

PolicyPennings by Dr. Daryll E. Ray

## The question is: Which increases production more LDPs or current price levels?

The WTO Cotton Compliance Panel, in part, focused on the effect of the current US subsidy regimen on keeping additional US cotton acres in production, to the detriment of farmers elsewhere because the extra acres drove prices downward. We too are concerned about the impact of overproduction.

First, as far as the US cotton subsidies, given those characteristics of aggregate crop agriculture, it is difficult to separate out any measurable influence that the subsidies had on cotton acreage as compared to the "stickiness" of aggregate crop acreage in the face of low prices. And even if it were determined that the Marketing Loan Payments and Counter-Cyclical Payments helped hold additional acreage in production (the excess production the panels talk about), that could be corrected simply by changing the cotton payments relative to those for other crops.

While farmers do not respond to low prices with significant changes in aggregate planted acreage, they quickly shift from one crop to another based on their relative profitability. Given the right policy environment, farmers will respond to price signals in allocating their acreage among competing crops.

Second, we think that \$12.00 soybeans, \$9.00 wheat and \$4.50 corn will do more to bring extra acreage into worldwide production than any 25 cent Loan Deficiency Payment. Prices like that will bring acreage into production: some in the US, but more in places like Brazil where the potential for additional acreage runs into the hundreds of millions of acres.

Even though many parts of the world had problems with wheat and feed grains production this last year, there is no guarantee that next year will bring the same problems. Certainly \$9.00 wheat will provide significant encouragement to farmers in the Ukraine, Byelorussia, and other parts of Eastern Europe to plant spring wheat and nurture along any winter wheat that has been planted. Nothing brings on a surge of additional production like historically high prices.

What we need to remember is that acreage is not the only resource that high prices will draw into production. Prices like these will enable farmers to purchase the best seed technology that money can buy, encouraging seed companies to push their research for ever higher yielding varieties.

With the high prices and the worldwide availability of advanced seed, chemical, and equipment technology, yield could increase along with acreage. It may take several years for the full boom to overcome the current demand, but eventually supply will once again outstrip supply and prices have the potential to

fall into the basement, certainly below the higher cost of production we are now seeing.

It is often said that low prices wring excess resources out of any economic sector. Let us see what that might mean for agriculture. It is our observation that the first resource to be wrung out of agriculture is farmers. They will go bankrupt, lose their land and seek other employment. For most of the world's farmers, losing their land consigns them to a dismal fate.

The very farmers who are hurt by the long-term impact of extremely high prices are the ones the WTO says it is concerned about. But none of the WTO rulings or proposals will help them in this case.

The land, however, will be sold to another farmer who will in all likelihood continue to use that land for agricultural production. Excess aggregate crop acreage will be wrung out ever so slowly. And the reduction in acreage will not be fast enough to prevent a long series of years with extremely low prices.

The one resource that will not respond to low prices is technology. Once farmers have varieties that will yield over 250 bushels of corn, they will be loathe to return to seed whose potential is lower. In the face of low prices, farmers become ever more dependent on yield driven higher production to help compensate for the low prices.

We don't dispute the idea that US farm policies may result in a relatively small amount of additional crop acreage remaining in production over a period of years. It is just that the additional acreage is very small when compared to the extra production that can result from the current high prices. Without some sort of price floor, stock management program, and supply management program, there is nothing to stop a price freefall should production jump ahead of demand.

We know, everyone is betting on prices going even higher or at least staying in the current vicinity. But as the saying goes "If we do not learn from history, we are condemned to repeat it." And price history following several years of extreme price run-ups, well, it ain't pretty. Then again maybe we are in "a new era," but how many other times have those words been uttered over the decades.

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