2012 Farm Bill: Will Current Premises Match the Reality of the Future?

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Clearly, budget considerations dominate much of the discussion the next farm bill. But that is not all that is going on. During farm bill debates, there usually is an explicit or implicit consensus on how prosperous and volatile crop agriculture will be during the years ahead. This consensus is usually an extrapolation agriculture's economic conditions during the preceding 3 years into the future. Also, there tends to be gravitation toward a policy direction for the farm bill, sometimes this occurs early-on and sometimes just prior to passage of the bill. Both of these elements—consensus on future economic conditions and a revealed preference for a policy direction—also underlie much of the current 2012 Farm Bill discussion.

There is a presumption that crop prices will not return to their pre-2008 levels. Two-dollar corn will not occur again. In fact, $3 per bushel corn won't either. Ethanol and export demands will put a floor on grain prices, precluding prices from plummeting to levels of the past. Production and price volatility should be expected but overall the increase in population from 7 billion today to 9.5 billion in 2050 and increases per capita incomes in China and other rapidly developing countries will keep agriculture on a prosperous path.

Sounds good. An extended stretch of profitability for U.S. crop agriculture would finally be upon us. As appealing as that sounds, there are some considerations that need to be taken into account.

Much of the run-up in grain prices during the last 4 years was due to the phenomenal growth in the use of corn for ethanol. That rate of growth will not be available to the grain markets in the years ahead. Clearly, achieving a 70 percent increase in food production by 2050 to feed 9.5 billion people will impact the agricultures of the U.S., food importing countries, and our export competitors. Not alike Carley Simon's song "…You Think This Song Is About You…," U.S. farmers and agricultural stakeholders expect that U.S. agriculture will capture the lion's share of that increase. For several reasons that expectation is likely to be untrue.

When crop prices explode upward like they have the last few years, and like they did in the 1970s, a couple of things happen. For one, importers ratchet up their already well-developed penchant for not being beholden to other countries for staple foods. They ramp up investment in their agricultures and take other steps to improve food security. As we have seen that can include securing the use of land in other sovereign nations. Secondly, U.S. export competitors most likely will gobble up trade growth for grains and oil seeds. Available land resources and closing of technological/yield gaps will enable South America, the former Soviet Union and potential exporters in other areas to increase production beyond what is possible in the U.S.

U.S. export competitors have already handed caused staggering reductions in U.S. export shares. The U.S. share of world exports of five major grains (corn, wheat, milled rice, barley, and oats) decreased from 58% in 1980 to 37% in 2010. U.S. soybean exports have increased substantially but our export share has declined from 80% to 44% from 1980 to 2010.

In the past when importers and export competitors reacted to high price periods, excess capacity and excess production flooded the market a few years later. In total, it is not clear that agriculture's future is one of unending financial bliss. Given that, agricultural policy may need to be a "policy for all seasons," not one that assumes short-term variations from a prosperous long-term trend.

Finally, revenue insurance has become the favored policy instrument. There are a number of problems with using revenue insurance. Not the least of which is that it can guarantee profits above the cost of production during times of extremely high prices—like now. But when prices are low, especially for multiple years, it "guarantees" a proportion of low prices even when those low prices are below the cost of production. It can be an upside-down safety net in which farmers receive protection when they do not need it but are given little help when they do. Insurance makes sense for yield protection but other programs are indicated to address price extremes. If it is true that the future begs for a policy for all seasons then both yield insurance and other program instruments will be needed or it will be "déjà vu all over again" akin to the emergency payments that followed the 1996 Farm Bill.