AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

"A New Era of Increased Agricultural Market Variability?"

Reply

■ In his comments to our earlier article ("Will Policy Changes Usher in a New Era of Increased Agricultural Market Variability?" Second Quarter 1998), Carl Zulauf has raised a number of points concerning price and income variability under the 1996 farm bill ("Letters," Third Quarter 1998). He cites data that show that the net returns to farm program participants were less variable than net returns of nonparticipants during the period 1986–95. He then concludes that the 1996 farm bill will lead to more variability, in part due to the elimination of acreage set-aside authorities.

Comparing nonparticipant to participant income is not particularly relevant to the issue of whether the 1996 farm bill will lead to more variability. While we would agree that producers who did not participate in the programs were likely exposed to more income variability, much of the variability was caused by government programs that oftentimes distorted markets through acreage bases, annual and long-term set-asides, and reserve policies. For example, the release of Commodity Credit Corporation inventories through the use of generic payment-in-kind certificates in 1986 resulted in Iowa corn prices falling to $1.25 a bushel in the fall of 1986. If you were a program participant (which most producers were) you were protected by the loan program, but if you farmed outside of the corn program your cash returns were sharply reduced. The difference in net returns may explain why participation in commodity programs was so high during crop years covered by the 1981, 1985, and 1990 farm bills, but it does not give much insight into whether the 1996 farm bill will result in more or less variability. A more valid comparison would be a counterfactual analysis that held all exogenous variables constant and examined variability measures for participants and nonparticipants under the 1996 farm bill compared with, say, the 1990 farm bill. To our knowledge such analysis has not yet been done.

We find it curious that Zulauf would focus on set-aside policies as a major determinant of net income stability. Unlike buffer stock policies, annual set-asides have only limited effectiveness in stabilizing price. Much of price uncertainty is resolved after planting when yields and foreign supplies are determined. As pointed out in our article, the effectiveness of annual set-asides in stabilizing prices is limited further by the practical consideration that announcement of set-aside rates were required by law to be made as much as six to nine months prior to planting. As the 1995 corn ARP decision exemplifies, market conditions may change, but it is difficult to make adjustment in government policies.

The other problem with annual set-asides is the need for crop-specific acreage bases to be effectively implemented. Whole farm set-asides, such as were used under the 1977 farm bill, are generally less effective when trying to reduce area for a specific crop. On the other hand, under the crop-specific acreage bases of the 1981, 1985, and 1990 farm bills, producers were generally restricted from overplanting their acreage bases without losing program payments. This effectively limited acreage response when market prices were high.

Zulauf's point about regional differences is well taken. Areas of the country with limited alternative cropping opportunities will be unable to take advantage of the flexibility offered under the 1996 farm bill and will have difficult adjustments when prices are low. However, similar adjustments existed during the mid 1980s when commodity program outlays were at a record high level, yet a large number of farmers exited from farming. The 1996 farm bill may be no worse than its predecessors in this regard.

The recent drop in prices due to the collapse in Asian markets and large global supplies of grains and oilseeds has once again raised the issue of whether this farm bill provides an adequate safety net for producers. We remain skeptical that prices and farm incomes would be any more stable had the 1990 farm bill remained in place.

Joe Glauber and Keith Collins
USDA

Trade and Aid

■ I read with interest what some readers already suggested as topics for the future [in "The Editor's Box," p. 45, Third Quarter 1998]. I found very strange the topic "the success of TRQs." It should be followed by another topic, "the failure of TRQs."

I suggest also "trade and aid: the distortions of commercial preferences." Preferential tariff arrangements were intended to benefit developing countries. The Generalized System of Preferences (GSP) and other arrangements, provide preferential tariff treatment to participating developing countries designed to assist their economic development.

Preferential tariff arrangements may distort trade patterns, and discourage the development of a fair and market-oriented agricultural trading system. These arrangements may assist economic development in developing countries in some circumstances, but such benefits may be gradually eroded if they are reflected in higher costs, and less-productive industries.

The general benefits of multilateral trade liberalization should more than offset the potential impacts of eroding preferential tariffs. In the current environment of global market integration and freer trade, tariff preferences may have less relevance to economic development and may cause unintended harm to the economies of recipient developing countries.

Preferential tariff systems may influence trade in directions and among markets which discourage adjustment and diversification. Other means of providing development assistance may be more effective and beneficial in current economic circumstances.

We have lived the past decades with "trade not aid." Has this really created economic development? Trade should be attained through liberalization, and aid, when needed, should be provided through direct assistance programs, "trade and aid."

Pedro de Camargo Neto
São Paulo, Brazil