conceived policies resulted, on one hand, only in disillusion and

*the rise of opposition against the governmental programs, on the other, in enormous costs incurred by the national budget over the last forty years.*⁷

Though at that time a more market oriented farm policy seemed to be only a consequence of the failure of former policies, today's policies seem to be based on a better understanding of the essence of the farm problem, its specific conditioning and of increasing role of international markets in particular. In the last decade of the 20th century, the United States of America, after so many attempts to harmonize its farm policy, introduced farm bills that limited the amount of government spending in favour of agriculture and gave American farmers more freedom in deciding about their production. Furthermore, the recent farm bills also brought deregulation of agricultural production and market, creating new opportunities for farmers in both domestic and international markets. Subsequent farm bills shift the responsibility for adjustments in farm production from government to farmers who can adjust their production in relation to condition of food markets. Finally, the total amount of government spending for agriculture has been gradually limited. It seems that this kind of approach tends to be more rooted in the inherent strengths of American agriculture and take more advantage of its achievements, which have so greatly contributed to its success. This dependence on the values and natural strengths of American agriculture, instead of counteracting them, are likely to invigorate and remedy the problems in American agriculture.

However, it would be unfair to perceive American agriculture solely in the context of its problems. At the same time, American farming is an example of unprecedented success. It has achieved high levels of production, high work efficiency, good co-operation among farmers and with other sectors of the national economy, and the most advanced agricultural technology. All of these, accompanied by the enormous advantage of the natural resources available, have placed the United States in the leading position as an agricultural producer in the world. The coexistence of these two seemingly contradictory circumstances is by no means paradoxical – it rather denotes complexity of the farm problem and requires more effort, determination and knowledge of the American government and anyone dealing with farm issues.

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⁷ Translation mine.

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