PolicyPennings by Dr. Daryll E. Ray

A likely farm bill result: Prove farm program critics to be correct?

An oft-heard explanation for the continuation of farm programs goes like this. "Farm programs were once needed in the 1930s when farm incomes were a fraction of urban incomes.

"But today things have changed. Farm incomes are now above the national average and there are business arrangements available to farmers that preclude the need for government programs. Thus the only reason that they continue is because of entrepreneurial rent-seeking behavior on the part of farmers."

In this case, entrepreneurial rent-seeking behavior is economist-speak that means that farmers continue to lobby for farm subsidies not because the subsidies serve a purpose, but because they can extract them from a pliant Congress. The Iowa caucuses were seen in this light earlier this year as one presidential candidate after another pledged their support for ethanol production.

Though elements of such behavior can undeniably be found, we have often argued that entrepreneurial rent-seeking is not a core explanation for the existence of farm programs.

Even the statement of low farm incomes relative to urban incomes in the 1930s, though accurate, leads us astray because low farm household income was a symptom of a deeper problem not the problem itself. And yet, it is likely that Congress will pass and the President will sign a new farm bill that indeed will make the money-grubbing argument difficult, if not impossible, to refute.

Why do we say that? Before answering the question, a little history and a little about what is known about the way the agricultural sector works.

The rationale for the farm programs begun under the leadership of Secretary of Agriculture Henry A. Wallace was his recognition of the lack of timely response to changes in agricultural prices by both farmers and consumers.

In the short- to long-run, farmers do not plant fewer acres when prices are low. In fact, when prices are low, they have every incentive to try to increase production to have more bushels to sell at the low prices. Because farmers are price takers, the only way to increase income is to increase production. They may change the mix of crops to increase profitability, but they seldom deliberately leave acres unplanted.

Similarly, consumers do not respond to low food prices by consuming more. They may change the mix of foods they eat, they may eat out more often, but low prices do not induce consumers to switch from eating three meals a day to eating four.

This lack of response to price means that crop markets, as compared to many markets for other consumer goods, fail to correct in a timely manner leaving producers facing long periods of low prices.

As a result, one of the first actions of Wallace upon becoming Secretary of Agriculture in the depth of the Great Depression was to institute policies to govern market supply in order to increase farm prices. In the intervening years, many farm program instruments have endeavored to establish a balance between consumption on the part of consumers and production on the part of farmers.

Other needs that farm programs have been designed to meet include soil conservation, wetland preservation, and environmental improvement among others.

Thus, farm programs were originally designed to provide mechanisms to meet well established needs. That is why we argue that farm programs have not been, at their core, motivated by rent-seeking behavior.

That is not to say that entrepreneurial rent-seeking elements have been successfully kept out of farm program provisions over the years.

In fact we may be currently seeing one of the most flagrant examples of "get the money" behavior. It is easy to argue that the insistence of farm groups to maintain direct payments is entrepreneurial rent-seeking behavior at its worst.

With the current "high" prices for corn, wheat, and soybeans, there is little justification for their continuance, especially given the fact that the current impasse in passing farm legislation revolves around finding additional money to fund other agriculturally related programs.

Clouding the historical motivations for farm programs and proving farm program critics to be correct in a major way, does not seem to be a good long-term strategy.

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.

Originally published in *MidAmerica Farmer Grower*, Vol. 25, No. 15, April 11, 2008