

Willie Nelson and the Mom and Pop Grocery Aid Concert

I'm sure you've seen or heard of special events to aid suffering farmers. Willie Nelson's Farm Aid concerts are my favorites. A few choruses of "It's a Bloody Mary Morning" sung in a Midwest football stadium and millions of dollars go to help farmers. I always wait for Willie to say that all we need to do is legalize marijuana and solve the farm problem, but Willie understands enough economics to know that wouldn't work either. The increase in supply would drive prices down to near zero.

This is the problem in U.S. agriculture. We're too good at it. As supplies increase, prices fall, and with inelastic demand lower prices lead to lower revenue. In order to stay in business, you have to cut cost, and in agriculture that usually means getting bigger. Say goodbye to the small family farm.

Unlike normal people, economists don't see a problem in agriculture. That's because economic losses in a market economy serve the same purpose as profits. A loss acts as a signal that you need to find another line of work. Even normal people recognize this in other industries. We don't have celebrities coming to the aid of mom and pop grocery stores driven out of business by the new supermarket. I've never heard of a single Grocery Store Aid concert, or Barber Aid, or Dry Cleaner Aid, or Restaurant Aid. We don't mourn the replacement of full service auto mechanics by Jiffy Lube and other specialty chains. But we have a romantic attachment to agriculture in America, and this attachment influences not only the amount of government transfers to farmers, but the way we give them as well.

I first learned about the strange relationship we have with agriculture working summers for the Douglas County Road Department in college. Farmers in Douglas County Washington grow a lot of wheat, but even in the late 1960s wheat growers could not support all of the next generation on the farm. Some had to get other jobs. One displaced wheat grower was also driving a dump truck that summer as we built roads near Mansfield. One lunch period, discussions had turned to politics, i.e., what we needed to do to win the war in Vietnam and how to solve the agriculture problem. As a “goddamned long-haired college student” I dared not touch the former subject, but I asked him how the government should solve the plight of the farmer. I didn’t know that my question was an insult, a hint that it might take government handouts. “We need to get the government out of agriculture.” He said. “All we need is \$3 a bushel wheat!”

I resisted the urge to tell him that if a frog had longer legs he wouldn’t bump his bottom when he jumped. His statement betrayed an attitude that pervades U.S. agricultural policy. Farmers are a proud lot of independent business people generally opposed to welfare and government handouts. But if we could just get the prices up, everything would be O.K. If prices are too low, let’s pass a law that makes them higher. The result is the opposite of a price ceiling, where a price is forced to remain below the market-clearing level. Here we have a price floor, with price set above the market clearing level. Just as price ceilings lead to shortages, price floors lead to surpluses.

With a price floor, agriculture remains a popular pastime. But consumers don’t see the increased price as anything about the agriculture problem at all. All they see is a higher price, and when prices are higher, consumers buy less. At higher prices, farmers

want to produce more. The only way to maintain this price floor is for the government to enter the market as a buyer to prop up the price. The government now owns a lot of wheat, corn, peanuts, milk and cheese that it has to store and give away to the deserving poor.

Even this buying of agricultural products has a hint of welfare to it, so the government makes loans to farmers, for which farmers pledge the crop as collateral. Of course, there's never a plan to pay off the loan. This stealth welfare became burdensome over time, and farmers as a group, having become dependent on welfare, lowered their opposition to it. Many farm programs now make direct "deficiency payments" to farmers, the difference between a regular market price and the politically agreed on higher price. This drives economists a little crazy, leading to an explanation and criticism of U.S. agricultural policy in most economics textbooks. Of course, we don't get invited to many parties in Iowa, or Mansfield, Washington, either.