

Programs for Nontraditional Commodities

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Introduction

Traditionally, farm program payments/subsidies have been directed toward a set of basic commodities that account for about 54 percent of acres on which crops are grown. These basic commodities included corn, sorghum, barley, oats, wheat, rice, and upland cotton. Soybeans and associated minor oilseeds accounting for another 23 percent of total crop acres had a loan rate/marketing loan program. In 1998, soybeans and minor oilseeds were added to the list of commodities eligible for direct payments.

Direct payments were generally not made for livestock or for fruits, vegetables, or nuts until 1999. In 1999 and 2000, direct payments were provided for hogs and milk producers as a result of low prices. In the past, payments have been made for specified activities; for example, the dairy buyout and pseudo rabies in hogs.

However, subsidized crop insurance benefits have been provided to an increasing number of fruits and vegetables, as well as protection afforded the flexibility provisions of the 1996 Farm Bill. In addition, fruit, vegetables, nut, and milk producers have been eligible for marketing orders. In 2000,

direct payments were added for apples, onions, cranberries, honey, peanuts, and tobacco. Payments for nontraditional crops in FY2000 totaled about \$256 million. When livestock and dairy are added, the additional spending amounted to around \$1.2 billion. The bulk of these payments were added by the appropriations process rather than through traditional farm bill authorization procedures.

In its 2001 annual meeting, the resolutions of the American Farm Bureau Federation called for continued extension and even further expansion of program benefits to nontraditional crops. In House Agriculture Committee hearings, commodity groups, including dairy and fruit and vegetable industry representatives, asked to be included in farm programs.

The purpose of the remainder of this paper is to describe the options and consequences of extending direct payment provisions to nontraditional program crop commodities.

Options and Consequences

This section discusses the options and consequences for handling direct payments to nontraditional commodities. Each of these options assumes that subsidized crop insurance would continue to be expanded to nontraditional commodities.

Status Quo

This option provides direct payment subsidies on an ad hoc or as needed basis. The decision regarding need continues to be made primarily by the Agriculture Appropriation Subcommittees of the House and Senate Appropriations Committees.

Rather than institutionalizing nontraditional commodity payments, this option reflects need through the political process. Who gets payments and how much they receive is a function of the effectiveness of individual commodity groups in lobbying. The result can be argued to be a relatively unlevel playing field in terms of the incidence of direct payments. That is, those in the greatest need may not get payments by virtue of their lack of effective political organization and representation.

From an economic perspective, ad hoc payments have both stabilizing and destabilizing elements. They are destabilizing in that they cannot be a part of a farmer's planning process. They are stabilizing when given to those commodities/farmers in the greatest need. However, if given to farmers where the need is not as great, they become destabilizing in that unwarranted production is encouraged.

No Payments for Nontraditional Commodities

This option would end payments for nontraditional commodities. The rationale for this option lies in the reasons why many of these nontraditional commodities did not have direct payment subsidies for

much of the period since the 1930s when farm programs were first initiated, including:

- Many of the nontraditional commodities have other programs available that are designed to provide stability. These include state or federal marketing orders for dairy, fruits, and vegetables. Such programs have been sharply criticized because they restrict supplies and/or practice price discrimination. However, those criticisms/consequences now need to be weighed against the potential cost of the alternative programs discussed in this article.
- In other instances, such as dairy, the case for ad hoc payments was questionable because both marketing order and price support programs remained in effect.
- Nontraditional commodities benefit from programs on the basic commodities. For livestock, including hogs and dairy, these benefits are in the form of low purchased feed prices. In the case of fruits, vegetables, and nuts, basic commodity programs attract acreage from nontraditional crops and, thereby, raise their prices. Flexibility provisions of the 1996 Farm Bill and its predecessors prohibited AMTA producers from using the flexibility provisions to grow fruits, vegetables, and nuts unless there was a production history.
- A consequence of this option includes, in some instances, a reversion to programs such as marketing orders that have been the subject of substantial criticism. Alternatively, producers of these commodities would be required to live with the higher level of risk that is inherent in the production of fruits, vegetables, nuts, or even livestock. Risk management options including contracts, forward pricing, and cooperatives that are commonly used in these sectors could be expected to receive even greater emphasis if this option were pursued.

Institutionalize into the Farm Bill

This option involves writing the conditions for direct payments for nontraditional commodities into the 2002 Farm Bill. At a minimum, such provisions would need to specify the eligible commodities; the types of payments; the triggering mechanism for payments; the payment levels or the formula for determining payment levels; and any payment limitation provisions. Since the commodities involved are quite different, these provisions would likely need to be decided upon and spelled out for each commodity. For the basic commodities, this task has been assumed by the authorizing Agriculture Committees. Alternatively, it could be deferred to the Secretary of Agriculture with general guidelines being specified.

The consequences of this option involve considerably higher levels of government involvement in agriculture, the potential for increased production, and resulting lower market prices. While returns to producers might be more stable, there is no assurance that they would be any higher overall. The potential government costs associated with this option will be discussed in the final section

Whole Farm Revenue Insurance

This option is discussed in greater detail in the Counter-Cyclical Whole Farm Safety Net paper in this series. In essence, it involves the government offering all farmers a whole farm revenue safety net. This safety net would insure whole farm gross revenue from agricultural commodities at some percentage of historical revenue — say, 90 percent of the five year olympic average. The percentage could differ between types of farms. The federal government could share the cost of the safety net.

The reasons for considering such a program include:

- The potential for greatly simplifying farm programs in the face of commodity proliferation. In essence, all subsidy programs could be consolidated into a single safety net.

- The reality that revenue variation is less for a whole farm than for individual crops, unless, of course, the farm produces only one commodity. As a result, the risk of payment by the government could be reduced, depending on the percentage of revenue coverage.
- The potential for transferring some of the risk to the non-farm sector through insurance underwriting by the government.

Aside from the reality that whole farm safety net arrangements would be new, any government program that reduces risk and is subsidized has the potential for increasing production and reducing market prices. However, if the goal of government policy toward agriculture is to give all commodities safety net protection, this may be the most simple and equitable way to do it.

Quantifying Potential Costs

The potential magnitude of government costs for nontraditional commodities may be thought of in terms of the size of these commodities relative to currently supported crops. Table 1 contains acres and values of the current program crops, other field crops, and fruits and vegetables for the 1998-2000 crop years. Direct government payments averaged \$13.6 billion over the 1998-2000 period, or 27.5 percent of the average program crop value over the period.

Applying the 27.5 percent to the non-program crop values results in an additional \$12.5 billion in spending to match the level of spending on the program crops. In other words, to support the rest of crop agriculture at the same level relative to program crop values would have required an additional \$12.5 billion in spending annually over the last three years.

This does not include livestock agriculture. Livestock, poultry, and milk generated a value of \$80 billion annually over the 1997-1999 period. Direct payments relative to value of production, as in the crops above, would result in an additional \$22 billion of spending. Even if supported at a level equivalent to the \$4 billion base, spending would result in a significant amount of additional government cost.

Table 1. Acreage and Value of U.S. Crops and Direct Government Payments, 1998-2000.

Year	Acreage Planted (1,000)			Value (\$1,000,000)		
	1998	1999	2000	1998	1999	2000
Program Crops (2)	255,604	251,390	254,688	46,795	43,092	45,138
Other Field Crops	74,380	78,167	73,762	23,778	22,480	21,790
Vegetables	1,974	2,053	2,253 (1)	9,426	9,208	10,755
Fruits and Nuts	1,880	1,884	NA	11,212	12,293	12,366
Direct Government Payments				8,000	12,200	20,600

(1) 2000 data includes six new crops added to statistics.
(2) Corn, Sorghum, Barley, Oats, Rice, Cotton, Wheat, and Soybeans

Source: USDA, NASS, Crop Production, Various Issues, Crop Values, Various Issues.

Another method of looking at potential level of support is to look at the current level of support provided by the loan rate relative to variable production costs. The level of loan rate support as a percent of variable production costs ranged from approximately 1.06 for cotton to 2.2 for soybeans based on year 2000 data. Typically, fruits and vegetables have very high per acre production costs relative to field crops. That would indicate that support at the same relative level of support as current commodities could be an expensive proposition.

References and Suggested Readings

- USDA, National Agricultural Statistics Service. Crop Production. Various Issues.
USDA, National Agricultural Statistics Service. Crop Values. Various Issues.

Summary

Nontraditional program supported crop and livestock agriculture generates values in excess of current program crops. Non-program crop value was about equal to program crop value in 1999 and less in earlier years. Livestock, poultry, and milk value exceeds that of crop agriculture. In order to achieve specific objectives, potential policy options will have to carefully weigh the relative costs among these crops.