

Guiding principles of farm policy design

When we talk to agricultural economists and members of Congress about what expectations they have for agricultural policy, they usually express a preference for policy instruments that do not interfere with market signals. And, on the face of it, that sounds like a reasonable goal.

But if that is the goal, then the only policy that would meet that criterion is no policy at all—no policy, no interference.

The truth is that we want policy in agriculture, as in most other activities, that is likely to achieve desirable outcomes. For agriculture one of the most commonly expressed goals is to provide the nation with a reliable supply of food at affordable prices.

And to achieve that goal, the US established policies that opened up western land to farmers to accommodate a growing population and provide foodstuffs for residents of the eastern seaboard, extended railroads, established Land Grant Colleges with a triple focus: education, research and extension. The United States Department of Agriculture (USDA) was established to coordinate these activities and provide farmers with information like planting intentions, crop conditions, expected harvest, a projected price band, the number of animals on feed, slaughter levels, regular price reports, and freezer stocks to provide market participants with the information they need to make rational decisions.

Whether policy makers want to admit it or not, it is impossible to engage in the writing of the policies that make up the farm bill and not interfere in the market in some way or other.

That leaves us with the question we started with: what are our preferences or guiding principles when it comes to agricultural policy? In this column, the two of us would like to share our preferences with you, our readers. Most of what you will read has become clear to long-time readers, but as we approach the 2018 Farm Bill, we think it is important for us to set out our preferences in an organized fashion.

First and foremost, we favor agricultural policies that will support an agricultural production capacity that exceeds current demand because food is essential to life. It is unacceptable to run short of the food needed to meet the full nutritional requirements of the world's population. We need to have the agricultural production capacity and available supplies of food stuffs to meet the world's nutritional requirements under adverse conditions whether these are caused by weather, plant and animal disease, geologic events, or civil unrest, singly or in combination.

Second, while technological advances will and should continue, we oppose commodity policies that explicitly disadvantage and contribute to putting farmers out of business, whether they live across the road, in the next county, elsewhere in the US, or anywhere in the world. In many parts of the world, farming is the only livelihood available to a large swath of the population and these farmers and their families are among the most vulnerable to hunger and malnutrition.

The first corollary to this point is our opposition to agricultural policies that allow the farmers of any nation to export agricultural products at prices that are below the full cost of production, a process also known as dumping. The second corollary is our belief that any country has the right to establish any agricultural policy it wants so long as its farmers do not dump agricultural products on the world market. No country has the obligation to import its foodstuffs from a lower price supplier.

Our third guiding principle favors agricultural policies that take the low price-elasticity of both supply and demand into account. Policies that ignore this basic economic characteristic of agriculture into account tend to be ineffective, disruptive, and expensive.

Fourth, we favor agricultural policies that seek to eliminate negative externalities like air and water pollution and disease. While these sound like modern considerations, the preservation of soil, the elimination of sedimentation of waterways, and the reduction of agricultural dust storms have long been a concern of farmers who want to preserve the long-term use of their land.

Fifth, sound agricultural policies should allow farmers to decide what to produce based on agronomic requirements and economic signals among the possible crop and livestock alternatives.

For crop agriculture, our sixth preference is in favor of policies that are counter-cyclical. They should provide crop farmers with support when prices are below the full cost of production. At the same time, they should not provide financial support when prices are at or above the full cost of production.

In the coming weeks, we will use this list to evaluate various policies that have been a part of recent US farm bills, giving special attention to those under consideration in various current farm bill proposals.

Policy Pennings Column 932

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 178, July 13, 2018

Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.

Email: hdschaffer@utk.edu and dray@utk.edu; <http://www.agpolicy.org>.

Reproduction Permission Granted with:

- 1) Full attribution to Harwood D. Schaffer and Daryll E. Ray, Agricultural Policy Analysis Center, Knoxville, TN;
- 2) An email sent to hdschaffer@utk.edu indicating how often you intend on running the column and your total circulation. Also, please send one copy of the first issue with the column in it to Harwood Schaffer, Agricultural Policy Analysis Center, 1708 Capistrano Dr. Knoxville, TN 37922.