APAC Agricultural Policy Analysis Center

The University of Tennessee UT

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Familiar refrain: “Things are different this time”

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In the previous column we said we would follow through on our assertion that “when it comes to the cost of farm programs there is often an inverse relationship between the minimal role some want the government to play [in the economy] and the eventual cost of the programs they advocate.” We made that comment not to impugn the integrity of those who advocate for policies that are different from the ones that make sense to us. Rather, it was a conclusion borne out of years of observation.

Despite protestations to the contrary, most policy advocacy involves some degree of entrepreneurial rent seeking: the quest for government benefits by a group simply because they have the political power to make that happen. Depending upon one’s perspective—and there are always differing perspectives in these matters—the Copyright Term Extension Act of 1998 (CTEA) can be seen a prime example of entrepreneurial rent seeking behavior.

With the earliest Mickey Mouse movies (beginning with Steamboat Willie, produced in 1928) nearing the end of the term of their copyright protection for a work of corporate authorship, The Walt Disney Company, among other copyright holders, lobbied for a longer copyright than the 75 years provided in the Copyright Act of 1976; prior legislation only provided for 56 years. With the passage of CETA, Disney’s copyright of their cartoon films does not expire before 2023 (95 years). It must be noted that the image of Mickey Mouse is a Trademark of The Walt Disney Company and remains in effect as long as it is used commercially by Disney.

The Oil Depletion Allowance, which allows the owners of mineral deposits and standing timber to depreciate their interest in the resource against income derived from that resource, is another example of the result of entrepreneurial rent seeking. This is similar to a farmer offsetting an annual depreciation of the cost of the equipment used in their farming operation against the income derived. But unlike with the Oil Depletion Allowance, the farmer cannot depreciate a portion of the cost of the land.

During every legislative session, legislators are faced with proposed legislation that would provide a private financial benefit for one economic interest or other—agriculture is not immune to this—under the guise of serving the public interest, even if it actually imposes a significant cost on the public.

Our argument that cost of the agricultural policies sought by those who advocate for a smaller role of government in the economy is often larger than would otherwise be necessary is not necessarily an accusation of entrepreneurial rent seeking on their behalf—although like much lobbying an element of rent seeking is certainly involved.

Rather we argue that the cost of their proposed legislation coming in higher than projected and more costly than alternate policies is the result of their refusal to take the nature of the agricultural sector into account in the design of their proposed policies. The clearest example of this is the time Daryll was making a presentation about the nature of agricultural production and as he sat down a colleague leaned over to him and said, I don’t disagree with your analysis of the problem. I just don’t like its policy implications.”

In this series of columns, in which we have laid out the intellectual model we use in our analysis of agricultural policy, we have discussed the low price responsiveness on both the supply and demand side of the agricultural commodity market. Recently we have talked about the concept of low price responsiveness of the sum of major-crop acreage during calls from reporters asking us why farmers are planning on planting more corn this spring than last, when the price per bushel does not cover the cost of production.

Despite the current set of policies based, in part, on the belief that price of corn was on an “above $4.00 a bushel plateau,” farmers are now faced with prices that do not cover the full cost of production. The current set of policies will result in serious economic dislocation if prices remain low for an extended period of time, because they were not designed with the expectation that low prices would be a problem farmers faced during the life of the current farm bill.

With reasonable planting weather this spring followed by average growing weather this summer, farmers may be in a situation like the one they faced in 1998 when prices plunged from their highs, which happened to coincide with the time period in which the 1996 Farm Bill was enacted. Like the current farm bill, the 1996 legislation was designed with the belief that prices below the cost of production were a thing of the past and/or farmers would readjust production levels if low prices did occur.

From our perspective, the agricultural policy proposals coming from advocates of a minimal-to-no role for government in the economy ignore the old adage: “An ounce of prevention is worth a pound of cure.” We get the same high-cost results every time because they believe that no prevention is necessary because “things are different now.”

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