There are no coordinated international and regional pantries stocked with food staples

In recent columns we examined four crises in the context of food and agricultural issues that have been highlighted as the result of the Russian invasion of Ukraine. This war involves two of the world’s major suppliers of grains and oilseeds and the resulting disruption—a partial embargo of Russian grain exports and the blockade of grain shipments out of Ukrainian seaports—of world grain and oilseed export markets.

Early in the Russo-Ukrainian War, David Beasley, executive director of the World Food Programme talked about the food availability crisis as Ukrainian and Russian stocks of key grains and oilseeds and their products were isolated from normal trading channels. He saw this as leading to an increase in the number of hungry people in countries dependent on imports to feed their population.

Beasley also saw a food affordability crisis looming on the horizon in the coming year as the result of his prediction that in response to higher prices for fuel and agricultural chemicals farmers would reduce their use of agricultural inputs and thus total agricultural output. He posited that the result of this reduced production would be an increased level of hunger and undernutrition in the world. We argued that assuming farmers would deliberately reduce production in response to high input prices reflects a lack of understanding of agriculture on the part of Beasley.

Having said that, the food affordability crisis is real and ongoing, economists call it ineffective demand. There is a portion of the world’s population that cannot afford to purchase an adequate amount of food, even during periods of time when the market price of grains and oilseeds is well below the full cost of production. The “demand” is there, people need the food, they just cannot afford it.

To Beasley’s two crises, we added two of our own: the endemic hunger crisis we have failed to solve over the last 50 years and the looming farm profitability crisis that will result from increased agricultural production as farmers seek to capture the recent high prices.

The challenge for us as agricultural policy analysts is to identify a suite of policies that will begin to address these crises in a comprehensive manner.

Our starting point will come as no surprise to our long-time readers and critics alike. From our perspective the core of any realistic agricultural policy involves a supply management program for storable commodities which puts a floor on agricultural prices by sequestering a portion of production from the open market. In the past, along with the Texas Farmers Union, we proposed allowing farmers to take out a government loan on their harvested crop at a loan rate that is set at 95 percent of the full cost of production for corn with the loan rate for other crops set at the historic ratio of the price of each crop to the price of corn.

If at the end of the loan period, the payoff amount for the loan is greater than the current market value of the crop under loan, the farmer can forfeit ownership of the crop to the government as full payment for the loan plus accrued interest. This sequesters a portion of the crop from the marketplace and puts a floor on crop prices. It also provides a crop reserve that can be drawn upon to meet the market’s needs when there is a disruption in the market due to any cause, be it a shortfall in production or a war that puts distribution channels in disarray.

In the past we have focused our discussion around the details of US agricultural policy. In the current context, we argue for the need to have a coordinated international set of supply
management policies that allows for the creation of set of national and regional reserve stocks sufficient to meet the world’s food needs in a period where we see both a war-related disruption in crop markets and a significant shortfall in worldwide production of critical grains and oilseeds at the same time.

Farmers in developing and least developed countries would also benefit from the international price floor by providing them with a minimum price as well—the price in the nearest exporting country plus shipping costs to get the grain or oilseed supply to their community. Given that small-holder farmers in many countries are counted among those experiencing chronic hunger, providing them with a floor price would be beneficial.

Does our proposal run against the conventional economic and policy wisdom of the past 50 years? It does.

Does our proposal provide the world’s population with a greater level of food security? It does that as well.

In our next column we will flesh out our proposal in greater detail and show how our proposal addresses the four crises.

Policy Pennings Column 1139

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