

AGEC 410 – Agricultural and Food Policy

8 – The Farm Problem

Key to appropriate policy is correct definition of the problem.

Here address something called the “farm problem.”

So what is the farm problem?

Income?

Financial stress?

Farm numbers?

Number of farmers?

Instability? Of what?

Prices?

Income?

Cost of farm programs?

Excess production capacity?

Structural change?

Have heard each described as the “farm problem.”

Farm problems shift over time.

1. 19th century

2. Through mid-1970s

3. 1970s:

4. 1980s:

5. 1990s to present

The “farm problem” some further consideration

1. Low Farm Incomes:

Was true, but now?

	1934-40	Current
Farm Income as % Non-farm	38	114
Farm Income as % Total	66	9

Farm net worth several times that of non-farm households

With 9% of income for farm households coming from farm activities, does it make sense to even talk about farms?

Average figures hide important aspects:

What is a farm? \$1,000 in sales,
Indiana, 83% of farms sold less than
100,000 in 2002. (357 acres of corn)

How do figures look adjusted for size?

2. Farms in Financial Stress:

General problem in 1920s, 1930s, and 1980s.

More frequently individuals get into trouble.

Questions:

Whose responsibility?

Are traditional commodity programs a help?

3. Decline in farm numbers and farmers:

Facts: In 1900, 29 million farmers or 39% of US pop.

Now about 2 million employed or 1.2% of labor force

(US Census is no longer keeping pop records)

Indiana farm numbers

1974 – 87.9 thousand

2002 – 60.3 thousand

Farm sector no longer a dominant contributor to economy, even in rural counties

Why the decline in numbers??

1. Increased farm size, scale economies due to:

a. technical economies

b. pecuniary economies for larger farms

c. technological change economies

2. Increased managerial skill by large farmers via education

3. Increased vertical coordination associated with size

4. Self-feeding, size gives rise to size

5. Government programs?

Are these structural trends a problem?

4. Instability:

price or income?

Instability can cause misallocation of resources.

How do Government programs affect?

Policy conflict

1996 bill and aftermath show difficulty policymakers have with instability

May require a different set of programs than traditional
– insurance?

5. Cost of Farm Programs:

Why should we spend \$20 billion per year to support incomes of a few hundred thousand people with above average incomes?

6. Excess Capacity: Supply exceeds demand at **politically** acceptable prices

Why:

1. Agricultural treadmill

2. Asset fixity

3. Government policy

7. Market position – industrialization:

Argument that farmers are squeezed by market power on both sides