POLICY PENNINGS By Daryll E. Ray

Switch to a niche and other options

The various policy approaches that have been suggested for the next farm bill pretty well cover the waterfront. They range from programs that could cost $30 billion a year to prop up agriculture to throwing in the towel allowing other countries, with lower per unit costs of production, to produce a larger and larger share of the US food supply.

Given the number and diversity of approaches to future agricultural policy, let's spend this column and the next summarizing a few of the categories of policy options that have surfaced. The details of individual proposals and "who is for what" will be left for later. Right now let's just get an overview of the various options.

Get the government out of agriculture

One approach is to withdraw all price and income support for agriculture—"get the government out of agriculture." While it has been around for decades, this approach is not being advanced as often today as it was three years ago. This minimalist approach is one that most people prefer. But historically, it has provided unsatisfactory results because total crop agriculture is not characterized by the highly price-responsive supply and demand curves needed for free markets to work effectively.

Niche markets

One oft-heard admonition is that there is no future in traditional crops, so in order for producers to survive in the 21st century it will be necessary for them to find a niche market and produce for it. As we have seen over the years, niche markets work extremely well for some people. For some, the niche market is the production of an "Identity Preserved" crop like white corn or high lysine corn. For others it is catfish and shrimp farming. For still others it is entertainment activities like maize mazes, dude farms and fall apple and pumpkin patches.

The problem with this is that for niche markets to be a general solution, there danged near have to be as many niches are there are farmers. If too many farmers decide to grow high lysine corn it quickly becomes a commodity like No. 2 yellow corn. Niche markets work well only to the extent that they remain a niche. This approach includes much of what has been called the last step of the industrialization of agriculture, except that farmers would likely grow the niche product to the specs of a contract with an end user.

Organic farming and community supported agriculture (CSAs – usually these are organic farms producing vegetable crops for urban areas) in some ways fall into this same category. Not everyone can be an organic farmer. But this segment of agriculture is growing by leaps and bounds and thus CSAs and organics are absorbing more and more operations each year.

As long as consumers are willing to pay a premium for organically grown foodstuffs, organic farming can turn an extra profit for a limited number of producers. But again, if more and more farmers become organic producers, organic products could also approach commodity status with little or no net premium for the producer.

To the extent that producing for niche markets, organic outlets or CSAs reduces crop agriculture's output, either by taking up acreage or because of reduced yields, traditional crop farmers may benefit from slightly higher crop prices. But if major crop prices don't increase much beyond slightly, niche markets are probably not enough to solve agriculture's price and income problems.

Diverting acreage to energy production

Another category of policy approaches relates to diverting a portion of crop agriculture's resources away from food and feed production and toward energy production.

As more and more ethanol plants come on line, along with increased interest in biodiesel and the use of biomass as a fuel component in the production of electricity, the possibility of using land to produce energy and non-food materials is on the minds of many. Several months ago we wrote about a study that was done in our office on the use of switchgrass for energy production. This policy alternative has the advantage of reducing acreage devoted to crops currently in surplus while maintaining productive use of the land. Farmers could receive higher market prices for their traditional crops plus income from the energy crop.

Increased production of crops for energy uses has the potential to significantly raise the income prospects of crop agriculture. The increased demand for ethanol could come relatively quickly if ethanol becomes the "oxygenator of choice" for reducing vehicle emissions. While it might take longer to materialize, devoting millions of acres to energy crops may be a long-term key to making traditional crops profitable once again.

Other—some would say more traditional but less interesting—categories of farm policy approaches will be discussed in the next column.

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