

Additional operational challenges of supply control programs

In this column, the third in a series (<http://www.agpolicy.org/articles19.htm>, 998 and 999) that examines the operational challenges of the APAC/TFU (Agricultural Policy Analysis Center/Texas Farmers Union) supply management proposal (<http://www.agpolicy.org/articles17.htm>, 890-897)—originally designed for the 2018 Farm Bill but now proposed for the 2022 Farm Bill—could face if it were adopted by Congress, we want to begin by looking at the challenge presented by planting flexibility.

While planting flexibility allows farmers to plant based on agronomic and market considerations instead of protecting farm program payments, it also presents us with certain challenges. The APAC/TFU proposal seeks to promote planting flexibility among the crops by setting the corn loan rate at 95 percent of the full cost of production and then setting the loan rates for the other crops at the historic price ratio of each of these crops to corn—we used the 2007-2016 period to calculate the ratios. So, for instance, the soybean loan rate would be set at 2.5 times the corn loan rate and for wheat the ratio would be 1.45:1.

When the market needs additional soybean production, the market price of soybeans is typically 2.7-2.9 times the corn price. When less production is needed, as we see in the current trade dispute with China, the price of soybeans drops to 2.2-2.4 times the corn price as farmers respond to the relative profitability of each crop in making their planting decisions. Farmers make similar calculations for each of the potential crops on their farms.

In an ideal world, that should balance out the production of the various crops in response to weather and market conditions. But what do we do if one crop gets out of line and the level of stocks that have been put into a reserve get unacceptably large and the proportional crop-to-corn loan rate does not result in a switch of a sufficient number of acres to prevent overproduction of that crop?

Do we make a modest downward in the loan rate of that crop? How do we prevent the micromanagement of loan rates that could put the whole system into disarray while attempting to avoid accumulating an unsustainably large crop reserve? Given that the US has not previously implemented a system that uses market price ratios in setting the loan rates for various crops, there will be a learning curve and we may not get it exactly right the first time. Then again, the historic price ratios may work just fine, though they may change with time.

With the loan rates setting a floor on the market price of US crops, how do we protect US farmers from lower-priced imports? If the US is no longer dumping subsidized farm commodities on the world market at prices that are significantly below the full cost of production, is it reasonable that the US sets limits on imports? Certainly, farmers everywhere would benefit from such a system.

Typically, corn prices are much more stable than the price of other crops because a greater portion of the corn crop is domestically consumed, and domestic consumption is more predictable than exports. Exports are a greater portion of wheat utilization while for cotton the bulk of the production is exported. That would suggest that the focus of agricultural commodity policy ought to be on meeting domestic demand with reserve stocks used to balance out the variability in export demand.

While farmers and policy makers have dreamed of an export-led permanent golden age for major-crop agriculture, the reliable market has always been domestic consumption.

Another issue is conservation compliance. Current policy ties conservation compliance to farm program payments and subsidized crop revenue insurance. In the APAC/TFU program there are no program payments and crop insurance is used to protect against yield losses with the loan rate serving as the price component of the insurance program.

We can tie conservation compliance to the 9-month marketing loan program, participation in the environmental reserve program, and the yield insurance program. How do we ensure conservation compliance by those who choose not to participate in these three programs?

While we do not want to tell non-participants in farm programs what they can do with their land, we need to recognize that they enjoy the higher prices brought about by the participation of others in a supply management program and an environmental reserve program that reduces externalities like the silting of waterways and the leaching of farm chemicals into public waterways. These externalities impose costs on others. The responsible action may be to find a way to price externalities into the cost of farming.

We are certain that in these three columns we have not identified all of the ways that supply management programs can fail, but we need to remember that every program has its failures. All we have to do is look at the rising rate of farm bankruptcies to see the weaknesses of the current income support programs. The challenge is to face the problems openly and seek solutions that are based on the economic characteristics of crop agriculture.

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