Should agricultural policy address short-term problems or long-term problems?

As we have pointed out, the Average Crop Revenue (ACR) program does not do well if crop prices drop below the cost of production for an extended period of time. A three year average of low prices is a low price.

Where the ACR offers more protection than the current program is in the situation where the cost of production rises above the target price and the market experiences a one year price drop between the target price and the cost of production. Under the current program, the farmer would get nothing because the market price is above the target price, even though the producer is not receiving the cost of production.

The ACR, however would guarantee the producer an income equal to the average of the previous three-year's revenue, based on state-level data. The ACR does a good job of protecting producers against one year market down-turns.

In small town farming communities, one of the comments often heard on the lips of business owners, who are scratching hard to make a living, goes something like this, "I don't receive a check from the government when I have a bad year and lose money, why does the government pass out checks to farmers when they have a bad year?"

Should the goal of farm programs be to protect farmers against one-year price-income problems? If we do that for farmers, then why wouldn't we do that for Main Street businesses as well? We can't count the number of times we have been asked that question.

And there is an answer to that question. Farm programs did not originate as the result of and should not be designed in response to occasional single-year revenue shortfalls. One-year problems happen to most businesses and they are expected to reorganize and manage their way out of the problem or shutter the doors.

The rationale for farm programs is the understanding that the real problem for farmers is not a one-year down-turn. They can survive that like any other business by drawing on reserves, tightening their belts, purchasing insurance products and sharpening their management practices. They do that all the time.

The real economic problem that farmers face is extended periods of time in which prices remain extremely low because the technologically driven growth in supply outruns the growth in demand. Crop farmers face relatively long periods of low prices punctuated by short periods of high prices that result from temporary spurts in demand or short-falls in crop yields.

Farm policy was developed to deal with market failure—low prices do not cause consumers to increase their consumption of food. Neither do they cause crop farmers to plant less. As a result, the timely market adjustment of economics textbooks does not restore profitability to the crop sector in a timely manner.

As early as the first century B.C., the Chinese leader Li K'o recognized this problem and developed a government-held granary to provide fair prices to farmers in years of abundant production and make grain available to consumers in years of crop failure. Li K'o recognized that public policy needs to provide a mechanism that would balance supply and demand in a way that benefited both farmers and consumers. The Chinese have continued to use this system in various forms to this day.

Perhaps the 2007 Farm Bill could benefit from some of the concepts and farm policy rationale that have worked for the Chinese for over 2007 years.

Over time, it seems we have traded policies that addressed agriculture's very real economic market structure problems with a smorgasbord of money delivery devices with no theoretical rationale.

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