POLICY PENNINGS

By Daryll E. Ray

California's a brand new game

Larry Gatlin of the Gatlin Brothers wrote and recorded "All the Gold in California" in the late 1970s. To this day, I often think about some of the words in that song, especially the following phrases: "It don't matter at all where you've played before; California's a brand new game."

When comparing western U.S. agricultural production to that east of the Rockies, California is a brand new game, at least to me. Its population density, proximity to ocean ports, high per capita income levels and its climate, soil condition, prevalence of federally authorized marketing agreements, and availability of irrigation water have allowed California's agriculture to grow crops that are sensitive to changes in prices and per capita incomes such as fruits, nuts, wine grapes and vegetables as well as traditional field crops that are not (sensitive to changes in per capita income and prices). With such a diverse agricultural landscape, I doubt Dorothy would mistake California for Kansas.

Given its location, the nature of the demand for many of its products, and export-projection studies, California has been a frontline supporter of removing trade barriers and freeing international trade. And, while Californians looked longingly at Asian and other international markets thinking that, with increased access, the markets would be mostly theirs alone, they are also learning that other countries are similarly stricken with export fever. But I digress.

The reason Larry's song came to mind this week was because I received a very interesting e-mail from a California rice grower who alerted us to a couple of important matters. First he reported that, in response to a forty percent drop in the price of medium grain rice between 2000 and 2001, several rice producers in his area fallowed a large portion of their rice land in 2001. During 2001 in that California county, producers fallowed/idled 12 percent of their rice acreage compared to the year before.

As you might imagine, this immediately piqued our interest. We have always suspected that there must be some producers out there who would freely use the freedom of Freedom to Farm to flee production—we just didn't know where or who they were.

Further investigation did reveal a couple extenuating circumstances, however. Rather than enjoying more planting alternatives in this part of California compared to, say, McLean County, Illinois or Obion County, Tennessee, these rice producers have fewer planting alternatives—zero to be exact. It seems that this particular area is blessed with basin soils characterized by an undulating hardpan which lurks 24 to 40 inches below the surface. So when the price of rice—which costs over twice as much to grow per acre as an acre of corn—plummeted, the option of switching to a relatively higher priced and/or less capital-intensive crop was unavailable due to the region's water-logged soils.

The other extenuating circumstance is that the producers in the area can sell their irrigation water to San Francisco. (Yes, that was the moment when the lyrics from the Gatlin Brothers song came to mind.) While these producers should be commended on successfully flowing a resource toward another use, this method of converting a production cost into a revenue source is likely unavailable to Arkansas rice producers or to most other producers. Speaking of Arkansas, we note that rice producers there opted for full-out production by significantly increasing rice acreage. Weather and varietal improvements also chimed in and 2001 U.S. rice production set a record. Rice acres, nationally, increased by 270,000 acres while production rose from 191 million cwt to 213 million cwt. overwhelming the 77,000 acre reduction by California rice growers.

Undoubtedly, the idling of California rice land would not have occurred without Freedom-to-Farm. But it probably is unwise to predict the outcome of the national agricultural game from the bleachers of California.

The second issue raised in the e-mail from the California rice producer concerns how rice land fallowed in 2001 would be treated if a producer wants to update his base acreages as provided under the 2002 legislation. Farmers, however many or few nationally, who responded to the decoupled payments under Freedom to Farm by idling land behaved just as the proponents of Freedom to Farm (F2F) predicted they would. While the most ardent proponents of F2F expected to be overseeing the complete phase out all payments and farm programs by now, it seems illogical to penalize farmers who engaged in the desired response to the legislation, irrespective of contributing reasons for their behavior.

As I understand it, USDA's Farm Service Agency has not decided how to treat fallowed acres when computing updated bases. One possibility is to let local FSA offices make case-by-case decisions. Another approach would be to treat land fallowed under the circumstances described in California to be categorized as "considered planted" as was done with set aside acreages of yesteryear.

While it is clear that California's a brand new game in crop agriculture, even there, low prices alone were not sufficient to bring about the acreage reduction. It took the massive government payments of F2F, and emergency legislation, and an alternate use for a major resource, water, to induce reduced plantings. And even in this instance the "price responsive" behavior of a number of California farmers was not sufficient to overcome a record rice harvest and downward pressure on prices.

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