

PolicyPennings by Dr. Daryll E. Ray

Pursuing a new vision for agricultural policy: Basic Principles

As we begin the process of thinking about the shape of the 2007 Farm Bill, we need a new vision for agricultural commodity policy. This new policy vision needs to be based on a clear set of principles. Here is our list:

First, farmers should receive the bulk of their income from the marketplace and not the government. Government payments should not be used to subsidize integrated livestock operations, agricultural commodity processors and exporters with a below the cost of production supply of grains and oilseeds.

Second, agricultural policy needs to be based on a clear understanding of the unique characteristics of the marketplace rather than ideology. In response to low prices, consumers do not switch to eating 4 or 5 meals a day. Similarly, in the short-run, farmers do not reduce aggregate crop production in response to lower prices.

What this of course means is that producers produce and consumers consume about the same amount of total agricultural output with little regard to changes in price. That in fact is the crux of aggregate crop agriculture's price and income problems: self-correction does not occur adequately when inventories swell and prices go into a free fall, because neither producers nor consumers react much.

Third, the policy should not contribute toward the dumping of agricultural products on international markets. And, fourth, given the current budget pressures, the policy should cost less than the \$20 billion that the U.S. currently spends on farm programs.

One concept that could meet such criteria is the merging of agricultural and energy policy. If some cropland were switched from corn and soybeans to the production of dedicated bioenergy crops like switchgrass, the carryover stocks of major crops could be reduced so that farmers would receive higher prices for their food crops. Instead of relying on idled acres to manage the production of major crops, the USDA could subsidize the purchase of perennial biomass crops like switchgrass by utilities for co-firing with coal to generate electricity.

Support would continue for the production of ethanol from corn and biodiesel from soybeans and other oilseeds. The growing importance of these two biofuels, particularly ethanol, has been instrumental in increasing the domestic demand for these crops at a rate faster than population growth.

Coupled with a program that diverts some cropland to the production of dedicated bioenergy crops is the establishment and maintenance of a buffer stock program of sufficient size as to be able to supply

domestic and export needs in the case of a significant weather or disease related production shortfall. It is important that the production of energy crops not result in food shortages. It would be anticipated that policies would be put in place to establish this buffer stock before acreage would be diverted from food production to the production of biomass.

In the short-run, as utilities gear up to be able to burn biomass, annual setasides could be used to manage the production of major crops. This would result in higher crop prices.

In the long-run, given advances in crop yields and the increase in crop acreage, particularly in Brazil, there is the need for the major crop exporting countries of the world to establish cooperative policies to manage the production of crops.

Comparing the program with the criteria we outlined at the beginning of this article, we find that, to the extent that the nonrecourse loan rate is closer to the cost of production than typical prices of late, cattle feeders and integrated livestock producers, processors, and grain exporting firms will have to pay closer to the cost of production to meet their grain and oilseed needs, otherwise these commodities will go into the buffer stock program. With these commodities being sold at or above the nonrecourse loan rate, the issue of dumping will become moot.

Using the production of dedicated bioenergy crops to manage the production levels of feed and feed crops will provide an alternative to idling land as a means of compensating for the lack of price responsiveness on the part of producers, thus taking into account the unique characteristics of crop agriculture.

And, as a bonus, studies by our office have shown that such a program has the potential to cost half or less than current programs while still maintaining net farm income at acceptable levels.

But the program specifics are really secondary at this point. What is most important is the development of a consensus on the principles that should underlie commodity programs. Commodity producers should be at the center of that discussion. If they are not, others will fill the void.

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