

Are we prescribing policy without knowing the disease?

'Tis the season for farm and commodity organizations and others to present their proposals for the next farm bill. Half-a-dozen or so have already testified before the House Agriculture Committee. Over the next few weeks and months we will devote a column to each of the various proposals.

But are we pulling out the prescription pad before we have diagnosed the disease?

The symptoms of crop agriculture's malaise are evident to all—seriously depressed prices and market incomes. But it is important to know whether these problems are short-term aggravations or serious lifelong ailments. Are we talking about the Asian flu or emphysema?

If crop agriculture's devastatingly low prices and low market incomes are short-run problems, then emergency-like remedies seem appropriate.

If, on the other hand, crop agriculture's price and income problems are long-term and systemic, then emergency-like remedies are likely to be inadequate or inappropriate. It would be much like acknowledging that car insurance is an inadequate or inappropriate remedy for coping with problems caused by automobiles manufactured with faulty steering systems.

It seems less ominous to place blame on short-run events, especially those that are external to agriculture.

So it is common to see agriculture's problems explained by the Asian Crisis, trade sanctions on certain countries such as Cuba and Iraq, a general slowdown in economic growth, exchange rates, energy prices, interest rates, inflation, deflation and virtually any other disruption that comes along. Others would blame loan rate levels, emergency payments, crop insurance, etc., etc.

But the implication of these short-run explanations is that: once the—you-name-it-disruption—subsides or is remedied, agriculture will be just fine.

Accordingly, the attitude seems to be that if we can just get by this one fill-in-the-blank thing, crop prices and incomes will recover to prosperous levels. Interestingly, our experience over the years is that we are continually trying to identify the "current thing" to blame.

This all sounds very suspicious to me. Do disruptions only happen to crop agriculture? Of course not.

Disruptions occur in every industry.

So, what is different? The difference is that other industries self-adjust.

To my way of thinking, no decisions about the nature of the next farm bill should be made until there is a focus on and understanding of the ability of agricultural markets to make adjustments irrespective of the exact nature of any specific disruption. Other industries self-adjust. Why doesn't crop agriculture? To me, that is the real question.

The experience of the last four years provides the perfect opportunity to address the adjustment issue. For the first time in nearly seventy years, markets have been free to reveal the true supply and demand behavior of the U.S. crop markets.

From my vantage point as an agricultural economist and an active commodity policy analyst for over thirty years, the reason crop agriculture does not self-correct is because of its unique market structure.

Much of the uniqueness is rooted in two characteristics: (1) cropland WILL be used to grow crops and (2) food is essential for life but the quantity needed is finite. These and other supply and demand characteristics virtually assure that there will be little change in total crop acreage and little change in the quantity demanded as prices decline, even by 40 percent over a four-year period.

In other industries, it is the response of suppliers and demanders to changes in prices that causes the market self-correction. The contrasting lack of price response in agriculture screams chronically depressed prices and incomes. Thus, farm program prescriptions that presume crop price and income levels will be "okay on average" could be treating emphysema with a flu remedy.

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Figure 3. Net difference in world production and world domestic demand for the five crops—corn, cotton, rice, soybeans and wheat, 1981-1999. In the 1991-1995 period, world production of the five crops exceeded demand in only one year. Contrast that to the last four years when world production exceeded world domestic demand in three years.