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Implications of Changing Farm Policy for the South: Discussion

C. Robert Taylor

The presentations by Skees et al., and by Ray et al. dealt exclusively with price and yield risk, while the paper by Knutson et al. dealt substantially with risk. Given that this session is titled "Implications of Changing Farm Policy for the South," the fixation of these presentations on "Risk," "Risk," and "Risk" is somewhat curious and overemphasized, in my opinion. I believe that there are other implications of farm policy changes that are equally as important, if not more important, than price and yield risk to southern agriculture. These include implications concerning: (a) the structure of production agriculture, (b) increased planting flexibility, and (c) the continuing uncertainty about the future of the peanut and tobacco programs.

Farm program changes will accelerate the transition of inefficient mid-sized farms specializing in program crops to small/life-style status, to efficient/large-size status, to a niche market, or out of farming. Climate and natural resources in the Southeast suggest movement toward a bimodal distribution of farms, with small hobby or life-style farms, and large efficient farms. Farm program changes will accelerate movement toward such a bimodal distribution of farm sizes, thereby increasing the economic efficiency of southern agriculture.

Increased planting flexibility will have two major effects in the Southeast. First, it will stimulate the movement of cotton back to the region. With boll weevil eradication, much of the Southeast now has a comparative advantage in production of cotton. Because of this,

cotton base-building was occurring in the Southeast before the 1996 FAIR Act; now, regions with high-cost cotton, such as parts of the Southern Plains, may shift to other crops, thereby further enhancing cotton production in the Southeast. Second, crop rotations are especially important in the South to manage soil-borne pathogens and soil productivity. With many impediments to crop rotation removed with the 1996 FAIR Act, we can expect a shift from monoculture production to farming "systems" which can potentially increase expected income and reduce risk.

Continuing uncertainty about the future of the peanut and tobacco programs is a dominant topic of concern in the region. Elimination of these programs would lead to major resource reallocation in the Southeast. Now, political uncertainty about the future of these programs may even overshadow price and yield risk in production and capital investment decisions. Significance of political uncertainty about the peanut program is illustrated by the fact that the asking price for peanut quota went from about \$0.30/lb. to about \$0.40/lb. overnight on the basis of a recent rumor about a possible buy-out for peanut producers!

These are a few of the reasons suggesting to me that farm program changes are potentially risk reducing, not risk increasing, in the Deep South and Southeast. However, realization of this potential depends in large part on producers moving from a monoculture mindset to adoption of information-based farming systems.

Since the three papers in this session have focused on risk, I would like to take this opportunity to raise a paradoxical question: Is crop insurance or revenue insurance self-de-

feating in the aggregate? Logic behind this assertion is as follows. Adoption of crop or revenue insurance by producers suggests to me that the supply curve for the insured crops will shift outward. An outward shift in the supply curve obviously reduces expected price, and shifts the probability distribution for net farm income to the left. In a safety-first sense, market risk in the aggregate is increased. Whether

expected loss claims less premium payments would offset the increased probability of net income falling below some critical level is an unanswered question, but one that we agricultural economists should be obliged to include in debate on the relative merits of policy proposals. My working hypothesis is that provision of insurance is self-defeating in the aggregate.