

# Farm program considerations: Part 7

One of the key elements of a supply management program is the ability to reduce production when the reserve supply of storable agricultural commodities—commodities that the government has taken off the market as part of a marketing loan program—begins to reach a preset limit.

Commercial firms do that sort of thing all the time. When the supply of a line of trucks or automobiles begins to stack up in dealer lots around the country, they shut down a production line for as long as it takes to sufficiently reduce the backlog of vehicles.

In the first years of a supply management program the government can accept commodities into a reserve with little to worry about. But if crop production continues to exceed demand, eventually something needs to be done to prevent the reserve from becoming too unwieldy and that something is to do what any commercial firm would do; reduce production.

The problem is that reducing production is more difficult for agriculture than it is for the average commercial firm. In agriculture, the number of decision makers can exceed a million, while at a commercial firm, the decision is made by a team with a small number of members. And, they certainly do not put the decision up for a vote by the workers on the affected production line.

Like with the production workers, it is not in the interest of individual farmers to cut production to reduce the oversupply and increase the price. In the past, this task was assigned to the Secretary of Agriculture who would set a target for the number of acres that needed to be taken out of production for the crop in oversupply.

As we have argued, it makes much more sense to reduce total acreage rather than doing this crop by crop and then allow farmers to adjust their production mix based on market and agronomic factors. If the loan rates are set based on the relative profit per acre of various crops, the oversupply should be alleviated without individual crop limits.

That leaves us with the task of figuring out how to get farmers to reduce total production. Farmers can be required to reduce production as a condition for participation in the farm program. Or, the acre reduction program can be voluntary in which case the government offers inducements that will cut the acreage by the amount necessary to reduce the level of agricultural commodities held in storage.

There will be farmers who will not participate in a farm program that includes a mandatory acreage reduction element. Some farmers have taken to heart the things they learned in their university classes in economics and farm management. They have come to believe that agriculture is one of those self-correcting markets they learned about and if the government gets out of the way, everything will turn out OK in the end.

Others are in farming because they have a spirit of independence and believe in a limited role for government. Still others are large enough and diversified enough that they feel that they can weather almost any downturn in crop prices. Besides that, they will benefit from higher prices if others make the requisite acreage reduction. Economists call that the free-rider problem; those who refuse to contribute to the reduction in the oversupply benefit from the increased prices just as well as those who took the corrective action.

That would suggest that a voluntary program that leaves the participants in the acreage reduction program as well off as those who stayed out of the program. The cost will be higher with a voluntary program that has to provide incentives to participate than with a mandatory program, but it will attract less opposition.

One option is to have farmers bid acreage into the program in the same way that they do with the CRP, except that this reduction would be made on an annual basis. The request for bids should include and pay for meeting environmental objectives. For instance, farmers might be encouraged to include buffer strips along waterways that course through the land they bid into the program, rather than limiting the reduction to whole fields.

Farmers will typically bid their least productive land into an annual acre reduction program which means that if a 2 percent production cut is needed, it may take an acre reduction of 6 to 8 percent to achieve that goal. This is called slippage, but that can be managed by keeping track of the historic production of the acres being accepted into the program.

There will be years when growing conditions are optimal and the reduction in acreage will not be adequate to significantly reduce the size of the reserve. At the other extreme, policy makers can count on years with setbacks when production problems alone would have achieved the desired stock levels. The reserve needs to be flexible enough to handle both extremes.

If properly instituted a supply management program would be less expensive than current programs, protecting farmers from extremely low prices and consumers from extremely high prices.

*Policy Pennings Column 852*

*Originally published in MidAmerica Farmer Grower, Vol. 37, No. 98, December 2, 2016*

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