

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Current farm programs deserve criticism—they violate original farm policy intent

We have seen it coming. We have even written about it in this column. But, it was still a shock to read it in the New York Times, <http://www.nytimes.com/2011/05/07/us/politics/07farm.html?scp=1&sq=Farm%20subsidies&st=cse>: “federal farm subsidies, long decried by policy makers as wasteful and antiquated but protected by powerful political interests, appear to be in serious danger.” That is, going beyond eliminating specific excesses in farm programs during “these good times” to permanently eliminating farm programs in total.

In the article, “Farm Subsidies Become Targets Amid Spending Cuts,” reporter Jennifer Steinhauer writes, “A confluence of factors have lined up against the farm programs. While the rest of the economy remains largely stagnant, commodities prices and farm incomes have remained at a protracted high. The House Agriculture Committee, while still dominated by farm state members, is now peppered with freshmen who view cuts to these programs as an essential part of the broader attack on the federal deficit, the centerpiece of their campaigns” to reduce the size of the federal government. And farm programs are an easy place to start.

As Steinhauer reports, “after taking a beating from constituents concerning their Medicare proposal last month, Republicans are eager to find an area of common ground with Democrats. Farm subsidies seem to fit the bill; conservatives condemn them as intrusions into the free market, liberals denounce them for encouraging environmentally harmful overfarming, and both sides see them as a form of corporate welfare.”

What frustrates us in all of this is the lack of understanding of why we have farm programs in the first place. And yet we are equally frustrated with the current set of programs that so clearly invite and deserve criticism. The nature of food and agriculture requires safety-net-based programs that work in concert with markets, not accentuate market excesses. But sending direct payments to farmers in periods of extremely high prices do accentuate market excesses. Using public funds to subsidize insurance policies to guarantee farmers’ prices that are well above the cost of production do accentuate market excesses. These and other criticisms should be expected but the danger is to “throw out the baby with the bath water.”

Farm programs have been pushed away from their original intent to provide some pressure to improve the balance between supply and demand in order to

protect both farmers and consumers. Have farmers participated in moving policy away from the original intent of farm programs by milking the program as opportunities arose? The answer is clearly yes.

But a large share of the “milk” ends up in the pails of other participants. For example, a good chunk of the \$16 billion that is projected to be spent on farm subsidies this year are subsidies to the insurance companies that allow them to offer actuarially unsound policies that they could not afford to offer in the absence of these big subsidies. The subsidies provide a ready source of profit for the companies and their agents. If today’s direct payments are shifted to insurance products, as some are recommending, insurance companies may be in the market for a larger pail.

Multinational seed, chemical, and equipment companies are also part of the story. The more acres that are planted the more seed, chemicals, equipment, and machinery parts they can sell. Beginning with the 1996 Farm Bill they made sure that programs that allowed farm ground and built up grain supplies in periods of plenty were made ineffective. Agribusinesses could not make money on fields that were not under full production. So, they too have been at the farm-program-milking parlor, leaving the federal government to pick up the costs when prices plummeted between 1998 and 2001.

All of this took place because policy makers, farmers, and agricultural sector businesses forgot why we had farm programs—or they never believed in them in the first place.

As Steingraber notes, “conservatives condemn [farm programs] as intrusions into the free market.” Certainly, if one’s understanding of economics is limited to what is taught in many introductory courses, they seem to be right. But, when economists are introducing the concept of the market, they are using a reduced form that ignores the differences in various markets and identifies what is common among them. They are talking about markets in general and not any particular market.

As French economist Bertrand Munier has said, “There is not one single market, there are many markets.” And, each market has its own characteristics.

In order for stock markets to work well and to instill confidence in investors, exchanges and gov-

Cont. on p. 2

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Environmental regulators shape the markets with a set of regulations that allow the markets to function with efficiency. They work to promote transparency, so purchasers of a given stock are not buying a pig in a poke, but can find a lot of information about that particular company. The purchasers are assured that company insiders are not allowed to trade on information that they have that has not yet been made public. There are rules to allow stockholders know when any one entity begins to own more than a small portion of the company.

As we have seen with mortgage markets, there have traditionally been regulations that have allowed the markets to function with a great degree of efficiency and safety for both the lender and the mortgagee. And, when those rules were bent, as they were in the middle of the last decade, the market collapsed and almost took the economy with it. Millions of people remain unemployed as a result of the bending of the rules in the mortgage industry.

As in each of these cases, the role of policy for food and agriculture is to allow economic activity in the sector to work in the interest of society as a whole. Food is a daily requirement. Farming has its own distinct characteristics and needs its own set of rules that work with markets in a way that promotes the financial survival of cost-efficient farmers while protecting consumers from high prices and the risk of hunger.

We believe that this rationale for farm policy makes sense and more than justifies its continuation. But we also believe that the current incarnation of farm programs is in dire need of modification to better align them with their original intent and purpose.

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