Nearly three decades of farm programs: unsuited and ineffective

The most important piece of legislation affecting the prosperity of the US agricultural sector has not been the three farm bills (2002, 2008, and 2014) passed by Congress in the wake of the disruptive 1996 Farm Bill, and this legislation only had the ability to provide agriculture with a one-time shot in the arm. This piece was the adoption of the Renewable Fuels Standard (RFS) which required the blending of biofuels into the US transportation fuel supply.

While increasing amounts of corn were being converted into ethanol as the result of state-level ethanol mandates beginning in the late 1990s, it was the Congressionally-mandated RFS that boosted corn demand by some 500 million bushels a year and drove corn prices above $4.00 a bushel for the better part of a decade. The impact of the RFS on the environment and food prices are subject to vigorous debate, but what is beyond debate is the short-term impact it had on farm prosperity. The impact was certainly greater than those of the various provisions of the three farm bills.

But in the end, neither the RFS nor the three farm bills could bring long-term prosperity and stability to US farmers as well as farmers around the world whose prices are linked to the US price of agricultural commodities and their substitutes.

Whether we are talking about a blend requirement of 10 percent or 15 percent or some other level, there comes a time when the blend requirement is met and the increases in US corn production outpace any marginal increase in the need for corn-based ethanol. Looking at our policy benchmarks (https://tinyurl.com/ya3obdgu) it is clear that, like any other use, RFS policies as an agricultural policy instrument do not take into account the low-price elasticity of demand. Variation in ethanol demand for corn is more closely related to the RFS level, fuel prices, and the demand for motor fuels, than the price of corn.

Having clarified the role of ethanol in the higher corn prices of the 2006-2010 crop marketing years—2011 and 2012 prices were driven by a drought in the US Midwest—we want to examine the slowly evolving policies of the 2002, 2008, and 2014 Farm Bills considering the agricultural policy benchmarks we have set forth.

The Emergency Payments of the 1998-2001 period were re-designated as the fixed, decoupled direct payments that were a basic element of the 2002 and 2008 Farm Bills. The direct payments were the same whether prices were high or low. These payments fail our benchmark tests because they 1) do not take the low price-elasticity of both supply and demand into account, 2) they are not counter-cyclical, and 3) when prices are below the full cost of production, they contribute to the dumping of agricultural commodities on the export market at prices that are below the full cost of production. They were eliminated in the 2014 Farm Bill not because of the above reasons, but simply because they were politically unsustainable at a time when farm incomes were at record levels.

While Counter-Cyclical Payments (CCP), as an element of all 3 farm bills under discussion, are only made when prices are below the full cost of production, they subsidize the sale of US agricultural products in export markets, a practice called dumping that puts farmers around the world at a disadvantage. In addition, CCPs do not provide a mechanism that takes the low price-elasticity of both supply and demand into account.

Subsidized crop revenue insurance has been the favored-child of policy makers during the deliberations over the last three farm bills. But despite the declarations of Senate Agriculture

Committee Chair Pat Roberts, it is not a counter-cyclical program. As a matter of fact, it is decidedly pro-cyclical because the value used to determine the price component of the payment calculation is the expected harvest-time price during the period before the crop is planted. If the expected price is well-above the full cost of production, that is the price used in situations where payments are made. When prices are well below the full cost of production, even with a 62 percent subsidy, crop revenue insurance will not cover a farmer's costs. Crop insurance pays well when prices are high, and a farmer makes a claim, but pays poorly when prices are low.

What can we say about loan deficiency payments? Congress left them in the 2002, 2008, and 2014 Farm Bills If we get to the point that farmers begin to be able to collect them, we will have more to worry about than the fact that they do not meet any of our 6 policy benchmarks.

Beginning with the 1996 Farm Bill, policy makers in Congress and their supporters have gone through all kinds of expensive and ineffective contortions to avoid doing the obvious: writing a farm bill that takes the low price-elasticity of both supply and demand into account. Next week will remind our readers and their legislators what such a policy looks like.

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