Farmer-owned reserves

In the current economic climate amid a growing budget deficit, federal spending on agriculture programs will likely be cut and the next farm bill will likely face significant funding reductions. The goal of the next farm bill, therefore, should be to provide an effective safety net for family farmers, improve the efficiency of existing programs and reduce overall costs. This study, conducted by the University of Tennessee's Agricultural Policy Analysis Center and commissioned by National Farmers Union, presents an alternative policy approach that will reduce overall farm payments. The policy approach includes a combination of farmer-owned reserves, increased loan rates, set-asides, the elimination of direct payments, and reduced reliance on other government payment instruments. The policy will be referred to in this report as farmer-owned reserves. The study examines what the effects of farmer-owned reserves would have been during the period from 1998 to 2010.

Key Findings

- Throughout the study period, government payments for crops totaled $152.2 billion. If farmer-owned reserves had been in place during those years, government payments would have been $56.4 billion, or less than 40 percent of what the U.S. government actually spent on crop programs in those years.
- Farmer-owned reserves would have provided nearly the same amount of net farm income.
- Government costs would have been lower in large part because the loan rate would have been paid on only the portion of the crop that was put into farmer-owned reserves and not on every bushel that was produced.
- Over the complete study period, the value of exports would have been $4.9 billion higher with farmer-owned reserves in place than under historical conditions for that period.
- Because the U.S. would have held some buffer stocks under farmer-owned reserve policies, importers of U.S. corn, wheat and soybeans would have been assured of a stable supply of storable commodities, reducing the need for countries to protect local supplies of grains.
- Farmers would have benefited from price signals that more accurately reflect the supply/demand situation at a given time, than when futures prices reflect herd-following speculative behavior on the part of some market participants.
- Livestock producers and industrial users such as biofuels producers are vulnerable to rapidly increasing prices. Farmer-owned reserve policies would have provided livestock producers and industrial users with security in the availability of feed supplies and the range of prices they can expect.
- For the entire 13-year period, the value of production under the baseline policies was $413 billion while with farmer-owned reserves it would have been $446 billion – a difference of $2.6 billion a year.
- Over the entire study period, corn prices would have averaged $0.26 higher, wheat prices would have been $0.48 higher, and soybean prices would have averaged $1.09 per bushel more under farmer-owned reserves than they actually were.