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PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

So what is the role of commodity programs? Can they even be justified?

No matter what our area of daily activity, it is natural and even necessary that we myopically focus on the problems and issues of the day. But it is also important to step back once in a while to consider how the situations of today fits into a longer-term context.

Along that line, we are in the midst of a series of columns that goes beyond the agricultural issues and policy motivations of today, this month, this year or even the five years of a farm bill. Part of the reason for doing this is to remind us that—as natural as it is to think that they originated in the 1930s—agricultural policies have been part of this country before this country was declared a separate country.

As mentioned in an earlier column, for most of the history of the US the agricultural policies were developmental in nature (e.g. early land distribution; publicly-funded education, research, and extension; publicly-funded expansion of our transportation systems; publically funded credit institutions; etc., etc.). While these polices were generally aimed at agricultural inputs by increasing their supply, lowering their cost and/or increasing their quality, they ensured that consumers had plenty to eat.

Also, consumers have seen food take a smaller and smaller bite out of their paychecks over time. The lower food prices than would have been possible without those developmental policies explains part of the reduction in food expenditures as percent of income. Of course the fact that growth in per capital incomes in a developed country such as the US exceeds the growth in the need to buy additional food played a large role. But an important point is that, while farmers have generally been the target of these developmental policies, the major beneficiaries have been consumers.

Let us take a closer look at the economics behind the "farm bills" that began in the 1930s. As we have noted, one of the consequences of the myriad of developmental policies that we have put in place over the course of the last 400 years has been to typically increase the supply of agricultural products faster than demand with the result that the cost per unit of production has decreased dramatically, relative to the rest of the economy.

So when people argue that our farm policies should not interfere in the marketplace, the implication is that its only current policies that have intervened in agricultural markets. But of course that is not true. Developmental policies have long-shifted, and continue to shift, the agricultural supply curve to the right, thus intervening massively in agricultural markets. Viewed in longer-term context, commodity policies provide a means to compensate farmers for the consequences of public agricultural development policies that benefit consumers. But that gets us ahead of ourselves. Consider the following.

An Italian economist, Vilfredo Pareto (1848-1923) posited that from a utilitarian perspective, a public policy ought to be adopted only if it makes at least one person better off while making no one worse off. Developmental policy does not pass that test. For while it makes the large number of consumers much better off—we have had crop failures in the US but we have never had a famine—farmers have often seen the prices they receive fall well below their cost of production for repeated and extended periods of time.

Later economists have modified Pareto's principle to say that a public policy ought to be adopted if only it makes at least one person better off and the winner(s) can compensate the losers and all still be better off.

With developmental policy, we have opted for a policy of plenty that benefits the nation as a whole with an abundant and reliable supply of food, fulfilling one aspect of one side of the modification of Pareto's principle. To fulfil the other side we need to deal with the consequences of being able to produce more than we can consume in a given period of time.

As the Federal Farm Board found out prior to the Agricultural Adjustment Acts of the 1930s, a half a billion dollars was not enough to buy up and store all of the surplus crops that US farmers could produce. Without a limit on production, the Federal Farm Board ran out of money before it could raise prices to a profitable level.

Likewise, despite various calls for farmers to voluntarily reduce their production in order to increase prices, farmers continued to use all of their production capacity all of the time. While it is in the interest of all farmers for each farmer to reduce her production by a little bit in order to raise prices it is not in the interest of any individual farmer to reduce his production in the face of low prices and the need for every bit of production possible to pay the bills.

There is the apocryphal story of a meeting of all of the farmers in the country held in a mythically large football stadium to look at the logic of voluntary production controls and how it would benefit everyone. After the speeches, the organizers sent around pledge cards and all of the farmers signed them agreeing to reduce their production by a level that would return prices to a profitable level. Driving home each farmer

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turns to the spouse in the passenger seat and says, “Honey, if all those others are going reduce their acreage in order to raise prices, we ought to increase our production a little and enjoy the higher prices.”

Just because there is a theoretical justification for a set of policies does not mean that all policies that have been implemented or could be implemented within the set make sense.

But there are few points worth considering. One point is that government market interventions that benefit food consumers by providing an ample supply and reasonable priced food supplies have been the norm in this country.

A second point is that the geographical dispersion of thousands of crop producers, none of whom produce enough to influence market price, makes it virtually impossible for major-crop producers by themselves to keep production capacity at bay by only producing what will clear the market at prices that cover the cost of production.

Finally, even with the stubbles of farm legislation that seem to go beyond the “compensation principle,” there is a theoretical justification as well as pragmatic need to not periodically bankrupt even the most efficient crop producers, for well-designed commodity programs that help ensure a healthy and increasingly more efficient crop agriculture.

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