

Transition Surprises and What Caused Them

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Let's Consider The Following Questions:

- **How Did The “Price Responsiveness Experiment” Made Possible By The 1996 Farm Bill Turn Out?**
- **Inventories Not As Large As 1980s; So Why Are Prices So Low?**
- **Has International Trade Performed A Price-Stabilizing Role?**
- **Have Expectations Of “Export Oriented” Approach To Policy Since 1985 Been Realized?**
- **What Are Some Possible Components Of A New Policy**

How Price Responsive Is The Aggregate Crop Market?

- **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**

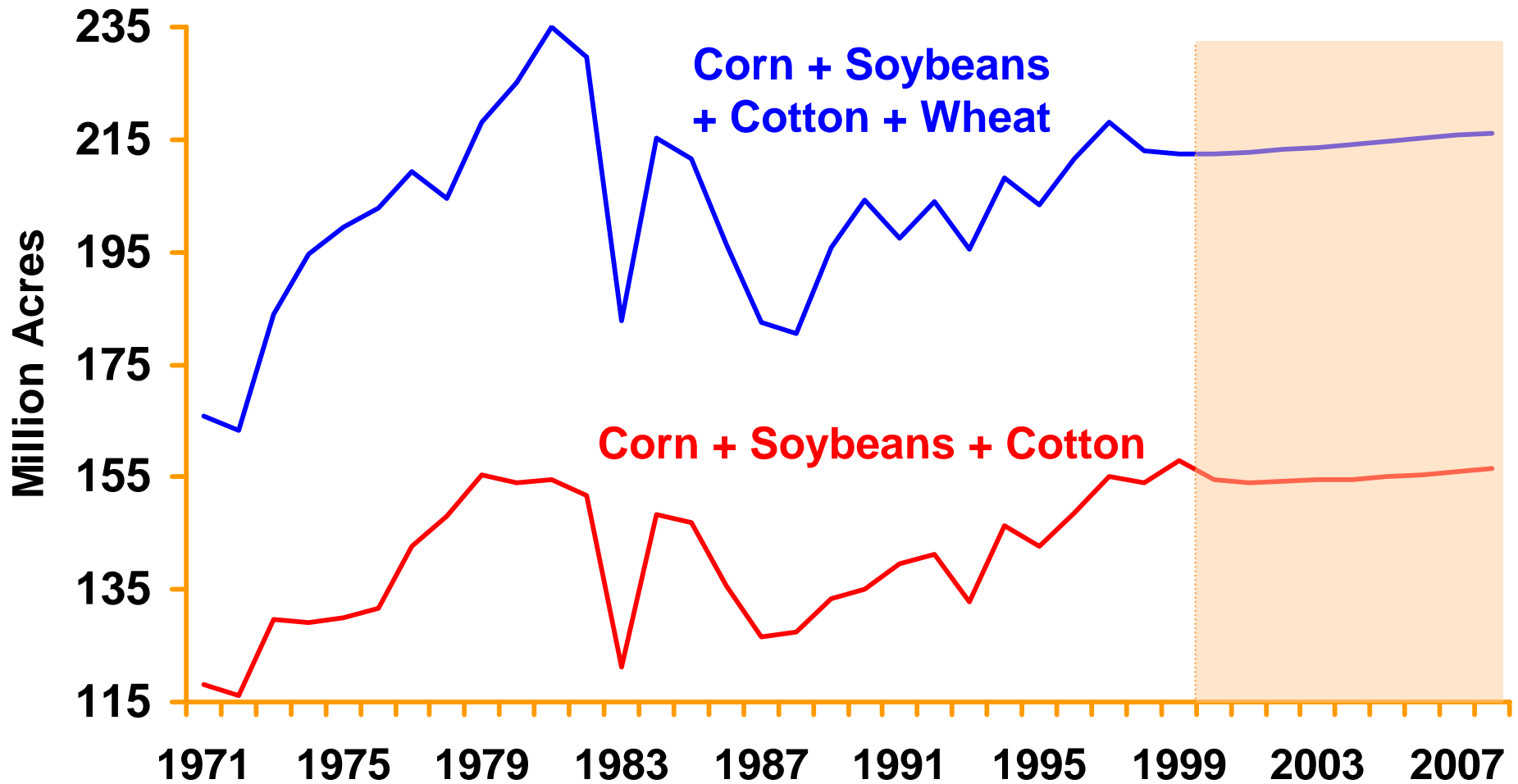
How Price Responsive Is The Aggregate Crop Market?

- **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**

How Price Responsive Is The Aggregate Crop Market?

- **Limited Ability To Reduce Grain Productive Capacity In 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**

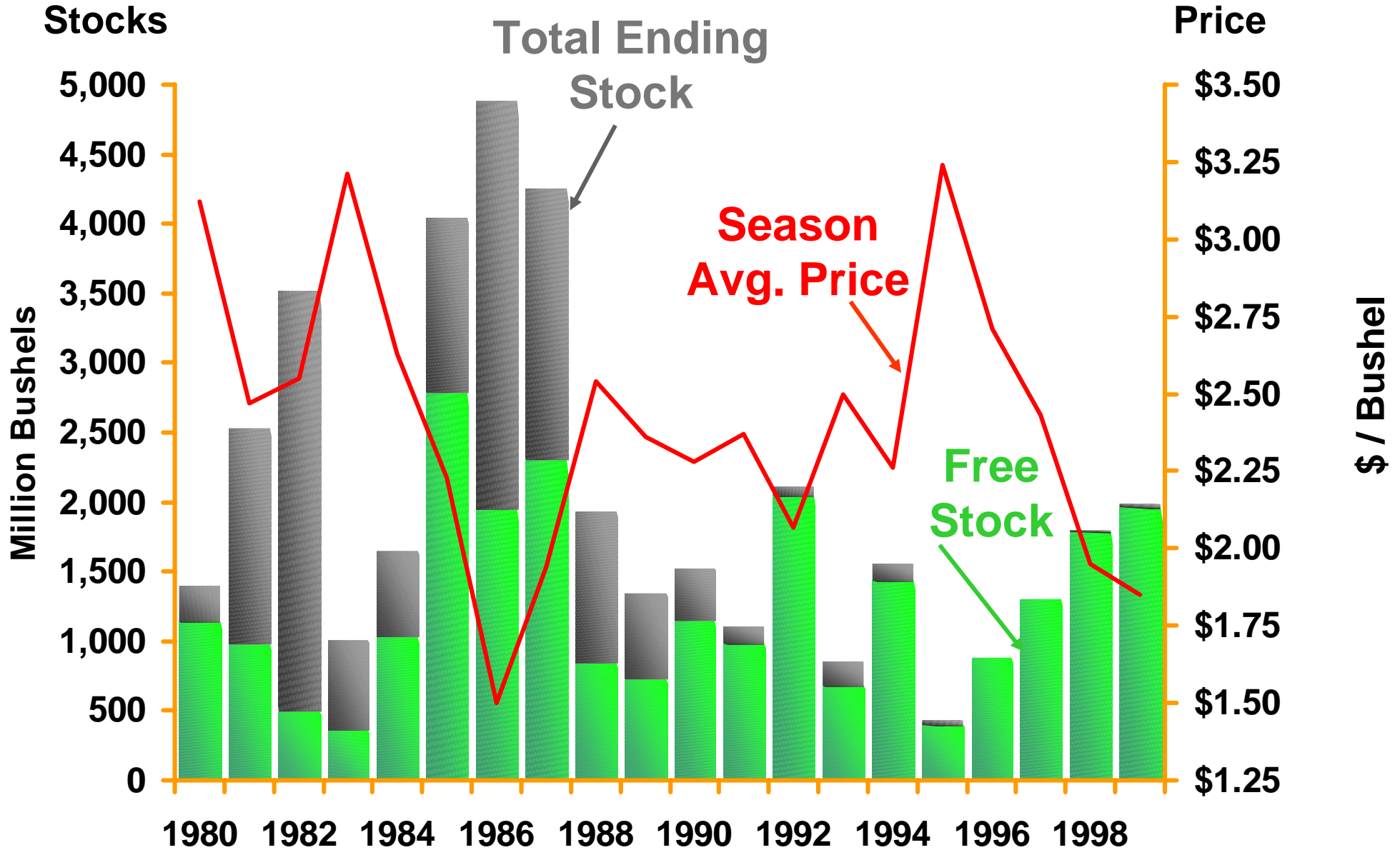
U.S. Harvested Acreage



A Stock Increase Drives Prices Down Faster And Farther

- **With The Marketing Loan, There Is No Price Floor**
 - **It Takes Much Less Stock To Drive Price Down**
- **With No Government/FOR Stocks Or ARPs, There Is No Moderation Of Prices, Period!**

Stock And Price



What About “Buffering”?

- **Buffer Stocks/NonRecourse Loans**
 - **What Data And 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**

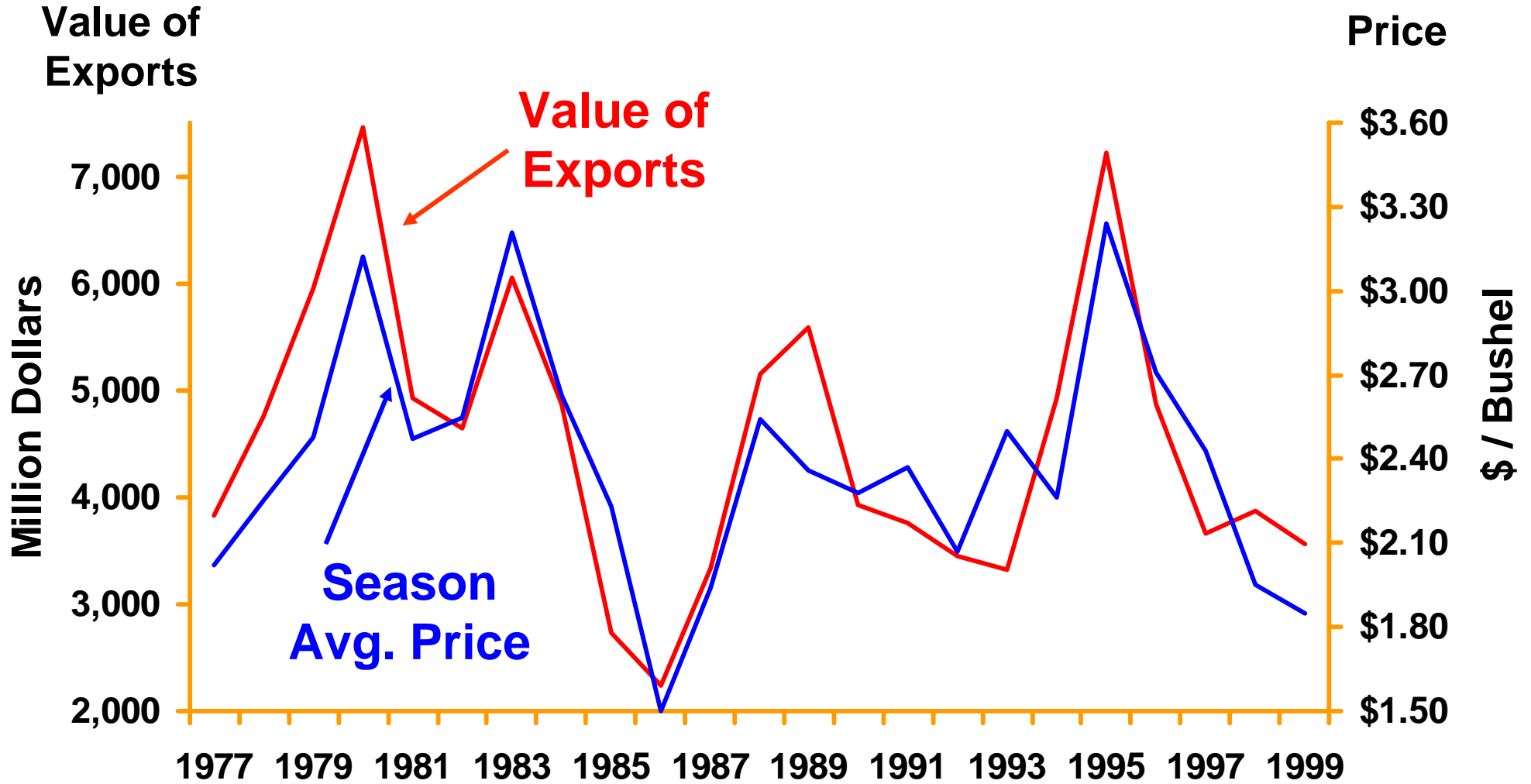
What About “Buffering”?

- **Buffer Stocks/NonRecourse Loans**
 - **What Data And Experience Show:**
 - **Privately Held 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 Versus LDPs On Billions Of Bushels

What About “Buffering”?

- **Buffer Stocks/NonRecourse Loans**
 - **What Data And Experience Show:**
 - **Export Markets Obviously Have Not Stabilized Grain Markets**
 - **Yes, Exports Do Increase With A Drop In Price ...**
 - **But By Too Little To Rebalance Inventories**
 - **If Exports Responded As Earlier Advertised, Value Of Exports Would Go Up As Prices Go Down**

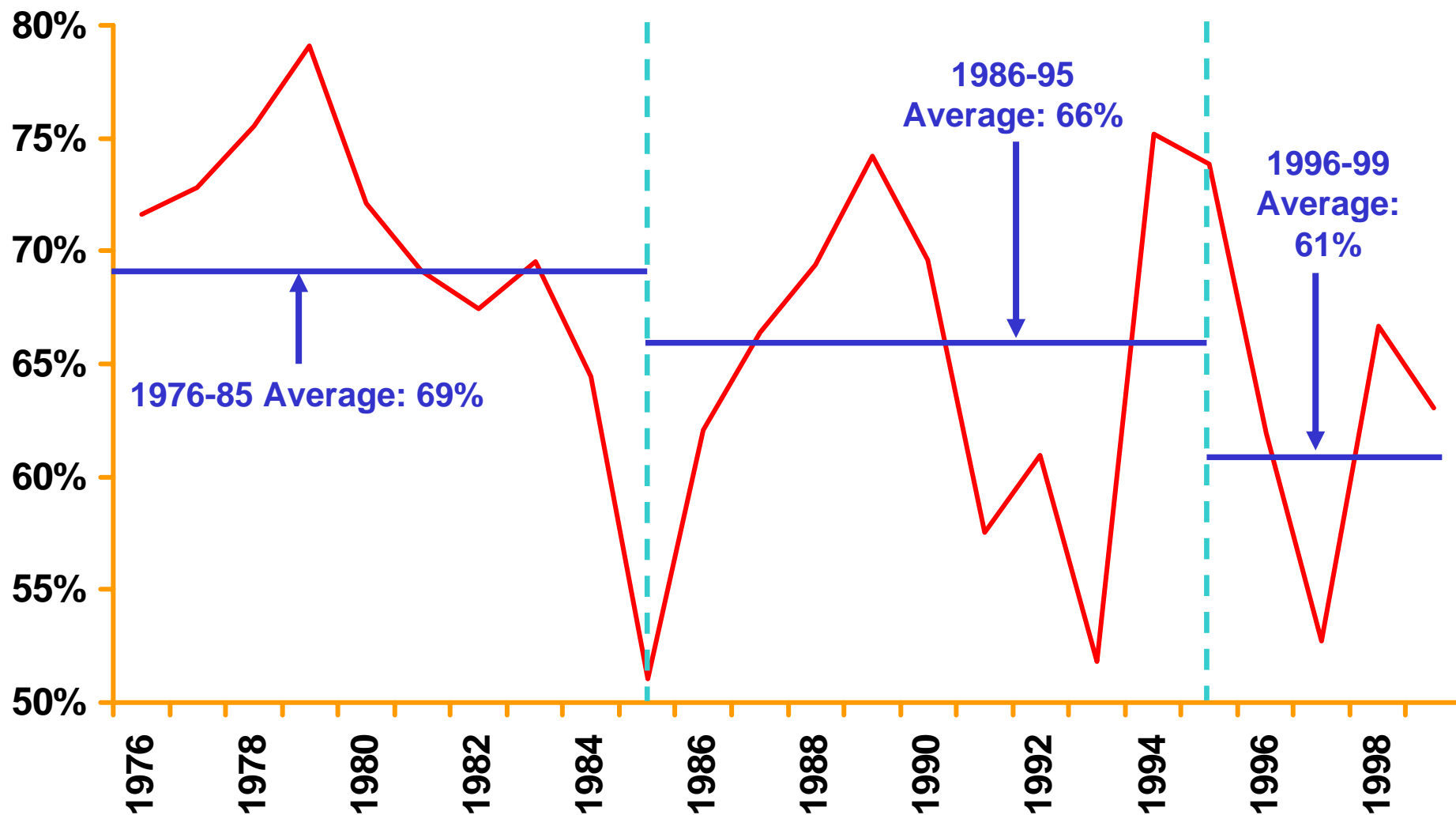
U.S. Value Of Exports & Price



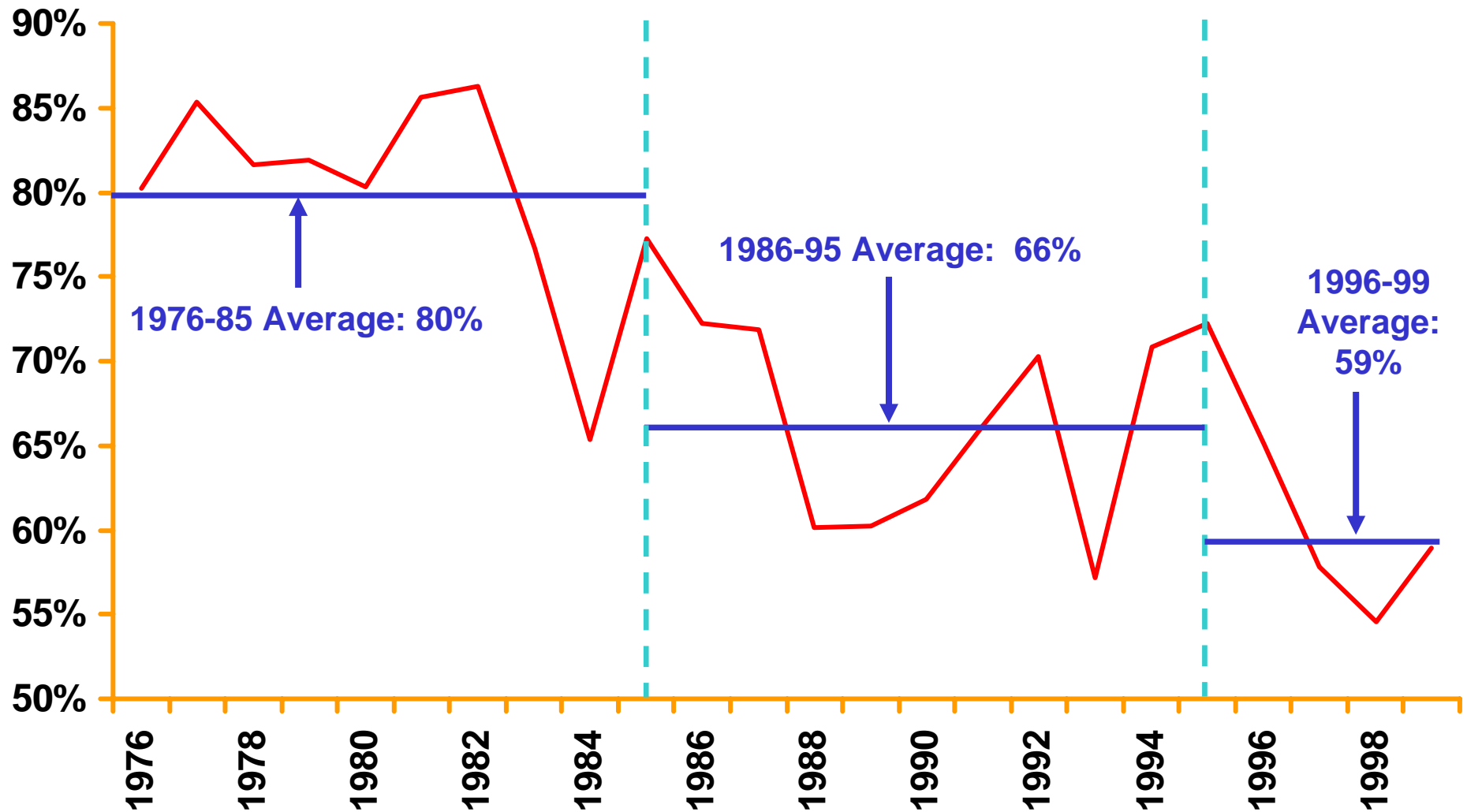
How Has The Export-Oriented Approach To Policy Since 1985 Worked Out?

- **What Data And Experience Show:**
 - Not Too Well
 - It's Not The 10 Or 50 Cent Increase In The Loan Rate That Is The Problem – It's The \$7 Corn And \$15 Soybean Price When Supplies Are Tight!
 - Prices Can Vary Within A Band Without Changing International Agricultural Production Significantly

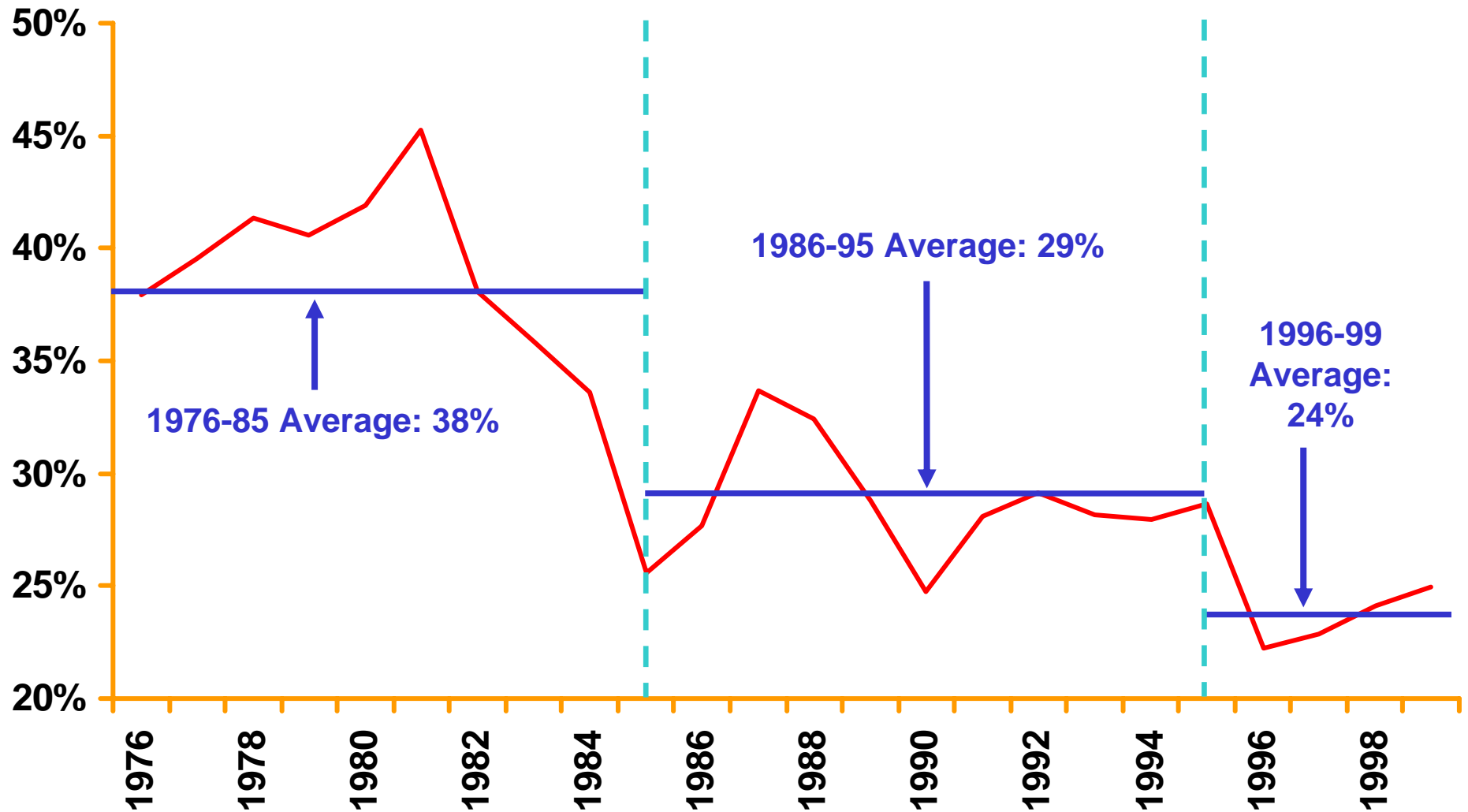
U.S. Share of World Exports



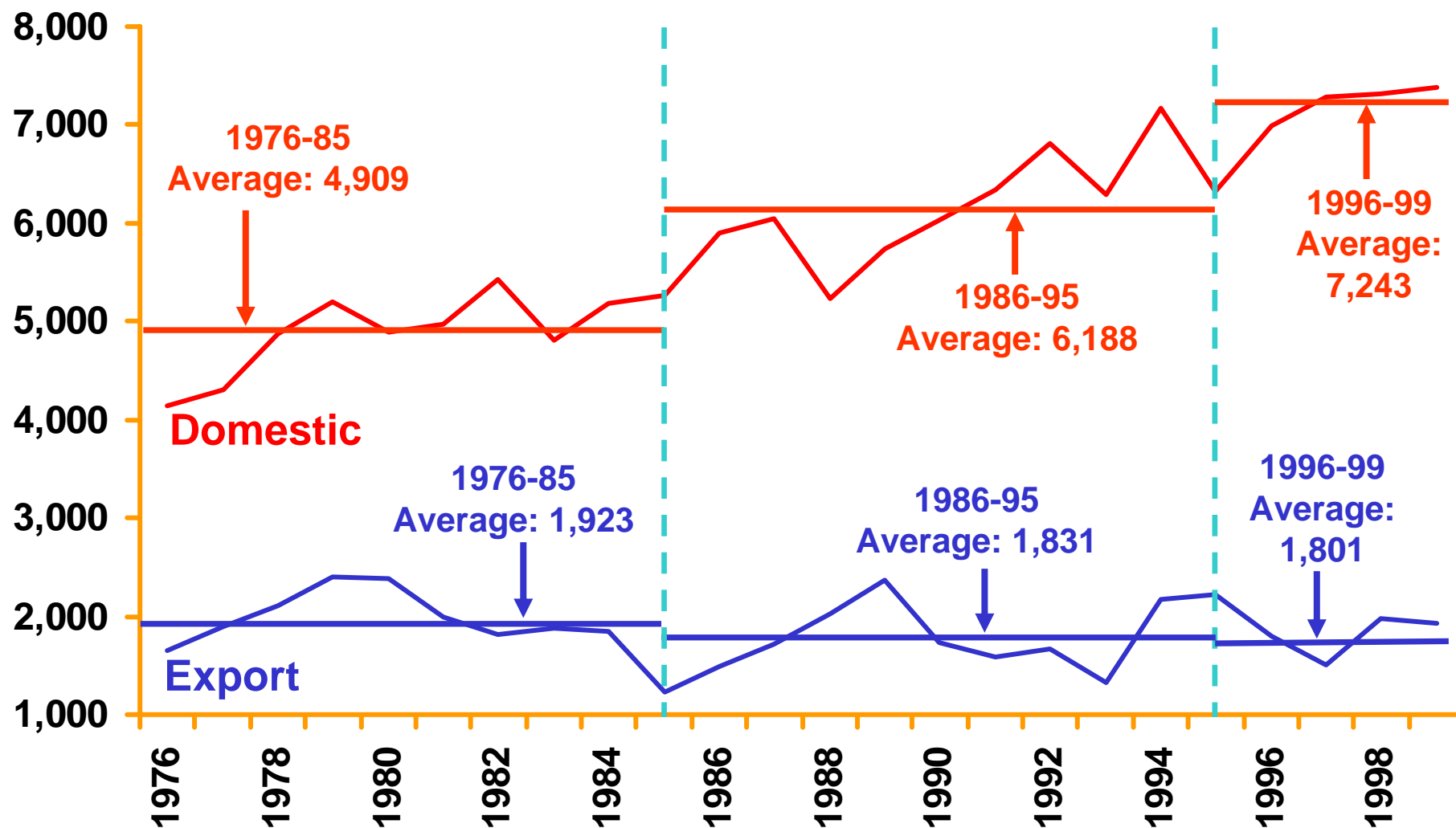
U.S. Share of World Exports



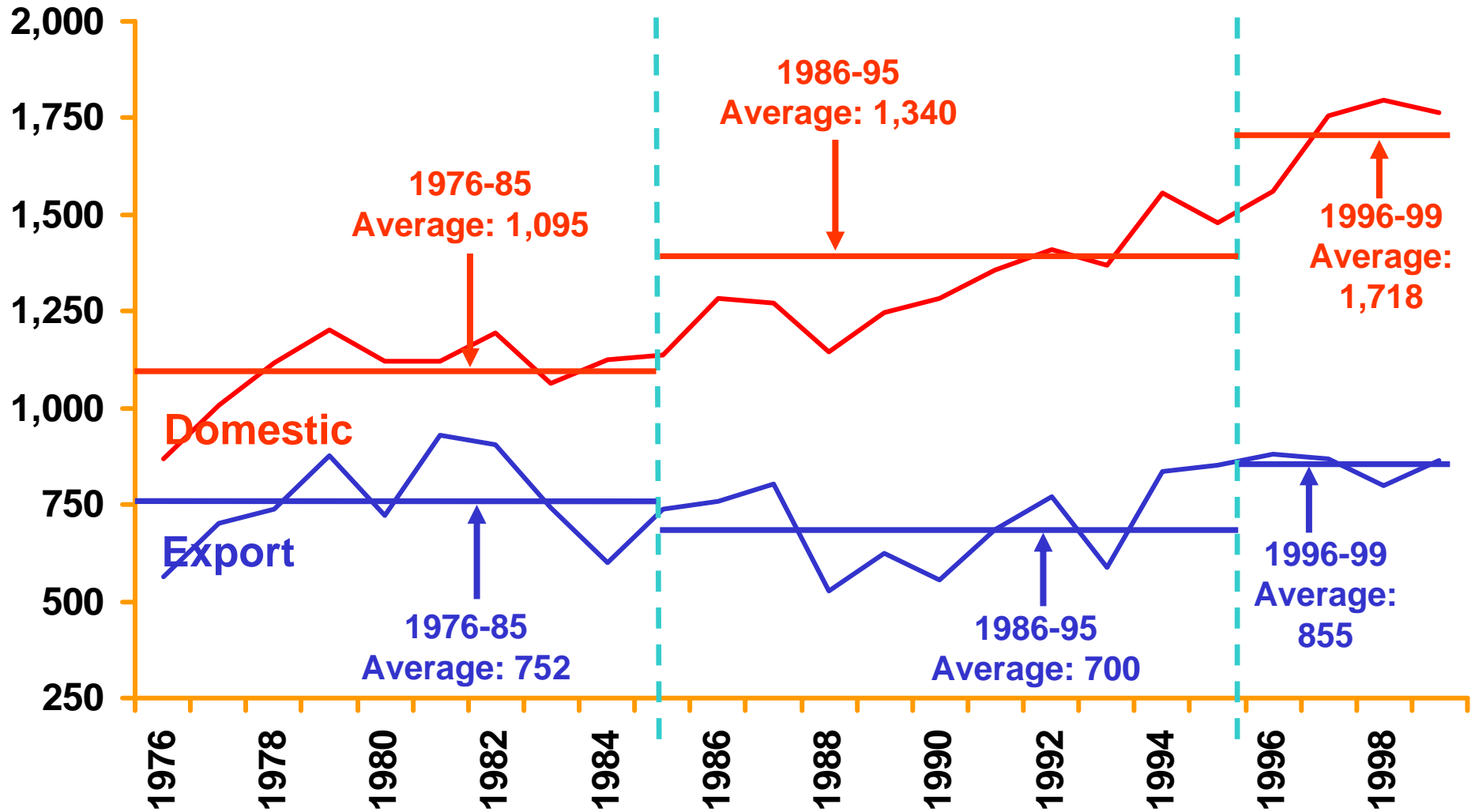
U.S. Share of World Exports



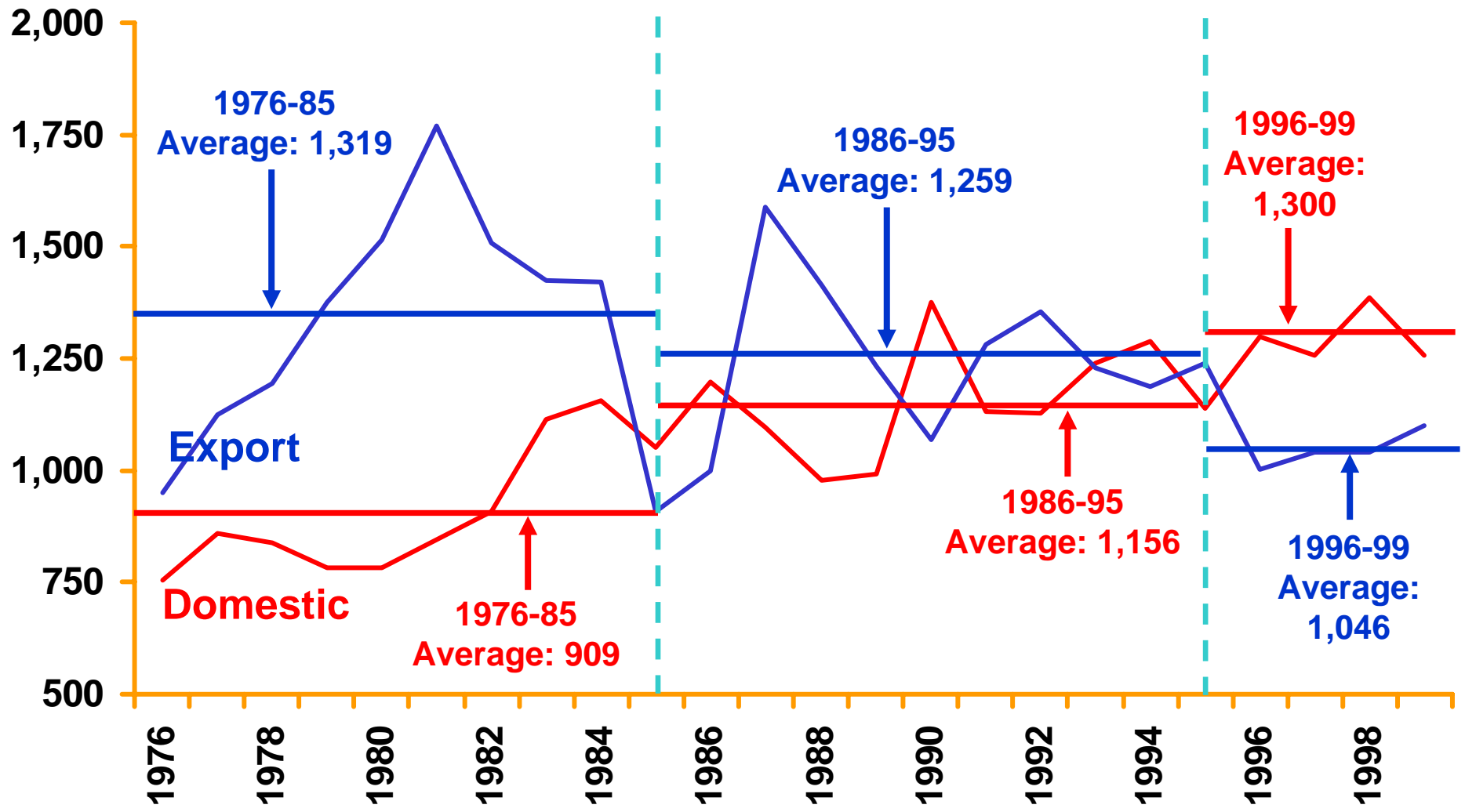
U.S. Domestic & Export Demand



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**
- **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(?)**