POLICY PENNINGS

By Daryll E. Ray

House and Senate farm bills: Six of one or half-a-dozen of the other

The House and Senate have each passed a farm bill. Since the bills are not identical, a House/Senate conference committee will have to hammer out the final draft. In looking at the two versions, I would argue the commodity program portions differ in the details but not in overall farm policy. For the most part, it's six of one or half-a-dozen of the other.

Under the Senate bill, farmers will plant every acre possible; under the House bill farmers will idle no acreage.

The House bill will result in all-out production; under the Senate bill farmers will maximize production.

Loan deficiency payments put no floor under the market price in the House bill and allow prices to fall unconstrained in the Senate bill.

Under the House bill, total government payments to crop-agriculture will be huge while under the Senate version total government payments will be, well, huge.

During a year (or more) of extremely poor major-crop yields, the lack of a strategic reserve means commodity prices can go to record high levels with embargoes a possibility under the Senate bill while under the House bill prices can increase to never observed levels with inadequate grain to satisfy the needs of our domestic livestock industry and our long-standing export customers at any price. (And, this will put increased production plans of our export competitors and export customers into high gear, guaranteeing that in two to five years we will have prices even lower than today's.)

The baseline projections that were used to analyze the House bill assumed that crop exports would increase after the first few years of the ten-year baseline period—just as has been assumed and not realized for decades; the Senate bill was analyzed under the same assumptions (although the bill specifies a five rather than ten year term).

Hence, since projecting increased export trends has been a losing bet for the last quarter century, the House bill is likely to cost taxpayers considerably MORE than the already unbelievable ten-year projected level of $170 billion; ditto for the Senate bill.

It seems to me we no longer have agricultural policy that recognizes the obvious:

First of all, we have to get politicians, policy analysts and economists to repeat the following until it becomes part of their being: "Farmers will plant all their cropland no matter what. . .Farmers will plant all their cropland no matter what. . ." Yes, farmers will move acreage from one major crop to another as price conditions change but they will grow something, if not under the auspices of the current farmer, then under his/her replacement. In the short-run and the intermediate-run, crop-agriculture produces about the same amount; and you know what J. M. Keynes said about the long-run—we are all dead. Assuming that "low prices will cure crop-agriculture low prices" is a fine slogan but it does not work like that—most any other industry, yes, but agriculture, no.

Secondly, food is more like insulin than electronics. Customers buy about the same amount of total agricultural products whether the price is fifty percent of today's price or three times today's price.

So if we construct a farm policy that assumes self-correction when prices decline, that is, the quantity supplied decreases appreciably and the quantity demanded increases sufficiently so inventories are worked down and prices rebound, we will forever be disappointed. It just doesn't work that way! And, no amount of wishing or legislation will change it in the foreseeable future. Baring repeated price bail outs by yield catastrophes or other non-U.S. farm policy events, it looks like it may be a very costly lesson.

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