

# Disconnection between agricultural production and consumption needs

A substantial lowering of prices have not reduced the total acreage of major crops. We were told it should work that way because government payments that are decoupled from production should not affect the farmers' decisions of what to plant or if he/she should plant anything at all. Since lower prices have not cleared away the overproduction problem, shouldn't we be looking for another solution? Do we really think that the production side of agriculture can remain disconnected from consumption needs over the long haul? Yes, agriculture virtually cannot adjust production on its own in a timely manner, but is there another way?

In the present political environment it is clear that it is unacceptable to talk about the one mechanism that would balance out production with demand. It is political suicide to mention the words, "production controls." But now that we have broken the taboo, let's talk about production controls and see if they are all that bad and if, as some allege, they cause more misallocation of economic resources than the current program.

Production controls are used all the time by businesses as they adjust their inventory levels to meet demand. When the CEO of General Motors sees that the company has too many pickup trucks sitting on dealers' lots, he cuts back the production of pickup trucks, laying off workers and/or cutting their hours, delaying or reducing orders for assembly components and even shutting down or shifting whole production lines. The decision to reduce production is made by GM's CEO without regard to the impact such action might have on workers and/or input suppliers.

There are two factors that make production decisions by GM effective. First, General Motors is large enough so that its decision can have an effect upon the market. A decision by GM to reduce the number of pickups produced has a significant effect on the total availability of pickups. The second factor is brand loyalty and market differentiation. There are customers who want to purchase a Jimmy and are not interested in a Dodge Dakota. Once the surplus of Jimmys on the lot has been reduced, GM can return to production knowing that a core of customers is still there.

With crop agriculture the situation is quite different. First the production decision of an individual farmer, who controls only a miniscule portion of the total grain market, has little impact on the total market. There is no economic gain for an individual farmer to reduce his/her production because it will have little impact upon the marketplace. Secondly, yellow #2 corn is a commodity. Unlike with pickups, there is little market differentiation from one producer's corn to another's. The decisions of an individual farmer has no measurable impact on the market and price. Instead the only option a farmer has is to engage in full-out production and hope that farmers somewhere else in the world have a weather induced crop failure.

The clearest way for crop agriculture to have the ben-

efits of production controls enjoyed by other industries is to vest the Secretary of Agriculture as the CEO of American Agriculture with that power. The CEO of Agriculture would be able to make a businesslike decision about production levels like her counterparts in other industries.

Much has been made about production controls bringing about a misallocation of economic resources. What does one call it when we are about the business of spending billions of dollars per year to keep prices low in order to attract ephemeral export growth? Exports have not responded so export customers import about the same quantity as before, but at lower, below-full-cost, prices. If modest, well implemented production controls could bring about an increase in farm level prices so export customers would pay the full cost, couldn't those federal dollars be used somewhere else?

As we have said before the real beneficiaries of the current and proposed massive federal farm payments, besides export customers, are the input suppliers, including rural bankers, on the one side and the merchandisers, processors, and livestock feeders on the other. With aggregate net farm income at reasonable levels, it is clear that the vast majority of commercial grain farmers are not reaping the rewards of the current farm policy regimen. When total government farm payments for a county or a state are say 130 percent of net farm income it is clear that someone else is benefiting from farm subsidies.

If lower prices under the current would have caused farmers to reduce acreage and major-crop production, farm input suppliers and processors would have adjusted to the reduced demand for inputs and for processing, transportation, storage, etc. Lower prices did not cause a significant reduction in major crop production so agribusinesses did not have to adjust to lower volumes. So, why do we now hear from many quarters that an equivalent reduction in major-crop production via set-asides or production controls is unacceptable because it would have negative effects on input suppliers and processors. I wonder how effective the suppliers of components for Dell computers would be if such an argument were presented to Michael Dell during times of slack computer demand?

If production and demand were as responsive to prices as they appear on graphs in textbooks, the market would self-correct on its own. There would not be a disconnect between production output and consumption needs. But when production and demand respond so little to lower prices, the output and consumption sides of the market have a disconnection-like quality. Other industries can and because of their structure do gauge production to match demand. Why shouldn't agriculture?

*Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of the UT's Agricultural Policy Analysis Center. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; <http://agpolicy.org>.*