



Freedom To Farm: A Comparison of What We Were Told To Expect and What Happened

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**American Corn Growers Association
Annual Convention February 2, 2001**

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Introduction

- **Premises and Expectations of 1996 Farm Bill**
- **Why Have We Not Seen The Expected Results?**
- **Incomes and Government Payments That Have Resulted**

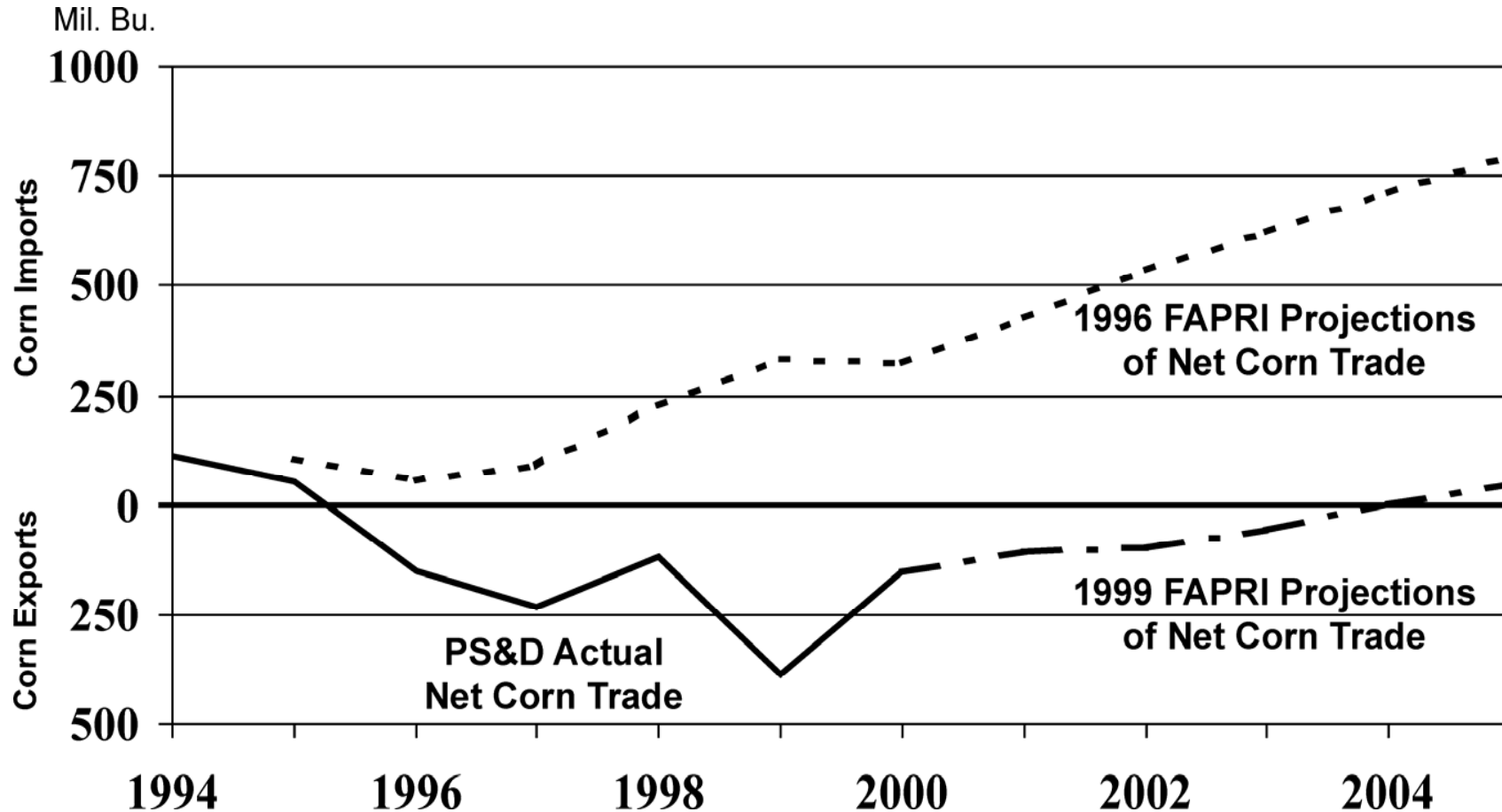
Premises and Expectations

- **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

Premises and Expectations

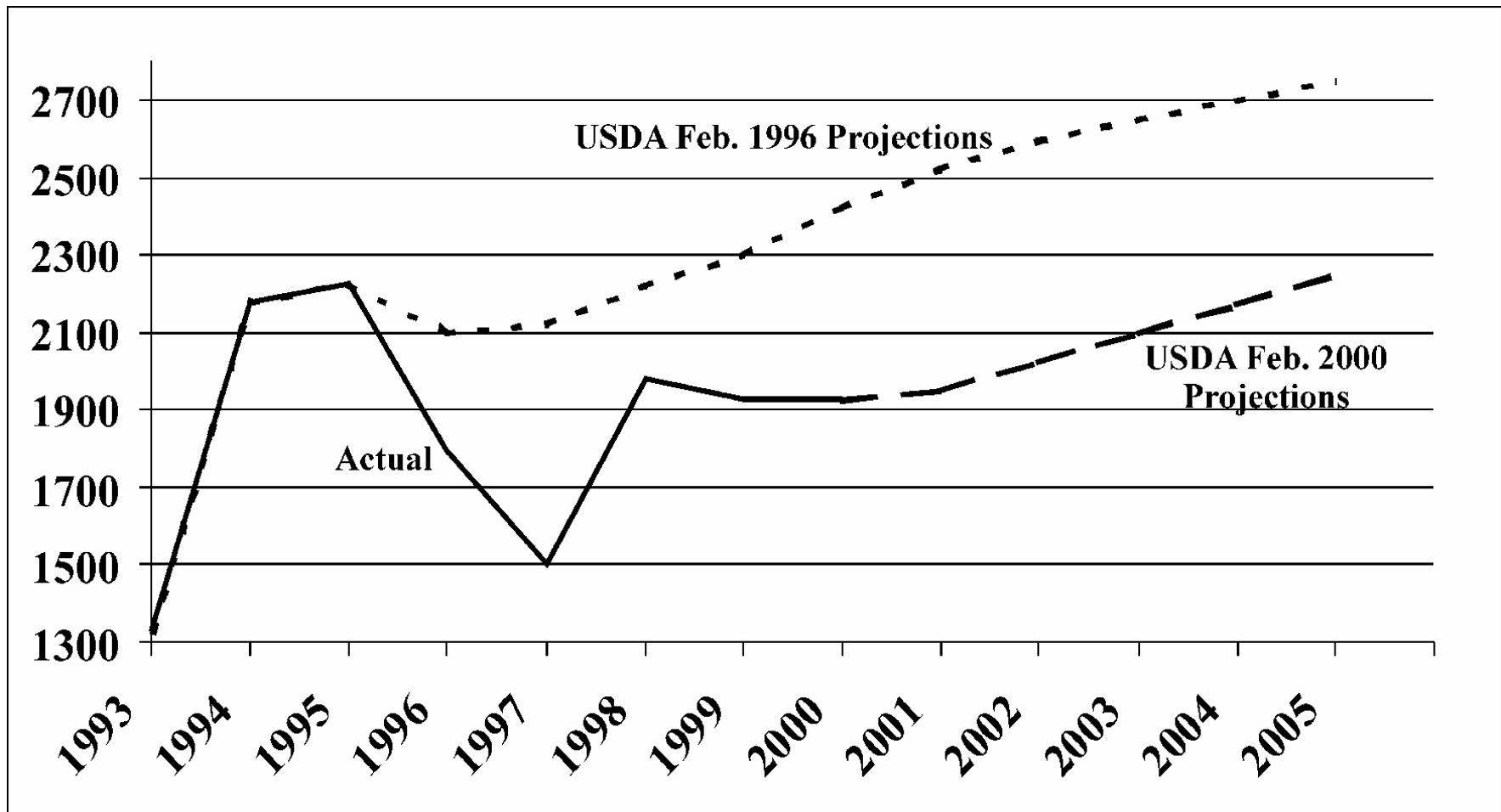
- **Less Dependence Upon Government Programs Leading To The Elimination Of The Need For a Farm Bill And Farm Programs**
 - Declining AMTA Payments
- **Market Would Manage Commercial Stocks Providing A Reserve At No Cost To The Government**

Net Corn Trade for China: Actual and Projections, 1994-2005



- Expected Rapid Growth in Exports Not Sustained

U.S. Corn Exports: Actual and Projections, 1993-2005



- **Expected Rapid Growth in Exports Not Sustained**

Prices peak before first crop year of 1996 Farm Bill



**Closing weekly futures price for corn
for the nearest contract month**

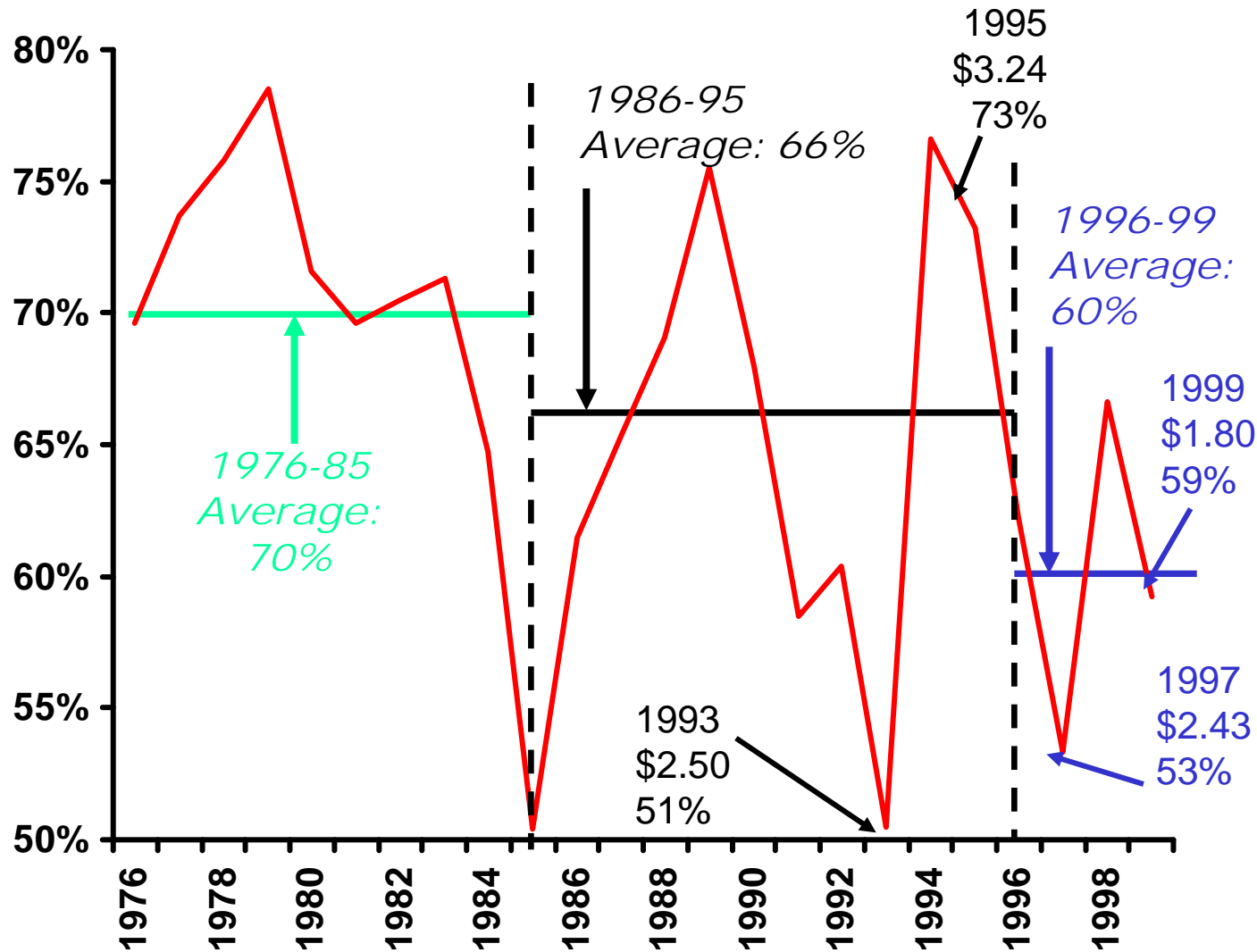
Low Prices Don't Trigger Large Increases In Demand

- **Since Food And Feed Are Biological Requirements, Demand Varies Little With Price**
 - **Difficult As Nation To Eat More Total Food**
- **Consumers Respond Quickly And Powerfully To Low Prices In Other Sectors**

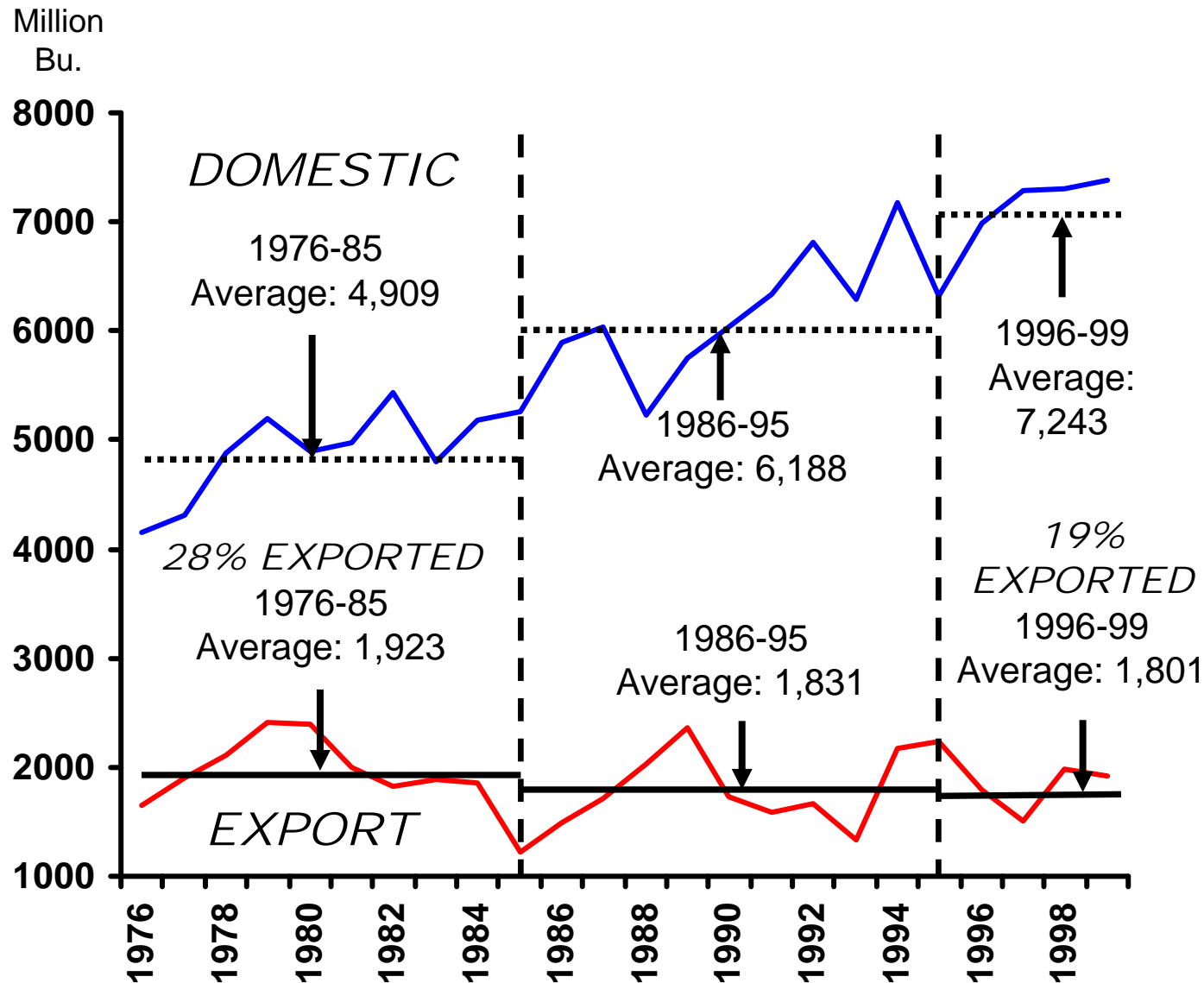
Exports Not Affected Much By Price Changes

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

U.S. Share of World Exports



U.S. Domestic and Export Demand

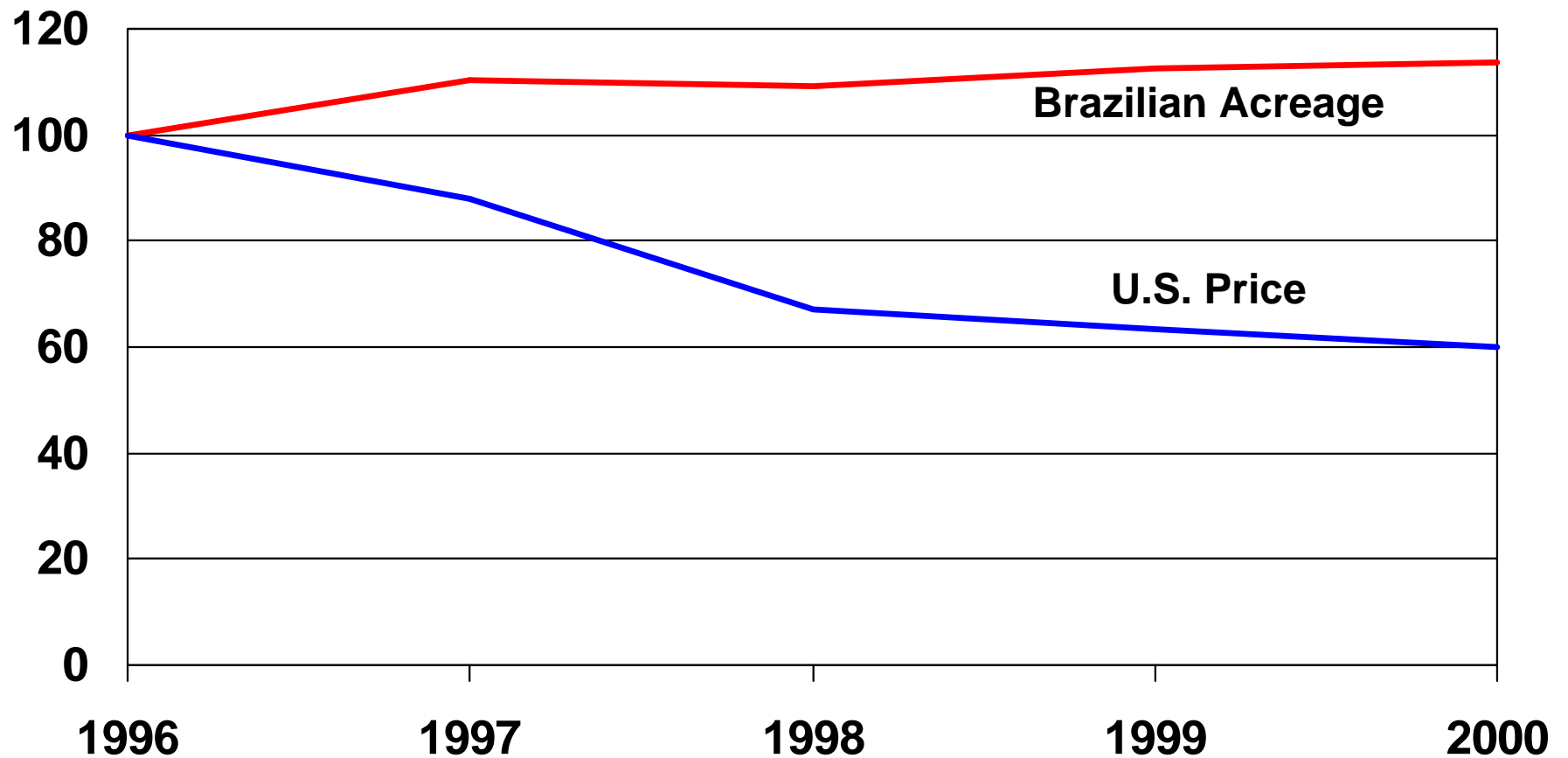


Exports Not Affected Much By Price Changes

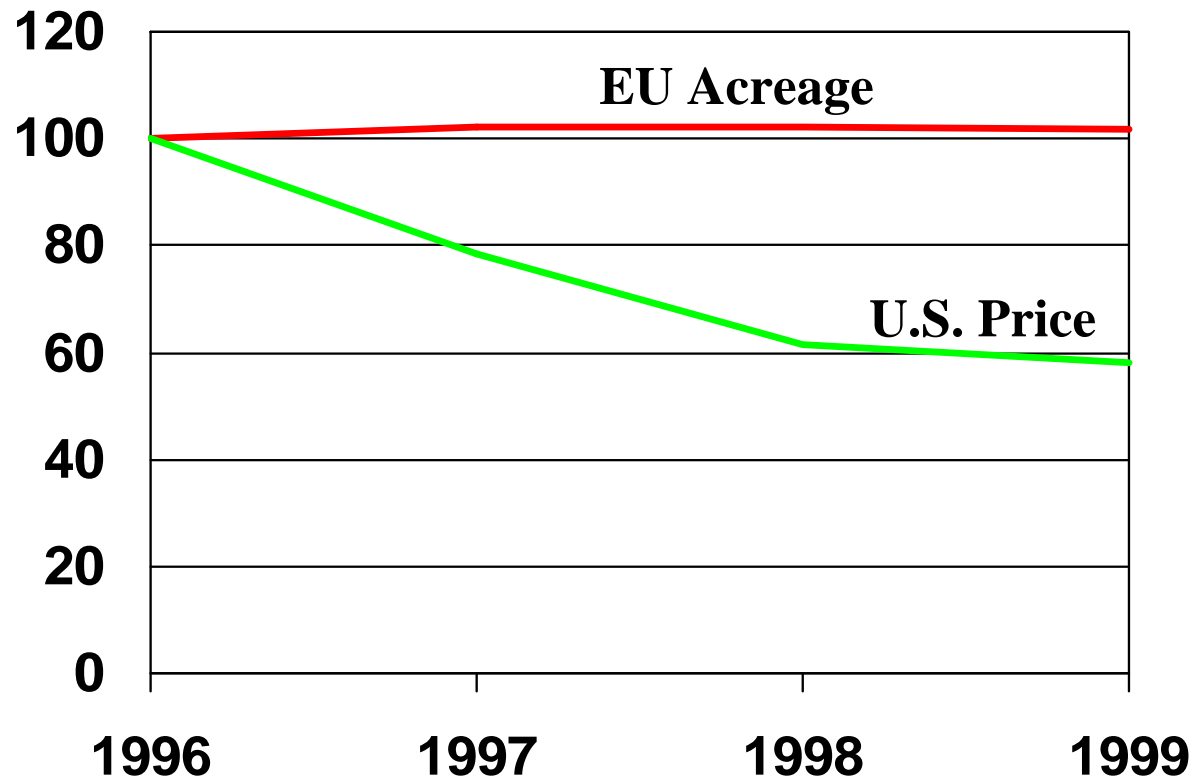
- Countries Import Food Staples Because They Have To – Not Because They Want To
- **Export Competitors, Like Our Farmers Respond Little to Price Changes**

Brazilian Soybean Acreage and U.S. Price

(Indexed: 1996=100)



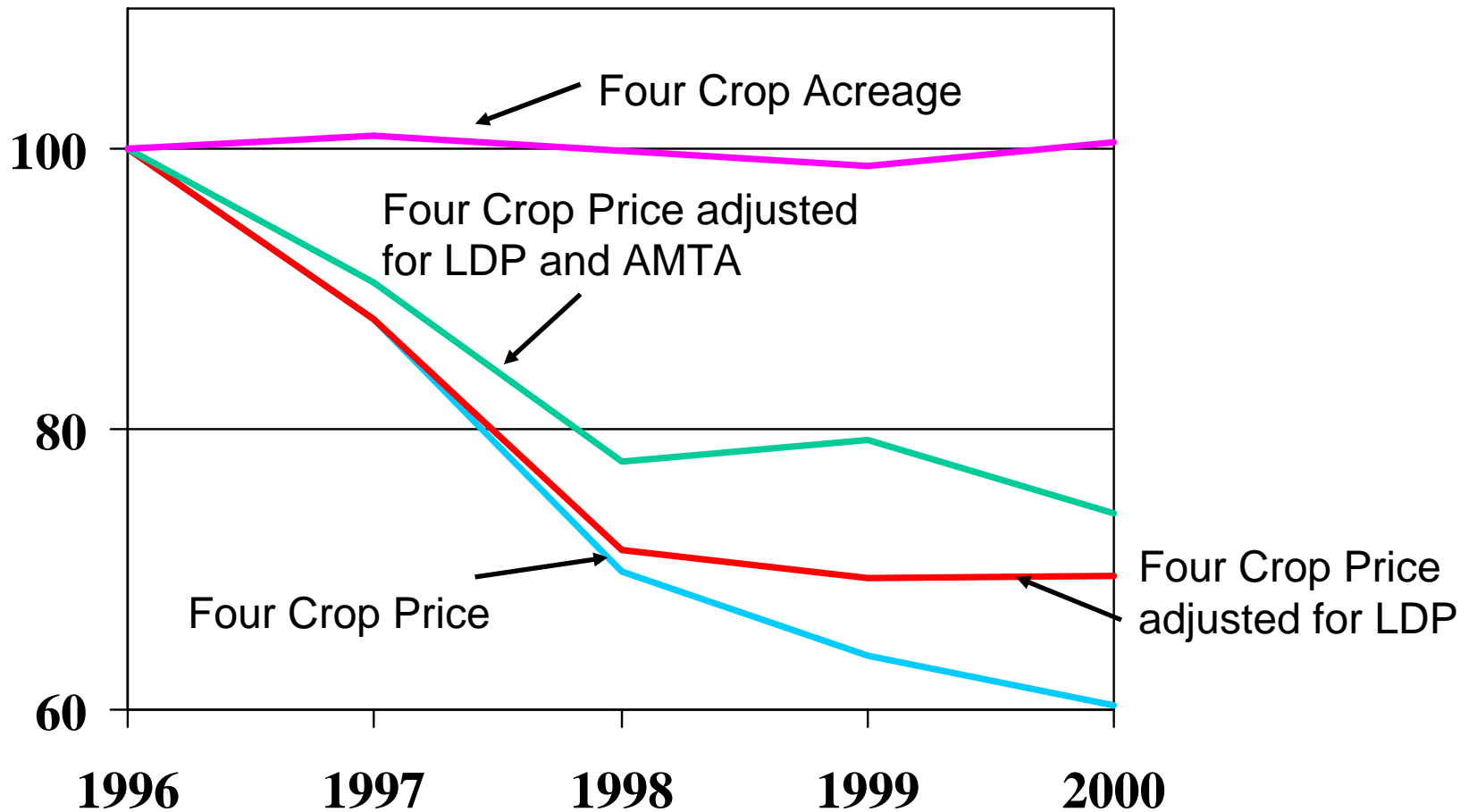
Wheat Area European Union, and U.S. Price (1996=100)



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**

Indexed Crop Acreage and Price with Adjustments



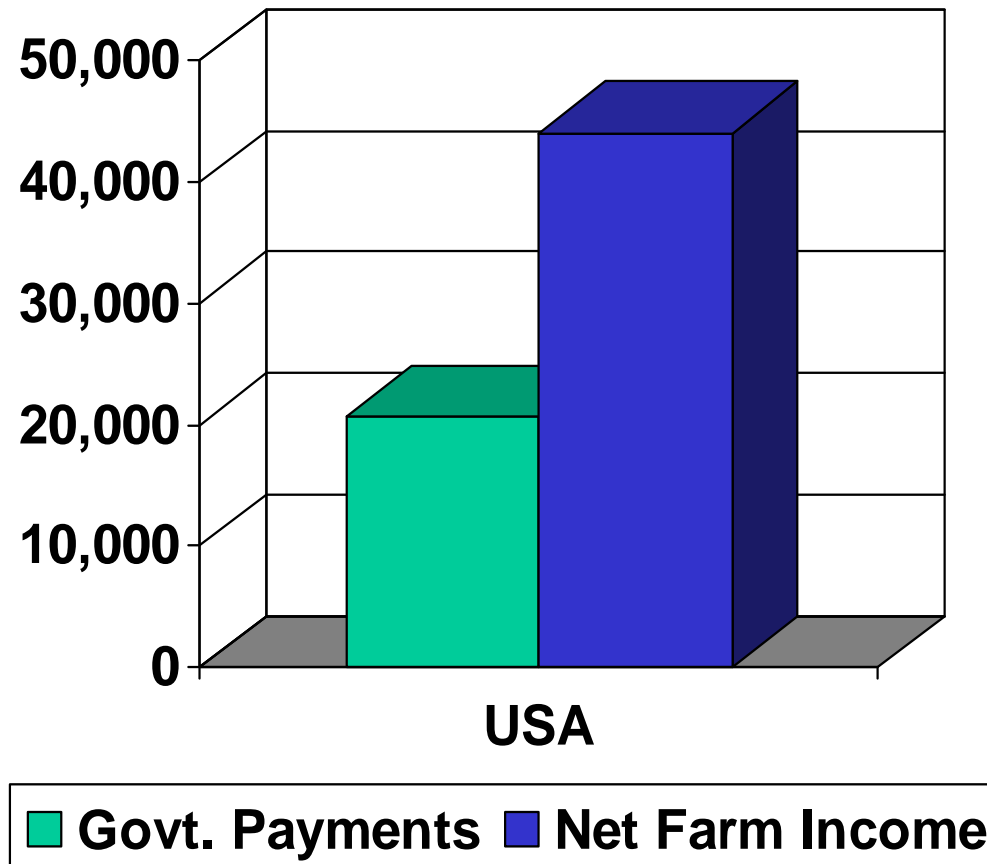
Limited Ability To Adjust Production In The Short-Run

- 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**

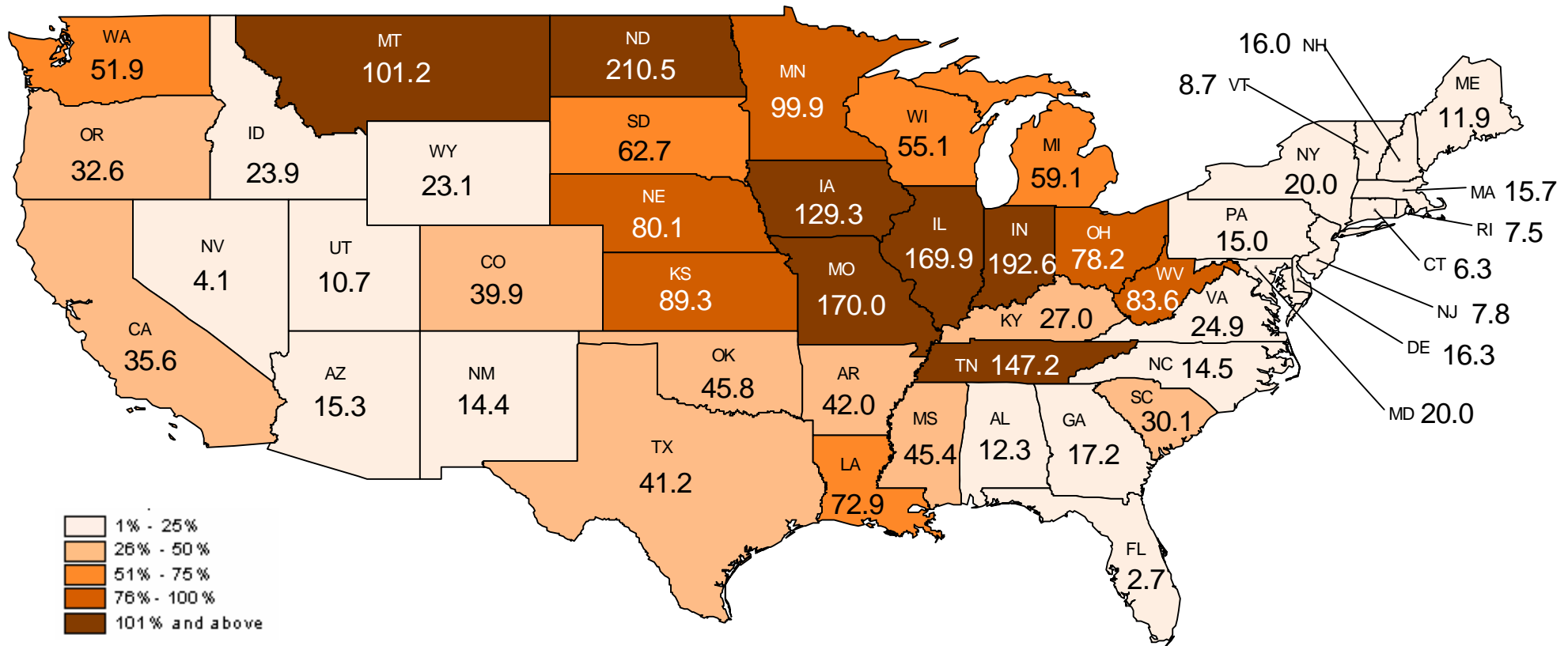
Limited Ability To Reduce Grain Production In The Long-Run

- **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

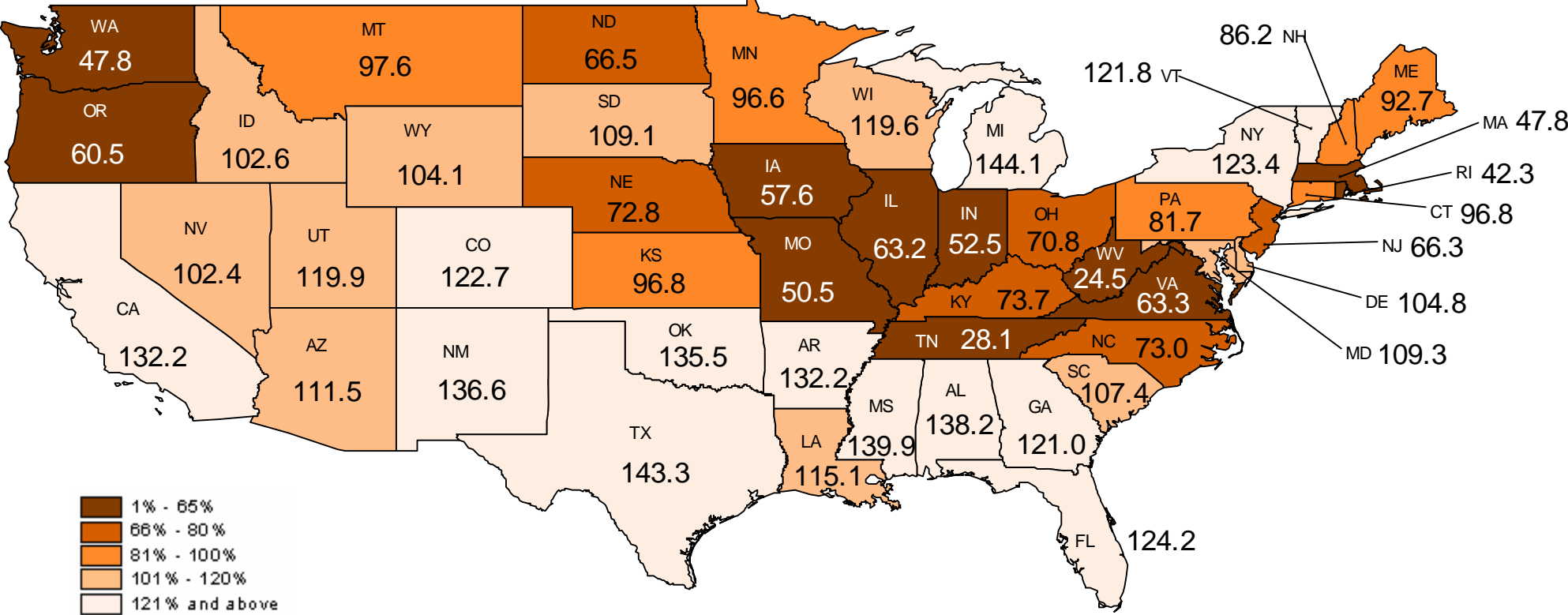
1999 Net Farm Income and Government Payments



1999 Government Payments as a Percent of Net Farm Income



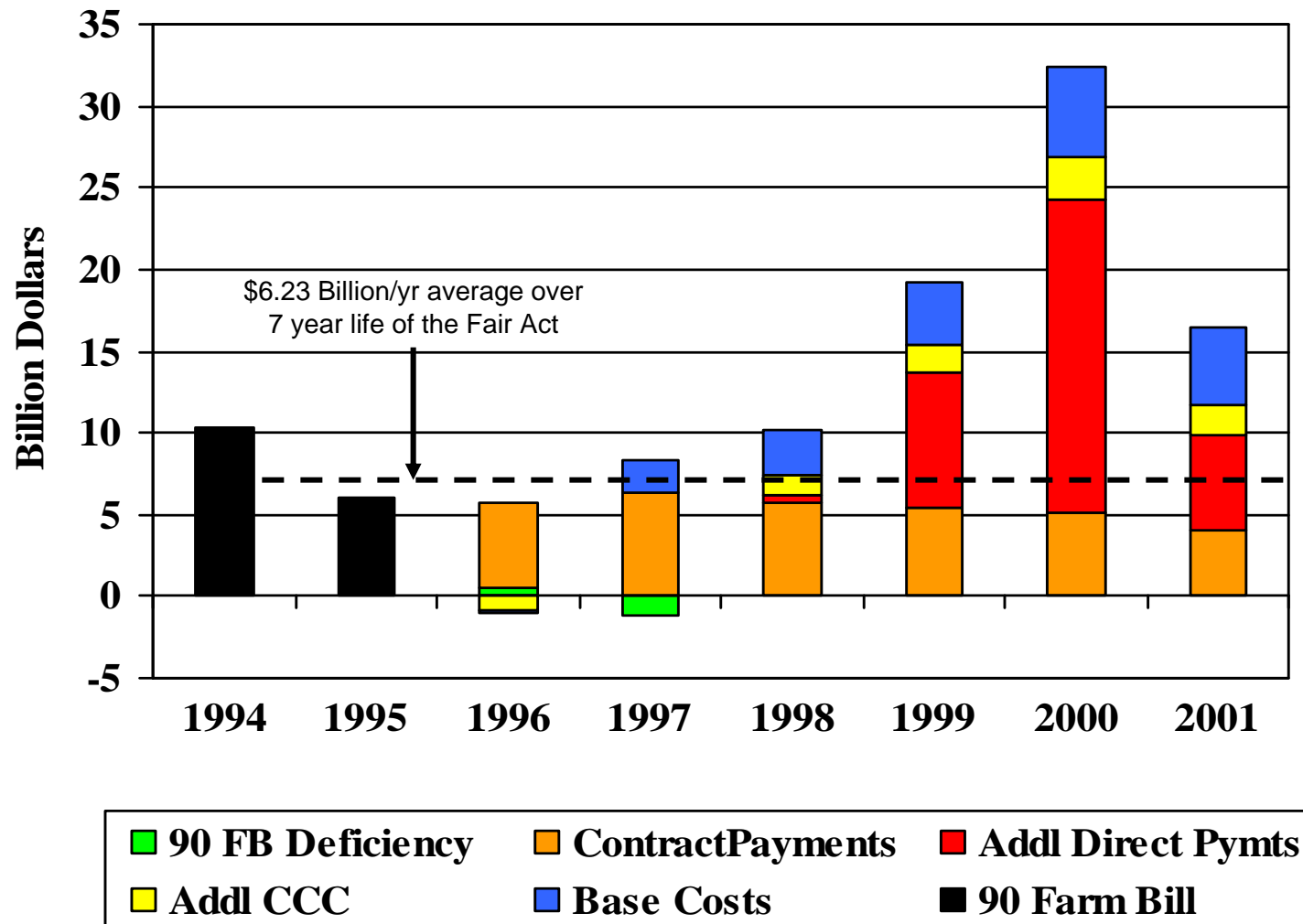
1999 Net Farm Income as a Percent of 1990-1998 Average



Net Cash Income for 8 Major Crops



Government Outlays by Source, 1994-2001



So Expected Results Did Not Occur Because...

- **Expected Rapid Growth in Exports Not Sustained**
 - **Prices Peaked After Act Was Passed**
- **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**

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