APAC Agricultural Policy Analysis Center
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PolicyPennings by Dr. Daryll E. Ray

Policy premise correct three times a century

As we review some of the current agricultural policy discussion, we are reminded of the old riddle we first heard as a grade schooler. The question goes like this. "Would you rather have a clock that tells the right time twice a day or one that tells the right time once every four years?" As a child the obvious answer was the clock that told the right time most often, the one that was right twice a day. Then the riddler announces that the clock that is correct twice a day is one that does not run at all while a clock that loses a minute a day is correct once every four years.

So here is our riddle. Do we want an agricultural policy that is correct three times in a century or one that never gets it quite right? By now you have guessed that we have something up our sleeve, and we do.

We want to suggest that since the adoption of the 1985 Farm Bill we have been betting on a policy that will be correct about three times in a century. The policy set we are talking about is one based on export driven prosperity. If history is any measure, U.S. farmers will enjoy this export driven prosperity three times in the coming century and each event will last for a period of from four to eight years.

The problem is: U.S. policy had almost nothing to do with triggering these periods of burgeoning exports. The triggers were external to U.S. agricultural policy. The first two periods of export driven prosperity in the twentieth century were major land wars in Europe. In both cases, U.S. farmers were called to ramp up production to provide food for our European allies whose farms were overrun by battling troops. In both cases, these markets quickly closed following the cessation of hostilities. The Europeans were ready to once again rely on their own farmers to feed them.

The Russian wheat deal triggered the third period of export driven prosperity in the early 1970s. Exports of U.S. crops increased throughout the rest of the decade sustained by the flow of petrodollars into developing countries who used some of their loans to purchase food. This period ended with a jolt in 1981. Once again the trigger for the significant growth in exports came from policies that were formulated outside the U.S.

In the 25 years since, the volume of U.S. exports of eight major crops (adjusted for grain fed to exported meat) has averaged 85 percent of the 1979-1981 peak. In the intervening years, U.S. policy has used a variety of mechanisms in an attempt to recapture export markets, primarily export subsidies and lower prices, all to no avail.

This suggests to us that a policy that never gets it quite right may be the best policy after all. Historically, supply management programs have never gotten it quite right and periodic adjustments have been needed to be made to keep it working appropriately. With final yields dependent upon weather, any policy established at the beginning of the year is bound to miss the mark by at least a little. In addition, once a policy has been in place for a year or two people learn how to work around the edges to work the program to their advantage. For that reason periodic adjustments will need to be made in order to enable the policy to achieve its goals.

The problem with putting all of our eggs in the export oriented basket is that if exports don't grow, we are left with a bunch of cracked eggs and no skillet. Production grows in anticipation of markets that do not appear and prices go south.

While less than perfect, supply management policy will work reasonably well under a wide variety of conditions. If exports are growing, supply management tools remain unused. In those periods of stable or declining exports, supply management tools can be used to maintain a balanced supply coupled with an adequate reserve to meet a spurt in demand whether it is caused by weather in the U.S. or factors in the export marketplace.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of UT's Agricultural Policy Analysis Center (APAC). (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; http://www.agpolicy.org. Daryll Ray's column is written with the research and assistance of Harwood D. Schaffer, Research Associate with APAC.

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