Market-oriented policies should take into account the way markets actually work

As part of our work in polishing up the APAC/TFU (Agricultural Policy Analysis Center/Texas Farmers Union) supply management proposal, we have been reexamining the history of farm-related federal legislation over the last century and a half. During that period most of the farm legislation, except for bills passed during the Franklin Delano Roosevelt and Harry Truman administrations, have been attempts to enable farmers to have the skills and tools needed so they could fit into a market economy.

With the election of Dwight Eisenhower and his appointment of Ezra Taft Benson as Secretary of Agriculture the holy grail of agricultural policy has been to move toward the development of market-oriented agricultural policies as a means of eradicating any remnants of the supply management policies developed during the New Deal.

The weaknesses in earlier designs of historic supply management policies have been the cudgel that has allowed people like former Secretary of Agriculture Earl Butz and Ag Committee Chair Pat Roberts to replace these policies with modern market-oriented policies.

We are now in the 6th year of a decline in net farm income brought about by a sharp decline in crop prices while the cost of the current program including the trade adjustment payments could be in the vicinity of $61.1 billion for 2018 thru 2019.

As we read about each farm bill, we concluded that the term "market-oriented policies" actually encompasses a broader array of policies than one might expect.

When many talk about market-oriented policies they are assuming that agriculture works like the local hardware store and its sale of hammers and bolts and wrenches or the electronics store that sells wide screen televisions and washing machines.

When we talk about market-oriented policies, we are talking about taking into account the way that agricultural commodity markets really work. There is a world of difference between the way economics textbooks describe how markets should work and how agricultural markets work for a day-to-day farming operation.

Economics textbooks assume robust price responsiveness on the part of producers or consumers. If that were true, low prices would induce consumers to eat more when prices are low and less when prices are high. But that is not the way it works. As humans we consume about the same number of calories each day whether food prices are high or low. We may drive our car for a year or two more, but we are going to feed ourselves and our children.

On the other side of the equation, farmers never know what the weather is going to look like in their own fields let alone elsewhere in the US and world, so they generally plant all their fields all the time and hope for a profitable price come the time to market their crop. It turns out that the economics of growing and marketing agricultural products is nothing like the economics of hardware and electronics stores.

We have seen repeated failures in the market-oriented policies that have promoted exports as the salvation of US agriculture. To be sure crop exports have been hit hard by embargoes and the imposition of tariffs on China, but historically the export market is much more volatile than the domestic market for most crops. Exports might provide the gravy, but the meat and potatoes for US crops is US domestic demand.

In our mind a market-oriented agricultural policy should be oriented toward supplying the domestic market with products sold at a price that covers the full cost of production and treat crop exports for what they have always been, important but volatile demands that continue to capture an ever-declining share of world grain and soybean exports.

For much of the last century the US has been the residual supplier of agricultural commodities to world markets. We need to have available supplies to export as they are called for, but we also need to recognize that we cannot necessarily depend on them to provide US farmers with a profitable price.

Economists talk about market failure in agricultural markets. From our perspective these markets work in much the same way as they have since the advent of settled agriculture. Moses developed a supply management program for pharaoh. The Chinese have had one form or another of a supply management program for over 2 thousand years. Ancient empires managed crop supplies to make sure they could feed their people.

The failure is not in agricultural markets. The failure is in the theoretical constructs that we use to analyze agricultural markets and design appropriate policies.

As much as ever farmers and consumers, both taxpayers, need market-oriented agricultural policies, that is policies that account for the way agriculture markets really work. In our minds, supply management policies are the epitome of market-oriented policies.

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