

PolicyPennings by Dr. Daryll E. Ray

One could say the cupboard is bare but actually there is no cupboard

Not long ago, the news in agricultural markets was the potential shortage of grains and the call by the American Bakers Association for Congress to take action that would include limiting wheat sales to foreign countries and releasing some acreage from the Conservation Reserve program (http://www.theprairiestar.com/articles/2008/03/27/ag_news/local_and_regional_news/loc10.txt).

In Argentina, farmers, “furious over the government’s decision to introduce a new sliding scale of export taxes, raising levies in some cases up to 45%,” conducted a 16 day roadblock (<http://news.bbc.co.uk/1/hi/world/americas/7319903.stm>). According to the *Washington Post*, Argentine President Christina Fernandez de Kirchner instituted the increase in taxes to “to keep more agricultural products in Argentina, protecting domestic supply and curbing inflation....[and] pay for infrastructure improvements” (<http://www.washingtonpost.com/wp-dyn/content/article/2008/03/26/AR2008032603284.html?hpid=moreheadlines>).

On Saturday, March 29, 2008, New York Times reporter Keith Bradsher wrote “Rising prices and a growing fear of scarcity have prompted some of the world’s largest rice producers to announce drastic limits on the amount of rice they export” (<http://www.nytimes.com/2008/03/29/business/worldbusiness/29rice.html?ref=worldbusiness>). In his article he noted that “Food riots have erupted in recent months in Guinea, Mauritania, Mexico, Morocco, Senegal, Uzbekistan and Yemen.”

He also told of action by the governments of Vietnam, Egypt, India, and Cambodia to limit exports of rice. In the Philippines, President Gloria Macapagal Arroyo “afraid of increasing rice scarcity, ordered government investigators to track down hoarders.”

At the risk of sounding like Johnny One Note, we would suggest that the pressure for governments to institute trade embargos, would be much less if they were willing to hold reserve stocks to even out supplies in the event of a production shortfall and/or a sudden increase in demand. Adequate supplies would reduce the likelihood of food riots that have the potential to topple governments.

When the 1996 Farm Bill was passed we were told that times had changed and governments no longer needed to hold reserves of storable

commodities like wheat, rice, corn, and soybeans. It was argued that commercial enterprises, in their quests for profits, would provide that function if there were a need for reserves.

We now read that over 7 of the last 8 years (2000-2007) the production of grains has been lower than the consumption. These years include the 2000 and 2001 crop years when prices were extremely low and US farmers were collecting emergency and marketing loan payments. We were told that the prices in those years were low because farmers were overproducing.

The US virtually eliminated government-held stocks under the provisions of the 1996 act. With consumption exceeding production, stock levels for grains fell by over 200 million tons since 2000.

The present volatility is no surprise given the drastic reduction in grain stocks over the last eight years coupled with farmer investment in ethanol plants to increase grain.

If supply management programs had been in place over the last 10 years, some grain would have been taken off the commercial market and placed in a reserve that would have been available to dampen the double shock of production problems in Australia and Ukraine and increased demand for corn for ethanol production.

To us there is an obvious connection between not having public storage cupboards and the calls for export limitations and the spirited demonstrations protesting food shortages and high prices for staples.

From the tongue-in-cheek department: If the commercials have squirreled away stocks—as we were promised they would do—now would be a good time to report them and put them on the market.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of UT’s Agricultural Policy Analysis Center (APAC). (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; http://www.agpolicy.org. Daryll Ray’s column is written with the research and assistance of Harwood D. Schaffer, Research Associate with APAC.