PolicyPennings by Dr. Daryll E. Ray

Commodity policy at a crossroad

Secretary of Agriculture Tom Vilsack wants to ship a portion of the money promised to farmers in the 2008 farm bill to child nutrition programs. Pitting identified farmers with gross sales over $500,000 against children participating in nutrition programs puts farmers at a definite public relations disadvantage. No one is against feeding children, least of all food producers.

The mere positing of such a "choice" suggests that agricultural policy is quickly approaching a crossroad-a crossroad that agricultural commodity policy has been moving toward for a couple of decades.

Navigation of agricultural policy's crossroad may be as significant for agriculture as the policy decisions to address the current financial crisis is for the economy as a whole.

In the case of policy for program crops, the crossroad decision is: Will agricultural policy toward commercial, program-crop agriculture continue its recent focus on transfer payments, many of which are politically tricky to defend. Or will agricultural policy be reformed to moderate extreme variations in crop prices and free farmers' from reliance on politically uncertain payments.

In some ways, the recent journey toward agriculture's crossroad parallels the happenings that led to the financial crisis.

For example, some would say that the minimal market-regulation mindset behind the policies that brought the financial sector-and the rest of the economy-to its knees is similar to the thinking behind the trend of recent decades in agricultural policy.

So how did agriculture arrive at the embarrassing position of having to justify payments that otherwise could go to benefit children?

The direct payments of which Vilsack wants to confiscate a portion were a 1996 farm program bribe to farmers to accept the elimination of a floor price on agricultural production and an attempt to help bring US farm programs into compliance with World Trade Organization (WTO) policy goals.

It has been argued that payments that are decoupled from price and production allow farmers to respond to price signals and production increases among the world's lowest-cost producers and decreases among the world's highest-cost producers of any given commodity or substitute, thus not distorting world trade.

Direct payments are an example of decoupled payments because they are the same whether prices are high or low. In times of very low prices direct payments are inadequate and in times of high prices, they are unnecessary.

While they may be compliant with WTO policies, they make no sense to the bulk of the American public when farmers are receiving record net profits from farming operations, as was the case for crop farmers last year. Understandably, the political environment has become ripe this year for advocating the choice between helping hungry children or "rich" farmers.

In the belief that expanded world trade operating in an unfettered free market would bring prosperity to agricultural markets, the 1996 legislation had US farmers give up a system that forced the users of agricultural commodities to bear the bulk of the cost of producing those commodities.

A set of policies was put in its place that for long periods of time allow the users to purchase agricultural commodities at prices well below their cost of production.

To make the these farm policies "work," Congress had to backfill farm income with massive marketing loan and emergency payments when prices went into a multi-year trough at the turn of the millennium.

A price spike that created chaos for groups as diverse as livestock producers and the world's poor punctuated the most recent extended period of low prices.

Under the guise of encouraging farmers to engage in risk management strategies, Congress has shoveled tons of money to farm insurance companies in order to entice them to offer policies that are otherwise guaranteed to be a dead loss-bluntly put, they wouldn't offer them without government subsidies.

With the 2008 Farm Bill we now have the ACRE program which is tied to both price and production. If prices continue to fall like they have in the last six months, next year's ACRE payments could exceed the tens of billions of dollars of emergency payments and LDPs (Loan Deficiency Payments) paid out in the late 1990s. But with several years of low prices, ACRE could provide little to no protection.

Sooner or later we need to get back to the purpose of agricultural programs.

In the public eye-the exclusive use of transfer payments to farmers with no price stabilization benefits for either producers or consumers-the "rich farmers" of 2009 become the "welfare queens" of the 1990s.

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To us, this demeaning and erroneous characterization-no matter how expressed-is the result of turning responsible farm policy on its head.

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