

Public Policy: For The Public Good Or Private Profit?



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At critical juncture points in public policy, stakeholders with the most power (read biggest and most effective lobbying organizations) go all out to tilt public policy in their favor. No surprise there. The amazing thing is how little flack they get when they openly contradict the very purpose of the policy or policy change.

The current health-care debate is a case in point. Reforming health care has become a “must-do” in this country. It costs too much and does not provide adequate care to all in need.

Several remedies have been suggested including the addition of a “public” health insurance plan as a way to broaden accessibility and lower costs of the health care delivery system.

In a June 21, 2009 Washington Post column, George Will asserts “Competition from the public option must be unfair because government does not need to make a profit and has enormous pricing and negotiating powers.”

The implication being that even though health-care patients may benefit from the “enormous pricing and negotiating powers” of a non-profit-public option, such a plan would be “bad” because it forces adjustments upon the private sector. (There are likely many reasons to be for or against the public insurance option. The point being it is important to keep our analytical eye on the ball when evaluating whether or not a policy change will achieve stated objectives.)

In the case of agriculture, agribusiness tries – often successfully – to convince one-and-all that agricultural policy should be designed with them in mind, even if it means turning the reasons for farm policy on their heads.

It would be easy to argue that agribusiness’ interest in farm legislation was spurred by the 1983 PIK Program (Payment In Kind) which resulted in the planted acreage for the eight major crops to decline by 40 million acres, 14 percent of the planted acres for those crops. The impact on local implement dealerships, repair shops, fertilizer distributors, not to mention national implement manufacturers and other suppliers and users of grain was significant.

In response to the PIK experience and the impact of the millions of acres taken out of production by the Conservation Reserve Program in the late 1980s, agribusinesses began to carve a larger role for themselves in the writing of farm bills.

This culminated in an Abel, Daft, and Earley study financed by the National Grain and Feed Foundation whose conclusion is made clear in its title, “Large-Scale Land Idling Has Retarded Growth in US Agriculture.” The result of pressures coming from agribusiness and high prices during the 1995 crop year resulted in the more market-oriented reforms of the 1996 Farm Bill.

But, a look at history reveals that the interplay between agribusiness and farming is not a recent phenomenon. Following the civil war land grants were used to finance the development of a cross-continental railroad system. The profitability of those railroads depended upon the shipment of agricultural grains and livestock into major markets in places like Chicago, St. Louis, and Kansas City and the shipment of manufactured products back out to rural areas.

Following the end of WWI, farm prices began to plummet and along with them the sales of the products of the Moline Plow Company. The President of Moline was George N. Peek who worked with farmers and legislators in the promotion of the McNary-Haugen Farm Relief Act. The legislation’s intent was to support domestic farm prices by dumping surplus production on the export market at whatever price it took.

In the case of railroads, the greater the quan-

tity of cattle and grain that moved along the railroad lines, the more they made. Similarly, if farmers had more money in their pockets, the more likely they were to purchase a Moline Plow. The profitability of the farming enterprise was only important to the extent that it affected the bottom line of the firms that provide farmers with inputs, and ship and process agricultural products.

With that in mind it is easy to see why most agribusinesses are opposed to grain reserve programs and the accompanying acreage management programs. For processors like grain and feed dealers, cereal manufacturers, and high fructose corn syrup plants, higher grain prices mean higher input costs. They have every reason to want the lowest grain and oilseed prices, even if it means government subsidies that allow farmers to sell their commodities at prices well below the cost of production.

It is also easy to understand why the input suppliers – seed developers and producers, farm chemical manufacturers and their local dealers, and farm implement manufacturers – are opposed to reserves and the accompanying acreage management programs. Fewer acres in production mean fewer implements sold, reduced farm chemical purchases, and lower demand for seeds.

Both the input suppliers and the output handlers of grains and oilseeds are right. Such programs are not in their short-term self-interest. As a result they have helped create an atmosphere in which the discussion of grain reserves is off the table even as an international awareness of the importance of such programs is growing.

As we think about farm issues it is important to remember that farm programs exist to promote the health of agricultural production units and provide food at reasonable prices.

For argument’s sake, let’s suppose that each of the following benefit – in their own ways – from a supply-management-based reserve policy:

- Crop farmers by receiving more of their income during high-production times from the market place and by not over stimulating production here and abroad during times like the last year or so.
- Livestock producers by more stable feed prices that don’t over stimulate livestock production when feed prices do not represent full production costs and that do not force financial massive losses with feed prices as of late.
- Consumers here and abroad by improved food security via no need for trade embargoes, hoarding, price speculation, etc.
- Taxpayers by reducing the cost of government programs by paying for the cost only of what is stored rather than compensatory payments for every-to-most bushels produced in times of bumper crops.

Again suppose each of these statements is true. Should the fact that agribusinesses have to adjust their operations in real time, like other sectors of the economy, trump all other considerations?

Unlike farmers, agribusinesses do have the ability to adjust output to meet demand. In some cases to an extreme extent: John Deere does not make a piece of large equipment until a farmer orders it – no order, no production.

Agribusinesses certainly do not engage in all-out production regardless of demand conditions. Historically, government programs like grain reserves and acreage reduction programs did for farmers what agribusiness firms could do for themselves – manage production and thus have an impact on price.

And yet, arguably, attitudes and conventional wisdom about the desirability, the cost, and the extent of economic disruption of having – versus not having – reserves and associated supply management approaches have been led by the agribusiness community. △

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