PolicyPennings by Dr. Daryll E. Ray

If a buy out works for tobacco, why not a buyout program for all crops?

Over the next two years, in the run up to the 2007 Farm Bill, one can expect to see a wide variety of ideas being floated as alternatives to a continuation of the present set of policy instruments. Much of the discussion of various farm policy proposals is being driven by two factors. The first is the U.S. budget deficit and the need to reduce the $20 billion annual price tag of the current legislation. The second is the desire to make U.S. farm policy compliant with the WTO commitment to trade liberalization.

The idea of doing a farm program buyout, similar to the recent tobacco and peanut buyouts, was presented by David Orden at the 2005 Agricultural Outlook Forum. The basic idea is to permanently eliminate farm programs by paying farmers a lump sum payment to compensate them for the elimination of the fixed-direct and counter-cyclical payments. He argues that "A buyout of this type should be on the agenda in discussions of the next farm bill."

In his paper, "Key Issues for the Next Farm Bill: Is a Farm Program Buyout Possible?" (http://www.usda.gov/oce/forum/speeches/Orden.pdf), Orden reviews the recent peanut and tobacco buyouts, arguing that as the benefits of those programs began to diminish, the possibility of a buyout became more acceptable to the producers of those crops. He also notes that "narrowly defined benefits, specifically production quotas, may be easier to buy out than broader support policies."

Much of the paper deals with the cost of a buyout, which Orden calculates to be twice the cost of the current program over the ten year payment schedule. This number is hard to reconcile with the fact that one of the reasons for re-looking at farm programs is the budget deficits and the need to reduce the costs of these programs.

The proposal does not deal with the nature of crop agriculture and the reasons why farm programs were established in the first place. As a result, it does not identify how a buyout will serve to address the chronic problem of supply growing faster than demand and the resulting low prices. By not addressing the issue that low prices do not result in either significantly expanded food purchases by consumers or timely reduction in crop output by farmers, the report fails to show that crop agriculture will be able to make the adjustments necessary for the free market to work on its own after a buyout. Overproduction would continue unabated.

This is one of a genre of proposals that treats the issue of farm programs as if farmers have some unjustified, mythical right to receive money from the government. If you buy that - and apparently many unfamiliar with how agriculture works have - the reasonable thing to do in the long-term is to buy out the farmers' right to receive these payments. Orden writes, "Contracts for buyout payments could require that the acreage for which the payments were bought out (and the output from that acreage) be ineligible for future support legislated by Congress. To ensure compliance, such contracts might be structured similarly to those by which farmers sell their "development rights" to state and local governments." But they could plant and harvest any crop they chose.

The proposal assumes that a buyout program that may be appropriate for two specialized crops planted on a few million acres would be equally effective when applied to the totality of major crops planted on 250 million acres. Tobacco and peanut farmers can take their money and then plant corn, cotton, soybeans or other program crops on their acres when prices are low. Once all of the major crops are included in a buyout, crop switching, while available, doesn't provide the same benefits.

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