Perspectives on the 2013 Farm Bill

The Farm Bill:
Farm Policy as a Safety Net

By Roger Johnson

Farming is a capital-intensive and inherently risky profession, in ways that are different from most other occupations. Farmers are primarily prone to two types of risk: the relatively short-term risk posed by natural disasters, and the long-term risk of prolonged periods of low prices. Farmers with less capital and less liquidity often do not have the resources necessary to mitigate these risks. National Farmers Union (NFU) sees the federal government's role in farm policy as providing a safety net to help in these two circumstances, when disasters strike and when markets collapse. It is also important that these farm programs be structured to only provide assistance when needed, not make payments when times are good.

Crop insurance is a good mechanism to mitigate the short-term risk from natural disasters, but when it comes to the long-term risk of extended low-price periods, the federal government has struggled, largely because of political reasons, to implement consistent programs that help manage that risk. Commodity farmers are operating in a system in which they have very little control; farmers are price-takers, not price-makers, and they sometimes overproduce because it makes sense for them as individuals. In other words, as commodity prices drop and farmers receive less money per bushel or acre, they try and make up the difference by increasing their production, which only drives prices down further.

Federal farm programs were developed as a way to deal with overproduction problems and mitigate price volatility. Prior to 1996, commodity programs dealt with overproduction in a systemic way by managing commodity supplies available on the market and establishing a price floor that ensured farmers recouped something close to their cost of production. These programs were, for the most part, fairly successful in removing incentives for overproduction and ensuring a relatively stable price for both farmers and consumers. However, these programs were dismantled by the 1996 Farm Bill in order to give farmers the "freedom to farm." Without the market stability provided by the farm safety net programs, commodities flooded the market, prices collapsed, and Congress authorized billions of dollars in emergency payments to farmers to prevent large numbers of farmers from going out of business. More recently, major disasters have resulted in the opposite occurrence—crop shortages and dramatically higher prices.

Some now argue that we are in a new period of high commodity prices and the risk of long-term price collapse has been eliminated; therefore, our farm programs no longer need to address this risk. This sort of wishful thinking is what led to Freedom to Farm. History tells us that what goes up must come down, and high periods will be inevitably followed by decline. This is why we proposed a voluntary market-driven inventory system (MDIS) to help smooth market highs and lows and provide relatively more stable commodity prices to the benefit of farmers and consumers both in the United States and around the world. MDIS would also operate at little cost to taxpayers, as it would only kick in and provide assistance when prices are extremely low. In lieu of such a system, NFU supports implementing a counter-cyclical program to help farmers cover most of their cost of production when prices drop below a set reference price. Both the House Agriculture Committee and Senate farm bill proposals include a reference price program, with the House version setting levels that will provide more meaningful and equitable assistance than the Senate.

Federal farm policy must also help previously underserved farmers mitigate their risk and strive to achieve broader policy objectives. For example, the farm bill incents disadvantaged people to purchase food from local specialty crop growers to help bridge their nutritional gap while simultaneously providing a market for these farmers and supporting the local economy. Just as farm safety net programs are important for farmers facing hardship, nutrition programs provide critical assistance to consumers in difficult times. Farm bill renewable energy programs help rural America do its part to slow the onset of global climate change while keeping the economic development generated by this federal funding in rural communities, and conservation programs provide farmers the resources they need to enhance the environmental quality of their land. And funding for agricultural research helps our universities and U.S. Department of Agriculture scientists find innovative ways to address the natural resource, pest management, climate and population challenges of the future. Farm bill programs remain vitally important and the legislation currently under consideration will make significant reforms. Congress has a responsibility to our nation's farmers, ranchers, consumers and rural communities to pass a new five-year farm bill this year.

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