Understanding THE FARM BILL

Stability Not Volatility

ORIGINAL FARM BILLS SERVED FARMERS, CONSUMERS AND TAXPAYERS

The original farm programs, instituted in a time of overproduction and low prices during the Great Depression, were designed to stabilize prices through managing the supply of agricultural production. In concert with price support programs, measures such as acreage set-asides and grain reserves helped serve farmers by ensuring that commodity prices would not plummet if the country's ever-increasing production capacity surpassed the demand for its products. By the same token, reserves helped serve consumers by ensuring that grains could be released onto the market if supplies fell and prices got too high.

These programs cost taxpayers little and ensured that farmers received fair prices while commodity buyers paid the full costs of production. These programs provided the framework for some of the most stable and prosperous decades in U.S. agriculture.

PUSHING VOLATILITY

Contrary to the claims of those who decry the "outdated" New Deal policies of the past, the farm policies of 1930s are not the ones we have today. Throughout the second half of the twentieth century, the agribusiness sector chipped away at these policies; as buyers of commodities, they had a vested interest in keeping commodity prices low and unstable and therefore preferred the chronic overproduction and oversupply of commodities to any sort of supply management.

The 1970s marked a change in U.S. farm policy, from policies aimed at controlling overproduction to those aimed at encouraging it. Rather than continuing to manage supply, policymakers instead sought to increase demand. Farmers were encouraged to plant "fencerow to fencerow" while production management measures were phased out and international markets were pursued.

This approach to agriculture continues to drive much of farm policy today. Since the 1970s, supply management and price support programs have continued to disappear, with the 1996 Farm Bill putting to rest the few remaining programs, except sugar and milk. Now, rather than stabilizing prices by managing production, overproduction is encouraged and prices are allowed to fall as low as possible—often below the cost of production. The government, at great expense to taxpayers, then makes up the difference between production costs and market prices with subsidy payments, enabling this system to persist.

IATP'S BOTTOM LINE

Most of the proposals currently put forth to reform commodity policy seek to decrease or eliminate subsidies. But simply tweaking subsidies will do nothing to address agriculture's inherent tendency to overproduce. Nor will it address the issue of volatile prices.

Contrary to the focus on subsidies, what is needed is a return to supply management and fair prices. The key role of supply management is to *stabilize* prices. Agriculture is inherently volatile, and a shortage of supply due to drought or other factors can cause prices to spike and hurt consumers as quickly as overproduction can cause prices to fall and hurt farmers. By managing the quantity of crops on the market, supply management helps eliminate the volatile price swings that can devastate farmers and consumers alike. Better yet, with a system of fair prices—in which farmers receive a price from the marketplace that at least covers their costs and agribusiness buyers pay the full cost of production for the commodities they buy—commodity-based subsidies would not even be needed.

LEARN MORE

Krebs, A.V. *The Corporate Reapers: The Book of Agribusiness*. Essential Books: Washington, DC, 1992.

IATP. A Fair Farm Bill For America. 2007. http://www.agobservatory.org/library.cfm?refid=97623

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