



1996 Farm Bill: How Has It Performed?

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Introduction

- **What Have We Learned?**
- **Perceptions: The Myth and the Reality**
- **Components of a New Policy**

What Have We Learned the Last Two Years?

Let's Start With These Two:

- **The Grain Sector Does Not Self-Correct When Supplies Become Excessive**
- **Prices Are More Variable and Fall Farther**

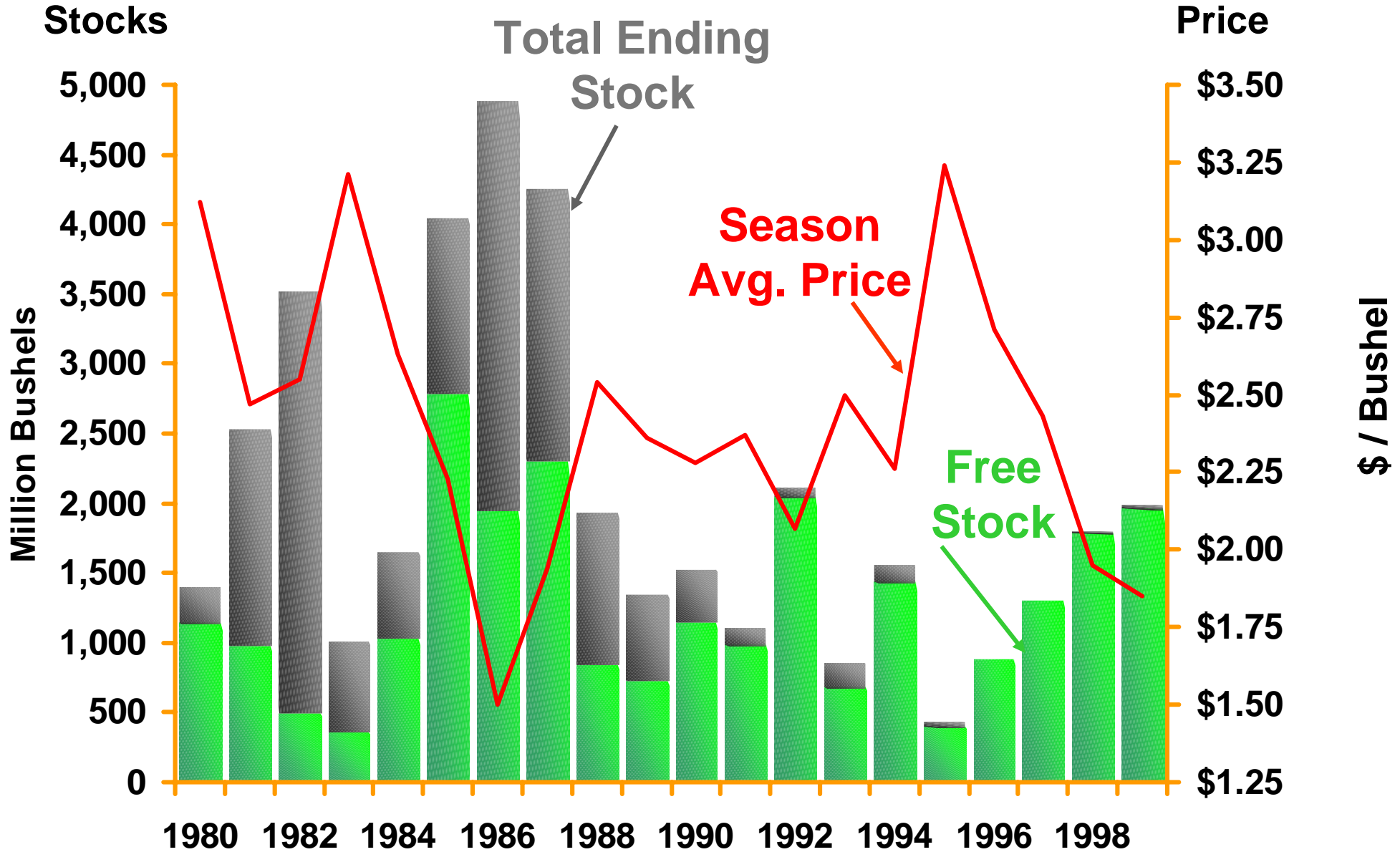
Grain Markets Do Not Self-Correct Like In Other Sectors

- **John Deere Can Gauge Supply; Farmers Can't**
 - Farmers Have Every Incentive To Produce Full Out
 - If a Farmer Goes Bankrupt, the Land Stays in Agriculture
- **For Food Demand, Price and Income Changes Matter Little – Not true for non-ag**
 - Here Again Little Help in Reducing Stocks in Ag

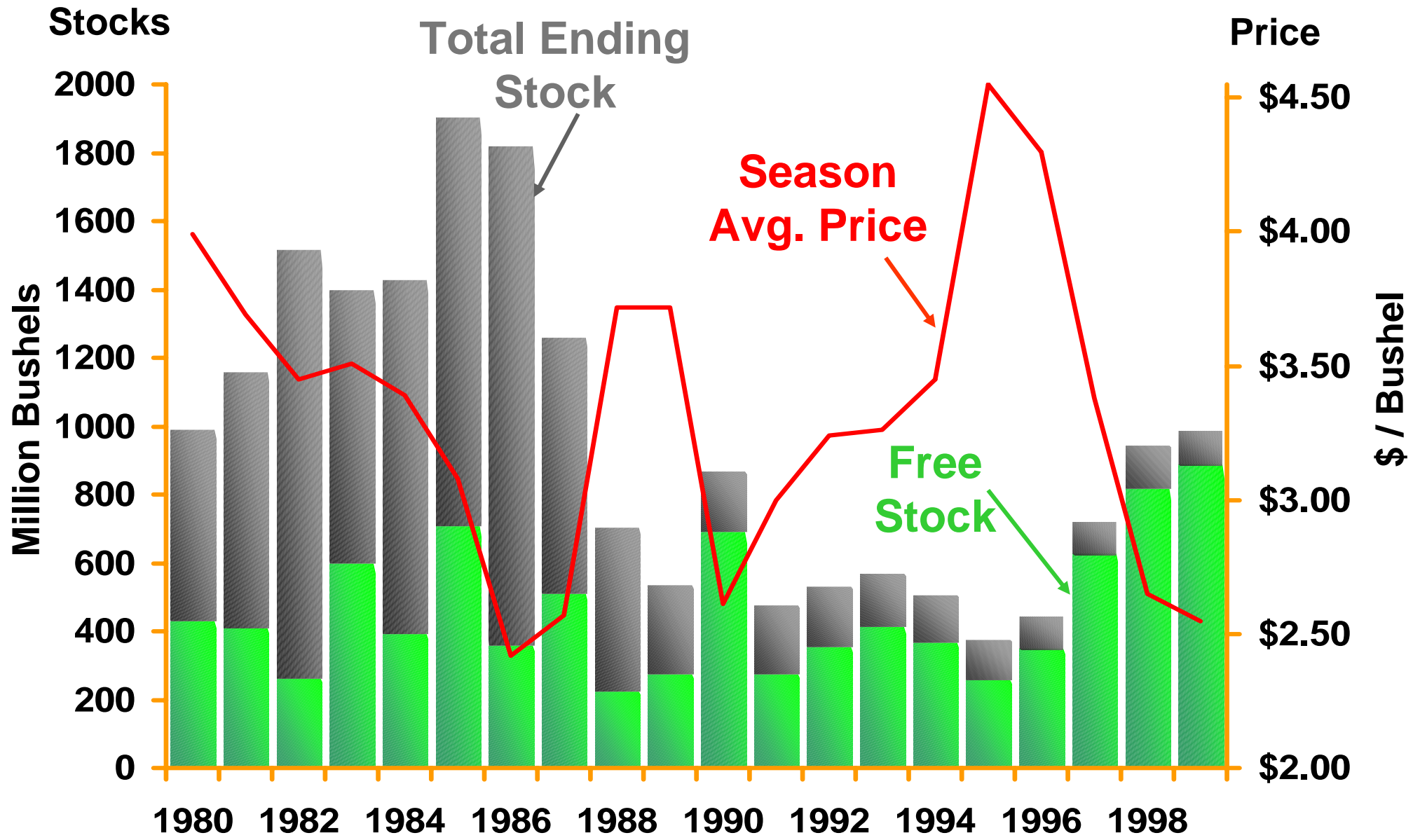
It Takes Less Stock to Trounce Prices

- **We are not in Kansas Anymore, Toto.**
- **With the Marketing Loan, There is no Price Floor**
 - **It Takes Much Less Stock to Drive Price Down**
- **With no Gov't/FOR Stocks or ARPs, There is no Moderation of Prices, Period!**

Stock And Price



Stock And Price



Perceptions Versus Observed Data & Experience Concerning:

- **Buffer Stocks/NonRecourse Loans**
- **Production Control**
- **Trade Implications of a Higher Safety Net**

Buffer Stocks/NonRecourse Loans

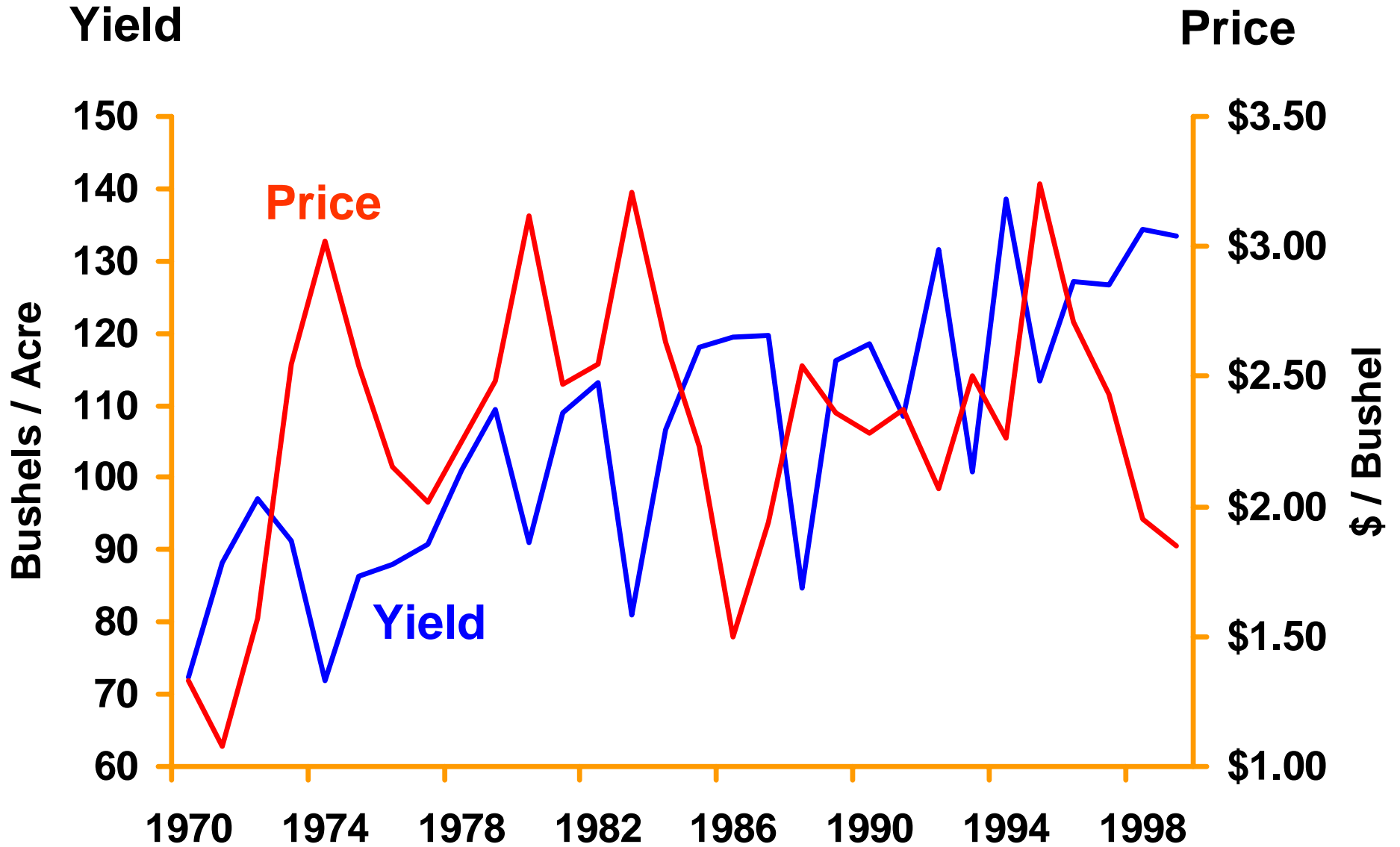
- **Perceptions**

- **Stock Programs Prevent Farmers From Benefiting From High Prices**
- **Private Trade Would Hold the Stocks Anyway**
- **Prohibitively Expensive**
- **With Free Markets and More Open Trade, the Export Market Will Stabilize Prices**

Buffer Stocks/NonRecourse Loans

- **What Data & Experience Show:**
 - **When Prices Are 'High' Yields Usually Low**
 - With FOR Farmers Would Have Something to Sell 'at the higher prices'
 - **Prices Go Lower Longer Without a Stock Program**
 - There is no Price Floor Now
 - Stocks Overhang the Market at the Very Time When Supply Highest; Price Lowest

Yield & Price



Buffer Stocks/NonRecourse Loans

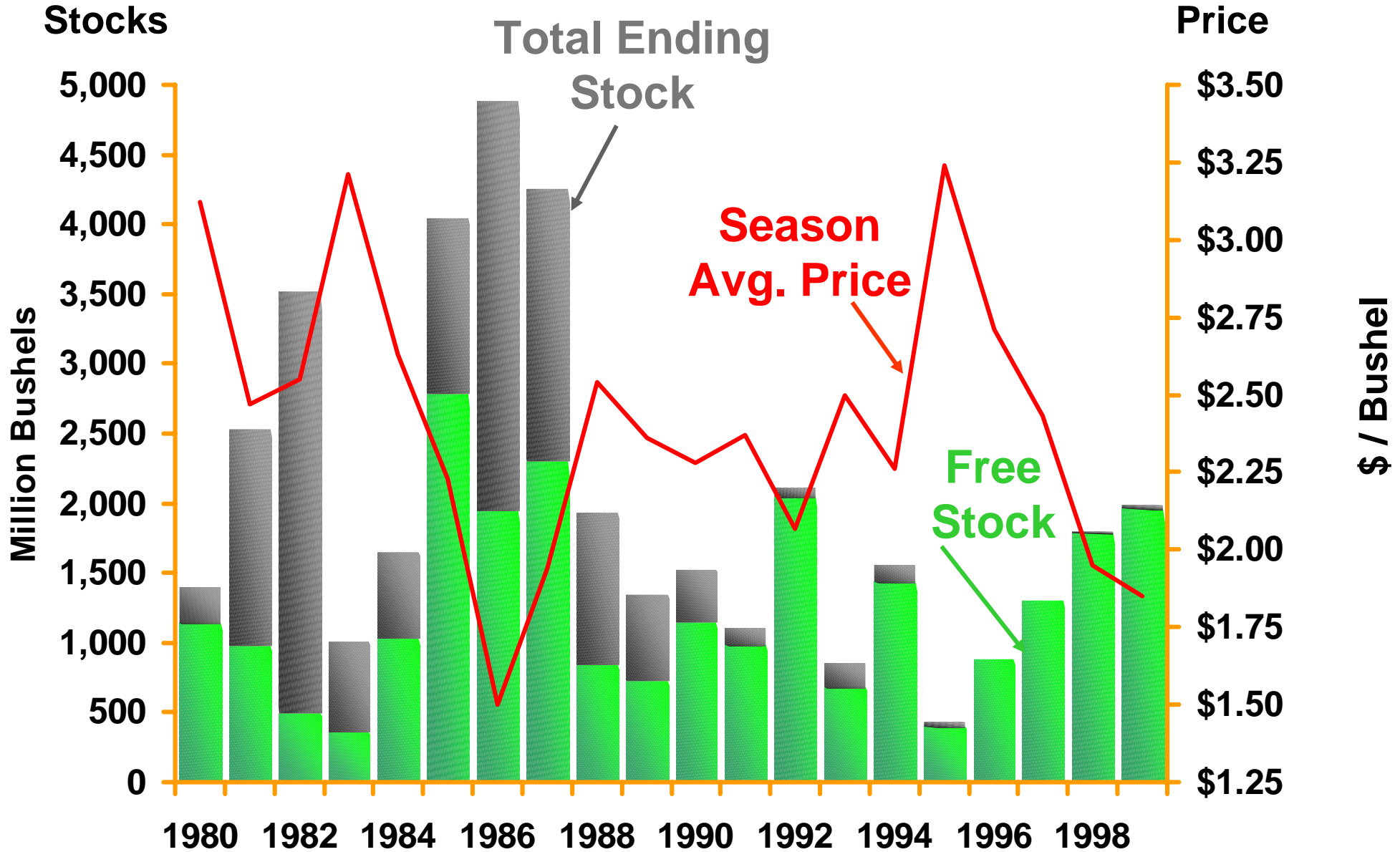
- **What Data & Experience Show Cont:**
 - **Which Do You Want? Stocks to ‘Overhang The Market’:**
 - **When Prices are ‘High’ with a FOR/Buffer Stock Program? (That is, at \$5 Corn?)**
 - **Or When Prices are ‘Low’ With the Marketing Loan Program? (Or at \$1.25 Corn?)**

Having Experienced Both, Perhaps the FOR ‘Overhang’ Isn’t so Bad

Buffer Stocks/NonRecourse Loans

- **What Data & Experience Show:**
 - Excessively High Prices Can Be the Most Troublesome of All
 - Export Markets Are Lost in Short-run; Our Reputation as a Dependable Supplier in Long-run
 - Agriculture Soars Sky High and Crashes

Stock And Price



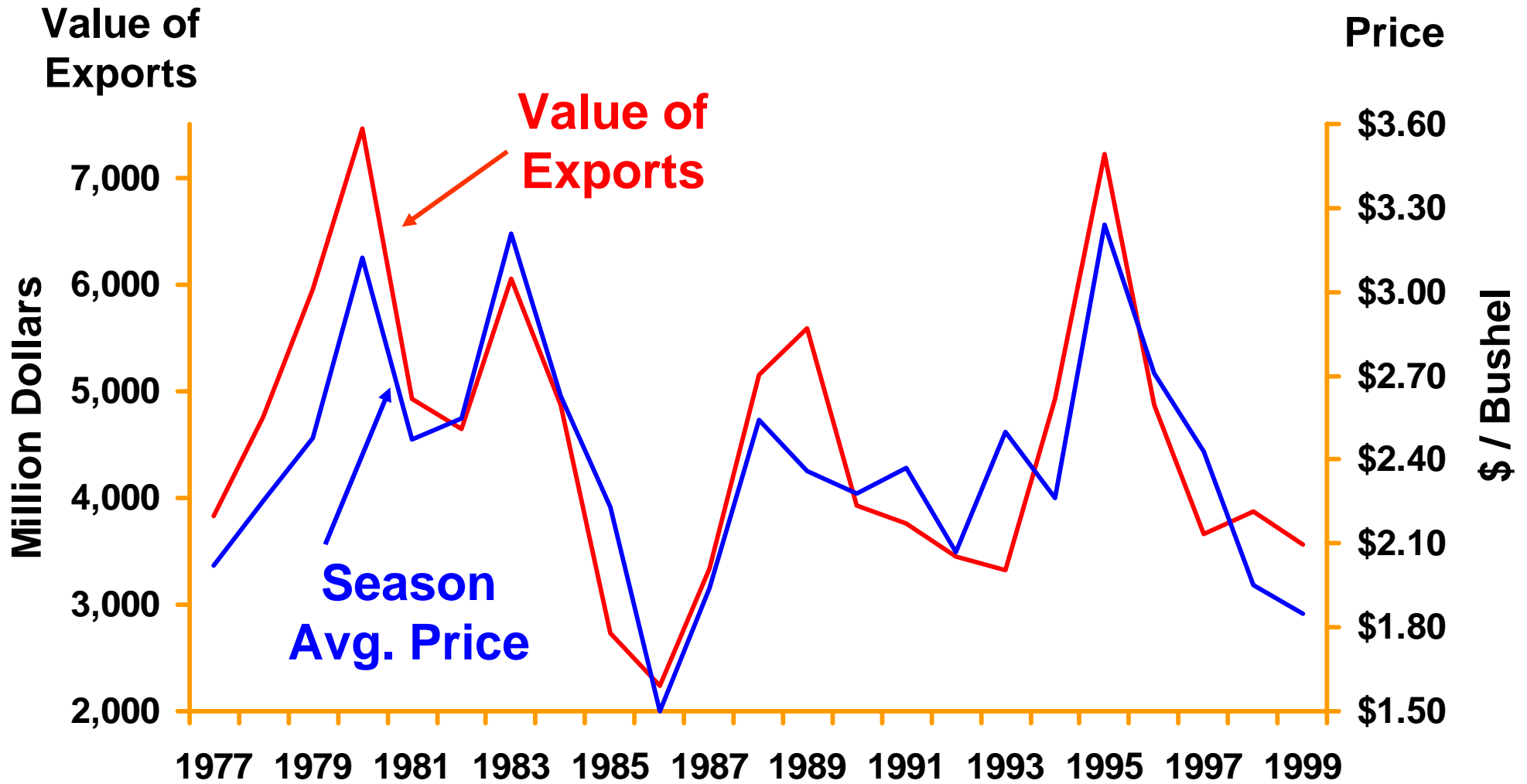
Buffer Stocks/NonRecourse Loans

- **What Data & Experience Show:**
 - **Private Trade Stocks:**
 - **Are Always ‘on the Market’**
 - **Not Sufficient to Cover a True ‘Low Yield’ Year**
 - **Cost of FOR Inconsequential Compared to LDPs**
 - **Storage Payments on Millions of Bushels of Soybeans Versus LDPs on Billions of Bushels**

Buffer Stocks/NonRecourse Loans

- **What Data & Experience Show:**
 - **Export Markets Obviously Have not Stabilized Grain Markets (Or Hog Markets for That Matter)**
 - **Yes, Exports do Increase With a Drop in Price ... Everything Else the Same ...**
 - **But by Too Little to Rebalance Inventories**
 - **If Exports Responded as Earlier Advertised, Value of Exports Would go up as Prices go Down**

U.S. Value Of Exports & Price



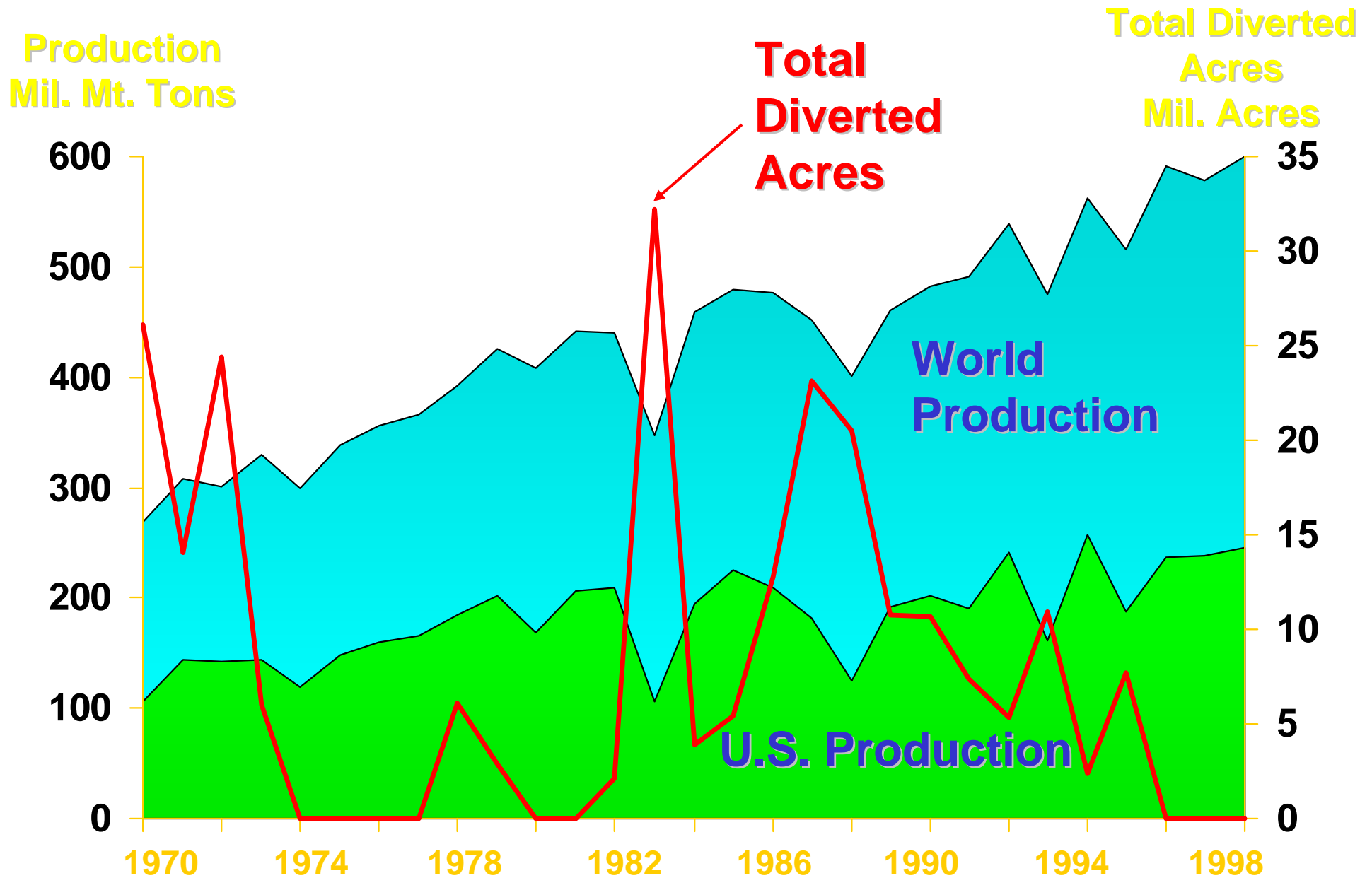
Production Control

- **Perceptions**
 - **If we Don't Grow it Our Competitors Will**
 - **Free Markets Will Reduce Supply by Forcing Least Productive Land Out of Production**
 - **It is Wrong to Reduce Production on Even the Most Productive Farms**

Production Control

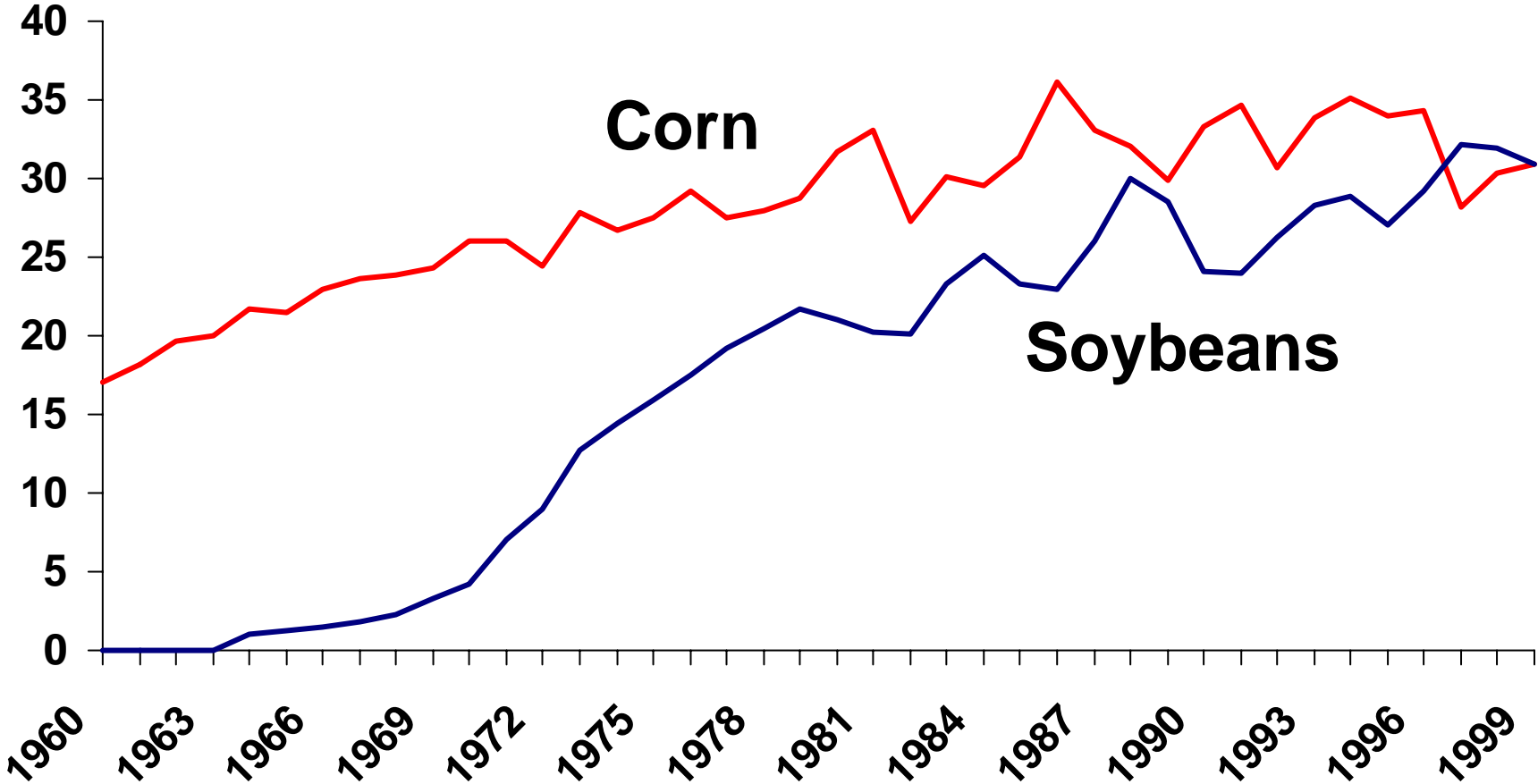
- **What Data & Experience Show:**
 - **Will Our Competitors Grow it if we Don't?**
 - **Some Competitors Might Shift Crops**
Some But not Statistically Significant

Corn Production & Diverted Acres



Brazil Soybeans & Corn Harvested Acreage

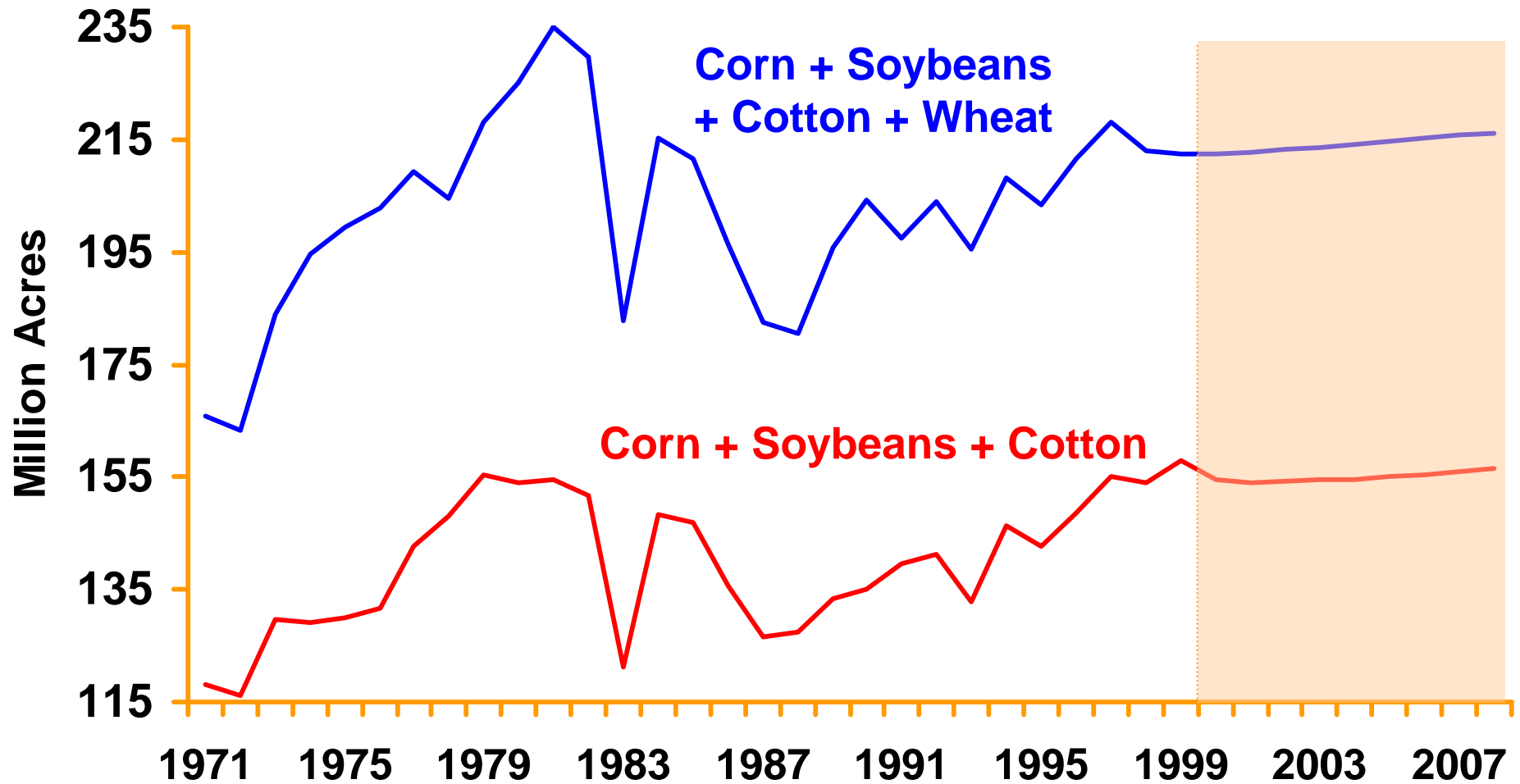
Mil. Acres



Production Control

- **What Data & Experience Show:**
 - **Free Markets Do Not Reduce Supply Sufficiently to Raise Price in a Timely Fashion**
 - **Land Stays in Production, Especially in the Productive Areas**
 - **Have Had Droughts in Peripheral Areas Equivalent to Large Reductions in Acreage – Supply Large Anyway. (As it was in the 30s)**

U.S. Harvested Acreage



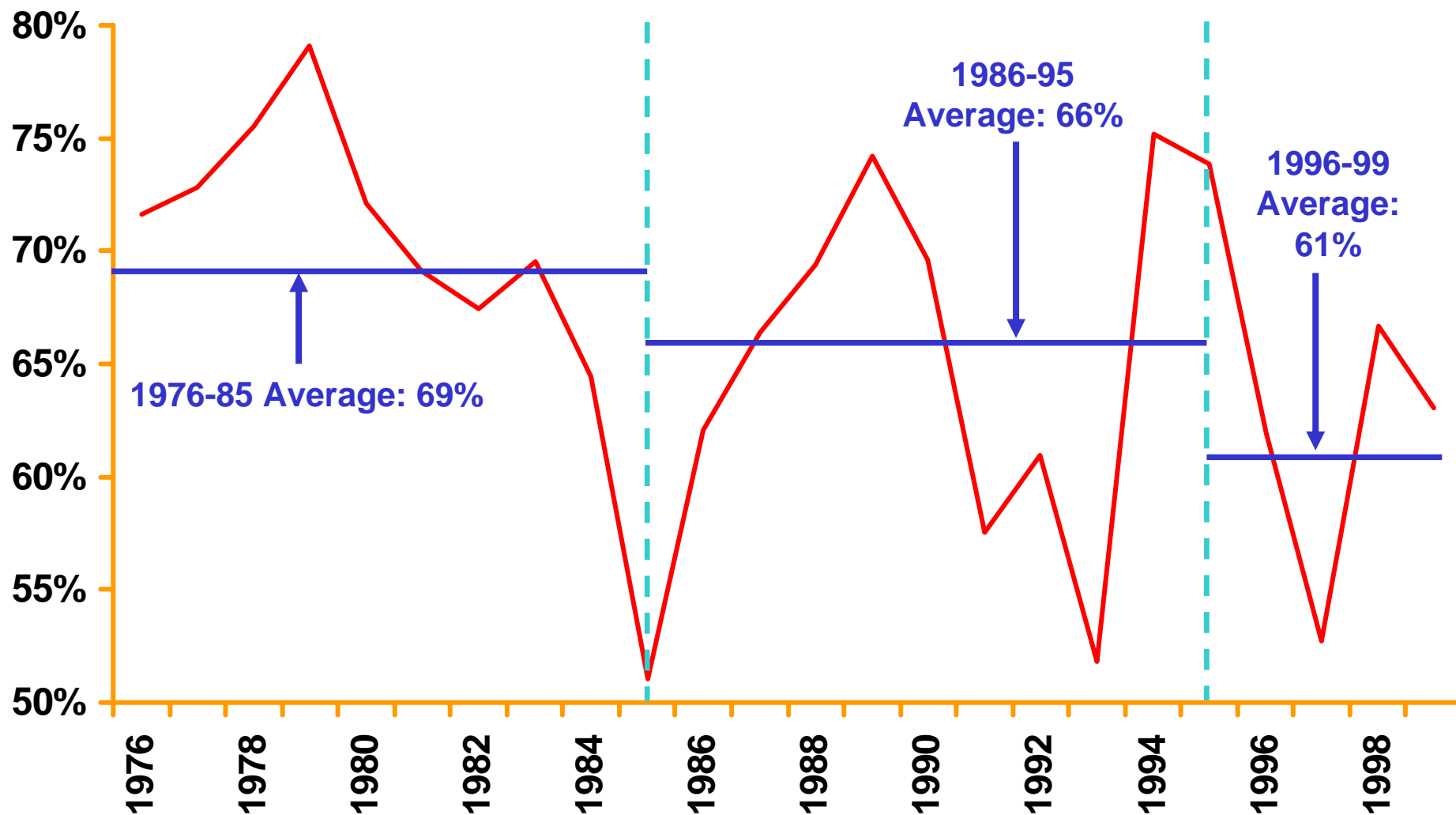
Trade Implications of Higher Safety Net

- **Perceptions**
 - Encourages Our Competitors to Expand Their Production
 - Reduces World Trade
 - Thus, Smaller Share of a Smaller Export Pie

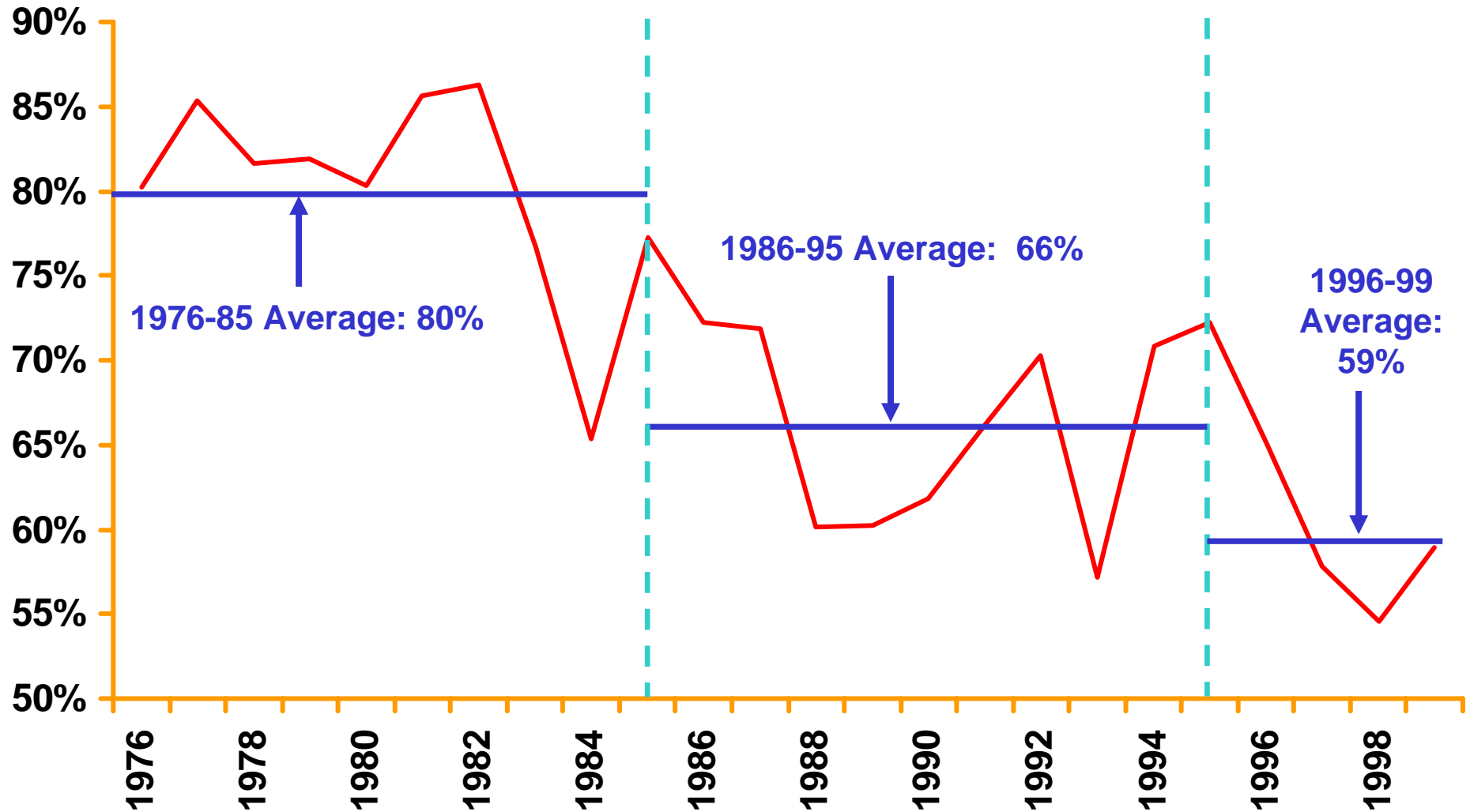
Trade Implications of Higher Safety Net

- **What Data & Experience Show:**
 - **Our ‘Export’ Oriented Ag Policy Ain’t Worked No How**
 - **It’s not the a 10 or 50 Cent Increase in the Loan Rate That is the Problem – It’s the \$4 to \$5 Price Increase When Supplies Are Tight**
 - **Prices Can Vary Within a Band Without Changing International Agricultural Production Significantly**

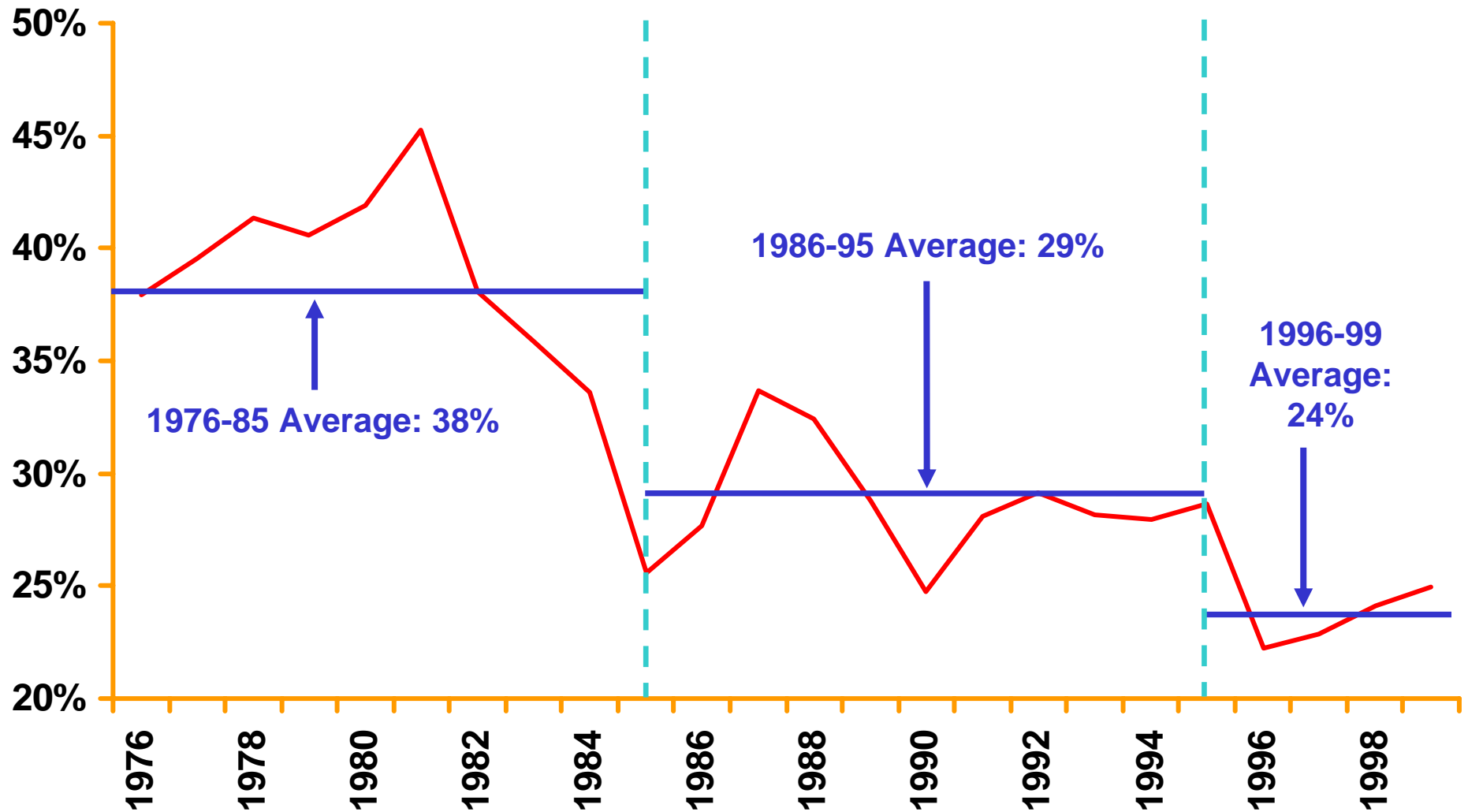
U.S. Share of World Exports



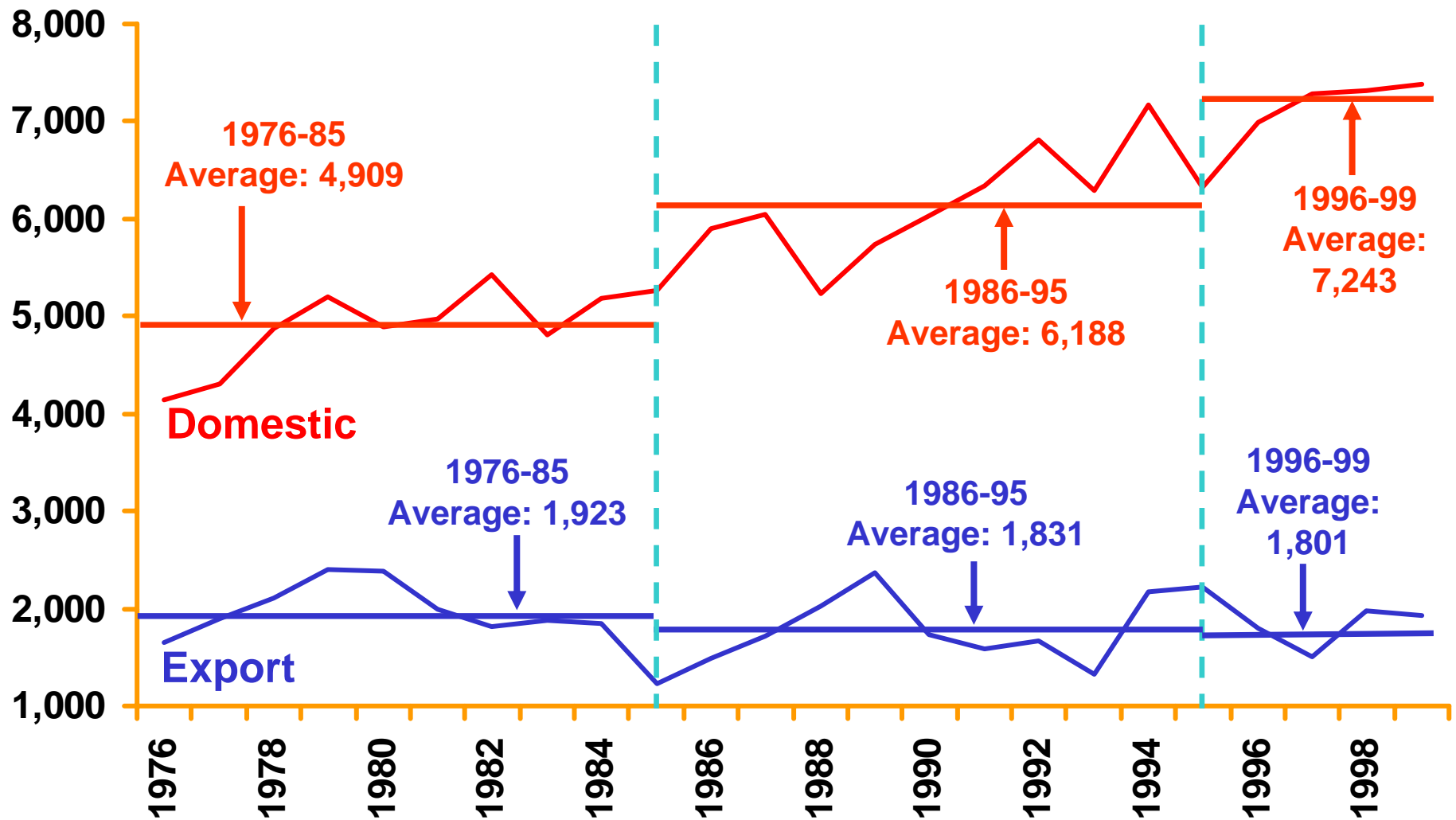
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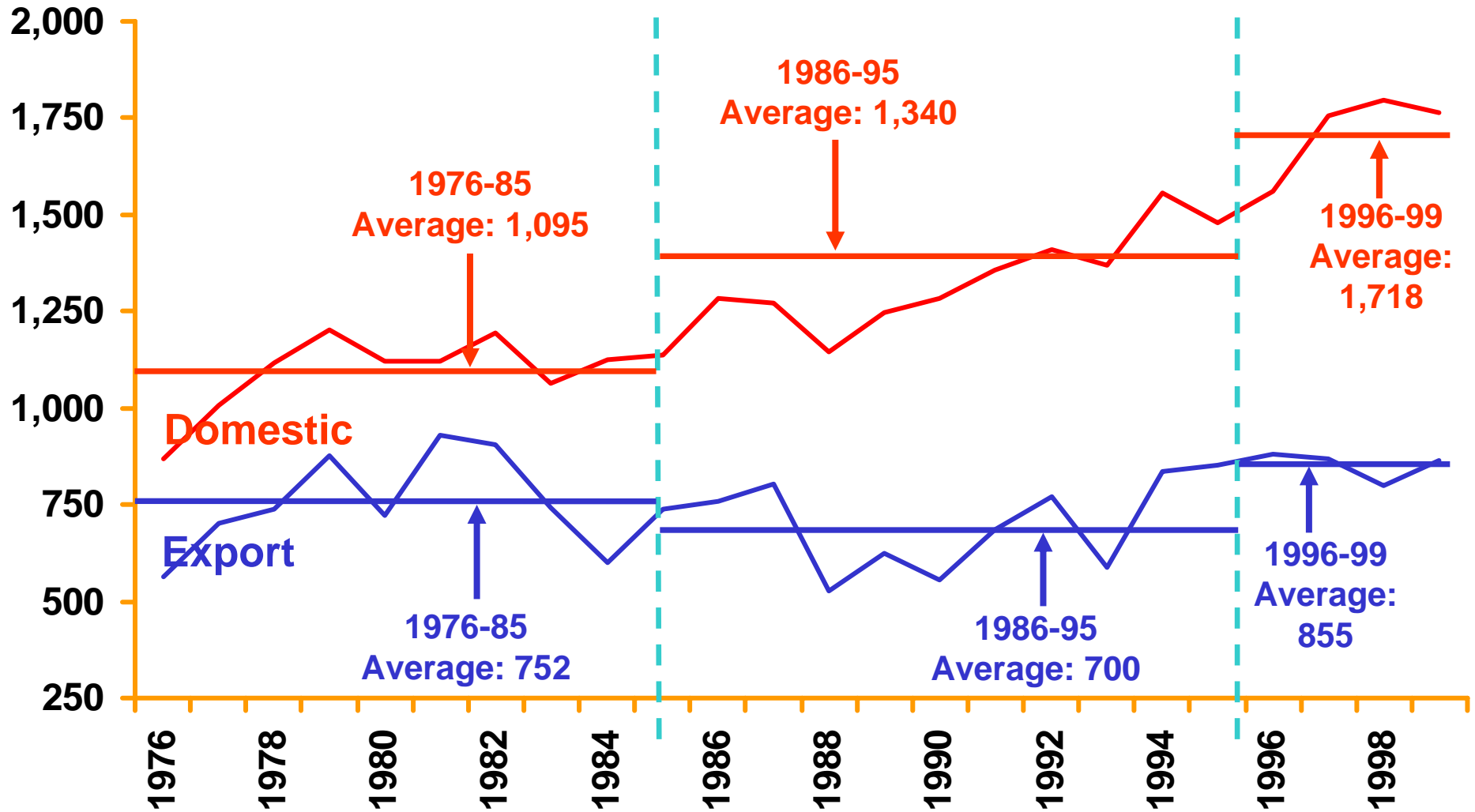
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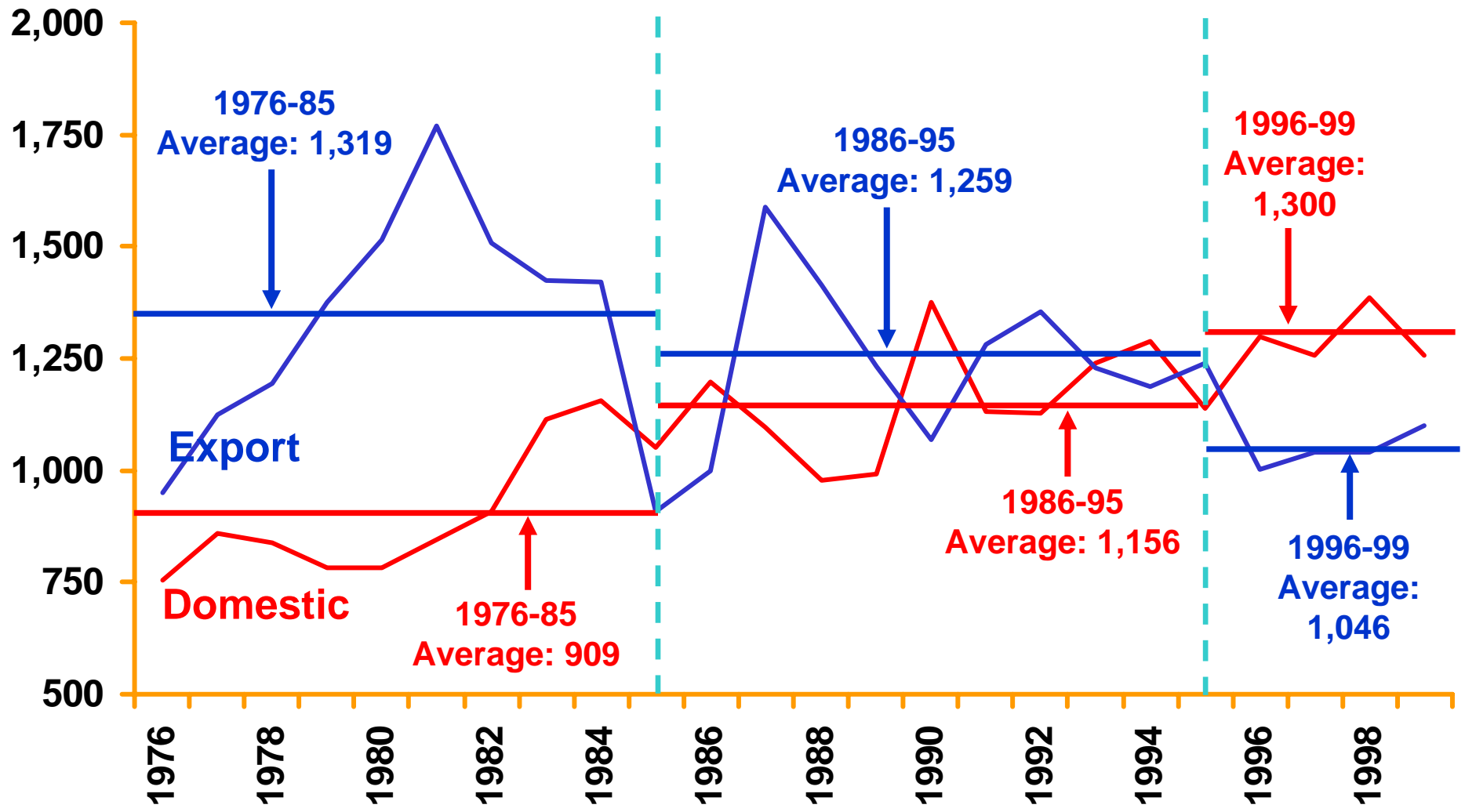
U.S. Domestic & Export Demand



U.S. Domestic & Export Demand



U.S. Domestic & Export Demand



What Have We Learned?

- **During Times of General Oversupplies, the Grain Sector Does Not Self-Correct**
- **It Takes Less Inventory For Prices To Decline Sharply**
- **No Evidence That Production Controls Cause Competitors to Increase Production**
- **Privately Held Stocks Have Not Replaced Buffer Stocks' Price Stabilization Role**
- **International Trade Has Not Performed A Price-Stabilizing Role**
- **On Average, Grain And Cotton Exports Have Increased Little Since The 1980s**

Policy Components

- **FOR/Nonrecourse Loans**
- **Cropland (not crop by crop) Set Aside**
- **Counter Cyclical Income Payments**
- **Replace Crop Insurance With a Disaster Payment Program(?)**