POLICY PENNINGS

By Daryll E. Ray

Following in the footsteps of the 1996 Farm Bill: When "What ought to be" does not correspond to "What is"

In some ways, the 1996 Farm Bill debate was a contest between competing visions or understanding of the economic mechanisms needed to achieve a prosperous and stable U.S. agriculture.

In the one corner were those contending that agriculture had changed and the market place would better serve producers than the production control programs that had been in place since the 1930s. They argued that both supply and demand had become more price responsive in the years since modern farm programs were put into effect. By eliminating government interference in the market place farmers would reduce their plantings when prices were low while those low prices would increase worldwide demand and the U.S. share of world export markets. Once the surplus was used up, prices would rise and farmers could earn their living from the marketplace instead of the mailbox.

In the other corner were those arguing that crop agriculture has special characteristics that prevent it from responding to market signals like most other products. Because of the special nature of major-crop markets, government has a vital role in regulating the marketplace for major crop commodities to maintain a measure of stability in rural communities. Advocates of the traditional structure of farm legislation pressed for a bill that would allow for acreage control programs as well as storage programs and loan rates that would set a floor on crop prices at somewhere near the cost of production.

As everyone knows, the advocates of a market driven agriculture won out and the result was Freedom to Farm with its large but declining fixed payments (AMTA) and Loan Deficiency Payments (LDPs). The AMTA payments would provide a transition period for farmers as they moved from an era of government support to one in which government interference in the marketplace would be eliminated. It was expected that the LDPs would allow prices for U.S. farm commodities to fall to world levels stimulating worldwide demand and U.S. exports while at the same time discouraging production among our export competitors. The AMTA payments and LDPs were designed to cushion any negative effects of low prices while allowing U.S. farmers to fully capture any upward swing in prices—remember, without a storage program there would be no government stocks hanging over the marketplace reducing price gains.

By 1998 and 1999, it was becoming abundantly clear that things were not turning out the way advocates of a more market oriented agriculture anticipated. Exports had not increased in response to lower prices and farmers, while using planting flexibility to switch among crops, had not significantly reduced total acreage. The economic pain in the countryside was more than legislators were willing to bear and they responded with massive supplemental payments, quickly doubling the anticipated cost of the 1996 Farm Bill.

In some ways, it may seem that the new Farm Bill being crafted in the conference committee grafts the two competing visions. The proposal retains the outward structure of the market approach with fixed decoupled payments while providing additional billions of dollars to affect stability of rural farming communities. But it's not a victory for those who believe that free markets will cure what ails agriculture. In one sense, those who advocated for the free market approach got what they wanted: no production controls, no set-asides, no government storage programs, and no support price. However in order to get what they wanted, it required federal expenditures of $170 billion—some would call it a payoff.

Likewise, it is not a victory for those who believe in stabilizing farm prices at levels that would enable farmers to rely on the market-place for their income. This group was unwilling to fight for production control programs for fear of losing the whole enchilada—the $73.5 billion in "surplus" funds that were allocated to agriculture in the April 2001 budget agreement.

Economists can look at economic issues in two ways: the way "things are" and the way "things ought to be." In the case of agricultural policy, many free market economists and others are using their collective "that's the way it is" voice to convince policy makers of indisputably favorable workings of free markets in crop agriculture, but—it seems to me—they are actually proclaiming their wishes of what free market results "ought to be" for crop agriculture.

Don't blame the theory of perfectly competitive markets for the inaccurate predictions of this group. In general, perfectly competitive market results "are" nearly identical to what theory says they "ought to be" as long as the theory's assumptions are satisfied. But what do you get if the theory is applied to crop agriculture even though the theory's assumptions do not reflect agriculture "as it is" but rather how free market economists think crop agriculture "ought to" work? (Answer: You get the last four years.) In order to know how a policy or lack thereof is going to work, we need to understand what makes crop agriculture and agricultural markets tick.

The problem with the 1996 and 2002 Farm Bill debates was that we skipped that important first step—determining how things really work in the crop economy. Instead, lawmakers just listened to what free market economists claimed as the gospel truth for crop markets without even realizing their gospel was based on some very strong (and, I believe, wrong) assumptions about what "ought to be." Until we recognize those assumptions for what they are—just assumptions, the only guarantee we have is that the farm bill will be expensive.

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.

Originally published in *MidAmerica Farmer Grower*, Vol. 19, No. 17, May 3, 2002
Reproduction Permission Granted with 1) full attribution to Daryll E. Ray and the Agricultural Policy Analysis Center, University of Tennessee, Knoxville, TN; 2) Copy of reproduction sent to Information Specialist, Agricultural Policy Analysis Center, 310 Morgan Hall, Knoxville, TN 37996-001