Emergency payments: Déjà vu all over again

When we were planning to write a column using our six agricultural policy benchmarks (https://tinyurl.com/ya3obdgu) for evaluating emergency payments—distinct from ad-hoc disaster payments—we thought we would be confined to those adopted during the 1998-2001 time-period. But the Trump administration's $12 billion in "trade-dispute-related" emergency payments we discussed in the previous column (see our article at https://tinyurl.com/ybratgex) were a surprise.

The current set of emergency payments was put into effect by administrative action while the earlier set of emergency payments were voted on by Congress and signed into law by the administration. Though there is a 17-year gap between the earlier emergency payments and the current one, the analysis remains much the same.

If well-designed, appropriate policies are in place, neither Congress nor the administration should ever have to implement emergency payments to crop farmers. The implementation of emergency payments is an admission that the existing set of commodity policies have failed to maintain a robust agriculture in the face of extended periods of low prices, even though that is the historic pattern.

While farmers were under stress in 1998 and Congress voted for emergency payments and the administration signed the legislation into law, there were those who argued that the intervention came too soon. Opponents of the emergency payments asserted that farmers should have been given time to make a correction in their planted acreage.

Given the low price-elasticity of supply, driven by the well-documented pattern of farmers planting all their acres all the time, the cost of delaying emergency payments—in the search for validation of the neo-liberal/libertarian rationale behind the "farm bill to end all farm bills"—the cost would have been catastrophic. How many farmers would have had to file for bankruptcy before the proponents of the 1996 Farm Bill would have cried "uncle" and admitted that they were wrong?

And, even if a significant minority of farmers would have gone bankrupt, would that have reduced planted acreage and production? Most likely not. The probable scenario is that other farmers, those whose land was paid off and whose spouses had a good job in town, would have snapped up the leases and kept the land in production. The resource that bankruptcies take out of production is farmers not land.

Today, in 2018—even in the absence of the trade disputes initiated by the current administration—the major problem that farmers are facing is world-wide production of farm commodities that exceeds utilization. In the US, we are talking about corn stocks that are increasing by some 250 million bushels a year. Relative to total utilization that is a comparatively small number.

What we know is that a small level of excess production has a large downward impact on price. If we had a 10% shortfall in corn production, the current excess supply would not go very far, and prices would rise even more quickly than they fell.

The $12 billion may take care of some crop farmers this year but, in the absence of adequate policy changes, that will not solve the problem if US farmers see near trendline production for the 2018 and 2019 crops. Will Congress vote for emergency payments next year?

Let's now measure emergency payments against the six benchmarks.

Emergency payments historically have been made in a policy environment that allows for both planting flexibility and the maintenance of agricultural capacity that exceeds current demand.

But, these payments do not take the low price-elasticity of both supply and demand into account, they simply respond to wide-spread stress in the countryside. They also do not address environmental externalities like the loss of farm chemicals into the nation's waterways. Farmers generally receive emergency payments based on their historic production.

Emergency payments are counter-cyclical; they have been paid when prices are low. Whether or not that will be true in the future is a question. But, even when they are paid, emergency payments are significantly more expensive than well-designed programs that respond to the economic characteristics of crop agriculture.

When it comes to trade, the problem with emergency payments is that they are paid to farmers when prices are well below the full cost of production and thus contribute to the charge that the US is dumping. In the end, dumping may be a more significant challenge to agricultural trade policy than the current disputes.

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