Agricultural Policy and Fertilizer Use

By David W. Dibb

In today's global market place, agricultural inputs and production policies of one country often affect those of others. In a true market economy, input and crop prices are determined by supply and demand. There are few such examples in the world's agriculture today. The U.S., Western Europe and China have tried subsidies to control production. Such practices fail in the long term because they defy the laws of supply and demand.

In today's world we are a global family, not isolated countries. Food supplies, fiber for clothing, wood for homes, and fuel come to us from countries around the world. Agricultural policies in one country often affect agriculture in other countries. Thus, it is imperative that we understand how agricultural policy affects production and distribution of food and other commodities necessary for our survival.

In a true market economy, prices of agricultural inputs and crops produced are determined by the market responding to supply and demand. Unfortunately, there are very few examples of true market economies in agriculture. For example, China tried to increase grain production by using subsidies on fertilizers and other inputs. These were largely terminated because they were depleting government revenue while creating inefficient fertilizer use.

The most efficient and profitable way to increase production is to provide all inputs to farmers in a timely manner, allowing them to make a reasonable profit on their investment and for their hard work. For farmers, the fertilizer/crop price ratio is often considered to be most important. However, the optimum fertilizer rate is changed very little by price of either the crop or fertilizer, provided the crop continues to be agronomically responsive to the nutrient applied.

Sometimes subsidies on crop prices are used to stimulate production. However, as the European Union can testify, they can also have negative effects of significant consequence. Thus, subsidies must be carefully considered and should only be a temporary measure.

China has pushed for self sufficiency in food production. This concept should be replaced by a goal of high production efficiency at a reasonable level of food security. One of the major constraints to achieving this goal has been the lack of timely delivery of mineral fertilizers to farmers. Poor timing results from the large number of non-farmer dependent agencies involved in getting fertilizer to farmers and the fact there is no competition to force improved delivery and services to farmers. China should seriously consider a course of rational privatization of its fertilizer sector. The government's role should be to ensure competitiveness and to provide quality assurance to farmers. BCI

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