

PolicyPennings by Dr. Daryll E. Ray

Johanns' "60 percent of farmers do not receive payments"—A case of correct answer to the wrong question?

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In that column, we took exception to one of the implicit assumptions behind the statement: the purpose of farm programs is to simply disburse money to farmers and thus it is only right that all farmers get their fair share. As we see it, the original purpose of the farm program, as explained by the 11th Secretary of Agriculture, Henry A. Wallace, was to provide policy mechanisms to manage the set of problems caused by the lack of price responsiveness on both the supply and demand sides for aggregate crop agriculture.

We also noted that, using this criteria, many of the current policy mechanisms are ill-designed and fail to account for the lack of timely market correction in response to low prices. Current programs do not provide the supply management functions played out by the market in the manufacturing and marketing sectors of the economy.

As promised last week, we now want to talk about the rest of the story. While we don't disagree with Johanns' assertion that "60 percent of all farmers do not receive a program payment," Like with so many things, we really do need to consider the rest of the story.

The implication of the "60 percent" statement is that only those farmers that receive payments benefit from farm programs. As reasonable as that may sound, it's not true.

For example, program-crop farmers receiving direct payments are prohibited from using that cropland to grow specialty crops like vegetables, fruits, and tree nuts.

This and other farm policy issues were discussed recently in Jim Wiesemeyer's copyrighted column "Inside Washington Today," available by subscription on AgWeb.com (www.agweb.com/news_printer.asp?articleID=131506). The article was titled, "Farm policy analyst peels the layers of farm program support." An unidentified veteran farm policy analyst, whose quotes comprised Wiesemeyer's column for the day, cited Congressional testimony by Jim Wysocki of the Specialty Crops Farm Bill Alliance.

In his testimony, Wysocki said specialty crop producers would sustain annual losses in excess of \$3 billion if the current planting restriction were to be removed. The AgWeb article noted this amounts "to about 21 percent of the direct costs of Title I in FY2005."

One can quibble about the amount of specialty crop farmers financially gain from the no-switch rule, but it seems undeniable that specialty crop farmers indeed do benefit from farm programs.

An even larger group of farmers that receive benefits from current farm programs, but not payments, are livestock and poultry producers. Yes, grain and oil

seed farmers are the ones that receive government payments to offset "low" grain prices. But livestock and poultry farmers then buy the grain and oil meal at the subsidized prices, which often are well below the full costs to produce the grain and oil seeds.

We think it is clear that livestock and poultry farmers benefit from current commodity programs but, for those you who remain in doubt, let's think about the subsidization issue from a greater "emotional distance." In years past, when we heard of bread being sold in a far-off country for a fraction of what it cost to produce the bread, which of us would not think that the buyers of bread were being subsidized?

Also, the 2002 Farm Bill contains 9 other titles in addition to Title I that authorizes commodity programs including program payments. These other 9 titles contain provisions that either benefit all farmers or have carve-outs that benefit specific crops.

The AgWeb article indicated that "under the conservation title, 60% of all funds under the approximately \$1 billion per year Environmental Quality Incentives program (EQIP) is dedicated by law to livestock producers."

The AgWeb article also points out, "fruits and vegetables received about 40% of all Market Access Funds (MAP) funding in FY2004." In addition, specialty crop producers have been frequent recipients of USDA grants.

Furthermore AgWeb author writes, Animal Plant Health Inspection Service (APHIS) activities for disease and pest control, including the eradication program for fruit flies, citrus canker, the glassy-winged sharpshooter, and the emerald ash borer have also proven especially important to specialty crops. So too are Marketing Orders, Research and Promotion Programs, the Quality Samples Program, Grading and Quality Certification Programs, the Federal State Marketing Improvement Program, Market News, and the National Organic Program."

While specialty crops are ineligible for program payments, they do benefit from USDA purchases for nutrition programs. The AgWeb article quotes from a Congressional research Service report, "USDA directly purchases and then donates a variety of non-price support commodities, including fruit, vegetable, and tree nut products, for consumption through domestic nutrition and food assistance programs. These purchases and donations...[help] to balance supply and demand for various commodities."

As a result, the AgWeb article noted, "in FY2001, close to \$7 billion from all its domestic programs supported consumption of fruits and vegetables by children and low-income individuals and families."

We, of course, do not disparage the benefits that specialty crop and livestock producers receive from various USDA programs. Rather, we think it is important to point out that, from our perspective, Johanns' "60 percent do not receive payments" statement is an example of a correct answer to the wrong question.

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