$12 billion: A reaction to the tariff announcement but, in reality, it was the last straw

Stop the presses! We intended to use this column to continue our examination of the various commodity policies that have been enacted in recent years beginning with the 1996 Farm Bill. But then there was the announcement by Secretary of Agriculture Sonny Perdue that was impossible to ignore.

"$12 billion."

Call it what you want, but to us it looks an awfully lot like the first installment in a series of "Emergency Payments." A couple of weeks ago, we wrote about the possibility of emergency payments if Congress did not fix the problems with the farm bill, but we thought it would be another year or more before ferment—resulting from low farm commodity prices—in rural areas would be sufficient to cause legislators to act.

But we were wrong on two accounts. First it was not a year from now, but July 24, 2018. Second, the provision of payments did not come via Congressional legislation, but rather by executive action working through provisions that govern the work of the Commodity Credit Corporation.

The United States Department of Agriculture (USDA) press release reads. "U.S. Secretary of Agriculture Sonny Perdue today announced that the [USDA] will take several actions to assist farmers in response to trade damage from unjustified retaliation. President Trump directed Secretary Perdue to craft a short-term relief strategy to protect agricultural producers while the Administration works on free, fair, and reciprocal trade deals to open more markets in the long run to help American farmers compete globally."

Make no mistake about it. If we were seeing $5.50 corn along with $14.00 soybeans and China threatened to levy tariffs on soybeans, we would not be reading an announcement about $12 billion in emergency payments to farmers. There would be lots of posturing by various market actors, but certainly not $12 billion.

The reality is that the tariff announcement by China was the straw that broke the camel's back. With the recent years of below-the-cost-of-production prices for most crops and the expectation for continued losses—even in soybeans—for the current crop marketing year, the announcement of the imposition of tariffs by the largest international market for US soybeans sent a shiver down the backbone of US farm country.

There is no doubt about it, retaliatory import tariffs on US soybeans by China are unwelcome news, but the underlying price problems farmers are facing in the summer of 2018 are not the result of Chinese tariffs. They are the predictable consequence of two decades of failed US commodity policy.

Harwood and his wife have been streaming a British comedy program called "Doc Martin." Doc Martin, the only doctor in the small fishing village of Portwenn, is rude, arrogant, insulting, and lacking in any patience. But, despite these faults, he is beloved by the community because of two redeeming characteristics. He immediately responds to any emergency and he is a brilliant medical diagnostician—the show has at least one rare illness an episode.

What is lacking in US agricultural policy is the willingness of most ag economists and policy makers to accurately diagnose the cause of the price/income problems that farmers have faced over the millennia and still face today. Because of their adherence to a neo-liberal/libertarian economic ideology, they are willing to latch on to any commodity program design that will backfill low crop prices with government payments, as long as it does not interfere with all-out production all of the time.

The result of this diagnostic malpractice can be seen in the last five years of declining farm income. US net farm income is now less than half of what it was at the peak, and tariff wars with China and others only make things worse.

Depending on how the money is distributed and even if the tiff with China is settled this money will only provide a short-term shot in the arm for agricultural producers. As we learned in the 1998-2001 period, emergency payments are very expensive and ultimately unsustainable in the long-run.

Policy Pennings Column 935

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 181, August 3, 2018

Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.
Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.