

# Unintended consequences and the free rider problem plague farm program design

As farm policy has moved away from its roots in the Great Depression, we have observed what policy elements have worked well and which ones have created problems. As farm policy analysts, we view our task as one of building on those policy elements that have worked well and designing new elements that overcome the problems that exhibited themselves in the past.

First and foremost, the policies must take into account the economic characteristics of agricultural production (<https://tinyurl.com/y2be55xw>) because when these characteristics are ignored, farm program costs skyrocket.

From where we stand, the only policies that meet these criteria are those built on the supply management concept that sets a floor price for farm commodities and pays farmers to put land that would lead to chronic overproduction into uses that provide positive environmental services.

Our understanding of the nature of the economics of crop production led us to work with the National Farmers Union in 2011 to develop the Market Directed Inventory System (MDIS), which was built on supply management concepts, in preparation for the 2012 Farm Bill adoption process (<https://tinyurl.com/y8yqnv4z>). It took until early 2014 for Congress to produce a farm bill. As has been true since the 1996 Farm Bill, any farm bill proposal built on supply management concepts has had a difficult time gaining traction in Washington, DC and MDIS was no different in that respect.

In 2018, the Texas Farmers Union contracted with those of us at the Agricultural Policy Analysis Center to develop a supply management proposal (APAC/TFU) in preparation for the 2018 Farm Bill (<http://www.agpolicy.org/articles17.htm>, columns 890-897). Though we walked the halls of Congress talking about the cost and environmental benefits of our plan, in the end we could not get a sponsor for our legislative proposal and Congress doubled down on the weaknesses of the 2014 Farm Bill to develop the 2018 Farm Bill.

This year the large field of candidates for the Democratic nomination for President has opened up space for supply management policies which have been supported by both Bernie Sanders and Elizabeth Warren. That has given us the opportunity to go to the next step and ask ourselves, “What could go wrong if Congress and the President adopted a supply-management-based farm program in 2022?”

The chronic problem faced by agricultural commodity producers is overproduction as the result of the low price-elasticity of supply; farmers continue to produce crops even in the face of long periods of low prices. Supply management programs attempt to solve this problem by taking acres out of production. If the loan rate is set near the cost of production, the government would need to provide an incentive for farmers to take some of their land out of production.

Under the APAC/TFU proposal the USDA would establish a process for farmers to bid acreage into an environmental reserve. To draw the necessary number of acres into the reserve, the accepted bid prices would have to provide farmers with nearly the same profit per acre for providing the public with environmental services that they are able to earn growing a crop.

We also assume that farmers are going to look at any set of policies—current policies, the supply management policies we are talking about, or any other policy configuration—and figure out how to maximize their profit (minimize their losses in the current environment). Those who

do not offer acres are essentially free riders, enjoying the higher prices supported by the work of others.

With loan rates near the cost of production and no payments coming from the federal government, what policies need to be instituted to prevent farmers from bringing additional land into production and driving CCC stocks to unmanageable levels? For those being paid to take land out of production, restrictions on bringing additional land into production can be written into the contract.

But what about the free riders—those who enjoy the higher prices without making any sacrifices? How can they be prevented from opening up new acres? For many in core production areas, the APAC/TFU proposal to use federal crop insurance for yield losses only would result in many dropping out of the crop insurance program, so that is not a viable option. Without contracts to receive subsidized insurance or program payments what mechanism would have to be developed to prevent the addition of new acreage to the planted area?

We need to solve that problem before the 2022 Farm Bill. How do we hold farmers responsible for the externalities they create with their production practices, which includes not only farm chemicals, but also the opening up of additional crop acres?

At the same time, the possibility of opening up additional acres is not the only potential driver of production levels that exceed current consumer demand; ever increasing yields will be an issue for the foreseeable future. Even with acreage reduction programs in place, yield increases will contribute to overproduction.

Do we then take more acres out of production? Do we allow farmers with environmental reserve land to use a rotational grazing program to meet the demand for grass-fed beef?

If a farmer institutes a traditional crop rotation program with a fallow period, do we count that fallow period as part of a rotating environmental reserve?

Policy making is complicated and even with the current set of farm programs policy makers must deal with the unintended consequences of the policies they enact or support. As we work to develop a meaningful supply management program, we believe we ought to wrestle with the potential unintended consequences of our proposals.

*Policy Pennings Column 997*

*Originally published in MidAmerica Farmer Grower, Vol. 37, No. 243, October 11, 2019*

*Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.*

*Email: [hdschaffer@utk.edu](mailto:hdschaffer@utk.edu) and [dray@utk.edu](mailto:dray@utk.edu); <http://www.agpolicy.org>.*

Reproduction Permission Granted with:

- 1) Full attribution to Harwood D. Schaffer and Daryll E. Ray, Agricultural Policy Analysis Center, Knoxville, TN;
- 2) An email sent to [hdschaffer@utk.edu](mailto:hdschaffer@utk.edu) indicating how often you intend on running the column