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Decouple in the Long Run

by Rudy Boschwitz
United States Senator

One of the thorniest patches we have to pick through in developing agricultural policies is finding a way not only to deal with farmers' problems for the next growing season but address their future as well.

We have made substantial changes in agricultural policy nearly every year in this decade. That does not serve farmers well, and it leads inevitably to farmers spending more time worrying about government programs, and how to work them, than to thinking about how to make money through the market.

So, while I do not like many aspects of the current programs, I am not advocating severe changes in farm policy over the next two years or so. I'd like to let us work through this farm bill—which, despite its flaws, does many of the right things for agricultural policy—before we adopt a new approach.

Large Changes May Be Needed

When we do revisit farm legislation, though, large changes may be necessary to reform our farm programs and make them more sensitive to markets and the government's budget. We need a farm policy that takes care of the future, too.

For 50 years, federal farm programs have stimulated production of certain crops by providing income and price support for those who participate in such programs. At the same time, farm policy has tried to prevent overproduction of those crops by requiring farmers to set aside certain portions of their land.

But farmers have always been able to outsmart that approach through technology and careful selection of lands for set-asides. The programs have led to a spiral of more intensive production, higher price supports, higher production, higher set-asides and then higher price supports again. All this is done in an effort to prevent the lower prices that would result from high production incentive.

Break the Link. To reform agricultural policies for the long run, we need to break the link between income support and the requirement that farmers plant a certain crop. The approach that I first suggested in 1985 with Senator David Boren of Oklahoma would break that link and put us on a road toward market-sensitive agricultural production and

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pricing. We call it "decoupling."

The goal of decoupling is to make the farmer's planting decision entirely neutral from the government program. Total decoupling would mean that the farmer would produce crops solely according to market signals while still receiving a declining level of income support from the government.

Four Conditions. Several conditions must be met before the planning decision becomes neutral.

—The income support payment (which we call a transition payment) must be made relative to an historic measure of base and yield. New farms created by clearing land or splitting up farms to avoid a payment limit would not be able to receive payments. In addition, higher yields would not be rewarded with subsidies.

—The payment must be independent of what is planted in the current year. The farmer can grow whatever he wants—or nothing at all—and still get the payment. Some protection would be given to producers of non-program crops, but that protection would be reduced as income supports decline for program crops.

—The amount of the payment must be known in advance so that the farmer can depend on it. The transition payment, therefore, cannot be like the deficiency payment, which gets smaller as the market price rises above the loan rate. If the payment is not reduced when the price rises, the farmer will benefit from market price improvement above the loan rate. In other words, you have to give farmers a taste for the market by giving them the "up side of the market."

Rudy Boschwitz is Senator from the State of Minnesota.

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—There must be no annual acreage reduction requirement as a condition for getting the payments. Currently, program crops have acreage reduction requirements ranging from 0 to 35 percent. Unless these requirements are eliminated, the farmer's planting decision would be skewed toward the crop with the lowest set-aside. The conservation reserve program could remain in place as a way to preserve our resources and as a safety valve on production.

If these conditions are met, it would be straightforward and justifiable to phase down the government's involvement in agriculture. The income support payments could be reduced on a set schedule over a period of years, as supply and demand came back into balance and prices improved.

Costs

Initially, the program would cost more than current programs, but would decline to levels that are less than the current law. To make the program attractive to farmers and to elicit a real market response, the loan rates in this program would need to be very low—$1 a bushel on corn or less, and correspondingly low rates on other crops. The transition payments would have to be fairly lucrative in order to have an income above variable costs equal to what it is under current programs. The overall effect from decoupling the income support from planting requirements in this way would be to eliminate the production incentive

that currently comes from the target price and loan rates.

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Advantages

An interesting conclusion from the decoupling concept, given the current low market prices, is that farmers might choose to leave a lot of land idle if they were free to do so. In other words, economics could balance supply and demand where government intervention cannot. This becomes clear when we contemplate corn prices in rural Minnesota between $1.00 and $1.20 per bushel. Yet, the variable costs of production are roughly $135 per acre. If a farmer gets a yield of 100 bushels per acre, at a dollar a bushel, the crop is worth $100 per acre, and the producer will have lost $35 per acre on every acre planted. The producer would have a higher income by leaving the land idle and taking a transition payment that is at or above the variable cost of production.

But our present program makes the producer sustain that $35 loss in order to be eligible for a deficiency payment of about $100 per acre. This farmer would have a $35 increase in income per acre if he planted nothing and was still able to receive his deficiency payment.

Permit Supply Adjustment. Fewer acres might be planted under my plan, but that would be because of economic forces taking land out of production, not an arbitrary government program. It would allow farmers to make a significant supply adjustment by their own choice and then bring land back into production when conditions improve. Such a program would allow for much more efficient resource use than is now happening. Our best land and best producers would be free to produce, while producers with high costs and/or low yields would be free to refrain from planting on all of their acres.

Compatibility With Free Trade. Another significant point about decoupling is that it would make our domestic programs much more compatible with free trade in agriculture. Making these changes would complement our efforts in international trade talks. Not only would our programs be in the best interest of the U.S. domestically, but we would have fashioned a system of income subsidies which have little effect on production. Thus, it would cause fewer trade distortions than current programs. Moving our domestic policies in this direction could well increase our leverage at international trade negotiations.

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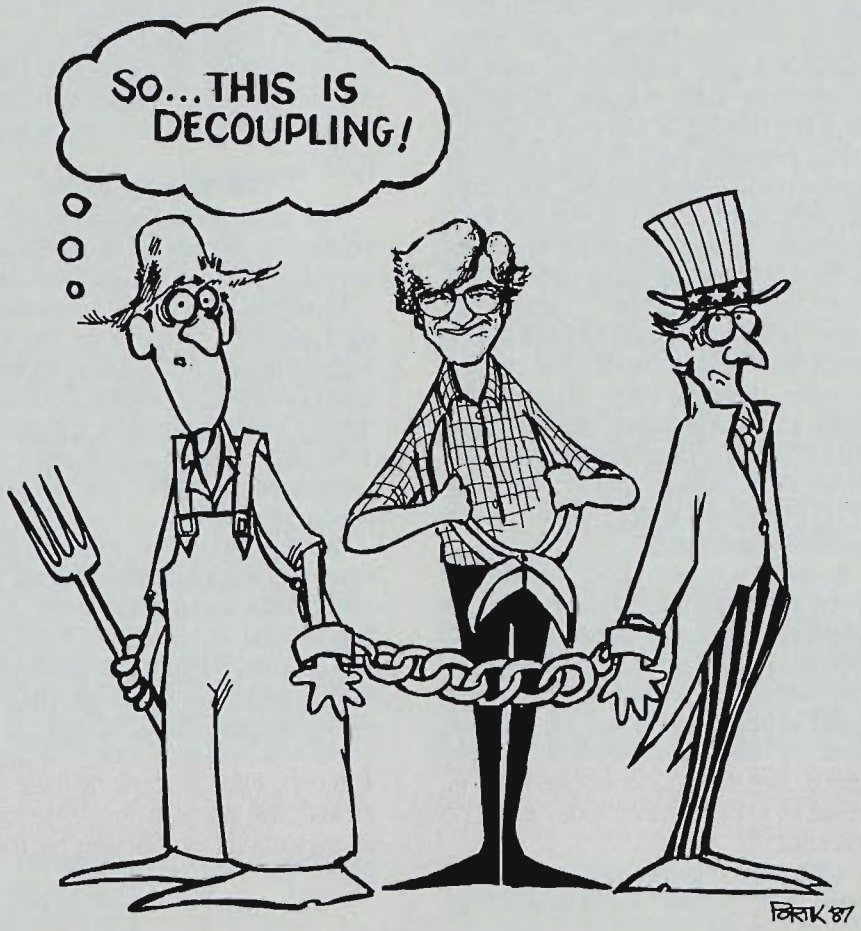

Use Our Infrastructure. Decoupling would also allow us to use to the fullest extent our infrastructure and transportation advantages. These industries supply the vast majority of the agriculturally based jobs in this country and often are forgotten in the farm debate.

Finally, while a good deal of lip service is paid to the "independence" of farmers, government programs have actually made them terrifically dependent. The government controls how much money farmers make and how many acres of each crop they plant. We need a program that allows farmers to use their own intelligence and savvy to master the marketplace. ■

For a copy of a question and answer pamphlet on 'Decoupling,' write to Senator Rudy Boschwitz, United States Senate, Washington, D.C. 20510.