



Farm Prosperity and Food Security Under Freedom to Farm: I Don't Think So

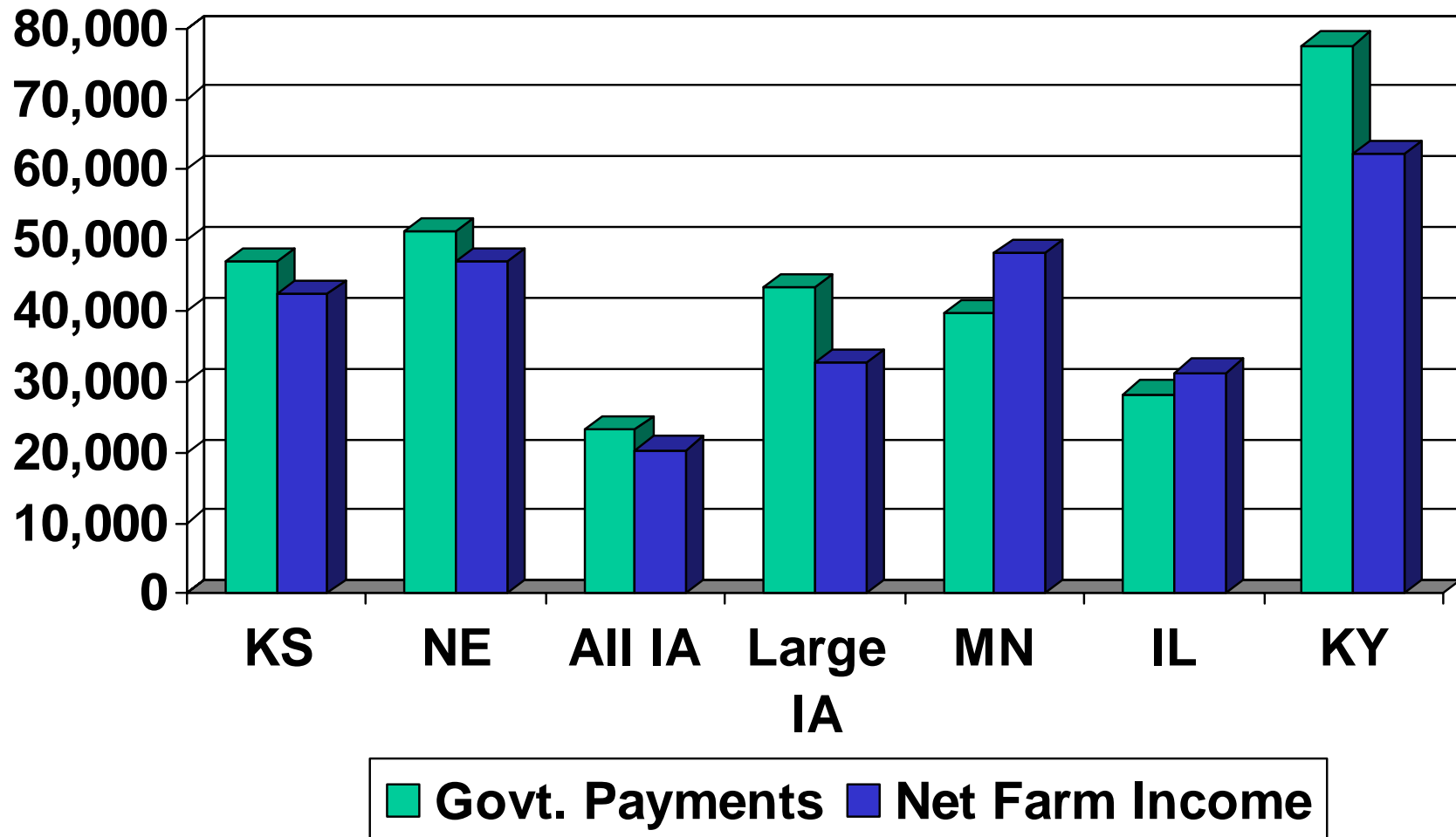
Daryll E. Ray

Rural Life Day Saturday, December 9, 2000

Newman Center University of Missouri-Columbia

**Agricultural Policy Analysis Center - Institute of Agriculture
The University of Tennessee**

1999 Net Farm Income and Government Payments Per Crop Farm



Policy Changes In The 1996 Farm Bill

- **Planting Flexibility**
- **Elimination of Acreage Restrictions and Set-Asides**
- **Price Set By The Market – Market Orientation**
- **Export Oriented and Export Dependent**
- **Fixed Decoupled Payments**
- **No Governmental Storage Program**
- **De-emphasis of Non-Recourse Loans in favor of Loan Deficiency Payments (LDP)**
- **LDP If Market Price Falls Below Loan Rate**

What Were The Expected Results of The 1996 Farm Bill

- **Greater Competitiveness In Export Markets Resulting In:**
 - Increased Exports
 - Greater Market Share
- **Farmers Would Take Planting Signals From The Market Instead Of Farming Government Programs**
 - Change Mix Of Crops With Planting Flexibility
 - Adjust Production In Line With Market Demands

What Were The Expected Results of The 1996 Farm Bill

- **Less Dependence Upon Government Programs Leading To The Elimination Of The Need For a Farm Bill And Farm Programs**
 - Declining AMTA Payments
- **Market Would Manage Commercial Stocks Providing A Reserve At No Cost To The Government**

Why Have We Not Seen The Expected Results?

- **Low Prices Don't Trigger Large Increases In Demand**
- **Exports Are Not Affected Very Much By Price Changes**
- **Limited Ability To Adjust Production In The Short Run**
- **Limited Ability To Reduce Grain Production In The Long Run**
- **With The LDP There Is No Floor Price**

Low Prices Don't Trigger Large Increases In Demand

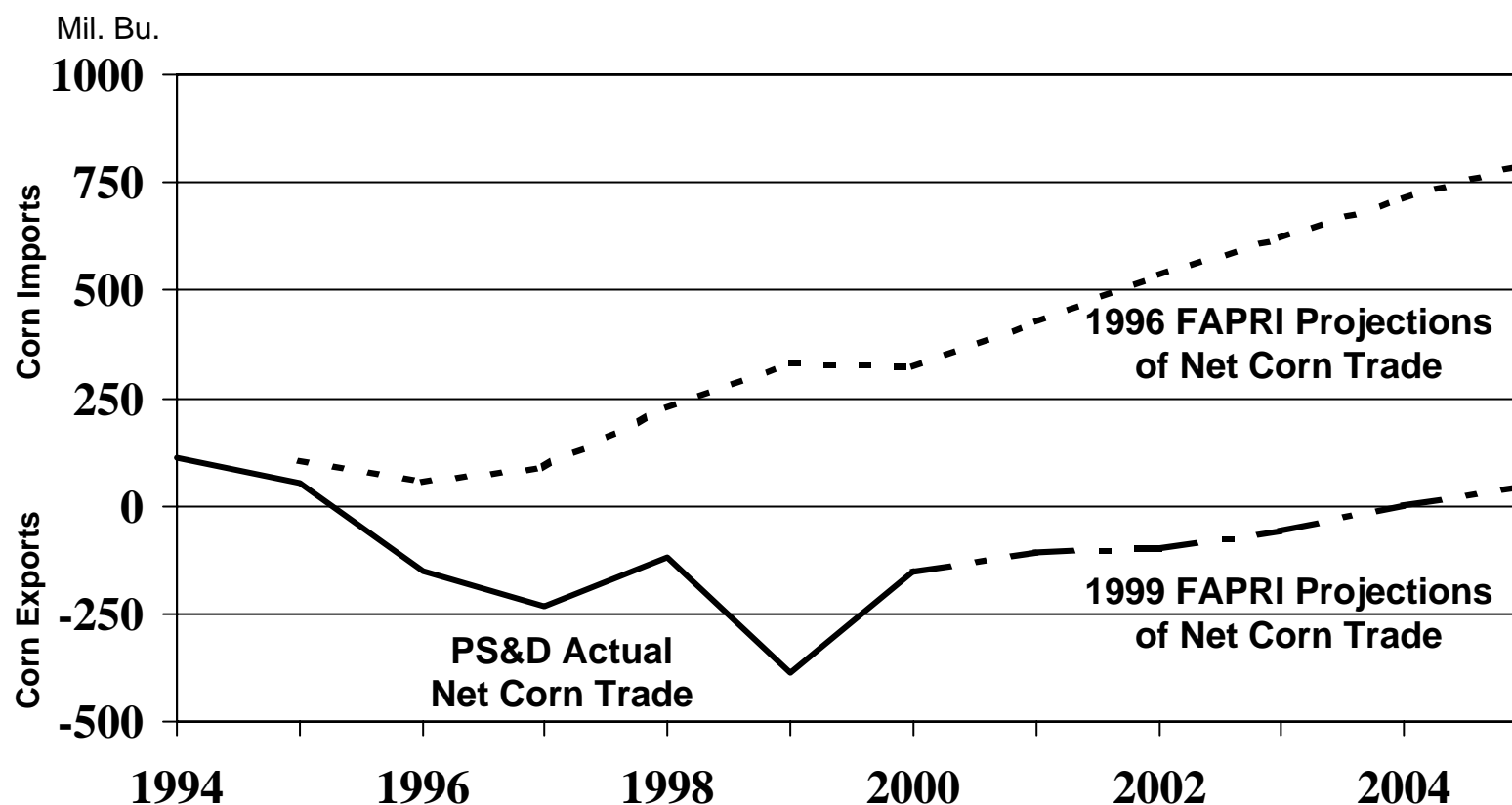
- **Since Food And Feed Are Biological Requirements, Demand Varies Little With Price**
 - Difficult As Nation To Eat More Total Food
 - Year-To-Year Changes In Exports More A Function Of World Shortages/Gluts
- **Consumers Respond Quickly And Powerfully To Low Prices In Other Sectors**

Exports Not Affected Much By Price Changes

- **Countries Import Food Staples Because They Have To – Not Because They Want To**

China Net Corn Trade

Comparison between 1996 FAPRI projections and PS&D actual with 2001-2005 using 1999 FAPRI projections

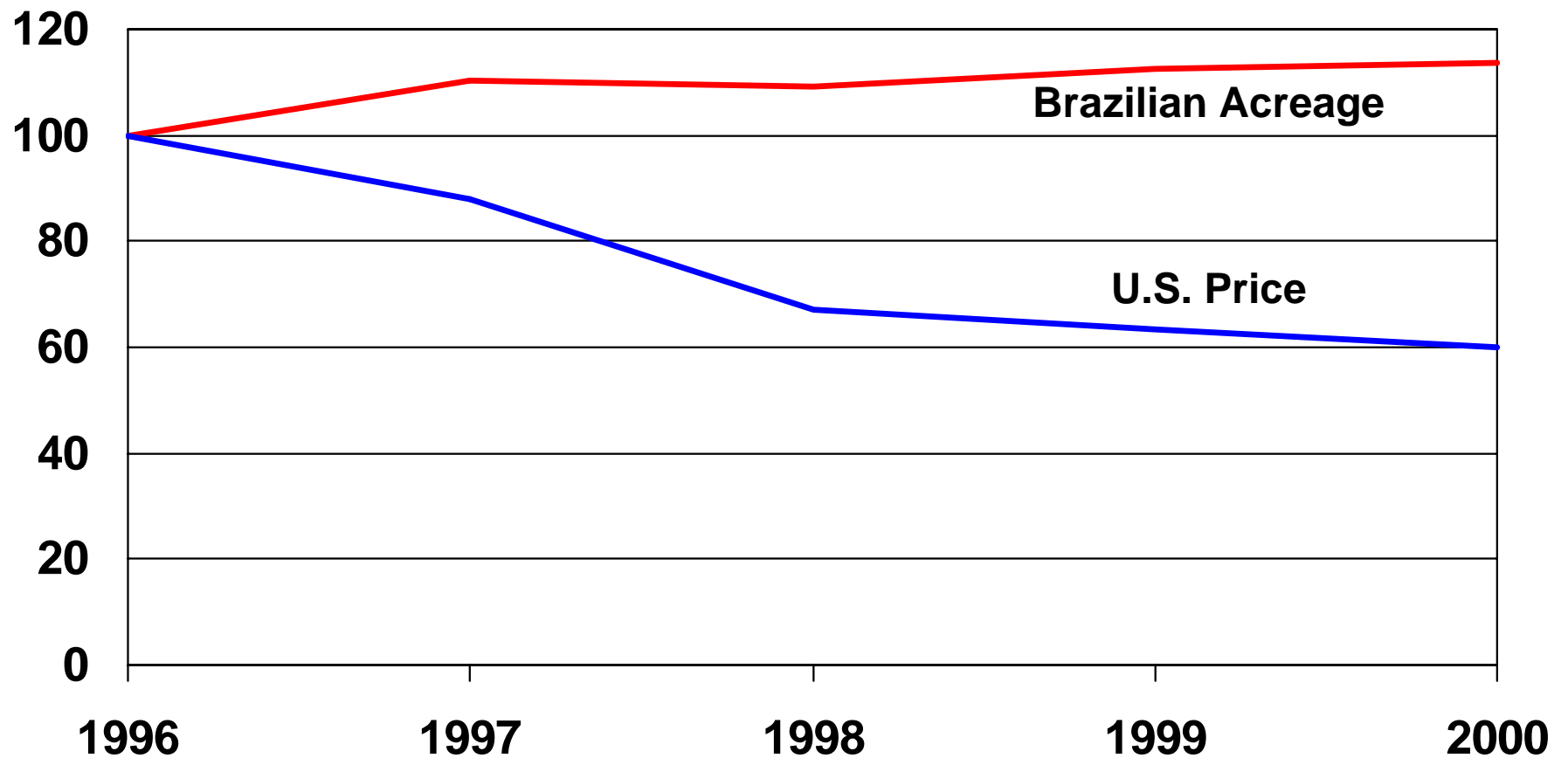


Exports Not Affected Much By Price Changes

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- **Export Competitors, Like Our Farmers Respond Little to Price Changes**

Brazilian Soybean Acreage and U.S. Price

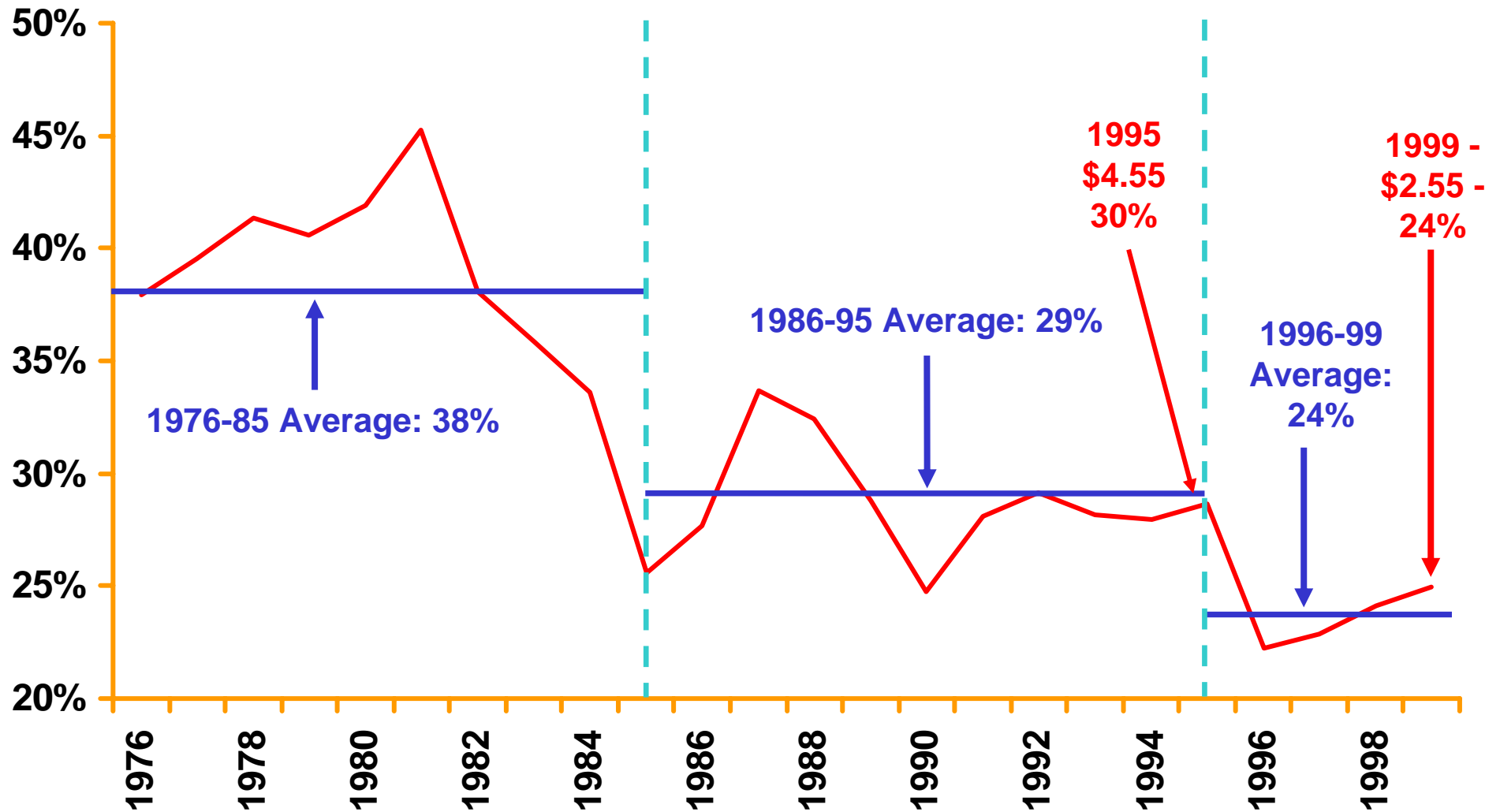
(Indexed: 1996=100)



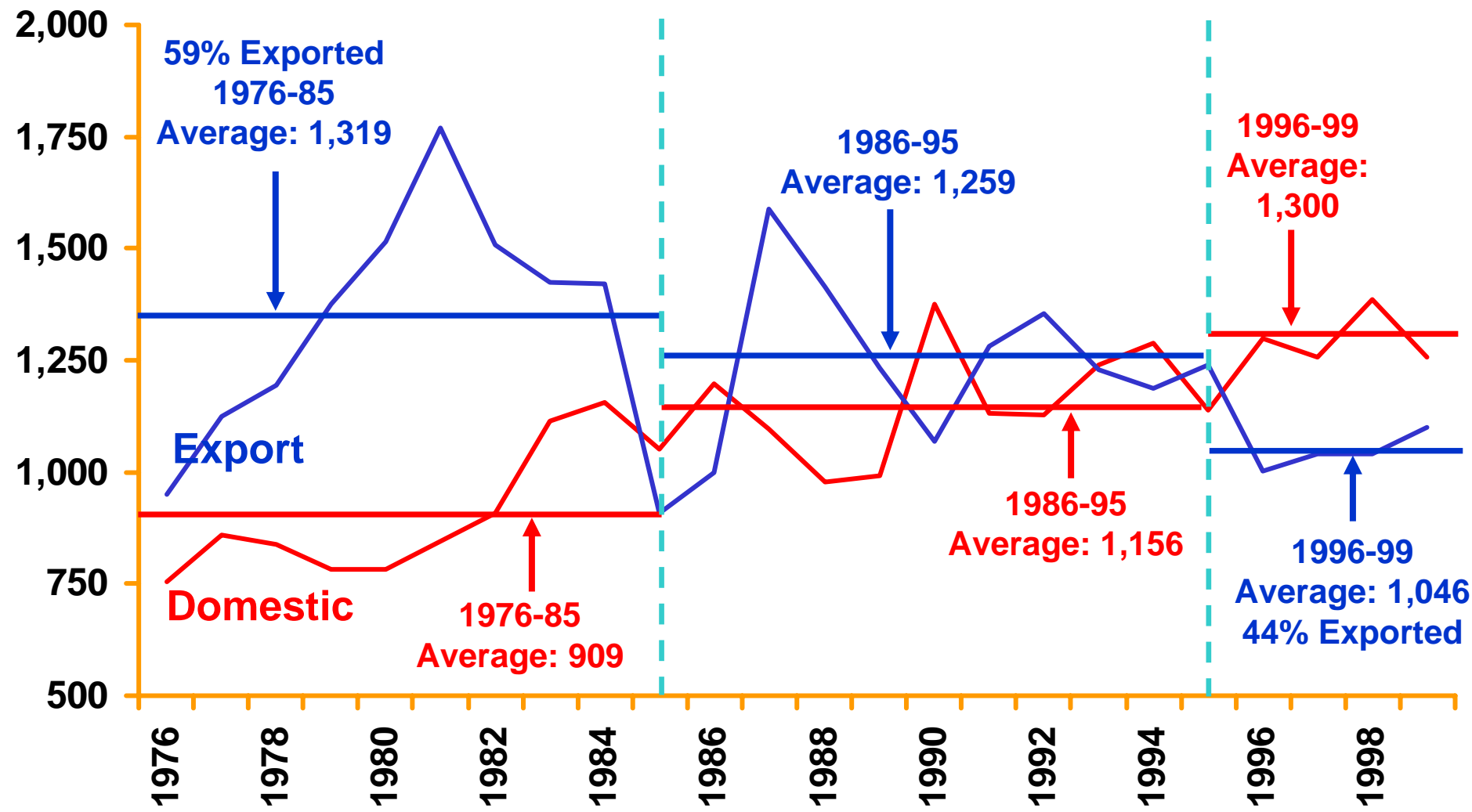
Exports Not Affected Much By Price Changes

- Countries Import Food Staples Because They Have To – Not Because They Want To
- Export Competitors, Like Our Farmers Respond Little to Price Changes
- **In General, Other Considerations Besides Price Dominate**

U.S. Share of World Exports



U.S. Domestic & Export Demand



Limited Ability To Adjust Production In The Short-Run

- **Farmers Do Not Make A Production Decision—
They Make A Planting Decision Once A Year**
- **Farmers Change The Mix Of Crops But Use All
Their Acreage**
- **Farmers Have Every Incentive To Produce Full
Out**

Limited Ability To Adjust Production In The Short-Run

- Farmers Do Not Make A Production Decision—
They Make A Planting Decision Once A Year
- Farmers Change The Mix Of Crops But Use All
Their Acreage
- Farmers Have Every Incentive To Produce Full
Out
- **Other Industries Can, And Often Do, Adjust
Production Weekly Or Daily**

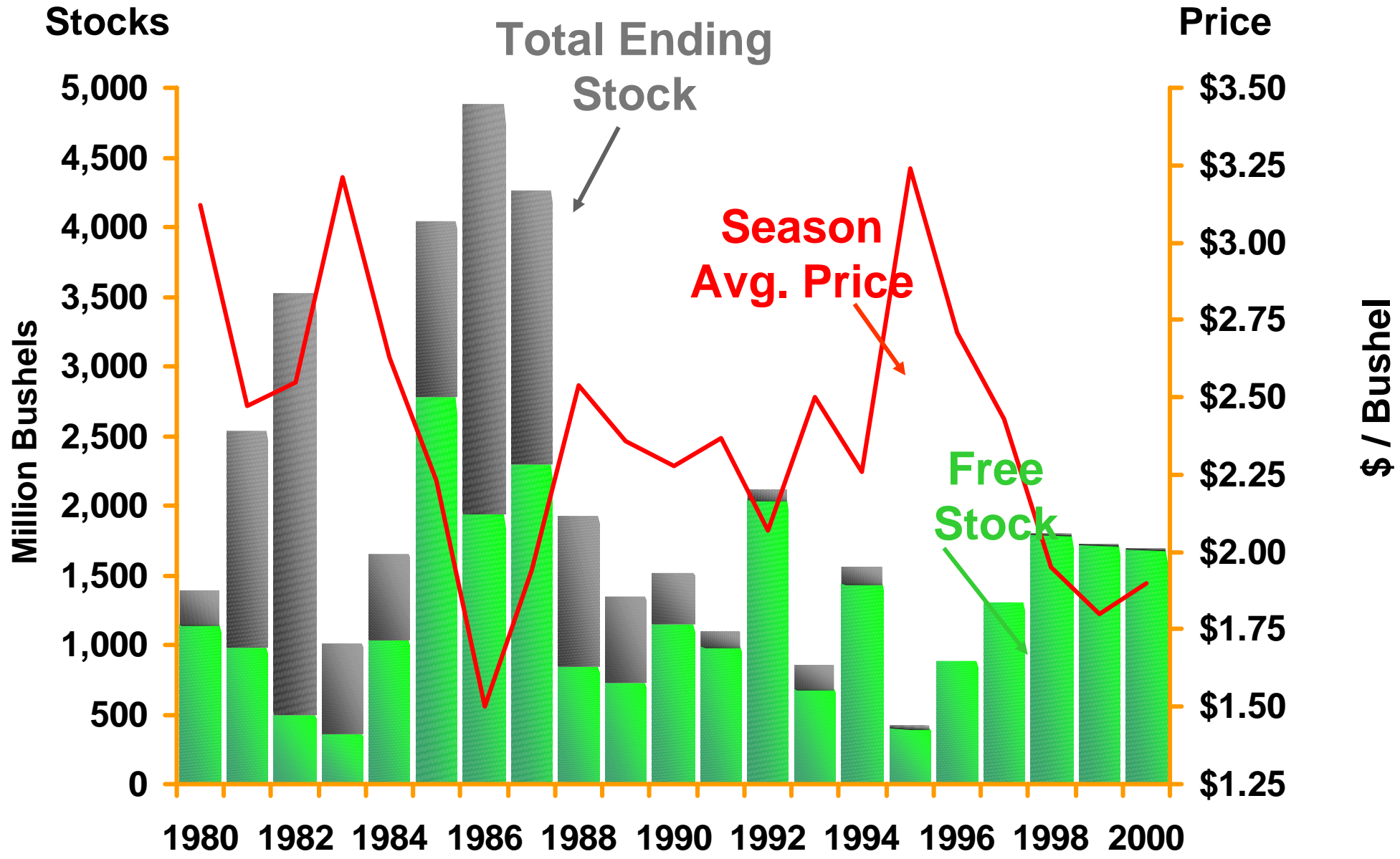
Limited Ability To Reduce Grain Production In The Long-Run

- **With Continued Overcapacity And Low Prices, Farmers Forced Out But Land Is Not**
 - Another Farmer (Often More Efficient) Takes Over
 - Productive Capacity Changes Little Or None
- **In Other Sectors, Plants Would Be Sold To Another Industry**
 - Productive Capacity Is Reduced

With The Loan Deficiency Payment There Is No Floor Price

- **Prices Have Dropped Nearly 40% For Most Crops**
- **It Takes Much Less Stock To Drive Price Down**

Stock And Price

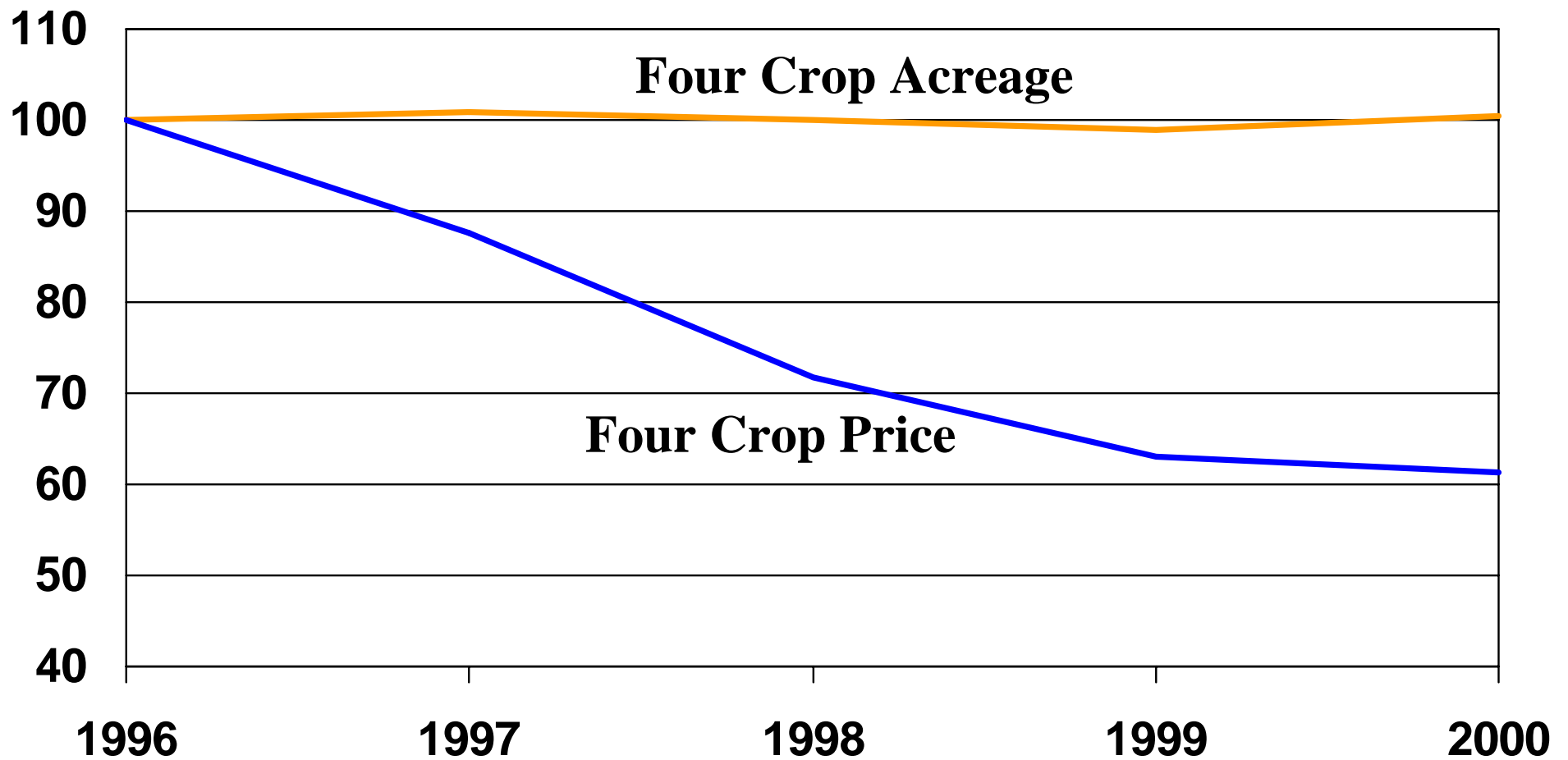


With The Loan Deficiency Payment There Is No Floor Price

- Prices Have Dropped Nearly 40% For Most Crops
- It Takes Much Less Stock To Drive Price Down
- **Because A Single Producer Has No Effect On Price They Continue To Produce Full Bore**

Corn, Cotton, Soybeans and Wheat Acreage and Price

(1996=100)

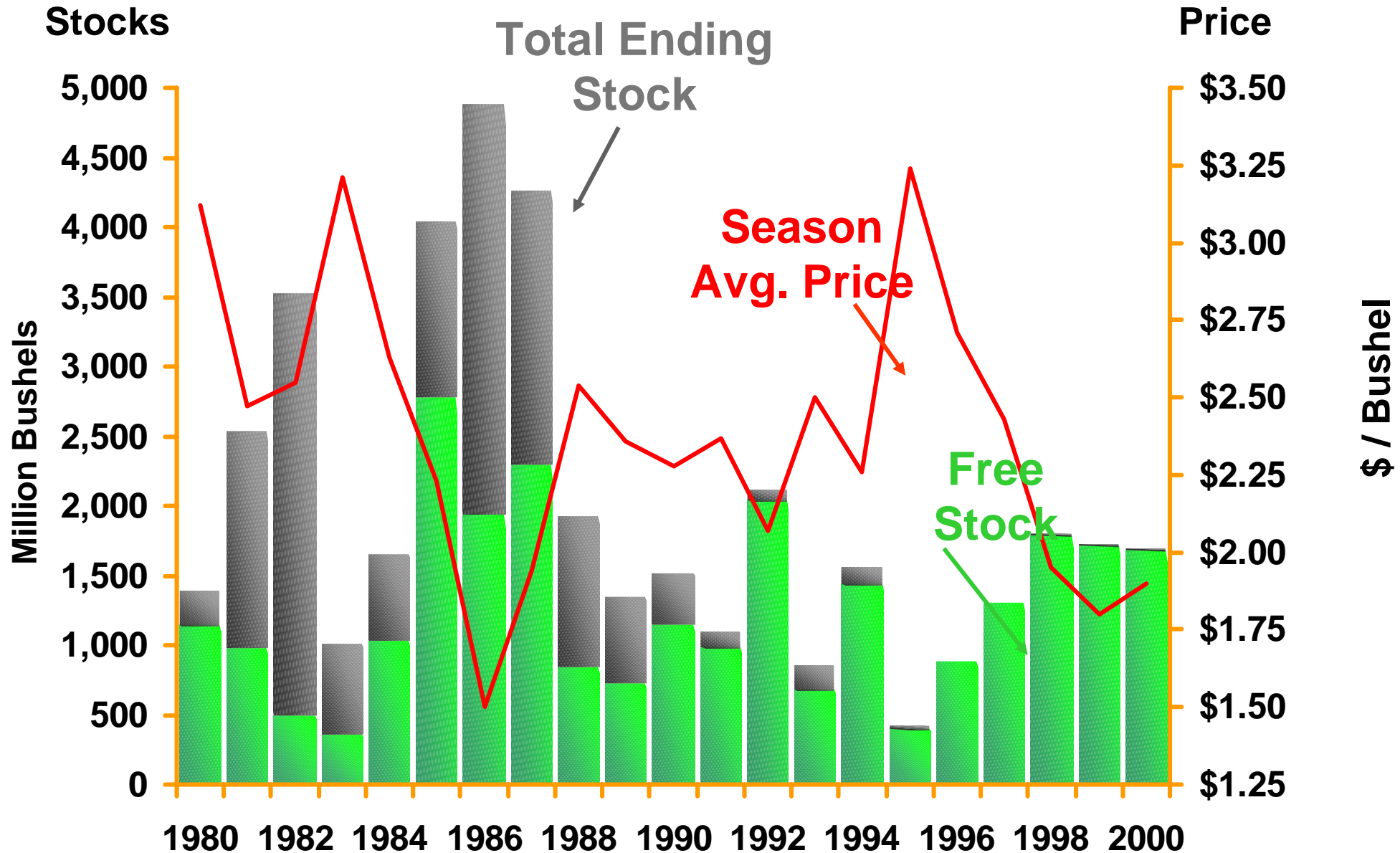


Food Security:

Short-Term Issues

- **Commercially Held Stocks Are Not Sufficient To Cover Low Yields**

Stock And Price



Food Security:

Short-Term Issues

- Commercially Held Stocks Are Not Sufficient To Cover Low Yields
- **International Markets Have Not Stabilized Grain Markets**
- **GMO's – StarLink Controversy, Yellow Rice**
- **Diseases Like Mad Cow**
- **Monoculture Cropping and Livestock – Increased Vulnerability**

Food Security: Long-Term Issues

- **Increased Acreage Worldwide Can Buffer Production Against Vagaries Of Weather, Disease and Pests**
- **Technological Gains Have Improved Yields And Opened Up New Land Areas**
- **Questions Of Access And Distribution Of Agricultural Production**

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**
- **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(?)**