Just the check, Please

Our brief survey of a few of the general categories of commodity program options continues in this column.

Write Checks

Continuing to use government payments to support farm incomes is by far the front-runner as the central feature of the commodity portion of the next farm bill. That could mean using contract payments and loan deficiency payments much as they have been under the existing legislation, but would likely include adjustments in the size of contract payments and the level of loan rates.

After that, proposed modifications to the income-support approach seem to increase geometrically.

One suggestion is to do away with the loan deficiency payments and only use super-sized contract payments to support farm income. Others have suggested using a completely different criteria for distributing the "contract" payments. Such a change, for instance, could require the use of certain conservation and environmentally friendly production practices in order to be eligible for the payments.

Some have proposed keeping the current set of payments and then adding on environmentally related payments. Another possible add-on to the current program would be a version of a Supplemental Income Program (SIP) that could replace the emergency payments (market-loss and disaster) that have been paid out since 1998.

Programs such as the SIP, tax deferred farm savings accounts and revenue insurance in general are appealing, but what if inventories build and prices and incomes fall for many years in a row? For these programs to work as many are visualizing they would, it seems that these options would depend upon agriculture having a few good years, if not as many good years as bad years. The good years would be needed so that accounts can be built-up and farmers do not have to collect increasingly large "insurance" payments year-after-year.

Some commodity advocates are interested in broadening the eligibility for payments beyond those farmers who grew program crops in the early 1990s. Fruit, vegetable, specialty-crop, and livestock producers have all shown an interest in getting government checks, not all are so inclined, of course.

Inventory Management

Broadly defined, inventory management could include any mechanism for adjusting the quantity of commodities that come onto the market. It might mean dealing with output after a commodity is produced or adjusting resource-use to affect how much is produced. These were the bread-and-butter programs of legislation past. They were left out of the current legislation and probably will not be in any legislation in the near future.

One the one hand, farmers like to farm, not set-aside land, and on the other commodity stocks limit prices. Well, yes, but does that mean we want crop farmers to produce no matter what? We know why farmers do not reduce production on their own. It is not in their best interest to reduce production in response to low prices unless all their compadres also reduce production. If one alone reduces production, he/she receives the same low price for less output. And in contrast to the three flour plants recently closed by Cargill, a farmer's land will almost assuredly remain in production even if the current farmer is no longer farming it.

Yes, government or Farmer-Owned-Reserve stocks can put a ceiling on prices. How high the ceiling is depends on the builder of the policy. But, there are a couple things to remember. One is that once grain is produced, it to has to reach the market sometime. It can reach the market immediately as it does now or it can be held until prices are higher. The other point is that having stock on hand can be an export-market saver if we have drastically reduced yields for a year or two. While domestic producers are likely to have the first crack at any reduced production, satisfying the demand of livestock enterprises that produce no grain of their own could also be in question.

But at least for now, inventory management programs do not have as much currency with policy makers as currency itself.

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