

Farmers tend to respond similarly, the world around

Why is it that we, as farmers, think that other farmers will be willing to do things that we won't do? In developing agricultural policy we often base our decisions on the premise that we can force farmers somewhere else in the world to make decisions that we would not be willing to make.

This fact struck me at a personal level the other day when a student from Argentina was vigorously complaining about the level of U.S. subsidies. He said that prices would not get better until something was done about U.S. subsidies.

I asked him what he would do if prices dropped by X percent. How would he change his behavior? He said he would still put a crop in. I then asked what he would do if he could not afford to put the crop in. He said he would lease the land to another farmer who would produce on it. Suddenly the light went on. Farmers in the U.S. are no more willing to change their behavior in response to low prices or reduced subsidies than farmers anywhere else in the world. But then again, we are still learning this lesson.

In the 1985 Farm Bill, Congress deliberately reduced the loan rate under the assumption that higher rates supported world price levels and encouraged wheat production in the E.U. The reasoning was that if the loan rate were reduced the European CAP export subsidies would become so expensive that they would have to be reduced. This, in turn, would force European farmers to reduce their wheat production, leaving more of the world export market available to American farmers.

Guess what? European politicians may be even less willing than their U.S. counterparts to reduce farm support because they remember what it is like to be hungry (remember WWI and WWII). Even after the policy depressed prices of the 1985 and 1990 Farm Bills and payments of billions of dollars, we are now told that the E.U. will soon be able to export wheat without export subsidies. So essentially the reduced prices and billions of dollars in deficiency payments bought us nothing for crop farmers.

Again with the 1996 and 2002 Farm Bills we have eliminated any mechanism that would put a floor under crop prices while supporting U.S. farm income with Loan Deficiency payments (LDPs) and Counter-Cyclical Payments (CCPs) and a healthy dose of fixed decoupled payments. The hope is that farmers in nations that compete with us for exports will reduce their production or at least slow down the rate of growth in their production.

The results of this pressure tactic have been spectacularly unsuccessful. It is hard to find any evidence that would suggest that our competitors have reduced their production in response to lower prices. One thing it has done is further impoverish farmers in less developed countries as well as farmers in general.

The drumbeat is becoming ever louder that the major problem in world markets is the level of U.S. subsidies. The reasoning goes like this. If U.S. farmers are deprived of their subsidies they will reduce production. In turn producers in other parts of the world, especially small farmers in less developed countries, will receive higher prices and be able to afford to expand their production.

But U.S. farmers think the same way that farmers all over the world think. Few U.S. farmers are willing to give up farming unless the banker makes it impossible. And, even then, the land is simply turned over to another and remains in production.

When policies are based on the premise that "farmers somewhere else are willing to make decisions that we are unwilling to make," we will get nowhere and farmers everywhere, in the absence of a weather event somewhere, will be plagued with low prices.

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