

A farm program that achieves our benchmarks

In recent columns we evaluated the major US agricultural commodity policies in force since the adoption of the 1996 Farm Bill using a set of six benchmarks (<https://tinyurl.com/ya3obdgu>). That analysis showed that all of the policies failed to meet multiple benchmarks and that farmers as well as the general public deserved better. As we shared our analysis with our readers, we promised to offer a set of policies that would meet all six of the benchmarks.

It comes as no surprise to most of our readers that we believe that a well-designed supply management program (yes, there can be poorly-designed supply management programs) would meet all six of the benchmarks. While we have written a series of columns describing this supply management program in considerable detail (<https://tinyurl.com/ybux7h77>), we offer the following summary before measuring the program against the six benchmarks.

The farm-commodity supply management program that we have described is the result of work that we—the Agricultural Policy Analysis Center (APAC)—did as a part of a study we conducted for the Texas Farmers Union (TFU). The APAC/TFU proposal begins with a non-recourse loan rate that is set at 95 percent of the full cost of production for corn with the loan rates for most other commodities set at their historic ratio to the price of corn.

During periods in which a commodity is in excess supply and the price is below the loan rate, farmers could forfeit their ownership of the commodity to the Commodity Credit Corporation (CCC), an entity of the US government, as full payment of the loan and accrued interest. This action reduces the supply of the affected commodity available for sale, increasing the price to a level above the loan rate and generally at or above the full cost of production.

The commodity would then be held by the CCC until the market price was at or above the release price—175 percent of the loan rate in our proposal—at which time it would become available for purchase by commercial entities.

If the commodity level held in CCC storage exceeded a pre-set target, the government would accept bids from farmers to place some of their acreage in an environmental reserve. Acres would be evaluated and accepted into the reserve based on a combination of price and environmental benefits. The number of acres accepted through this acreage reduction program would be sufficient to return prices to loan rate or higher levels. These acres would not be commodity specific.

Turning to the benchmarks, by ensuring the prices remain above a loan rate that is near the full cost of production, supply management programs enable farmers to continue to invest in the kind of yield-enhancing technologies that have seen agricultural production exceed current demand. By placing commodities that have been forfeited to a government storage program when prices are low, these programs ensure the availability of a level of supplies that can be used in the case of widespread production problems.

Setting the loan rate close to the full cost of production ensures that the price US farmers receive is near or above the full cost of production and thus do not result in export sales at prices below the full cost of production for more than a marginal period of time. Most of the time, export prices will remain well above the full cost of production.

By taking agricultural commodities off the commercial market when prices are below the full cost of production and reducing the amount of land under production once reserves are at a

pre-set level, the proposed supply management program takes the low price-elasticity of both supply and demand into account.

Because the acreage reduction program is based on the environmental benefits identified in the bidding process, this program seeks to reduce negative production externalities like air and water pollution. A more complete reduction in these externalities would have to involve a combination of direct environmental programs and regulations.

The proposed APAC/TFU program would not be crop-specific, thus allowing farmers to decide what to produce based on agronomic requirements and economic signals among the possible crop and livestock alternatives.

And lastly, by setting the loan rate at 95 percent of the full cost of production and includes an environmental land reserve, the program has a counter-cyclical impact by taking excess production/land off the market when prices are below the loan rate. When prices are above the full cost of production, government costs are limited to storage costs for CCC-acquired commodities and payments for the environmental acreage reduction program.

Some have asked us why we doggedly continue to support supply management programs when conventional economic wisdom has moved agricultural commodity programs in a different direction. We support supply management programs not because once we settled on supply management programs we are afraid to change our minds. Rather, we support agricultural supply management programs because they fulfil our benchmarks.

If someone can show us another commodity program design that can meet the benchmarks we have set forth, we would give it a close examination. But so far, beginning with the 1996 Farm Bill, none of the programs that have been introduced come close.

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