A Funny Thing Happened on the Way . . .

By Daryll E. Ray

With Freedom to Farm, the miracle of 'free markets' is supposed to make agriculture an export powerhouse, so prosperous that subsidies will subside and the dreaded acreage set asides and stock programs will remain permanently, well, set aside.

But a funny thing happened on the way to the market… We ploughed into a major cost overrun. More money—over $25 billion more—has been spent in the last four years for farm programs than the $43.6 billion that was budgeted for the full seven years of the 1996 legislation.

In the fiscal year ending September 30, 2000, net government outlays for agricultural commodities and programs will be largest in the history of agriculture, a staggering $32.3 billion. That payment amount includes payments that overlap crop years. For example, the recently approved $5.4 billion aid package for the crop to be harvested this fall is included. But, the fact remains that grain, soybean and cotton farmers are far more dependent on government payments now than before Freedom to Farm was passed.

So what is the problem? The problem is we are producing more grain, soybeans and cotton than be can sold at profitable prices.

If Ford Motor Company were operating like agriculture, it would run all its vehicle assembly plants at full capacity all the time—three shifts a day—while actively seeking technological advances to further expand output. It would continue to do this even though the price required to unload the large supply of cars would cover only a fraction of the full cost of producing a car. Then, rather than reducing output to meet demand at a profitable price, Ford's executives (Congress) would implore their stockholders (taxpayers) to fork over billions of dollars to compensate for the low prices they receive for the cars (grain).

Of course, Ford does not operate that way. It adjusts both short-term output and long-term capacity to meet market conditions and to meet price and profit targets. It intends to have more productive capacity than it usually needs and it has no qualms about leaving a portion of it idle on average.

And under no circumstances would Ford allow the price of their cars to approach the variable cost of producing a car, that is, the cost of the materials, labor and other expenses specifically required to produce a given vehicle. If Ford shows a loss for a quarter or year now and then, it is a loss after deducting the full cost of operating the company—executives and managers (we call them operators in agriculture) receive their full pay, for example.

Crop agriculture farmers, on the other hand, don't have the ability to influence their price and profits by adjusting industry output in the short-run or industry capacity in the long-run. Each farmer can only affect what happens on his or her own farm. No one major-crop farmer produces enough to calibrate industry output to demand and thus influence price. Prior to the 1996 Farm Bill, government provisions were in place that allowed the Secretary of Agriculture to restrict and moderate industry output and marketings.

Neil Harl, the well-known and highly-respected agricultural economist/lawyer at Iowa State University, likens this Secretarial function under previous legislation to being the CEO of agriculture, who could do for agriculture what agriculture could not do for itself. The new legislation stripped the Secretary of Agriculture of programs to influence crop output and marketings.

This lack of mechanisms to moderate agricultural output is only one of the elements that explains why agriculture did not perform as it was assumed it would under Freedom to Farm. There are many more: What happened to the export demand explosion scenario? Why don't lower prices cause demand to expand greatly and production to contract sufficiently so that the low price problem self-corrects?

These and other reasons why crop agriculture does not respond as expected will be discussed in this column. Some columns will make observations on the agricultural and political scene, others will present my two cents worth of opinion on a topic and still others will discuss analysis results from our policy center. Your comments and questions are always welcome.

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