If we are going to have a farm program, supply management makes the most sense

The Texas Farmers Union contracted with the Agricultural Policy Analysis Center to develop a design for the commodity title of the 2018 Farm Bill based on supply management principles. Over the last six weeks, we have examined the details of the proposal in this column (http://tinyurl.com/ybux7h77, columns 890-895).

Supply management, as a way to tackle the chronic price/income problems faced by farmers, has been out of favor for at least the last 20 years, so why bring it up again when it has so little political support?

The chronic price/income problems farmers face reflect the lack of responsiveness to low prices in agricultural commodity markets. Consumers may respond to lower food prices by buying a better grade of meat or food that has more processing but, given an adequate diet to start with, they do not purchase more food. Aggregate food consumption remains fairly stable over a wide price range.

On the supply side, crop farmers do not respond to lower prices by voluntarily taking acres out of production until profitable prices return. In fact, in the face of lower prices, farmers have every incentive to maximize their production so that they can spread their fixed costs out over more bushels, bales, or hundredweight. They certainly are not going to reduce production on rented ground.

If there were sufficient responsiveness to lower prices on the part of either consumers or farmers, the chronic price/income problems that face crop agriculture would not exist and there would be no need for farm programs as we know them.

Given the economic characteristics of crop production we have just described and the need for a stable national food supply, doing nothing is not a viable option, thus, the need for an agricultural policy that meets the needs of both consumers and farmers.

There are two ways to provide financial support for the agricultural sector so consumers have access to an adequate supply of food that meets their needs and farmers are able to remain in production and provide that food: price supports or revenue support. Both methods support farm income, but do it in different ways.

A supply management program supports net farm income by providing price support for the major crops that farmers produce. Depending on their management skills, price supports provide producers with the opportunity to make a reasonable return on their land and labor.

The alternative is to provide income support. The idea is that these supports should not influence production decisions. Income support programs include direct payments, countercyclical payments (i.e. the Counter-Cyclical Program and the Price Loss Coverage (PLC) program), revenue protection programs like the Annual Crop Revenue Election (ACRE) program and the Agricultural Risk Coverage (ARC) program, and crop revenue insurance.

Thus, the argument against a supply management program is philosophical. Opponents of supply management programs in agriculture believe that ideally no program is needed (the premise behind the design of the 1996 Farm Bill) but if there is to be a program, it should support total farm revenue not prices. They believe that revenue support programs intervene less in production decisions. Revenue support programs do not take into account the well-documented economic characteristics of crop agriculture that result in chronic price and income problems.

Supply management programs, on the other hand, take into account the cause of low prices (supply that exceeds demand) by taking a marginal amount of supply off the market so that crop prices rise to a profitable level and if necessary inducing farmers to reduce their production through paid acreage reduction programs.

By taking the economic characteristics of crop agriculture into account, price support programs like the APAC/TFU supply management program only make payments on the small amount of supply that exceeds demand. Revenue support programs, on the other hand, pay on nearly every bushel, bale, and hundredweight of production and historically have ended up being far more costly than price support programs (http://tinyurl.com/y89hzf39).

After 20 years of denying the economic characteristics of crop agriculture by making farm payments when they weren't needed and failing to provide adequate support when it is needed, now is the time for members of Congress and farm policy makers to give price support programs another look. With crop prices well below the cost of production for the foreseeable future, revenue support programs will be too expensive and still provide inadequate support to farmers.

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