

## Would a \$2.08 loan rate for corn persuade you to increase your production?

In the current farm bill debate we continue to hear statements to the effect that “artificially high loan rates” contained the Senate Ag Committee Farm Bill legislation will stimulate overproduction and result in even lower commodity prices. The Senate’s proposed loan rate for corn is \$2.08/bu., wheat is \$3.00 and soybeans is \$5.20. At first glance that argument has a certain logic to it. While we are not advocating a specific loan rate level, we do wonder however, given the experience of the last five years, if that argument is valid. Does it reflect the way crop agriculture really operates?

Or, to look at the question from the other end, we might ask if there is a set of loan rates and other program provisions, other than direct supply control mechanisms, that would negatively affect production increases. What would it take for you as a farmer to modify your operations in ways that would reduce the present overproduction or at least reduce the rate of increase in production?

There are six main factors that affect crop production: weather, acreage, seed technologies, pest control technologies, fertilization, and cultivation practices. Let us look at these factors one at a time and ask what you would tell us about the effect of loan rates on that factor.

Weather. Mmmmm. While weather is the single most important cause of variability in crop production, I don’t think anybody is claiming that it is affected by loan rate levels.

On to the second factor... Would increases in loan rates for major crops to \$2.08/bu. loan rate for corn, with similar increases for other major crops, encourage you to convert land not presently devoted to crop production to the production of corn, soybeans or cotton? Do you have any productive land that you are currently not farming? Are there acreages that you would not put in production if 1996 Farm Bill were extended but would keep in production if the loan rates were increased a couple of dimes? Remember we are not talking about shifting from one crop to another, we are talking about the possibility of increasing total acreage of major crops. If there were a small percentage of acreage that was brought into production somewhere in country because of such a rise in loan rates, would you expect that acreage to be highly productive land that would significantly swell aggregate

production? It is important to remember that crop prices have declined by over 40 percent since 1996 (25 percent if you believe that coupled/decoupled payments are undisguised “price” components), while total acreage for corn, soybeans, wheat, cotton and rice has remained steady.

Thirdly, “What would you tell us about the effect of the “artificially high loan rates” of the Senate bill on your use of yield increasing seed technologies?” Are you presently using the best seedstock available or would loan rates at the level contained in the Senate bill induce you to make a change?

With the widespread use of Bt corn and Roundup Ready® soybeans and cotton, would the Senate bill level loan rates affect your purchase of pest control technologies? Would a loan rate increase of 19 cents per bushel for corn change your use of fertilizer? With last season’s high anhydrous prices, you undoubtedly have figured out how to optimize yields with minimal fertilizer loss and waste. Are you going to use significantly more fertilizer because the corn loan rate is increased to \$2.08? And lastly, would you make major changes in your tillage practices if loan rates were set at the levels contained in the Senate bill?

In all this, it must be remembered that the loan rates proposed in the Senate bill are still significantly below the level that USDA calculates as the full cost of production. My guess is that your answers to this set of questions would add up to a very small if not inconsequential increase in total major crop acreage and production resulting from loan rate increases of the general magnitude of those proposed in the Senate.

I am not promoting the Senate bill, the House bill or any other bill. I do, however, think it is important to think critically about the statements, designed to promote or dismiss a proposal, to see if those statements pass the test of reasonableness.

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