APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Dr. Daryll E. Ray

Johanns' "facts" divert attention from agriculture's root policy problem?

Speaking before the National Farmers Union on September 11, 2006, Agriculture Secretary Mike Johanns recalled the line in the TV show Dragnet where Sgt. Joe Friday would "interrupt the person talking to him and say, 'Just the facts, ma'am, just the facts.'"

The Secretary went on to say, "Well, here [are] 'just the facts.' In the U.S. five crops account for 21 percent of our cash receipts in agriculture. Those five crops receive 93 percent of the subsidy payments, those crops you know are program crops, the major program crops — corn, wheat, rice, cotton and soybeans."

Johanns then spoke about specialty crops saying, "specialty crops now are equal in value to the program crops …. But they…don't even get a subsidy. They don't receive anything."

Johanns continued, "Please note that these aren't insignificant amounts of money. We're talking about annual allocations of billions of dollars. And 60 percent of all farmers do not receive a program payment, [they] don't because they aren't raising one of the program crops."

Statements like that nearly give us heartburn for two reasons. First, these statements seem to assume that farm program payments have no purpose other than to dispense money to farmers whose predecessors in the 30s earned a fraction of their urban cousins.

If the purpose of farm programs were simply to disburse money to farmers, it would seem only right that all farmers ought to get their fair share. It's the "if" part of that sentence that we need to carefully examine.

Second, do Secretary Johanns' numbers provide us with a complete picture of the relationship of specialty crops to the farm program or is there more to it than meets the eye? What kinds of payments, policy mechanisms, and direct and indirect support programs are enjoyed by specialty crops?

The first statement is like arguing that we have a problem with health insurance because sick people generate most of the payouts. Of course they do. And we are more than happy that we are well enough not to generate very many health insurance payments.

Are there wellness programs for all program participants that we can develop to reduce the number of sick people and thus the cost? Sure, but it doesn't mean that everyone should get an equal share of insurance payouts.

Farm commodity programs were not originally designed to be "money dispensing programs," rather they were begun because the 11th Secretary of Agriculture, Henry A. Wallace, understood that neither the total demand nor the total supply of major crops adjusts much to changes in prices, especially low prices. As we learned in Economics 101, the adjustments in response to price are what cause self-correction when things go awry.

If prices collapse, two things happen—consumers consume more and producers produce less. It is the miracle of the market, but it must happen for self-correction to take place. Thus, in total crop agriculture (not one crop at a time because another crop just takes its place) with little response to price on the demand and supply side, agriculture has virtually no, or at least little, ability to self-correct in a reasonable time frame.

Traditional farm programs managed production and inventory so that crop prices allowed farmers to earn a livelihood for themselves and their families. The approach we use now is to allow/encourage farmers to produce as much as possible, irrespective of demand conditions. And, then when prices plummet, the government makes up the difference with payments.

In and of itself the fact that five crops account for 21 percent of cash receipts while garnering 93 percent of commodity payments is not a problem, provided that the payment mechanism helps moderate the original problem. But in realty it doesn't. The payment mechanisms do nothing to help match production with demand requirements.

The problem is NOT that everyone does not get their fair share. The problem is the lack of connection between crop agriculture's root problem and the policy mechanisms that trigger the payments.

Policy proposals by the USDA and others seem to further sever the connection between farm policy mechanisms and the perennial problem that crop agriculture faces.

It was our intention to spend most of this column talking about the second question. But just as Paul Harvey always had a commercial sandwiched in between his opening narrative and "the rest of the story," we have a week inserted between the two parts of this story. Next week we will look at "the facts" as we provide our readers with "the rest of the story."

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