By Daryll E. Ray

Cost of avoiding real issue: $17 billion a year

In 1630 colonial farmers faced a devastating decline in the price of their major cash crop, tobacco. The price dropped not because of a decline in demand for tobacco in England, but rather as a result of overproduction in colonial America. In response to high prices earlier in the decade, farmers reduced the acreage they devoted to corn and grew tobacco instead.

As long as colonial farmers had been engaged in subsistence agriculture overproduction was not a serious issue. But with the development of a market economy centered around the export of tobacco to England, farmers for the first time were confronted with what would become a chronic issue in American agricultural production, the blessing and bane of overproduction.

The fairly consistent overproduction of agricultural products has spared American agriculture from famine, the periodic scourge of mankind for all of recorded history. On the other hand it has left farmers with a different problem, the management of abundance. The corollary of abundance is low prices, and in 1630 colonial farmers faced for the first, but certainly not the last, time the issue of how to deal with abundant production and low prices.

That same issue of abundance and low prices confronted congress as it began to write a new farm bill last year. Worldwide production of grains and seeds exceeded domestic demand for those agricultural products by over 87 million metric tons for the five crop years beginning with 1996. As a result carryover stock increased and prices plunged by nearly forty percent for most crops.

An objective look at the two farm bill proposals that the conference committee is trying to reconcile leaves one with the clear impression that the goal of both the House and the Senate bills was to ameliorate the effects of overproduction and low prices in the agricultural sector. In various ways they institutionalized the emergency payments of the last several years while leaving the structure of farm programs virtually unchanged from the 1996 farm bill.

As a result they are looking at farm bill expenditures far in excess of expenditures considered during the debate of previous farm bills. And even with $170 billion dollars on the line, let alone the $270 billion that might be at risk if wheat and corn exports stay near their trend, nothing has been done to deal with the basic cause of low prices; the ability of the farmers of the world to produce crops in excess of effective demand.

Congressional leaders were not willing to step forward and come up with a mechanism to intelligently manage crop supplies that would include buffer stocks to secure needs during short-run crop-supply disruptions and the use of other methods to put productive capacity in reserve. This or other mechanisms seem to be needed to allow producers to receive a better price for their commodities while at the same time ensuring the eaters of the world with a secure supply of food.

Rather than addressing the overproduction issue, congressional leaders chose to dispense billions of dollars to ameliorate the effects of overproduction in the hope that some external event will come along to balance supply and demand at a level that provides profitability to the agricultural sector.

The problem is that the wait could get very expensive. Maybe, somewhere down the line, even more expensive than U.S. taxpayers are willing to pay.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of the UT's Agricultural Policy Analysis Center. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; http://agpolicy.org.