PolicyPennings by Dr. Daryll E. Ray

Rural development programs do not protect crop producers' bottom line

When critics of farm commodity programs want to redirect the farm policy discussion (and spending), they often set up a number of straw men and proceed to shoot them down one at a time. With the straw men lying in a heap, they trot out their pet proposal.

One such straw man is the claim that a chief reason to support farmers is to foster rural development. But arguably that claim is too weak to warrant even straw man status. (The claim is attempted by those who may want to redirect money from commodity programs to rural development programs, but we digress.)

Clearly commodity programs that raise farm prices and incomes positively affect economic activity in rural communities. But rural development is not the reason for commodity programs; commodity programs are not rural development programs in disguise.

But jumping to the other extreme and implying that agriculture has minimal impact on rural communities is just as wrong. The truth is that the agriculture's impact is immense even though, in our opinion, it is seriously underestimated with the measures used by the US Department of Agriculture.

Recently we reported on a small study we conducted looking at 21 West Tennessee Counties and the amount of economic activity that is generated by agricultural activities. According to the methodology used by the USDA, none of the 21 counties are identified as being agriculturally dependent and yet over 40 percent of the economic activities in three of the counties can be traced back to agriculturally related activities.

In six other counties, over 15 percent of their economic activity results from agriculturally related activities. Considering employment, in 16 of the 21 counties agricultural activities generate over 15 percent of total county employment.

The rationales for rural development policy and commodity policy are fundamentally different. Rural development rationale is based on low population density spread over large areas meaning that policies and economic activities that work in urban areas with high population densities may not work the same way in rural areas.

On the other hand, the rationale for commodity policy has at its root the low price elasticity of both supply and demand and the fixity of resources. Of course as is often the case, the two policy types do provide significant overlapping benefits but that is not an argument for using policies designed to solve one of these problems as the primary tool to solve the other.

Rural development policy is extremely important and should continue to have its own title in a comprehensive farm bill. But just as commodity programs are too blunt an instrument to effectively address rural development issues, neither would reallocating commodity-program money to rural development programs magically protect the bottom line of crop producers.

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