

PolicyPennings by Dr. Daryll E. Ray

# Rural Development Policy Is Not A Substitute for Commodity Policy

A recent news item on NPR's Morning Edition featured the release of a policy report, "Reversing Rural America's Economic Decline: The Case for a National Balanced Growth Strategy," by the Progressive Policy Institute.

The report argues that "Fundamental structural changes in technology, markets, and organizations are redrawing our nation's economic map and leaving many rural areas behind. Yet our de-facto federal rural policy—providing massive subsidies to a shrinking number of farmers—does little to help develop competitive rural economies or boost opportunities for rural residents."

The report says that U.S. agricultural policy should undergo "a dramatic change in the subsidy system based on a two-track process: First, the United States should press for serious negotiations with other developed nations and the World Trade Organization to mutually agree to phase down farm subsidies. Second, here at home we should gradually shift agricultural subsidies toward a 15-year effort to help rural America develop a new competitive economy base and help the nation develop a better balance between its metropolitan and rural economies." The full report is available online at [www.ppionline.org](http://www.ppionline.org).

Programs to bolster rural development are important components of farm policy in its broadest sense. The Progressive Policy Institute should be commended for advancing the issue. But it is critical that a distinction be made between commodity programs and rural development programs. Although they overlap some, one cannot be substituted for the other.

The two-track process referred to in the report can be rephrased as follows: U.S. agriculture will be fine if the developed countries of the world do away with their domestic subsidies and remaining trade barriers are eliminated. Then, once crop agriculture's problems are fixed by fully releasing it to free markets, we can use those billions of dollars of savings to jump-start rural America.

The premise that subsidies are the cause of agriculture's price and market-income problems is widely held. It seems to make so much sense. The seemingly obvious solution is to eliminate them. But that prescription assumes that the supply and demand for total food and for the total of agricultural commodities react robustly

and quickly to changes in their prices—lower prices, that is. But that's the rub.

Low crop prices do not induce people to shift from eating three meals a day to four, thus diminishing food surpluses and causing prices to rise. Likewise farmers do not leave significant acreage unplanted in response to low prices. The result is that in the short to medium run, the market signals that work well in other economic sectors do not work in crop agriculture. Thus, subsidies or not, aggregate crop output and farm prices would be nearly the same as under the current (all-out-production-type) program.

Subsidies are the chosen response to crop agriculture's chronic price and income problems, not the basic cause of those problems. Without that understanding, it is common for the well-intentioned to think: "Well, if we are going to spend all that money on agriculture, the least we should do is change the criteria for distributing it so it better addresses (fill in the blank objective)." So in this context, the farm program is consciously or unconsciously portrayed as a solution looking for a problem.

In order to have the "savings" to apply to rural development programs, commodity programs would need to be revamped so farmers receive more of their revenue from the market and much less from government payments. Simply doing away with subsidies here and abroad will not cause a significant increase in market receipts.

There is no doubt that rural development programs and commodity programs have overlapping effects and the degree of overlap can be influenced by which instruments are chosen and how they are administered. But to think that production agriculture will be well-served by replacing commodity programs lock, stock and barrel with other farm/rural programs is to fail to recognize the unique nature of food and agricultural markets or the historic role of commodity programs to address agriculture's market-based problems.

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