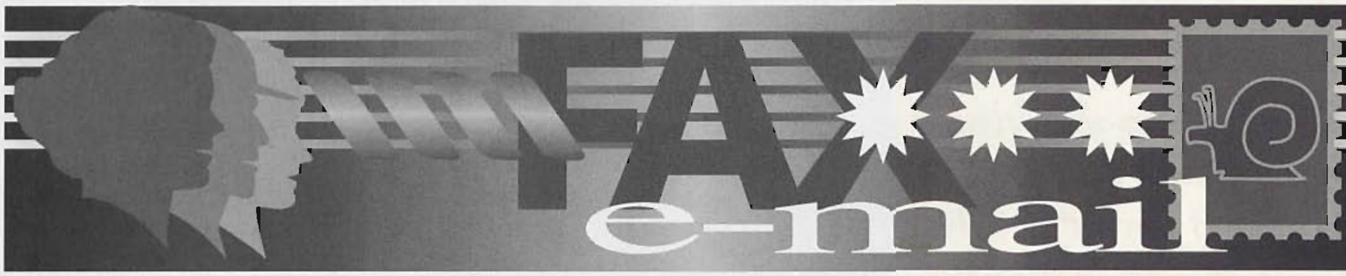
Letters



"Will Policy Changes Usher In a New Era of Increased Agricultural Market Variability?"

Comment

■ In their article (*Choices,* Second Quarter 1998), Keith Collins and Joe Glauber state: "Our view, presented at a Senate hearing on volatility, is that there is no compelling argument to make us believe that price and income volatility for most major commodities will be much different than during the recent decades prior to the 1996 Act." When I began to evaluate this issue, I expected to support Keith and Joe's conclusion. I now question it, especially with regard to net cash income. My comments focus on net cash income variability.

Using national program parameters and average U.S. yields, prices, and cash costs of production for the 1986–95 crops, I calculated the standard deviation of net cash returns, differentiated by farm program participation or nonparticipation. These calculations are essentially for the average U.S. producer. Averaged across the seven crops that received deficiency payments, standard deviation of net cash income was 29 percent smaller for the participant situation. Participation reduced the standard deviation by 47 percent for wheat, 45 percent for rice, 32 percent for sorghum, 24 percent for oats, 23 percent for cotton, 15 percent for corn, and 13 percent for barley. Different subperiods reveal the same finding. For example, standard deviation of net cash income averaged 21 percent smaller for the participation situation during the 1989–95 crop years, a period of low public stocks.

Historical analysis is limited by its focus on the past and by the fact that policy decisions probably increased nonparticipant's income variability. However, the size of the difference and its robustness over different periods suggest confidence in at least the direction of impact. Furthermore, Kastens and Featherstone's simulation analysis of the 1996 farm bill found that it increased income variability [see "Federal Agricultural Improvement and Reform Act of 1996: A Kansas Perspective," *Review of Agricultural Economics* 1997, pp. 326–49].

Program participants experienced lower net income variability, in part because of acreage set-asides. The set-aside requirement was inversely related to stocks and, thus, price and net cash return. Therefore, the set-aside feature of farm programs allowed farmers to avoid low return years on relatively more of their acres. This argument is supported by the finding that, for the 1986–95 crops, the standard deviation of gross cash returns averaged only 11 percent smaller for the participant situation. The impact of set-asides on net income variability largely has been ignored, probably because demand growth was expected to make set-asides unnecessary even under the 1990 farm bill.

The elimination of set-asides also changes the adjustment process to low prices, thus compounding the effect of increased net cash income variability. Set-asides distributed the adjustment to low prices across the U.S. by requiring all program participants to set aside the same proportion of their land. In contrast, adjustments to low prices under the 1996 farm bill will be concentrated in areas which are most inefficient and/or have the least ability to switch to other profitable crops. This new adjustment process exacerbates regional differences and, in part, explains the current concerns in the Northern Plains over low wheat prices. Luther Tweeten and I explore potential regional shifts in crop production associated with the 1996 farm bill in "The Post-Commodity-Program World: Production Adjustments of Major U.S. Field Crops," an article in *Choices,* First Quarter 1996, pp. 8–10.

What does the above suggest about the potential for changes in the 1996 farm bill? My normative view is that net cash income variability is not a significant problem for most farmers because off-farm income substantially stabilizes their total family income. The remaining farmers are well enough off that they can pay for nonsubsidized private insurance, if they want it. Despite this normative argument, I expect government's role in stabilizing net cash income to increase because the adjustment process set in motion by the 1996 farm bill will be viewed politically as too painful for farmers, particularly those living in the most affected parts of the country. The policy process could differentiate between the two effects of eliminating set-asides, but it is unlikely to do so because its primary mode of conduct is compromise among different agendas and issues.

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Role Models

■ I appreciate J. Paxton Marshall's letter (*Choices,* Second Quarter 1998) kindly praising my profile on S. V. Ciriacy-Wantrup and earlier profiles on giants of our profession. Most especially

I appreciate Dr. Marshall's urging that *Choices* continue to allocate space to such profiles. Due to health problems I shall be unable to submit further profiles for the editor's consideration. However, I fully agree with Dr. Marshall's reasons why these profiles meet a need, and I earnestly want to encourage other readers of *Choices* to write and submit profiles.

Biographical profiles on the giants offer much of interest and enduring relevance to agricultural and resource economists. The first lines of our profession's scope and method were graven deep, never to be erased by succeeding generations of economists but rather modified by a process of gentle change.

Suitable subjects are not lacking. Among the pioneers of our profession who died before the election of fellows began in 1957, and among the fellows who have died, there are economists whose highly exemplary lives and contributions to the betterment of society can and should serve as role models for young economists of the future. There also are living senior economists who can and should be interviewed for the same purpose. Profiles on these giants will help future generations of agricultural and resource economists to develop a stronger sense of identity as a profession that seeks to serve humanity.

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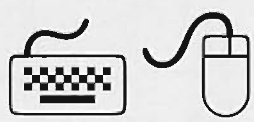
The Editor's Box

An opportunity to share your ideas and insights

How might the editor communicate with over 6,000 readers to better elicit *their* ideas for *their* magazine? Our recent call for abstracts for the upcoming special millennium issue brought abstracts from readers not heard from before. Furthermore, we expect many economists outside academia work on exciting topics and might be encouraged to share their insights with *Choices* readers. That's the idea behind "The Editor's Box"—to ask you, the reader, for topics you want covered in the magazine, and to invite you to write on special topics.

Some readers have already suggested topics for future issues:

- the Mississippi lock system
- the success of TRQs
- agriculture and rail mergers
- intellectual property rights



Might you be working on these topics, and like to write for *Choices*? The *Choices* Web page (www.aaea.org/choices/) gives guidelines for authors, and the editor is glad to discuss ideas with potential authors.

So, send an e-mail, call, or write to let the editor know about the topics you want covered in *Choices*. And if any of you have information, especially carefully reasoned economic information, on the above topics, this is your chance!