Five gallons of water and the Atlantic Ocean

This week has produced a flurry of press releases and newspaper articles chronicling and commenting on the passage of the new farm bill. Some of the articles are supportive of one or more portions of the farm bill while others are suggesting that it is the worst piece of legislation to come down the pike in a long time. The following three quotes capture a theme that is common to most of these articles. "The bill marks a reversal of the market oriented policy of the 1996 Freedom to Farm law that was supposed to wean farmers from government subsidies." (Brasher AP) "In the coming years most economists expect farm spending to rise substantially because the legislation encourages over-planting and overproduction which will lead to a glut of products on the market and are certain to drive prices down." (Taxpayers for Common Sense) "With farmers guaranteed a return under the Bill on anything they produce, no matter what happens to prices, the US is heading into another inevitable production glut." (The Irish Times)

Aside from the payment distribution issue, the principle complaint of most media critics is that the bill will increase production of major crops. Yes, that's the problem, they argue. They continue by asserting that the relatively minuscule adjustments in loan rates and the replacement of "emergency payments" with a target-price-like program will force prices and market incomes to unacceptably low levels under the new bill. Isn't that something like predicting that the addition of five-gallons of water to the Atlantic Ocean will cause devastating floods?

The converse of that production-enhancement criticism must be that without the loan rate, fixed payment and target price changes in the new farm bill to adversely affect production, the resulting crop-agriculture prices and incomes would be just fine. Again, caught by the "what ought to happen" trap (following up on last week's article). Those familiar with agriculture know that crop agriculture just does not respond so suitably.

That is not to say, of course, that government payments or change in government payments have absolutely no production effects. Compared to no or lower payments, capital constraints are less confining which could affect use of variable inputs. And there must be farmers somewhere who will convert land here-to-fore not used to produce crops to cropland.

But the preceding caveat aside, we should not delude ourselves into thinking that total cropland planted acreage will be demonstrably affected if we tinker with this or that government payment device. Existing farmers will continue to farm if at all possible. If a farmer goes broke, the next owner/renter takes it over. Total acreage remains relatively constant no matter what. Of course, the level of price-compensating government payments does impact on other things such as: the level and composition of crop farmers' gross and net income, the level of land values, who farms a given piece of land, the cost of livestock feed, outlays of grain importers and the volume and profit levels of agribusinesses.

It is understandable that editorial writers steeped in the workings of the nonagricultural economies, might imply that changes in loan rates/payments of the new farm bill will significantly affect the combined total of major crop production. But many of us directly or indirectly involved in agriculture know that production response in crop agriculture is just not that simple.

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