APAC Agricultural Policy Analysis Center
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PolicyPennings by Dr. Daryll E. Ray

Yes, Nicholas, it is a market problem!

Do you remember the Pace Picante Sauce commercial where the grizzled old chuck wagon cook hands a jar of salsa to some cowboys gathered around the campfire? One cowboy grabs the jar, reads the label, and exclaims, "Made in New York City!?" We must admit that is our general reaction to *New York Times* editorials on agricultural issues.

Unfortunately, the December 25, 2005 *New York Times* Op-Ed column by Nicholas Kristof, "A gift to the world, and ourselves," generated our usual reaction even if it carried an Altus, Oklahoma byline. Kristof's argument was that the US ought to make "a firm commitment to cut farm subsidies sharply, above all for cotton."

While we don't agree with his conclusions or even the analysis he presents, we do agree with his assertion that the present farm program's subsidies have caused commodity prices to be low for farmers in Africa as well as the US. We also agree with his concluding line, "the existing system has failed, and it's time to rely on the market."

In that statement, Kristof seemingly agrees with our long held understanding that the price/income squeeze that crop farmers in both Africa and the US face is indeed a market-related problem. The problem is that he does not address the root problem – the lack of price-responsiveness on the part of aggregate crop agriculture.

Let us look at the lack of price-responsiveness on the part of farmers, and of the cotton farmers of whom Kristof speaks. While automakers can slow down or stop the production of an unpopular model at any point in the year, cotton farmers in Africa, or anywhere else in the world (including the US) for that matter, cannot stop production in mid-cycle and quickly resume it when demand and higher prices return.

For farmers around the world, the production decision is made once a year: at planting time. From that point on, assuming good agronomic practices on the part of the producer, weather is the controlling factor in determining the final level of production. And given the uncertainty of production levels at home and abroad, farmers cannot afford not to plant. For, if there is a crop failure elsewhere that results in higher prices, the only way for a farmer to benefit is to have a crop to sell.

Thus farmers tend to plant all of their crop acres all of the time, without regard to price. They may change the mix of crops in response to price differentials so as to maximize net returns, but they can ill afford to let the land stand idle.

To the extent that cotton is currently more profitable than other crops, farmers would shift part of their acreage out of cotton the next production period - and its price would rise somewhat - with elimination of subsidies. But, as any farmer will tell you, land that is vacated from cotton production will be used for another crop. And the prices for those crops will decline. That is why it is futile and misleading to discuss farm policy one crop at a time.

It is the lack of price responsiveness of **TOTAL** crop acreage that lies at the heart of the kind of farm programs that we saw from the early 1930s until the adoption of the 1996 Farm Bill. They included provisions to allow the Secretary of Agriculture to make production decisions for program crops in the same way that an auto firm CEO makes production decisions for the various models the company produces. Often these programs worked by reducing acreage when demand lagged, establishing a price floor, and placing excess production in storage that was isolated from the marketplace until the price hit a pre-determined target.

The 1996 Farm Bill eliminated these three crucial policy elements and instead ended up throwing money at the problem instead of solving it. In fact, the policy was designed to drive crop prices downward in an attempt to force producers elsewhere in the world out of production. It succeeded with the first task, but not the second. For a given ending-year stock level, crop prices in the last eight years have been lower than at any time since 1973, with the exception of the PIK certificate years in 1985 and 1986.

And who are the beneficiaries of the low price policies of the 1996 Farm Bill? The cattle producers of whom Kristof speaks have benefited by being able to purchase feed at prices well below the cost of production, with US taxpayers picking up much of the difference in the form of payments to crop farmers.

Likewise, it is no wonder that agribusinesses have supported the legislation. On the supplier side they have been able to sell more seed and farm chemicals as the result of eliminating setasides. On the transportation and processing side they have had access to large supplies of raw commodities at fire sale prices.

More money is not the answer to a properly functioning US farm program. Rather, we need to design the policies in such as way as to allow the Secretary of Agriculture to function in the same manner as a company CEO who matches production to demand at a profitable price.

Once a set of policies that takes into account the nature of crop agriculture is put into place then we can begin to address Kristof's concerns for struggling farmers in the northern plains. One way to accomplish this would be to redirect some agricultural research money away from large-scale monocropping issues and toward the unique smaller-scale opportunities that could be explored for localized and specialized market opportunities.

Yes, Nicholas, there is a market problem and establishing a policy framework in which the market can work, allowing farmers to receive the bulk of their income from the marketplace and not the mailbox, is a worthy goal. The way to achieve that is not through the total elimination of farm programs, but rather tailoring the programs in such a way that they help manage the inherent market problems that crop agriculture faces.

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