

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Defensible farm policy: Help protect farm incomes during the bad times

Looking toward the 2013 Farm Bill and beyond, we have used the two previous columns to examine two elements of a defensible farm policy: environmental sustainability and human physical sustainability. In this column we turn our focus to the issue of the economic sustainability of the farming sector.

If the farming sector were subject to the same conditions and financial challenges as the typical Main Street business or industrial firm, there would be little or no reason for something called farm policy and the need to talk about the economic sustainability of the farming sector. The needs of farmers could be met through a more generalized set of business and industrial policies.

In fact in the mid-90s there were those who believed that with the advent of modern agricultural practices there was little need for future farm legislation and so when they passed the Federal Agriculture Improvement and Reform Act of 1996, they expected that it would be the last farm bill. Shortly after the legislation was signed into law, crop prices took a downward turn and two years later Congress had to intervene with Emergency Payments to keep the US crop sector from collapsing.

Needless to say, it was not the farm-bill-to-end-all-farm-bills and for good reason. There are a number of characteristics that distinguish the agricultural sector from other economic sectors.

Society as a whole has a vested interest in the agricultural sector because its product—food—is necessary for human life and must be supplied in a timely matter. While we can live through an extended disruption in the supply of most products, the same is not true of food. We need it on a daily basis.

This alone would not be much of an issue if it were not for floods, droughts, and diseases. As we saw last summer in the US, a widespread drought can have a devastating effect on both crop and livestock production, resulting in tight supplies and high prices.

In addition to biological issues, crop production is subject to a different set of economic constraints than most other sectors. Food consumption does not react to economic signals in the same way as other products. When prices increase, most people in highly developed countries such as the US cut back very little on the total amount of food they consume. They may buy less expensive food products, but the total calories consumed responds very little to a large change in price. Similarly when prices are very low, people do not increase their consumption enough to eliminate the surplus food in the market, though they may buy

a better cut of meat.

Similarly, from one production period to the next farmers tend to produce on all of their acres whether prices are high or low. With high fixed costs, it is in the economic interest of farmers to produce a crop as long as the expected crop price is above the variable cost of production. In addition, given the risk of crop failure somewhere else, no farmer wants to take land out of production and miss what could be once-in-a-lifetime prices.

Farm policy was instituted to address this lack of price responsiveness on the part of both farmers and consumers for a product that is essential for human life. To provide for a stable supply of food for consumers we need an economically stable agricultural sector. And farm policy needs to be designed to meet both of these goals.

Farmers can experience an economic loss due either to a crop failure, like the one we saw last summer when a widespread drought scorched millions of acres, or low prices like the ones we saw from 1998-2001. A defensible farm policy should protect farmers against actual losses in both of these cases. Where we get into trouble is when we have a policy that provides payments to farmers who have no actual losses and then fails to provide protection when prices are well below the cost of production.

By providing farmers with protection against actual losses, farm policy provides farmers with the financial stability they need to obtain financing and make investments in their farming operation.

Since the adoption of the Morrill Act of 1862—and subsequent expansions—which established a set of Land Grant institutions of higher education, making public research available to farmers has been an essential part of farm policy. In a time in which budgets are tight, a defensible farm policy would direct research dollars toward meeting the needs of those who do not have alternate sources of reliable information.

Despite the increase in farm size that we have seen over the last half century, we still have about 2 million farms. At the other end of the food spectrum we have over 315 million people in the US who depend on the production of those farms. In between the two we have an agribusiness sector in which a handful of firms often controls a significant portion of various essential activities like grain marketing, livestock slaughter, and grocery retailing. A defensible farm policy needs to ensure a balance of economic power between producers and consumers on the one hand and the marketers,

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processors, and retailers on the other.

In ensuring economic sustainability, a defensible farm policy provides farmers with the opportunity to wrestle a livelihood from the land. It should not guarantee them success, nor should it stack the deck the other way.

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