POLICY PENNINGS

By Daryll E. Ray

Notice to Mali farmers: Forget subsidy levels; Focus on lack of policies to limit production

The 2002 Farm Bill is getting quite a hammering in the press, especially because of the $17-$19 billion a year cost. As you know, I have serious misgivings about the bill, but I am equally concerned because most of the press criticism misses the mark. A recent article in the Wall Street Journal is among those that miss the mark. This week I am sharing with you a letter to the editor that I am mailing to that publication.

Dear Editor:

Count me among those who have serious reservations about the effectiveness of the 2002 Farm Bill. While I applaud a number of the provisions in the legislation like the energy title, the expansion of conservation provisions and the strengthening of farmers' rights in some production contracts, I believe it contains some critical flaws particularly in its commodity provisions. It is my hope that thoughtful analysis of this recent work by the U.S. Congress can identify ways to revise and strengthen farm policy legislation so that it can better serve farmers and consumers both here in the United States and abroad. On the other hand, I am concerned that much of the criticism of the 2002 Farm Bill misses the mark and fails to identify the portions that need revision.

The front page article of June 26, 2001, entitled "How cotton glut bred by U.S. farmers harms poor farmers abroad," while coming tantalizingly close to tackling the real issues, in the end, misses the mark. To start with, the headline, along with the subhead that reads "Mississippi growers receive subsidies and grow more, depressing prices in Mali," gives the impression that U.S. cotton farmers have expanded their acreage in response to the subsidies provided by the recent versions of the U.S. farm program. In fact, 2001 U.S. cotton harvested acreage was 13.8 million acres, down from a peak of 16 million acres in 1995. It is true that U.S. producers produced more cotton in 2001 than in the previous year, but that gain in production was a function of weather and yield gain and not directly to the farm program or expected payments.

So, have U.S. farmers "bred a cotton glut" as is alleged by the title of the article? As with many issues, the answer is no . . . and yes. The answer depends on "compared to what?" If you mean compared to legislation prior to 1996 or earlier legislation, the answer is yes. Under the present farm legislation we have cotton acreage in production that would have been idled under earlier legislation. In the past, in response to low prices, the U.S. farm program required participating farmers to reduce acreage planted to major crops in order to control production.

As a part of earlier legislation, at the low end of the price range, farmers could put their crop under a non-recourse loan and forfeit their crop to the government if the price was not above the loan rate at the time the loan became due. That non-recourse loan rate effectively set a floor on the price of cotton for both the U.S. and, to an important extent, the world. International producers could set their price just under the U.S. loan rate and know that they would not have competition from American producers. The non-recourse loan and acreage reduction programs of yesteryear effectively protected producers both here and abroad from a freefall in prices, because excess production would be taken off the market and put in government storage until prices rose enough for it to return to the market. In addition, U.S. acreage, which accounted for 20-22 percent of world production, would be reduced. Then, when supplies got tight, the acreage could be brought back into production.

Under current legislation there is no floor on prices. In addition to fixed decoupled payments, U.S. cotton producers are guaranteed a minimum per pound revenue at the loan rate level, but now under the current farm program the government writes a check to cover the difference between the loan rate and the depressed market price. Cotton prices can plummet, much as they did this past year, to levels not seen in decades because the mechanism that once was available to isolate sufficient cotton from the market to hold prices to loan rate levels was jettisoned.

Yes, since farm program mechanisms available under traditional farm policy legislation are not part of recent legislation, there is no question that recent U.S. farm policy legislation is to blame for the depressed (below loan-rate levels) U.S. and worldwide commodity prices, cotton included. The freefall result, in the case of cotton, is especially likely to occur in a year like 2001 when West African nations like Mali, Burkina Faso, Benin, and Cote d'Ivoire along with the United States all saw a significant jump in yields, and hence production, due to favorable weather.

But the current legislation should not be blamed for higher production and lower prices simply because the direct payment subsides under the 2002 legislation are higher than subsidies authorized in previous legislation. The reason why higher subsidy levels should not be blamed is because a change in the level of subsidies has a miniscule effect on the level of total major-crop production in the U.S. and therefore an almost imperceptible impact on commodity prices. The level of subsidies affects the price of land and who farms the land, not whether the land is farmed. This characteristic of agriculture is nearly absolute but is commonly unknown or ignored by those who discuss farm policy. And it's different from other sectors of the economy where fixed resources are free to flow in and out to adjust markets. Of course all of this is not to say that there is no impact on production and prices as subsidies change. But the impact of a 1 to 5 percent increase in the price of 30 cent per pound cotton is quite different from the elimi-

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nation of farm program mechanisms that could prevent a 50 percent drop from 60 cent cotton.

Farmers in the U.S. and Mali would be better off if, in response to an oversupply, the U.S. re-established non-recourse loan and acreage reduction programs in the short-run and in the longer-run, for example, provided a subsidy to entice some farmers to switch to production of a dedicated energy crop like switchgrass. With time for electrical utilities to gear-up, moving farm acreage to a dedicated energy crop could markedly reduce farm subsidies, provide an alternative source of relatively environmentally-friendly fuel, and raise the prices Malian and other farmers receive for cotton and other major-crops.

A fundamental problem of the current farm legislation is that, in the end, cotton mills, in the cotton case, are able to obtain cotton at below the full cost of production, penalizing farmers everywhere.

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