



Farm Talk

Jerry Webb

On food and fuel

Prosperity is just around the corner.

How many times have America's farmers heard that? And here it comes again.

A midwest agricultural economist, author of 21 books and more than 750 articles on economics, believes farmers are about to enter their most prosperous period of this century. Earl Heady, director of Iowa State University's Center for Agricultural and Rural Development, says the agricultural sector in general has the most optimistic outlook for the last 80 years.

He bases this optimism on these four factors:

- ✓ Growth in the world's demand for food;
- ✓ Rising energy prices that will limit food production;
- ✓ An increase in the world's population and its per capita income that will allow developing countries to purchase more food and that will create increased

trade with the Soviet Union and China;

✓ A decrease in the use of chemicals because of rising energy costs that will restrain the rate at which the world and domestic agricultural production increases

Heady points out that there's a steady demand for agricultural commodities, and he believes farm prices will be relatively higher as output increases more slowly with population and income level. He also feels that increasing costs of energy will restrain the level of world agricultural output. The outcome will be relatively higher prices for farmers.

"Sure, each U.S. farmer would be better off if his fuel prices were lower and commodity prices remained at higher levels. But he will still be better off to have high energy prices, restrain total output, and result in higher prices even though his fuel and fertilizer prices have increased," according to the economist.

The Iowa economist expects

inflation to continue increasing the price of farmland. He also thinks a considerable amount of land will be shifted to nonfarm uses. Those factors will combine to make land relatively scarce and higher in price.

The whole spectrum of farm-produced fuel raises an issue that farmers and the agricultural community in general really hasn't come to grips with. Heady supplies figures that make the whole food-fuel issue look a little frightening.

His data show that the alcohol required for the average annual use of an American automobile would utilize enough food commodities to feed 23 people for a full year. He goes on to show that Americans have been exporting 30 percent of their corn, 45 percent of their rice, 58 percent of their wheat, 40 percent of their soybeans and 35 percent of all grains.

If those exports had been used to produce ethanol, it would have provided 11½ billion gallons. But that is slightly less than 10 percent of the U.S. annual gasoline consumption, and it equals about seven percent of America's annual oil imports.

"If we were inclined to go all out in producing energy from agriculture, 300 million acres of corn would be required to produce

just 10 percent of the nation's total energy usage," the economist says.

That turns out to be about three times our recent acreage of corn, and more than 75 percent of the nation's cropland usage. "We couldn't produce this amount of ethanol and energy from conventional cropland and meet our domestic food requirements. If we tried it, food prices would skyrocket and divert grains back into food uses," according to the economist.

Heady thinks a considerable amount of ethanol could be produced to substitute for gasoline. But it would require an important change in America's eating habits. And it would also mean backing out of our ongoing commitment to alleviate world hunger. The economist says there is some potential of producing ethanol using land not currently devoted to crop production. But there are serious limitations to that philosophy.

"I don't believe that agricultural profitability depends on energy production from grain in the long run," the economist says. "World food demand is likely to grow fast

enough so that U.S. agricultural capacity can probably serve mankind best through its grain exports."

So it all boils down to the simple fact that American farmers are best suited to producing food and feed crops for the billions of hungry people around the world, while somebody else produces the fuel. That assumes that somebody else is willing to share their fuel with us while we produce food for people who probably don't have any fuel to trade us.

Wouldn't it be nice if the Arabs were short on corn, rice or wheat, or any of hundreds of crops that we produce so well in this country? But it doesn't seem to work that way. We produce soybeans and sell them to Japan and buy oil from the Arabs. And in the long run, according to the Iowa economist and many others, that's probably American agriculture's best hope.



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