The Great American Food Disaster

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Are the experts ever right? Do you remember the “Club of Rome” forecasts in 1973-74? The intellectually fashionable Rome “experts” and many other specialists predicted permanent food shortages. Anticipations of worldwide famine swept them and the media men off their feet. When the soybean price reached $12 per bushel, even the American President pushed the panic button and embargoed the export of precious soybeans to the Japanese who had always relied on them as their largest source of protein. Cassandras all over the world bewailed the unhappy end of agricultural abundance in America. Indeed, it was only two years ago that wheat sold for $6 a bushel at the grain elevator. Even feed corn sold as high as $4.50 per bushel in the cash market. Because of these record prices and scarcities, foreign policy wags everywhere waxed eloquent about the coming era of an American food monopoly. It was argued by these neo-Malthusians that U.S. agricultural hegemony had been ushered in by those same economic forces of “permanent scarcities” which gave rise to the oil shortage and the OPEC monopoly. The people of the world had consumed too much of their scarce resources like oil and food. Population had outrun production the experts moaned. Citizens of the world had but two choices: (1) face up to the shortages and potential famine by reducing population to zero-growth while conserving food, or (2) perish.

The American response to this food crisis of 1973-1975 took shape, we should recall, during the great debates over the efficacy of energy regulation. Ironically, American agriculture was struggling to free itself from a generation of Federal intervention, just as the oil industry succumbed to Washington’s regulatory grasp! U.S. agriculture had labored in a straight-jacket of government regulation, price control, and bureaucratic red tape for forty years. Farmers since the mid 1930s had been told by the government what to grow, how much, and where. One of the most byzantine systems of taxpayer-financed subsidies, quotas, tariffs, and foreign country food grants had provided the money incentives to American farmers to cause them to do what the American consumer would not willingly pay the farmer to do, that is, reduce production and raise prices.

In the end, after much debate, most production controls were removed from the agricultural sector. President Ford’s Secretary of Agriculture, Earl Butz, exhorted the American farmers to expand production under new market conditions. Free prices for farmers and the liberty to produce at will supplanted, overnight, the government regulators who had ruled American agriculture since the Great Depression.

Suddenly the American farmer found himself in the strange position of testing the opinions of the experts who had gone on record predicting permanent food shortages. While ever-tighter government controls were being imposed on the oil industry in order (it was argued by the politicians) to deal with the inequities of scarcity, the arm sector, paradoxically, was liberated from those same government controls.

Before we recount the results of the new farm policy (which you may wish to compare to the consequences of the present energy policies), we should know a few more facts about U.S. farming today. A mere 4% of the U.S. population produces all our farm products. There are only 2.8 million farmers; but they account for almost one-fifth of U.S. private business. Farmers will spend about $125 billion on production and consumption this year. Their debts amount to over $100 billion. The production, processing, and distribution of food and fiber accounts for 20% of the gross national product, even though only .40 cents of every food dollar spent in the supermarket goes to the American farmer, while .60 cents goes to the manufacturers and distributors of food. Moreover, the American farmer harvests over 340 million acres, 30% of the production of which goes into export markets, earning the hard currency we use to pay for oil imports, among many other necessities we bring in from abroad. Agriculture has contributed to a surplus to the balance of U.S. trade since 1960.

It is worth asking now the simple question about how American farmers responded to the incentives of free prices and deregulation between 1973 and 1977. Just one set of facts demonstrates unequivocally the astonishing speed and depth of the farmers' commitment to increased production under the new economic conditions. In 1972 total farmer debt outstanding was $56.9 billion. This debt represented the borrowed money used to buy land, equipment, tractors, storage and livestock. Five years later in January of 1977, total farmer debt had risen to $102 billion. The conservative U.S. farmer had borrowed $46 billion in just five years, half of all the debt he had ever accumulated, largely in order to supply food and fiber to meet unprecedented world demands.

These remarkable production statistics are now history. U.S. corn production expanded to over 6 billion bushels, one-quarter of which is exported. Wheat yields rose to 2 billion bushels, two-thirds of which are exported to bread-short and impoverished nations. Soybean production hit a record 1.6 billion bushels this year, a large part of which will go for export. Truly, without the success of our farmer-exporters, we would have been unable to expand and to pay for our oil imports.

And what has happened during this period to the prices of these basic food commodities which the pundits in 1973 believed would remain on permanently high plateaus? Not only have we no "permanent food scarcities" at unreasonably high prices. On the contrary, we are faced with a staggering glut of basic food commodities – at lower prices. Wholesale food prices have been stable or falling all year. The wheat price has fallen from over $6 at its peak to $2.25 in the cash market today. Agricultural economists have determined the average cost of production of a bushel of wheat to be approximately $2.50. Farmers are selling wheat below the cost of production. The corn price has fallen from $4.50 at the peak to less than $2 in the cash market today. The average cost of production of a bushel of corn approximates $3. The soybean price, our cheapest source of essential protein, selling a couple of years ago at the incredible level of $12 a bushel, has fallen to $5, approximately equal to its cost of production. Farmers are producing grain and soybeans and selling them at market prices which yield no profit – because of the glut. No wonder Lawrence Bitner, a Georgia farmer and leader of a nationwide group of striking farmers, proclaimed two weeks! “We’re simply saying we won’t buy, and we won’t sell or produce at a loss.” Such a remark is all the more understandable when we realize that for three years the prices paid by farmers for their needs have been rising faster than the prices they receive for the products they sell on the market.

The farmer is caught in the scissors of rising costs and falling prices for his products. In fact, farm income has declined from $33 billion in 1973 to an estimated $20 billion in 1977. It does not require much imagination to realize that, if farm income declines in less than five years from $33 billion to $20 billion, while total farm debt rises from $56 billion to $102 billion, many farmers may go to the wall.

The truth is simple and embarrassing: -- The experts were plain wrong in 1973 and 1974. The doomsayers have turned up with feet of clay. Far from Malthusian shortages and food famines, we are now faced with a world-wide glut, even a potential depression in the farm belt. Our grain elevators groan under the burden of our spring wheat crop, harvested and stored when we had 1.1 billion bushels of wheat still in the grain elevators from the previous year’s crop. And these facts of surplus are not unique to the U.S. All ‘round the globe the producers of grain and soybeans expanded their output to meet the demand at higher prices. Such countries as Brazil, India, Argentina, to mention only a few, have substantially amplified their exports while satisfying their domestic needs.

We hear little now from the prophets of the early 1970s about the enduring insufficiency of food production. Plain, hard-working American farmers scuttled the experts’ predictions with surplus sheaves of grain. As if this unanticipated glut were not enough, it is a bitter irony to learn that we are now faced with reactionary government policy which will constitute an even more sinister threat to American working men and women. For what has President Carter done? For starters, the Carter Administration has freed from all cash controls the welfare food-stamp plan which provides free food to approximately 16 million Americans. Almost $6 billion of taxpayers’ money will be funneled into foodstamp subsidies, partly to absorb the colossal food surpluses which the farmer would otherwise have to sell at even lower prices. P.L. 480, the historic American food grant program to underdeveloped countries, has been substantially expanded. Americans, therefore, can expect to give away much more food, paid for by their taxes, to people all over the world who, because of the food subsidies, will continue to lose the incentive to develop their local agriculture and thereby might have become less dependent on charity from the rich and powerful nations of the West.

But these Carter policy reactions to the great food glut of 1977 are benign in their effect by comparison to the Farm Act of 1977, just signed into law in September. President Carter and Secretary of Agriculture Bergland have restored the old-time, discredited programs of farm acreage control, crop loan subsidies, and taxpayer-subsidized cash payments to farmers throughout the nation. American agriculture, it seems, will be returned to the status of a government regulated industry. The government will once again subsidize grain prices at levels higher than prevailing market prices. Working people and the middle class in the towns and cities will foot the bill. Not that we do not understand and sympathize with the farmer in his plight. But the farmer, on his own, knows how to reduce production much better than the government can force him to do the same thing. What's more, a rational farmer is only likely to reduce production when prices are low, while on the other hand, he will continue to produce more than he otherwise would, if the government continues to support grain prices at a level higher than the consumer will pay.

The problem is not the farmer. Nor is it the consumer who is unwittingly ripped off by high food prices imposed by government policy. The problem is very simply hyperactive and unpredictable government farm policy. First, the U.S. government regulated agriculture so severely before 1972 that production fell and the farmer became a ward of the state. When the food crisis struck unexpectedly because the Russians secretly bought up all our surplus wheat during the summer of 1972, the farmer was not prepared, not because of lethargy, but because of previous government disincentives to produce. At that time few believed that in a free market the American farmer, within four years, could turn scarcity into glut. But now that he has, the government has panicked once again and seems bent on returning American farmers to the dismal gulag of a regulated and subsidized agriculture.

In the long run, these subsidies are neither good for the American farmer, nor are they affordable by an already overtaxed working and middle class. It is not too late to question the wisdom of President Carter's return to a government-controlled agriculture. The stakes are high. If volatile government farm policies contributed to the catastrophic food price rises of 1973-1975, then the restoration of these same interventionist policies may lead to a new food catastrophe in the 1980s. It is worth repeating that the Food and Agriculture Act of 1977 will cost the taxpayer as much as $7.5 -$10 billion for price supports, loan programs, support services and research. Food stamps will cost at least $5.6 billion. Food grants abroad will add a couple billion more.

It is strange that we should restore to the U.S. government so large a hand in American agriculture when the U.S. Post Office charges more money to deliver a first-class letter from Illinois to New Orleans than an entrepreneurial river barge owner charges to deliver a bushel of corn over the same distance.