

## Top-ten reasons to start over on farm bill

The commodity portion of the new farm bill is destined to be a Super Freedom-to-Farm since it will basically take the 1996 legislation and wrap it with a method to automatically pay “emergency payments.” Even though farmers despise the price and market income results of the 1996 legislation, the collective legislative response seems to be: “Let’s do it again.” Do we really think the results will be different the second time around? Maybe, we should just start over. For the sake of discussion, what would be the top reasons for reconsidering farm legislation? My top-ten list would be:

1) By shaping farm policy to cause large direct payments, farmers are being portrayed by editorial writers and conservative think-tanks as politically-powerful, money-grubbing corporate welfare cheats.

2) Since farm policy is now a money game, anybody and everybody producing a food or fiber product wants to play, even for those products for which the market or existing price and income stabilization methods perform satisfactorily over time.

3) Current commodity policy is not a farm policy it is an agribusiness policy. Why? Because other farm policy approaches could generate current or higher income levels without spending tens of billions of dollars annually in direct payments. But to allow agribusiness to a) maximize sales of fertilizer, seed, and chemicals and to b) maximize volumes processed and transported requires fence-row-to-fence-row production; which means unnecessarily depressed prices; which means unnecessarily low market incomes; which means large government payments but it is agribusiness that gets the “increased” income, not farmers.

4) The cost of the new farm bill is almost assuredly seriously underestimated. The export assumptions underlying the cost estimates for the 2002 bill are very optimistic. In fact, the carnage has already begun. It is expected that farm subsidies will be billions of dollars higher this crop year because of “slow” exports—that’s billions of dollars that will not be available for funding future years of the new legislation according to the original protocol for funding a new bill. We estimate that the new legislation could easily cost \$100 billion more than its \$170 billion projected cost if crop exports simply follow the trend of the last 20 years.

5) Export worship continues to underpin the current commodity policy direction. Farmers want to believe and agribusinesses fan the obsession while politicians, journalists, and economists provide rationalizations as to why exports have not grown as promised. This has been going-on for about a quarter of a century. The latest excuse—which undoubtedly is a true explanation for most products—is the high value of the dollar. But if you look at the data in the case of soybeans and corn, no pattern of competitor exports related to relative exchange rates is apparent. For all exchange rate configurations, our competitors export every bushel produced that they do not need domestically, period.

6) There is no recognition that, when crop prices capsize, market demand does not provide a rigging to raise them back up again. In crop agriculture, a drop in price does not cause the quantity demanded to increase enough to sufficiently draw down inventories and cause prices to bounce-back.

7) There is also no recognition that market response on the supply side is of no help in the search for a cure for low prices. Farmer Jones—or his replacement, should farmer Jones go bankrupt—will plant his crop acreage to something. That’s why discussions about whether loan rates should be changed a few cents for this crop or that are akin to rearranging deck chairs on the Titanic. Viewed from the standpoint of total acreage cropped, raising or lowering loan rates a few pennies ain’t going to matter much; cropland acreage will be planted to one crop or another, depressing all prices. Same is true for the existence or lack thereof of decoupled, “emergency” or other government payments.

8) While belief in market self-correction via supply and demand response to depressed prices may have been a reason to embrace the 1996 legislation, why would we want to take that dog out to hunt again this time around?

9) In addition to providing no price floor, commodity prices can soar to unexplored heights. With no real buffer stocks and super-low U.S. yields for a year or two, crop price levels could go so high and feed availability could drop so low that major domestic livestock-feed demanders and export customers would scurry to find long-term non-U.S. suppliers of corn and soybean meal. This is not a far-fetched possibility. We will have a 25 to 30 percent yield shortfall sometime. If that happened now, prices could go to levels we have never experienced. In addition, to the response by traditional demanders of feed, how do you think China, Argentina and Brazil will react? Prospective legislation needs a buffer stock policy, if no other reason appeals, to preserve existing and especially long-term export markets.

10) In addition to no authority to create buffer stocks, the Secretary of Agriculture also has no levers to affect the level of output. The Secretary needs both these authorities if farmers are to once again receive their net income from the market place rather than from the mailbox.

Starting over would not be the worst thing in the world. The reality is that most farmers have already made their planting decisions, so there is no hurry on that account. With a little extra time and the pressures of a deficit budget, it is possible that Congress might find a more cost efficient way to provide for a stable farm sector that continues to provide an adequate safe supply of food at reasonable prices and still be environmentally responsible.

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