APAC Agricultural Policy Analysis Center
The University of Tennessee UT

PolicyPennings by Dr. Daryll E. Ray

Subsidies and production

Last summer our office, the Agricultural Policy Analysis Center at the University of Tennessee, released a publication entitled, "Rethinking US Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide" (available online at http://www.agpolicy.org/blueprint.html). In that publication one of the things that we argued was that U.S. crop subsidies are the result of low prices, not the cause of low prices. That is, even if U.S. crop subsidies were eliminated, crop production and prices would remain about the same as they are.

Since that time, we continue to get phone calls asking us how it is possible that prices will not increase significantly if U.S. subsidies are eliminated. It seems so logical that without the subsidies, farmers would produce less and prices would rise.

That conclusion is based on the idea that U.S. subsidies are the force that is driving production. The problem with that conclusion is that the force driving production is not subsidies, but land.

Harwood Schaffer, one of the research associates in our office tells a story about a conversation with a former parishioner in Kansas. In the midst of the conversation this friend, who is a farmer, tells him that another former parishioner, John, has left farming after 30 years. The friend then said, "The only problem is that when he went to town to get a job, he did not take the land with him." Within a short time of deciding to quit farming, John had five neighbors knocking at his door, wanting to rent his ground.

Prices may drop, farmers may go to town for a job, and the price of land may fall, but the land remains in production.

It may be contrary to expectations. It may seem illogical. But as anyone familiar with crop agriculture knows, it is true. Land without alternative uses, which is most of the land in rural America, is not voluntarily left idle.

Land and the technology to produce on it, not subsidies, are the forces that keep production high relative to demand and keep crop prices low, both for farmers in the U.S. and farmers worldwide.

A look at history is also instructive. In 1867, the U.S. price of corn was 78¢ a bushel. As new land in the Mississippi River valley and the Great Plains came into production the price of corn erratically but steadily declined until it was just 21.4¢ in 1896. Except for a boom time in the 1910-1914 period and World War I, in most years farmers struggled to make ends meet. And despite the low prices, corn acreage increased from 32 million acres in 1867 to 89 million acres in 1896. Unlike recent decades, yields during this period remained flat.

It was the chronic low prices following World War I and the Great Depression that brought about the institution of farm supply management programs. These farm programs were society's response to the chronic price/income problems that farmers had been experiencing since the end of the Civil War, not the cause of the low problems.

Doing away with U.S. subsidies would subject U.S. crop farmers to the same financial pain experienced by farmers in developing countries. Changes would occur in the set of farmers who can continue to farm and a host of other devastations would beset rural America. But there would be little change in acres of land in production, and hence, little change in production

Without a change in production, prices do not change. Without a change in prices, farmers, here and abroad, do not experience improved market-based incomes.

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