

Commodity and land reserves for future contingencies as well as price and environmental benefits

If the loan rates that we discussed in our previous columns are used to take storable agricultural commodities off the market and set a floor on crop prices, what happens to the commodities that are forfeited to the government as full repayment of the loan?

Originally storable commodities received as repayment for government marketing loans were held by the Commodity Credit Corporation (CCC), a US government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. When the market price of a given commodity reached the release price, the government stocks of that commodity would be sold until the price fell back below the release price. The government would profit from the difference between the loan rate and the release price minus accrued storage costs.

In later years, farmers argued that they should be able to profit from the increase in price so Congress established a Farmer-Owned Reserve (FOR) which subsidized farmers to hold stocks of grain in reserve in order to regulate the amount of grain commercially available and thereby stabilize prices. Farmers were paid for storing the grain and could sell it when the price reached a pre-determined level, pay off the loan plus accrued interest, and benefit from the increase in price above the loan rate. Over time, the price band between the loan rate and the release price was narrowed, limiting the effectiveness of the program.

With CCC storage, Congress is not under pressure from farmers when the market price gets close to but does not exceed the release price as it was with the FOR. For this reason, the APAC/TFU (Agricultural Policy Analysis Center/Texas Farmers Union) supply management program uses the CCC to hold forfeited commodities.

The crops in CCC storage serve as a reserve that can be tapped in the case either of a production shortfall or an increase in demand that raises the market price above the release price. How large the reserve should be and what happens to the program when the cap is reached are two important questions for any supply management program.

The reserve should be large enough to handle an expected shortfall in production such as the one we saw with corn in 2012 without fully emptying. APAC and the TFU believe that an additional margin should be allowed for the case in which there is a negative difference between supply and demand in two successive years.

Land setasides can be used to reduce the total US acreage used for crop production and thus total production while allowing farmers to respond to market signals in determining which crops to grow on the remaining land.

In the past setasides were criticized for what was called slippage—the reduction of a given percentage of land in production did not result in an equal percentage reduction in production. The primary reason for this is simple, given a choice, farmers take their worst, most environmentally vulnerable acres out of production. But if farmers are to take acres out of production, aren't these precisely the acres that we would want farmers to put into a conserving use?

For these reasons, the APAC/TFU program includes a voluntary environmental setaside in which farmers are given the opportunity to bid acres into a 3-year program. The bids will be

evaluated based on a combination of price and the environmental benefits gained by taking the land out of production and putting it into a conserving use. Farmers would be responsible for identifying the environmental practices that would be put in place on the land they offered into the bid process.

Because these setasides are voluntary, there is no need for farmers to sign up for the APAC/TFU supply management program, with those who offer successful bids benefitting from the voluntary setaside and all farmers benefitting from the resulting higher prices.

In the past, setasides had to be contiguous and meet certain other requirements. With an environmental setaside, the land could include non-contiguous land subject to wind and water erosion as well as buffer strips designed to reduce farm chemical runoff into adjacent waterways.

The setasides could be measured and compliance monitored by remote sensing satellites. The data would be sent to the local Farm Service Agency office for review.

The farmers who bid land into the environmental setaside benefit from the payments they receive while all farmers benefit from higher prices that result from the reduction in acres. In addition, the public benefits from cleaner air and water.

In the past, setasides were caricatured as “paying farmers not to farm.” With this environmental setaside, farmers are being paid for the environmental benefit they provide on the land taken out of production.

Setasides were also criticized for encouraging our export competitors to increase their production by the amount of land we took out of production. An analysis of the period following the elimination of the previous setaside program as a part of the 1996 Farm Bill showed that while US farmers increased their planted acres, so did farmers in countries that compete with the US in agricultural exports (<http://tinyurl.com/y83foxn6>).

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