Aside from weather, does agriculture have unique aspects that put it at risk?

In its report, "Addressing Risk in Agriculture" (http://tinyurl.com/gv9vqyp), the Heritage Foundation repeatedly argues that there is no need for agricultural programs because "Farmers should have to deal with various risks connected to their businesses—just like other business owners. Yet, proponents of the status quo still seek to point to some unique aspects of agriculture that justify government intervention."

While not arguing for the status quo with regard to farm programs—the current design of farm programs has serious problems—we do count ourselves among those "point[ing] to some unique aspects of agriculture that justify government intervention."

In last week's column (http://tinyurl.com/h3chwo2), we showed that agricultural markets do not respond to changes in prices like other sectors. Neither the quantity supplied nor the quantity demanded change much even with large changes in price. Without robust adjustments on either the supply or demand side of the market, the result tends to be long periods of low prices punctuated by shorter periods of higher prices usually brought about by a shortfall in production linked to weather or disease.

But the difference does not end there. Most industries do not operate at full capacity all of the time. According to the Federal Reserve (http://tinyurl.com/zs6hosz), in 2015 total industrial utilization of capacity was 76.7 percent. Over the last 20 years, the utilization rate ranged from a high of 84.0 percent in 1997 to a low of 68.5 in 2009. Industrial planners want to maintain excess capacity so they have to ability to respond to peak demands as well as increases in demand.

If consumer demand drives an increase in the utilization rate, at some point, planners respond by increasing total capacity so as not to be caught unable to satisfy the increased demand for their goods. Similarly, if utilization drops over time, they shed capacity by idling or selling off excess resources to another firm or industry that can use those resources—land, buildings, equipment—more efficiently. Overall they aim to adjust total capacity to realize future potential while minimizing costs.

Rural and urban residents have seen this happen time and time again. A building that originally may have been built for a general mercantile store has often housed a restaurant, insurance agency, hardware store, and clothing store over a century of use. It may be torn down so the community can have a mini-park. Meanwhile the insurance agency may have built a new building more suited to its changing needs.

The same is not true for agriculture, particularly crop agriculture. Crop farmers tend to use all of their acres all of the time. Total planted acres remain remarkable stable over time. Farmers may change the mix of crops they grow, but they are unwilling to allow acres go unused. They typically will plant cropland to something.

In response to several years of higher crop prices, farmers are relatively quick to convert some of their pasture land to cropland as we saw during the last decade. The shift in the other direction does happen, but historically the change has been exceedingly slow.

When a farmer goes bankrupt or otherwise leaves the industry, the land does not. It is sold to another farmer and remains in production, often with higher yields.

Unlike the building that can be used by businesses in different economic sectors, when land on the edge of town is converted to a subdivision or paved over for a shopping mall or small

industrial plant, the change is virtually permanent. It would be very expensive to return it to agricultural production.

Buildings can be put up most anywhere, but agricultural cropland is where you find it and it tends to be used no matter what.

Policy Pennings Column 842

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 88, September 23, 2016

Harwood D. Schaffer is Research Assistant Professor, Retired; University of Tennessee; and Director of the Agricultural Policy Analysis Center (APAC). (865) 203-7848.
Daryll E. Ray is Professor Emeritus, University of Tennessee, and is the former Director of APAC.
Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.