PolicyPennings by Dr. Daryll E. Ray

It's price responsiveness! It's price responsiveness!! IT'S PRICE RESPONSIVENESS!!!

Commodity programs: Is there a reason for them?

Some have long said federal commodity programs are relics of the past and should be eliminated forthwith or, in the worst case scenario, eliminated over time through a buyout or gradual reduction in payments.

Others say, well, if taxpayers are going to spend all those billions dollars on agriculture, let's get farmers *to do something* for their payments. Translation: Shift taxpayer dollars away from commodity programs and toward whatever payment-basis is consistent with the policy objective of the speaker.

Still others say it is fine to provide income supports to farmers if that is what society wants to do. Just be sure that the payments have no strings attached. That way, farmers are free to plant any crop or no crop at all.

These possibilities all have one thing in common. They imply that commodity programs serve no real purpose, other than supplying unearned income to farmers. Many, if not most, economists have bought into that conclusion and have given it an innocuous-sounding name: public choice. The basic idea is that farmers have developed the political power to persuade Congress to give them money, and they regularly use that power. Now, we are the first to admit that there is an element of that, but we do not believe that entrepreneurial money grubbing is the central and long-standing reason for farm programs.

The logical underlying assumption of the public choice interpretation of farm policy is that the aggregate agricultural market, like most other markets, will work just fine, especially if the government gets out of the way. That is, market adjustment will occur automatically in our free-market economy in response to changes in price. But, that assumption turns out to be the problem.

For a viable market system to work, the quantity demanded and/or quantity supplied must respond appreciably to a change in prices in a timely manner. The problem is that aggregate agriculture does not respond very much or quickly. We observe that food consumers do not consume 5 meals a day when farm prices are low and one meal a day when prices are high. Likewise, farmers tend to farm all of their cropland all of the time and let weather and disease determine the final production level. Both consumers and producers change the combination of foods eaten and crops planted respectively as prices change but the totals vary little with price.

This lack of price responsiveness is the rationale on which the historic US farm programs were built. As much as we wish that agriculture had become more responsive to price over the last 70 years, it hasn't happened. The aggregate production of and quantity demanded for agricultural products are little more responsive to price today than they were in the midst of the Great Depression.

Just as Bill Clinton used the phrase, "It's the economy, stupid," to keep himself focused during the 1992 presidential election, so farmers and other farm policy stakeholders need to remember that, "It's price responsiveness! It's price responsiveness!! It's price responsiveness!!!"

Price responsiveness is the basic issue that must be considered when evaluating the effectiveness of alternate farm bill proposals. If the lack of price responsiveness of aggregate agriculture is not identified as the fundamental problem motivating the policy proposal, the proposal may achieve certain policy objectives but not necessarily a more stable market environment for production agriculture.

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