APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Dr. Daryll E. Ray

On accelerating without brakes

In the period leading up to the adoption of the 1996 Farm Bill, farmers welcomed the voices of those who told them that there was no longer a need for supply management programs. In fact many argued that competing in the export market while maintaining acreage production controls was akin to entering a boxing ring with one hand tied behind your back.

The byword was, "If we don't produce it, someone else will." This was based on the belief that acreage reduction programs in the US had provided an incentive for farmers in other countries to increase their acreage. The clear expectation was that the full use of US crop production capacity would force farmers in other countries to reduce their acreage or at least slow down the rate of expansion.

And so when farm group leaders argued that unleashing the productive capacity of US agriculture would result in an era of export-driven prosperity, that was a message that many producers wanted to hear. They welcomed and affirmed the message that it was inefficient not to produce at full capacity.

The message of the efficiency of the full use of the productive capacity of crop agriculture was promoted by agribusiness firms from local tractor dealerships, to farm chemical dealers, to multinational seed companies, to the processors and merchandisers of farm commodities, all of whose profits increase with increased agricultural production. For these firms, reduced acreage meant fewer machinery repairs, less farm chemicals needed, fewer bags of seed sold, and higher input prices for the processors and merchandisers.

What do you think would happen if John Deere decided that it was an inefficient use of their resources to operate at less than full capacity? Imagine them running their plants 24 hours a day, seven days a week, 365 days a year! Soon their dealers' lots would be so full that they would have to offer equipment at fire sale prices just to clear out the excess inventory.

Well, that is what happened to crop agriculture two years after the adoption of the 1996 Farm Bill. With that legislation we pushed the production throttle forward, took our foot off the brake, and it wasn't long before supply exceeded effective demand and prices plummeted, driving farm payments through the roof.

How long do you think the John Deere stockholders would tolerate a management team that believed in full-out production 24/7, 365 days a year? You can be assured they would dump a management team that opted for full-out production in the blink of any eye.

We doubt stockholders would go for the argument that it is inefficient not to use all of John Deere's productive resources all of the time. In fact, John Deere has moved in the other direction by tightening up its production schedule to keep it in "closer alignment with retail-order patterns."

Granted, nobody likes set-aside. In the short-run, we may not even need set-aside to sop-up excess capacity in agriculture. Given the explosive demand for ethanol and other biofuels, it is highly possible that during the next few years the increased demand for energy feedstock will use agriculture's capacity and generate crop prices that cover production costs. This, of course, is ideal.

During the last five years or so, we have been among those touting the marriage of energy and agricultural policy as a means of absorbing excess productive capacity in agriculture. And, in that way, this increased demand reduces or eliminates the need for set-asides to help agriculture self-correct during times of over production.

But it is wise to remember that we have been down this stretch of track a time or two before—in those cases the mantra was "exports forever"—and the results were less than spectacular, disappointing even. If history is a guide, a sure way to crash agriculture is to provide it with an accelerator but no brake.

If the demand is as great as many expect it to be there will be no need to pull back on the throttle and use the brake, but it is safer to have the ability—just in case.

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