New Farm Policy Shifts Farm Risk

COLUMBUS, Ohio — Its creators call it "Freedom to Farm."

Pessimists call it "Freedom to Fail."

Big spenders call it "Freedom to Buy a Pickup."

Whatever you call it, most economists agree that the new "hands-off" U.S. farm policy means farmers need to take a fresh look at risk.

"Risk management is the name of the new game," said Allan Lines, agricultural economist at Ohio State University. "The risk is already apparent this planting season. Farmers better be ready to deal with it."

Eligible farmers who enroll in the program will receive government payments for the next seven years, regardless of what crops they plant (provided they're not planting fruits or vegetables for the first time) or what prices they receive. The government will no longer step in to control production, and its role in moderating prices is greatly reduced.

Risk will hit from several fronts, Lines said. Legislators have promised that they will no longer bail out agriculture during crop disasters. Unless there's a widespread catastrophe (such as the 1988 drought), they'll probably stick to their word, Lines said.

"While the new policy doesn't require farmers to buy crop insurance, some of the risk could be abated that way."

Lines also expects increased price variability. "Big Uncle is getting out of the business of managing prices. Producers must take a more active role," he said. "Knowing and understanding when and how to properly use futures, options and other contracts to fix prices, put floors under prices and manage basis risk, takes on a new sense of importance."

The increased risk also means farmers should pay down their debt, Lines said. "They need to use this opportunity to get their financial house in order. They will be required to take on a higher level of risk under the new policy, so they should be in a less leveraged position."

That doesn't mean that investing in farm machinery is a bad option, said Luther Tweeten, another Ohio State economist.

"Keeping the debt-to-asset ratio low and keeping liquidity up is important. But farmers could also use these final government payments to purchase needed farm machinery. Farmers often use transitory dollars to buy big-ticket items that can serve them over the long haul. It's a smart way to invest," he said.

The new policy will not increase the total amount of risk in farming, but it will shift the nature of the risk, said Carl Zulauf, also an Ohio State agricultural economist. "A lot of people are talking about increased risk, but getting the government out of farming will actually reduce some kinds of risk," Zulauf said.

"We won't have the risk of the government releasing crops from public stocks or changing the amount of acres which a farmer needs to set aside. At times these and other government decisions created a large uncertainty in the marketplace. So, to say uniformly that there's a lot more risk with the new policy, I don't know that that's true," he said.

One significant change in risk comes as farmers pull their planters out of the machinery shed.

Farmers will now need to take a more active role in making decisions for planting. To a large extent, past farm policy dictated how many acres of each crop farmers could plant. Now farmers will need to make these decisions based on expected prices and other factors.

The resulting uncertainty for users of grain will create risk for another sector of agriculture, Zulauf said. "Users of field crops are as concerned about quantity risk as price risk. Their businesses depend on maximizing 'throughput.'"

Crop and livestock farmers may borrow a page from fruit and vegetable growers who have long depended on production contracts to, in part, address quantity risk, Zulauf said.

Livestock farmers may begin to establish contracts with local farmers to lock up supplies for the coming year, Zulauf said. And crop farmers may start thinking of large livestock farms as another processor of their grains, the way sweetener manufacturers and ethanol plants are considered.

Financial risk will continue to loom for agriculture, and in some ways, more so in these times of high crop prices, Zulauf said.

"I don't know many farmers who went broke because of decisions made in times of low prices. It's the decisions made in good times that get people in trouble," he said.

"Ultimately the market will reward those who keep a lid on the cash cost of production. If anything, the withdrawal of farm programs will only underscore the importance of managing cash cost of production."

Fruit Specialist Joins Extension

CLAYTON, N.J. — Dr. Robert Belding has joined Rutgers Cooperative Extension as a specialist in pomology, or fruit science.

Belding comes to New Jersey from North Carolina State University where he received his master's and doctorate degrees in horticulture science.

He was an agricultural research technician at North Carolina State working on many aspects of horticultural management on apples and peaches. In his new position he will be working on pre- and post-harvest physiology of fruit, primarily peaches.

Specialist Belding will be located at the Rutgers Research and Development Center in Upper Deerfield Township on Northville Road near Bridgeton. he is part of a trio of fruit scientists and their staff being located at this station to help the valuable peach industry in New Jersey.

"Dr. Belding and his colleagues Dr. Norman Lalancette ad Dr. Peter Shearer are sorely needed by our industry in southern New Jersey," said Jerry Frecon, agricultural agent with Rutgers Cooperative Extension of Gloucester County.

Gloucester County is the largest peach producing county in New Jersey and the seventh largest in the nation.

"The center is only 20 minutes from Gloucester County's industry and the conditions for fruit research are very similar to most of the growing regions in the southern part of the state," said Frecon.

"The hiring of Dr. Belding completes an 18-month search for the right tree fruit people to staff the center," said Frecon.

June Dairy Month