POLICY PENNINGS

By Daryll E. Ray

Year in review: A potpourri of issues

We continue our look back at some of the issues addressed in columns published in 2001. We began the year by looking at the effect that switching some US crop acreage from food production to energy production would have on farm prices and income. In particular we summarized an analysis completed by Dr. Daniel De La Torre Ugarte of our Agricultural Policy Analysis Center here at the University of Tennessee. If the infrastructure had been in place beginning in 1996, and if farmers were able to receive $40 per dry ton for switchgrass, 22.23 million acres could have profitable been converted to switchgrass production. As a result, for the 2000 crop year, corn prices would have been $.20 higher, Soybeans would have been $.90 higher, wheat would have been $48 higher and cotton would have been $.05 higher. In each case the resulting crop price would have been above the loan rate and farmers would not have needed to depend on LDPs for a portion of their income. The government could then have used the LDP savings to purchase the switchgrass from the farmers, given the switchgrass to the utilities FREE and still saved more than $1 billion over the five year period. In addition, over the period of 1996-2000 (a time of both high and low prices), net market returns for the eight major crops would have increased by $3.6 billion and in addition producers would have received $657 million from the sale of energy crops. While not all of the infrastructure is currently in place, this study does suggest that shifting some acreage from food crops to energy production might be beneficial for farmers and the federal budget. In addition electrical consumers could benefit from such a program.

In a couple of columns we looked at the fact that the quantity demanded for crops responded very little when prices fell by as much as 40 percent since 1996. One of the expectations of the 1996 Farm Bill was that lower prices would have two effects on the demand side: the quantity demanded would increase as export customers would purchase more and our export competitors would reign in their production levels. Neither happened. Food is not like other products, lower prices do not stimulate people to buy more food. Consumers may switch to better cuts of meat and eat out more often, but they won't add a fourth meal. On the supply side we discovered that farmers in other countries are very much like farmers in the US. Despite low prices they continue to produce, hoping that someone somewhere else will have a crop failure and prices will increase. In fact as we saw in last week's column, our export competitors increased their acreage by 36 million acres despite a 40% price drop.

Even yet there seems to be a fixation on exports as the answer to price/income problems in crop agriculture. Recently the USDA released a publication in which they asserted that in the United States, "domestic food needs grow only at the same slow pace as the population expands." When we looked up the data we discovered that the statement is incorrect. Domestic demand of total grains and seeds in the United States is increasing at a pace faster than the population, partly because of the increase in nonfood demand, while exports have declined by about 20 percent since they peaked in 1979.

For the last five years production of total grains and seeds has grown at a rate faster than the growth in demand for these commodities. What are the chances that this trend might continue, or at least, are there factors that might continue to contribute to growth in the supply of agricultural commodities? We identified four factors that might lead to continued growth of the international supply of seeds and grains. First and foremost is yield increase. With all of the public and private investment in crop research one can expect to see yield gains continue to increase resulting in higher production levels. Related to this is the work of crop geneticists in adapting crops to regions and climates very different from the ones where they were traditionally grown. In Brazil, for instance, this has opened up additional acreage to soybean production. As we saw last week, economic development provides an additional incentive for increased crop production in developing countries. A fourth factor is the drop in acreage that has occurred since the break up of the former Soviet Union. In Russia and Kazakstan, alone, acreage has dropped by nearly 70 million acres. With the recent investments in the republics of the former Soviet Union by US based agribusinesses, one would expect to see some of that acreage come back into production.

We devoted two columns to the controversies that swirl around the issue of Genetically Modified Organisms (GMOs). The first column looked at pollen drift and the effects it might have on non-GMO producers. Some producers are being sued for growing crops with the proprietary GMO genes in them. These producers contend that they did not illegally save GMO seed, but rather their fields were contaminated either with pollen drift or unwanted volunteer crop left over from the past or blown into their fields from uncovered grain trucks driving down the road. The another very real potential problem is pollen drift onto fields of organic or open pollinated crops. For these producers, the presence of GMO genetic material would significantly reduce the value of their crops. In the other column we repeated our suggestion that rather than force our customers to purchase GMO crops we should remember that "The customer is King," and we might do well to produce whatever is wanted whether it be GMO corn, non-GMO corn, high lysine corn, white corn or whatever.

Within the last couple of weeks as debate over a new farm bill hit a fevered pitch, we had the temerity to suggest that well designed and implemented production controls might do more for farmers and the federal budget as well, than all of the proposals now on the table. Industry regularly implements production controls to reduce surplus production and downward price pressures. Their decisions are not driven by the needs of their suppliers. The same should be true for agriculture.

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