



# **Freedom To Farm: What it Did and Didn't Do**

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**Michigan Agri-Business Association**

**Forum on Agricultural Policy**

**And the Impact of Trade Agreements on Michigan Agriculture**

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**Agricultural Policy Analysis Center - Institute of Agriculture**

**The University of Tennessee**

# Introduction

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

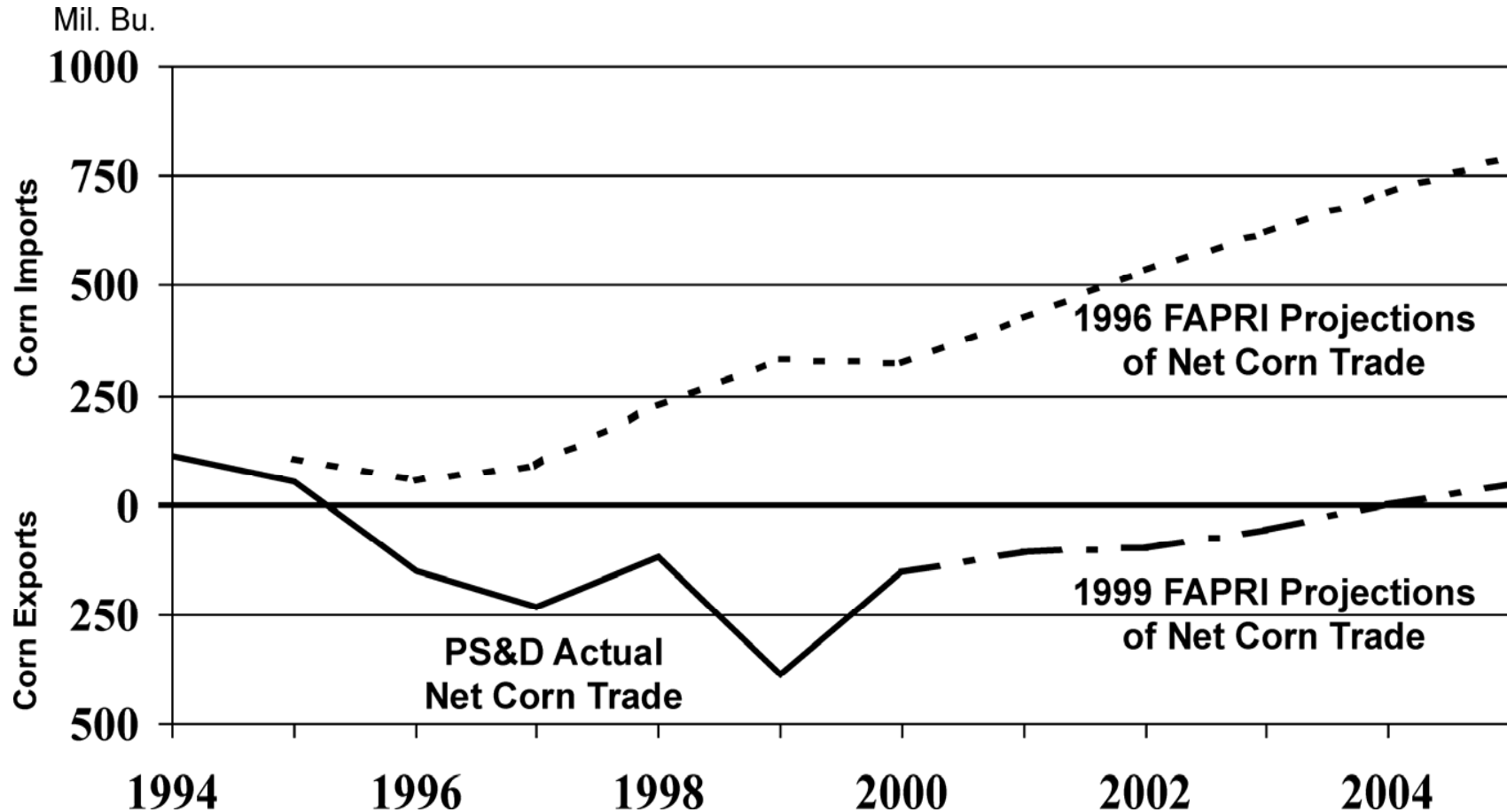
# Premises and Expectations

- **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

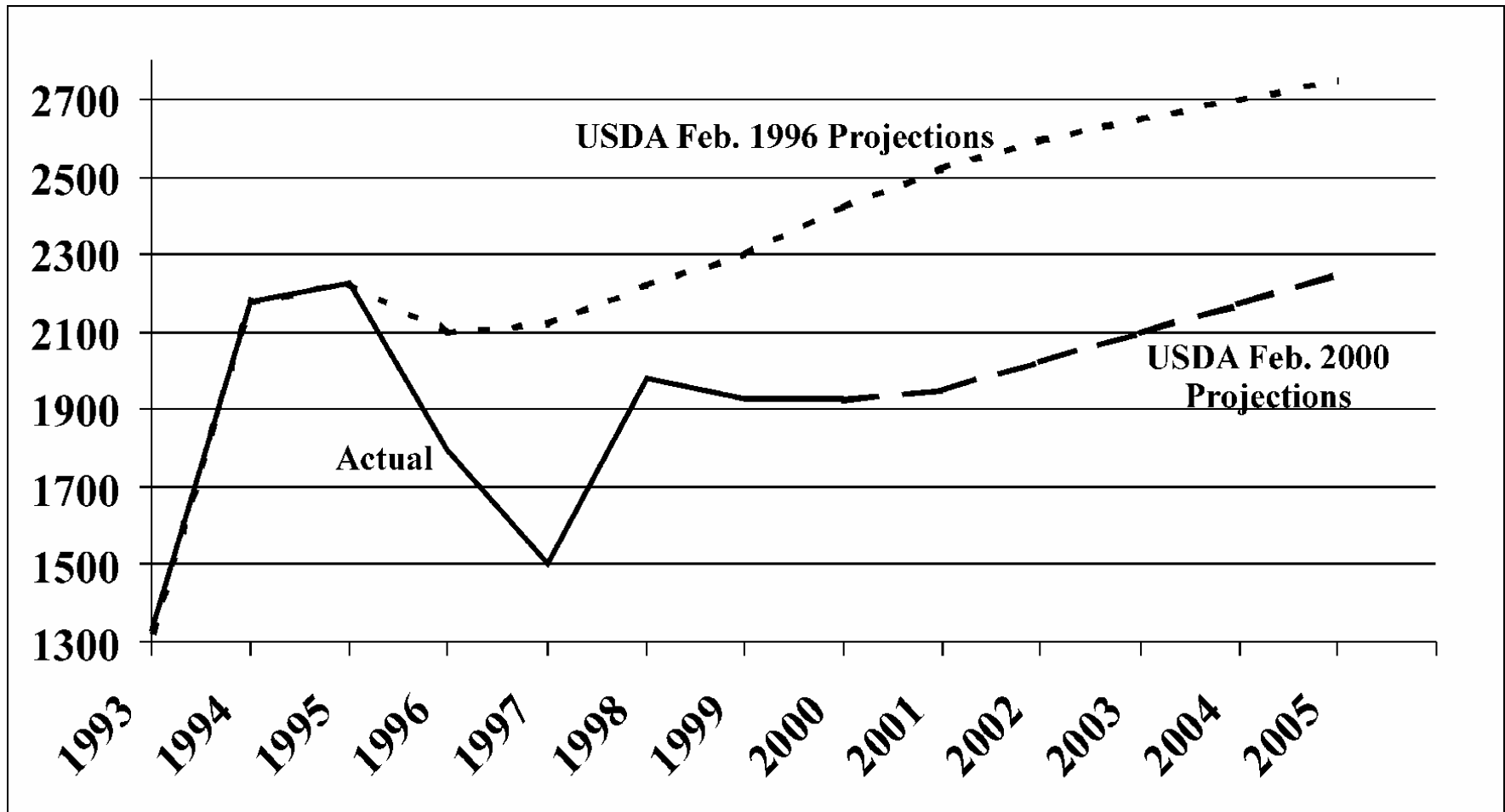
- **Less Dependence Upon Government Programs Leading To The Elimination Of The Need For a Farm Bill And Farm Programs**
  - Declining AMTA Payments
- **Market Would Manage Commercial Stocks Providing A Reserve At No Cost To The Government**

# 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**

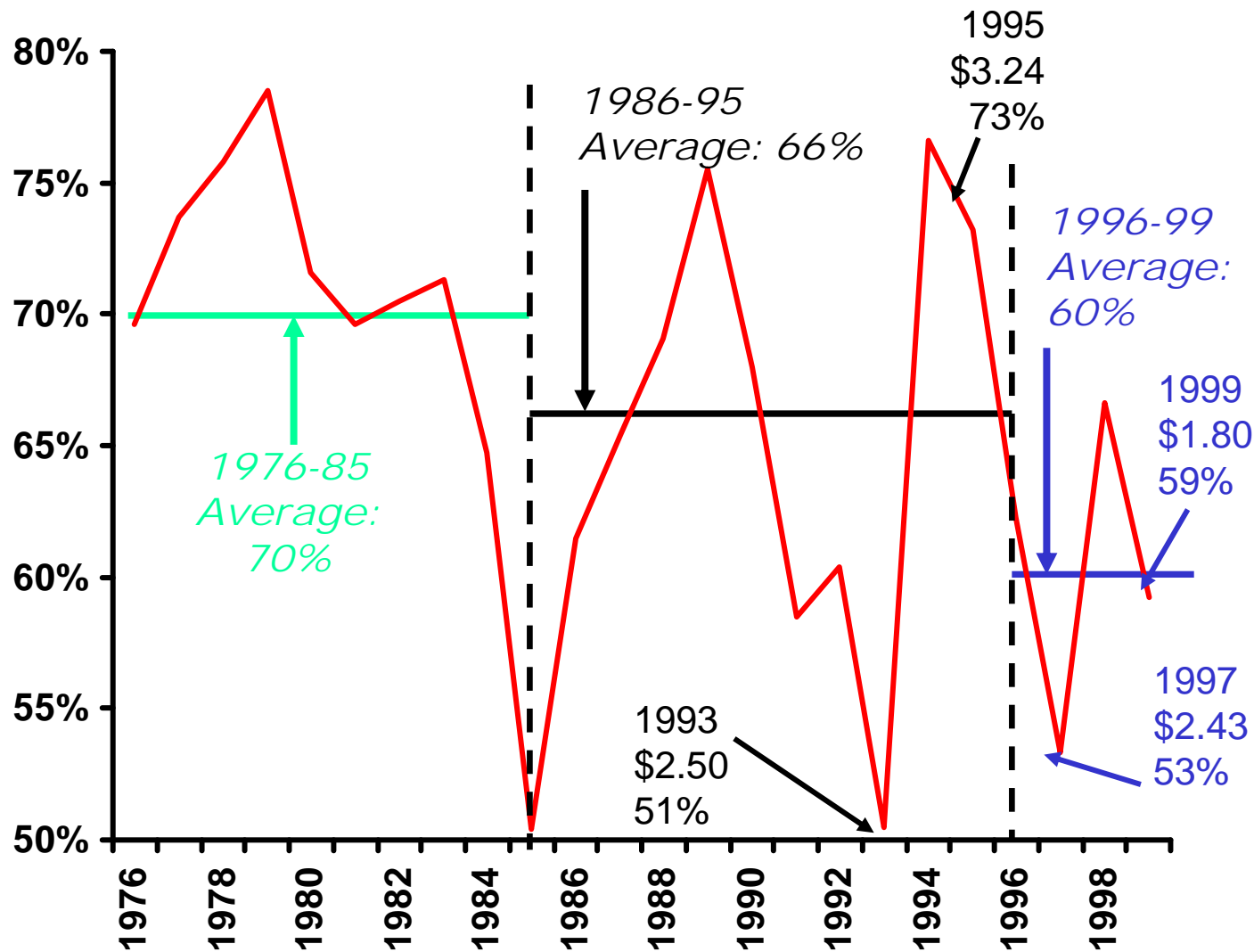
# Low Prices Don't Trigger Large Increases In Demand

- **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**

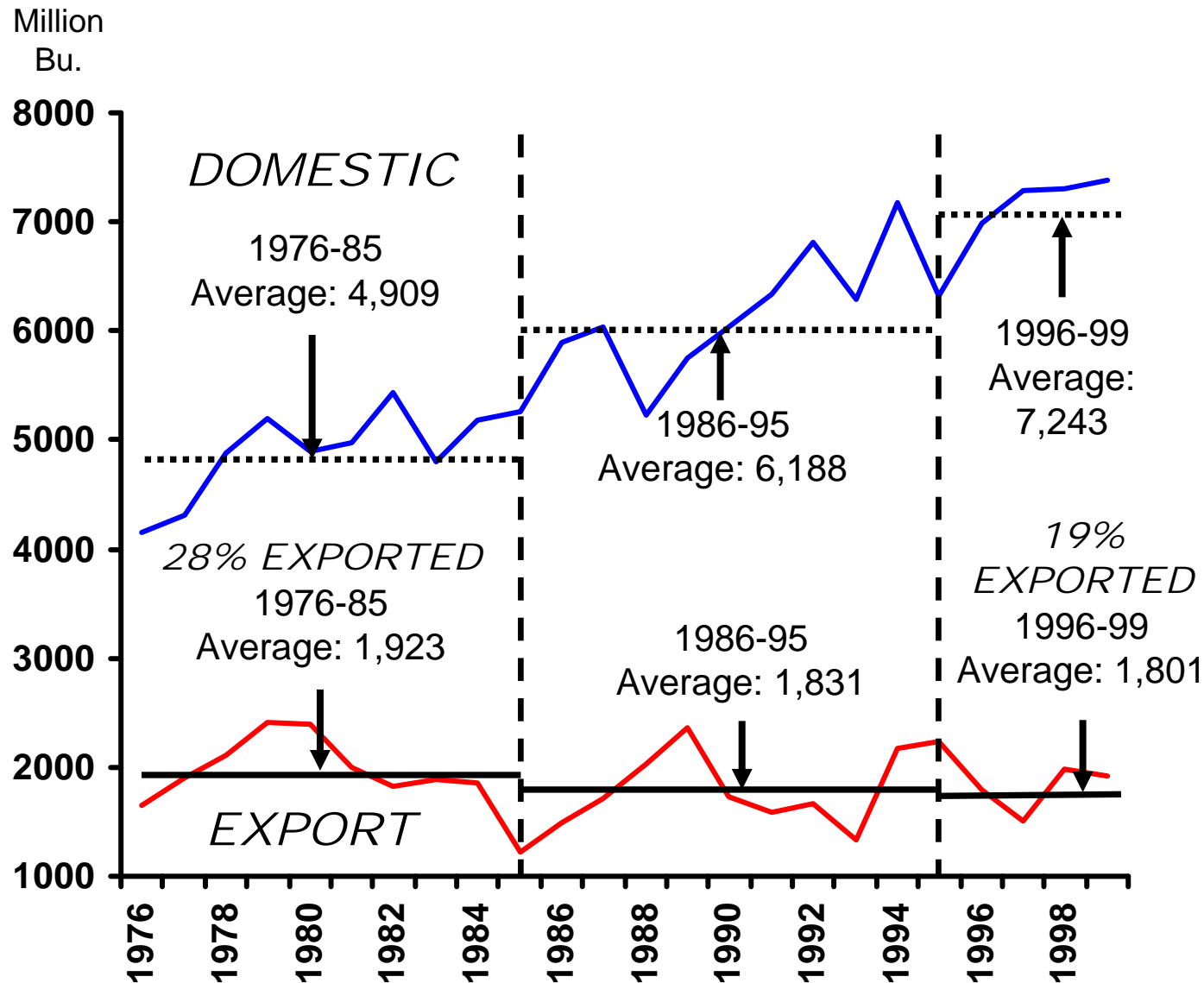
# Exports Not Affected Much By Price Changes

- **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

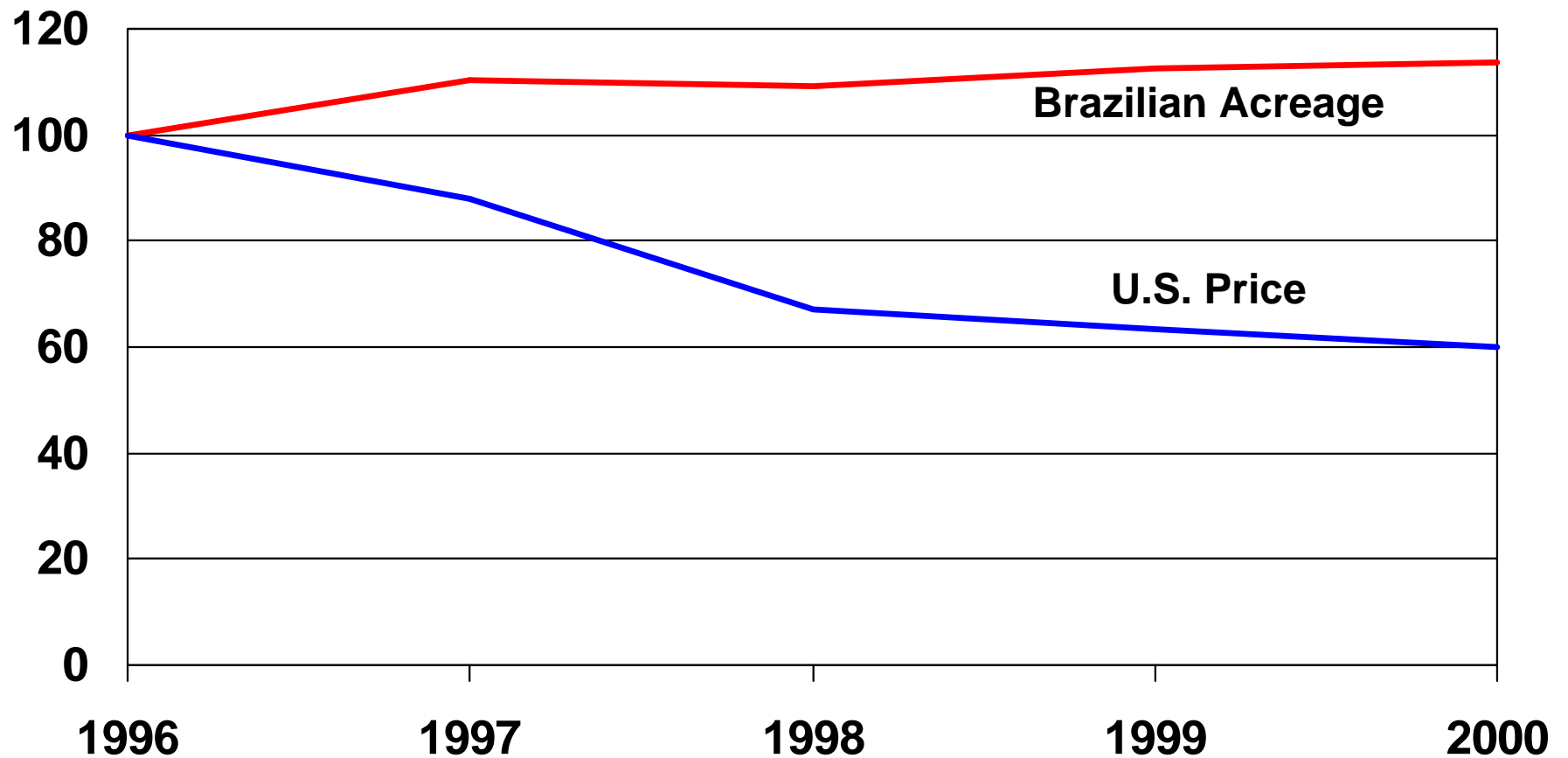


# Exports Not Affected Much By Price Changes

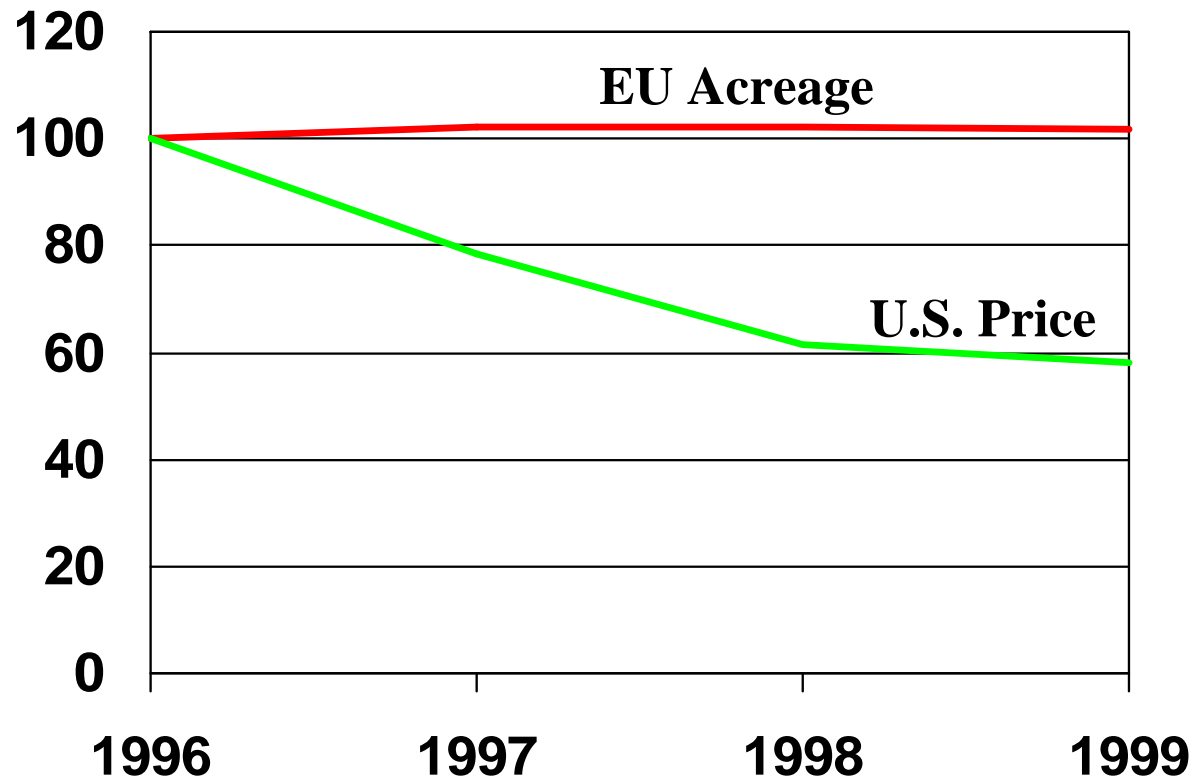
- Countries Import Food Staples Because They Have To – Not Because They Want To
- **Export Competitors, Like Our Farmers Respond Little to Price Changes**

# Brazilian Soybean Acreage and U.S. Price

(Indexed: 1996=100)



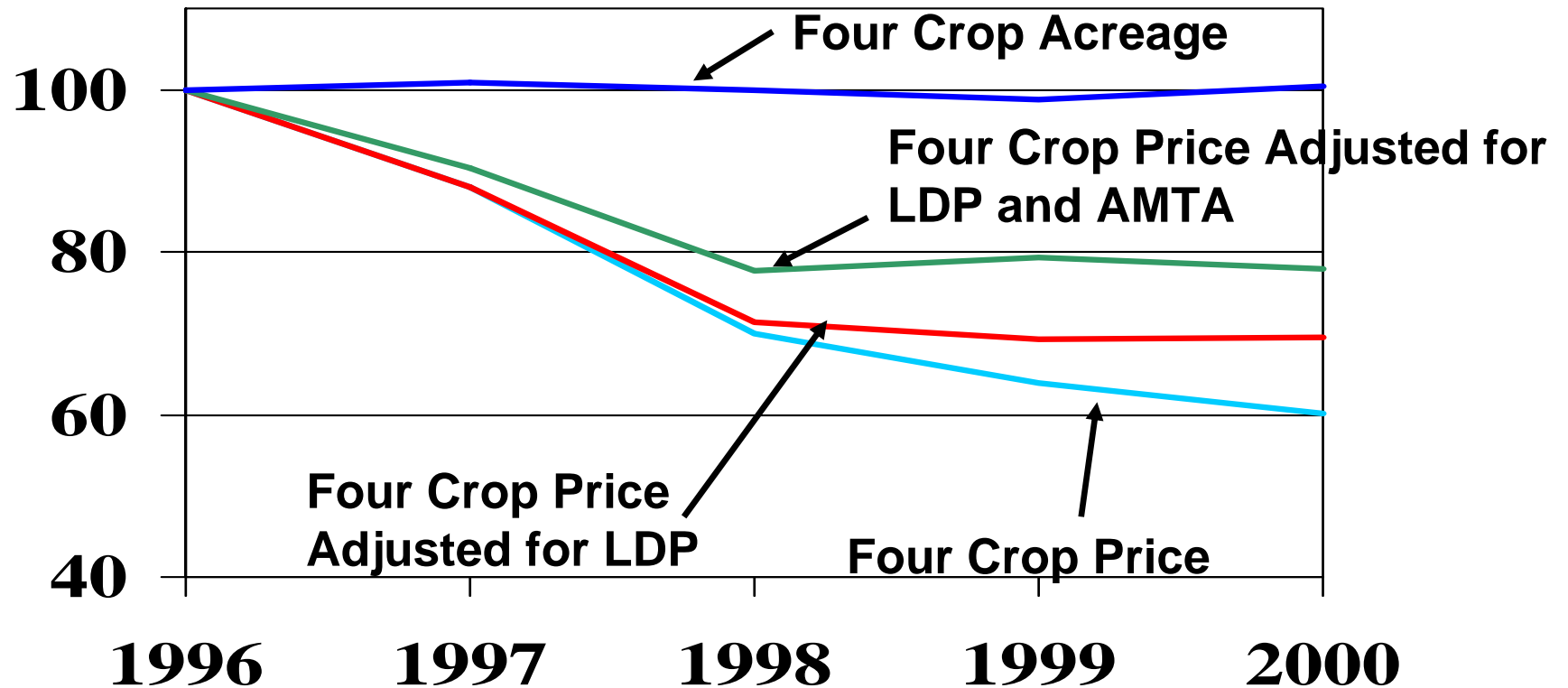
# Wheat Area European Union, and U.S. Price (1996=100)



# 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 Four Crop Acreage, Price and Price Adjusted for LDP and Contract Payments



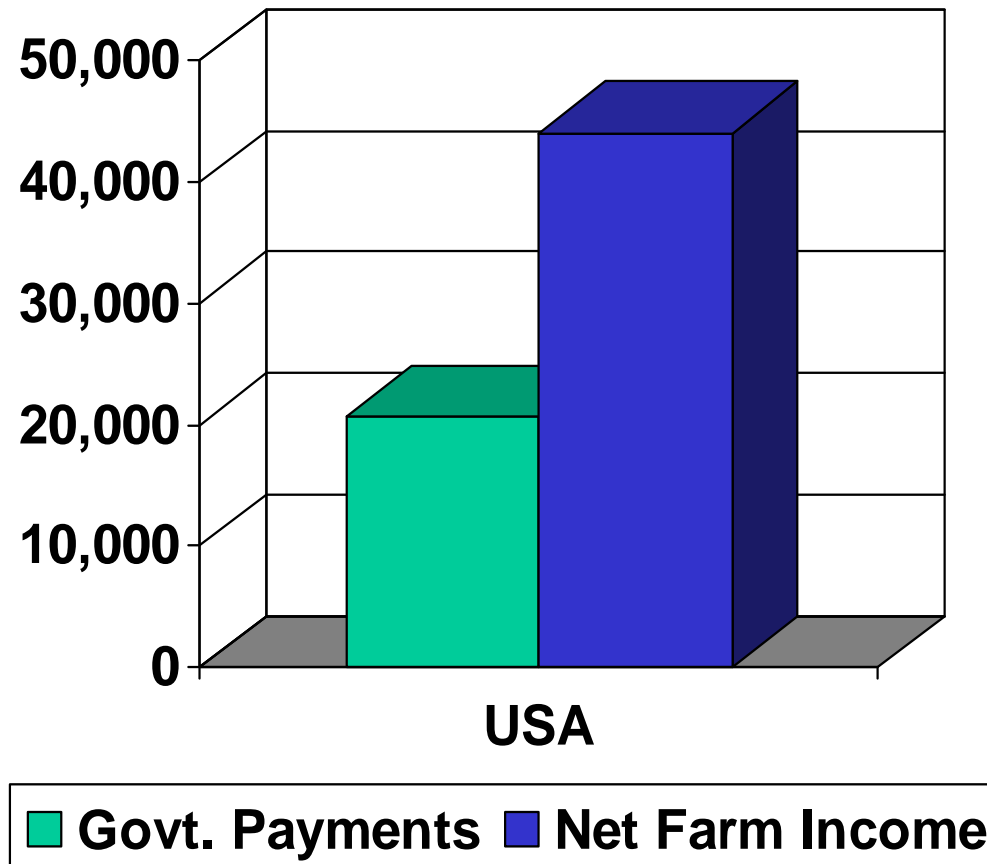
# Limited Ability To Adjust Production In The Short-Run

- 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

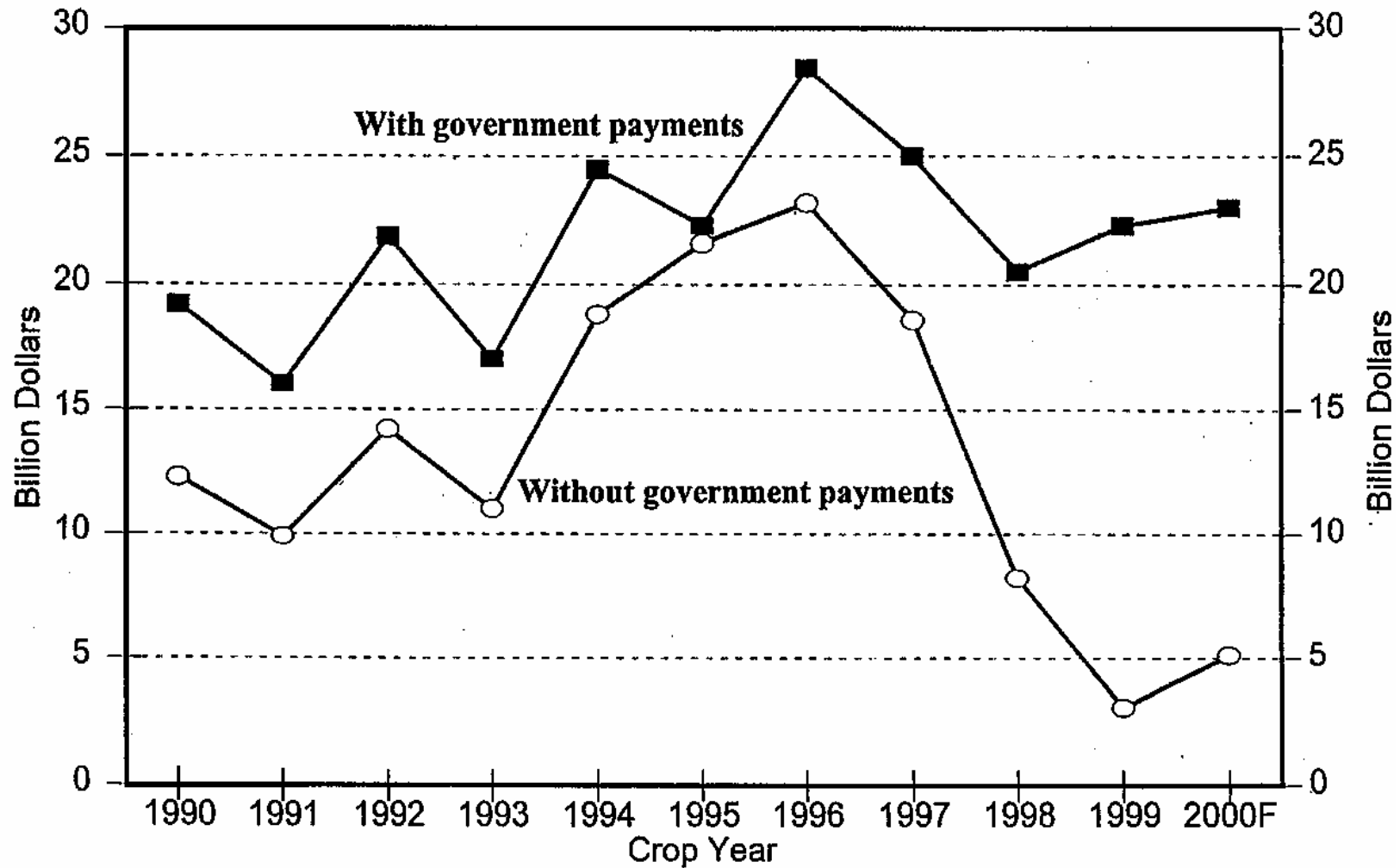
- **With Continued Overcapacity And Low Prices, Farmers Forced Out But Land Is Not**
  - Another Farmer (Often More Efficient) Takes Over
  - Productive Capacity Changes Little Or None
- **In Other Sectors, Plants Would Be Sold To Another Industry**
  - Productive Capacity Is Reduced

# 1999 Net Farm Income and Government Payments

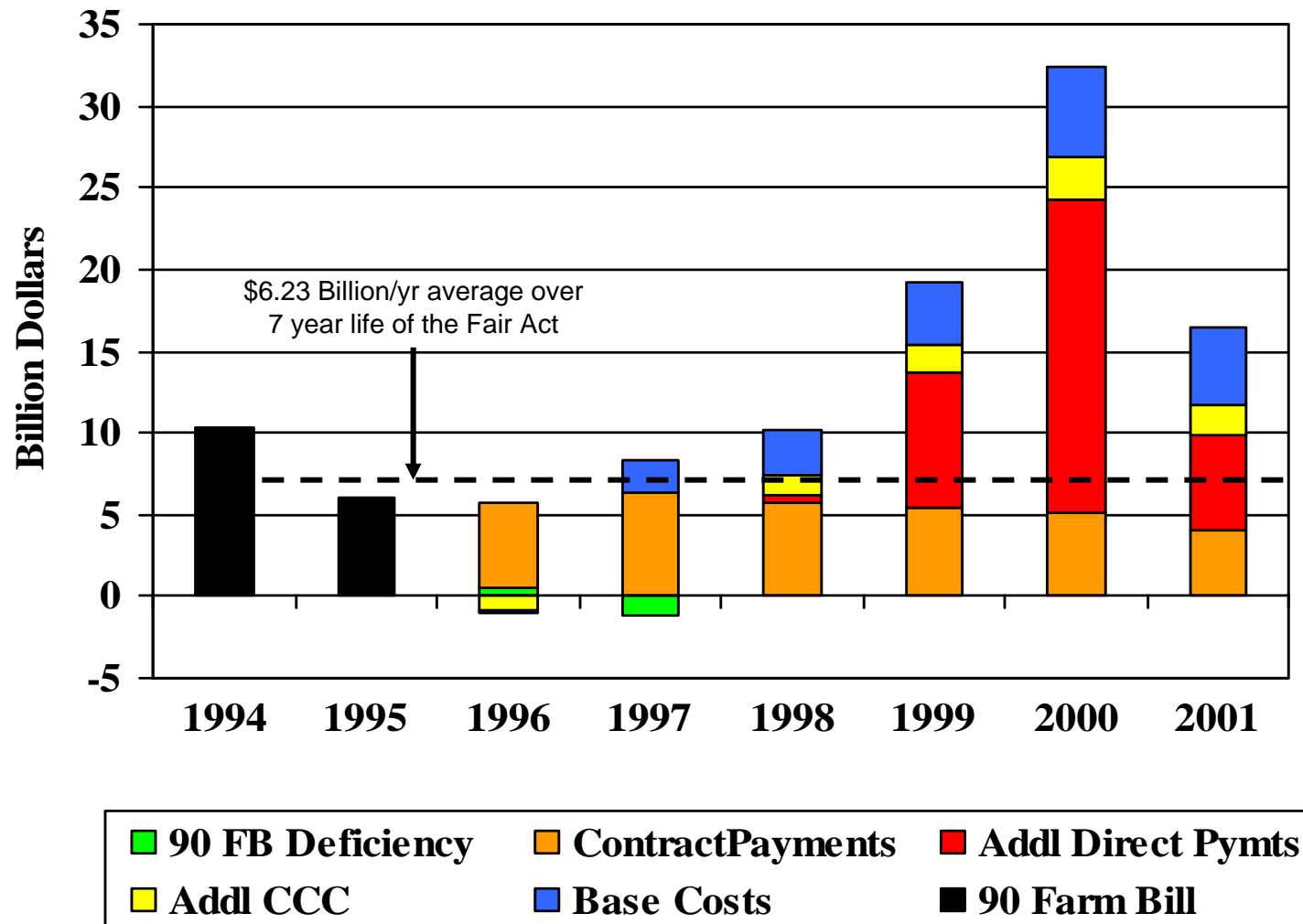




# Net Cash Income for 8 Major Crops



# 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**

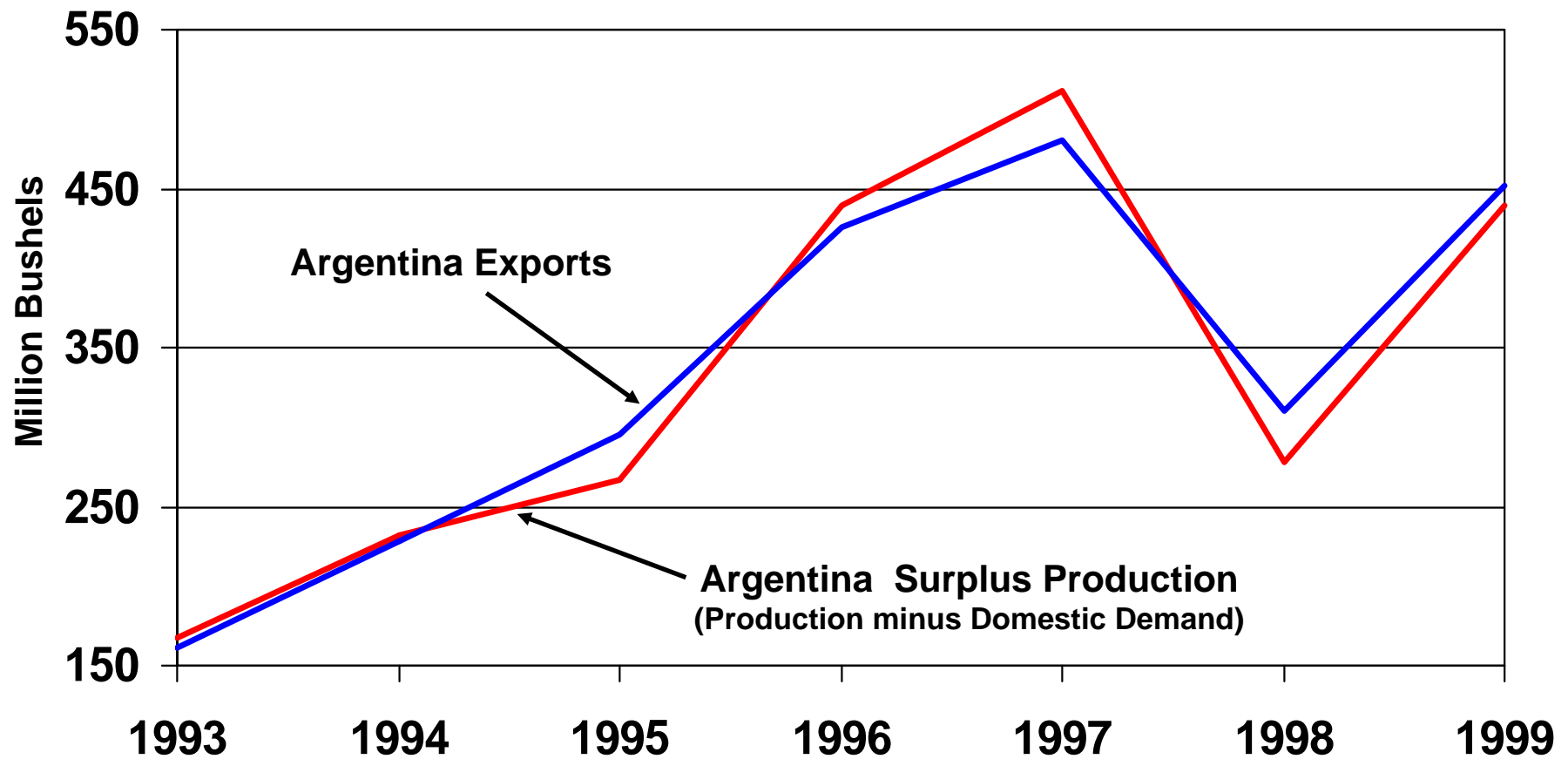
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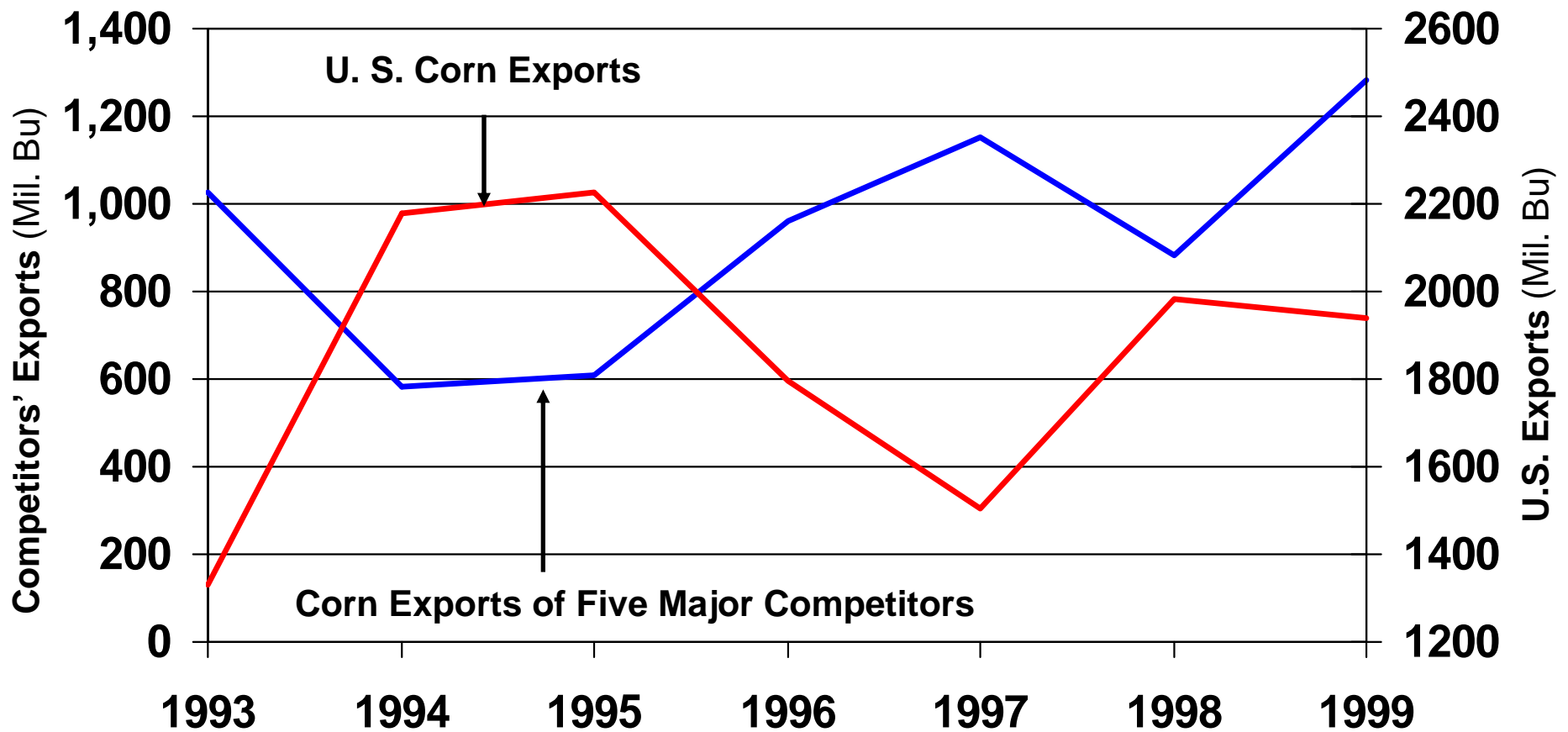
<http://apacweb.ag.utk.edu>

[dray@utk.edu](mailto:dray@utk.edu)

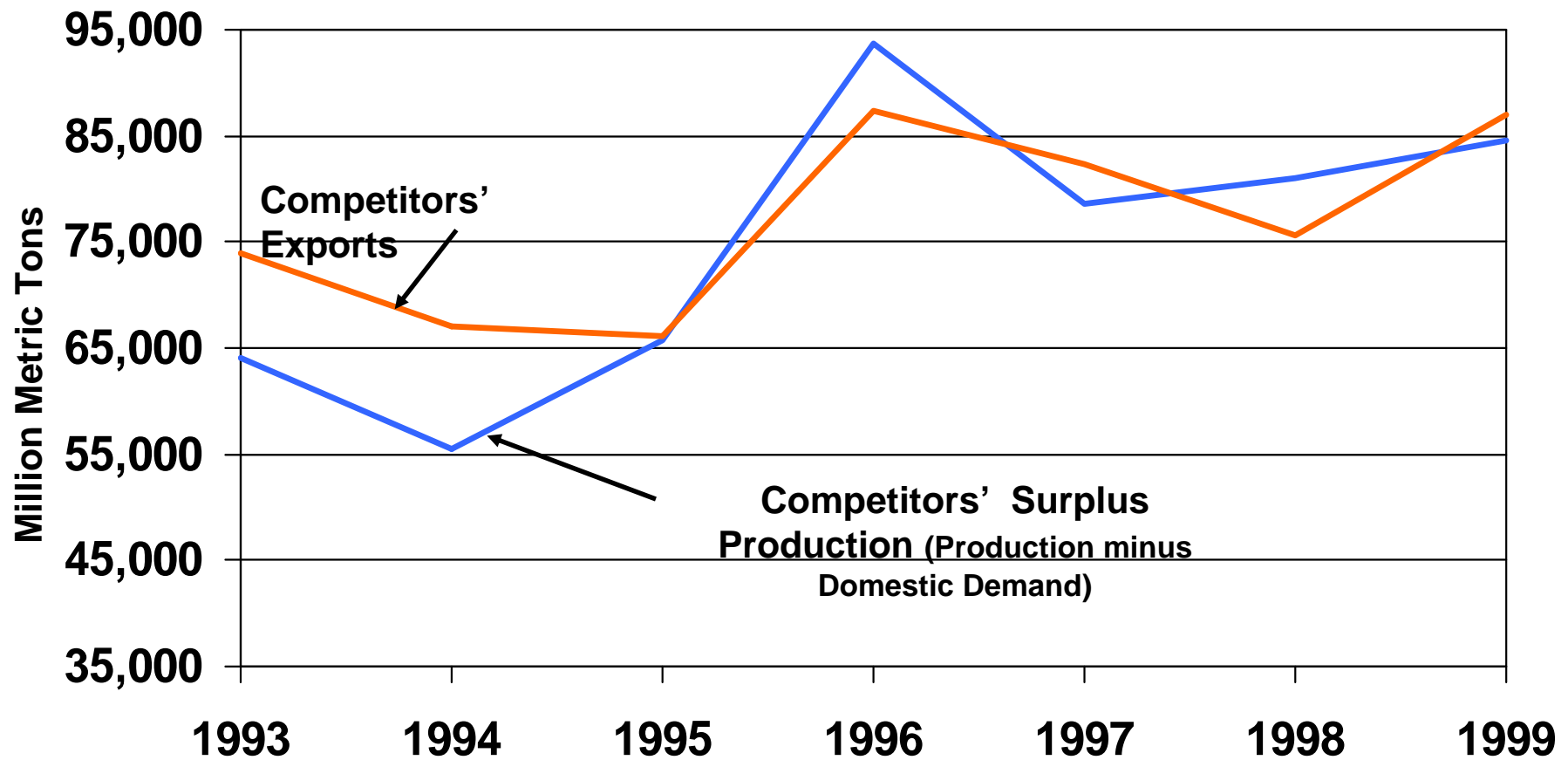
# Argentina Corn Exports and Surplus Production



# U.S. exports decline when Competitors enter the market



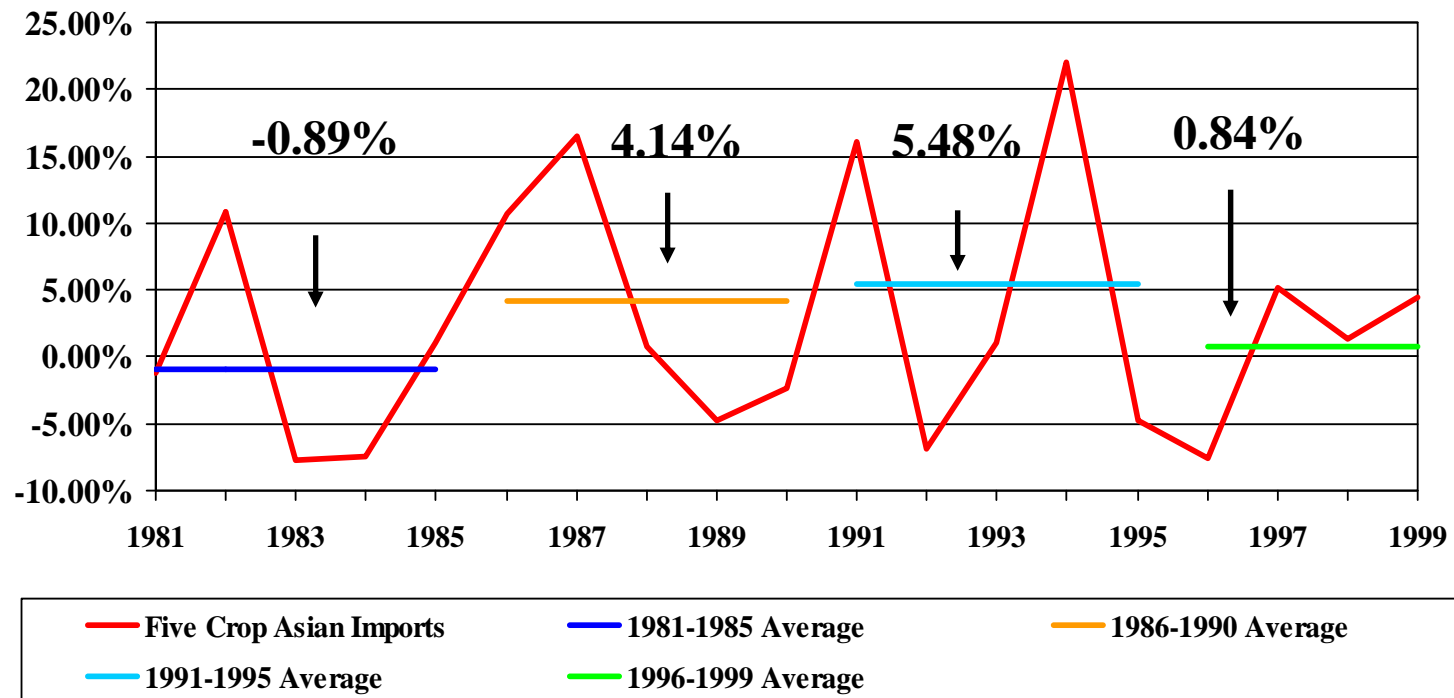
# Competitors' Exports and Surplus Wheat Production



Competitors: EU15, Canada, Australia, Argentina, Kyrgystan

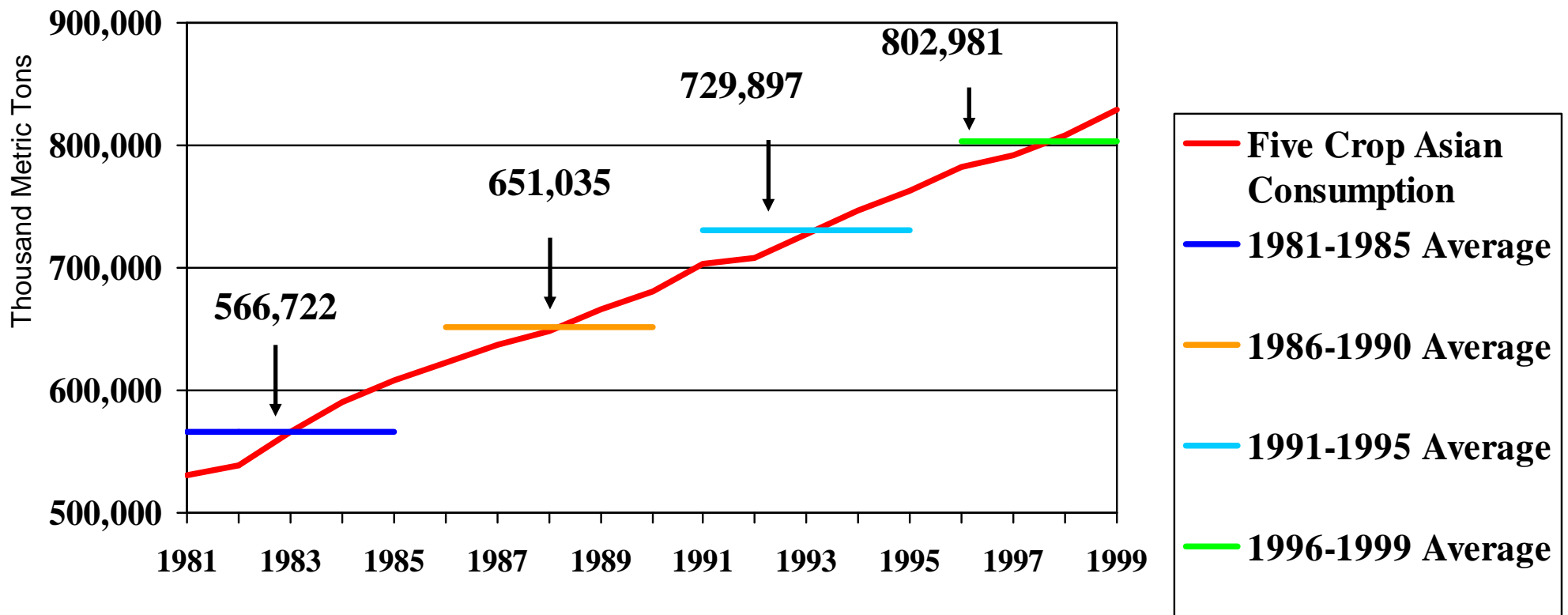
# ASIAN CRISIS

Annual % change in Asian imports of corn, cotton, rice, soybeans and wheat



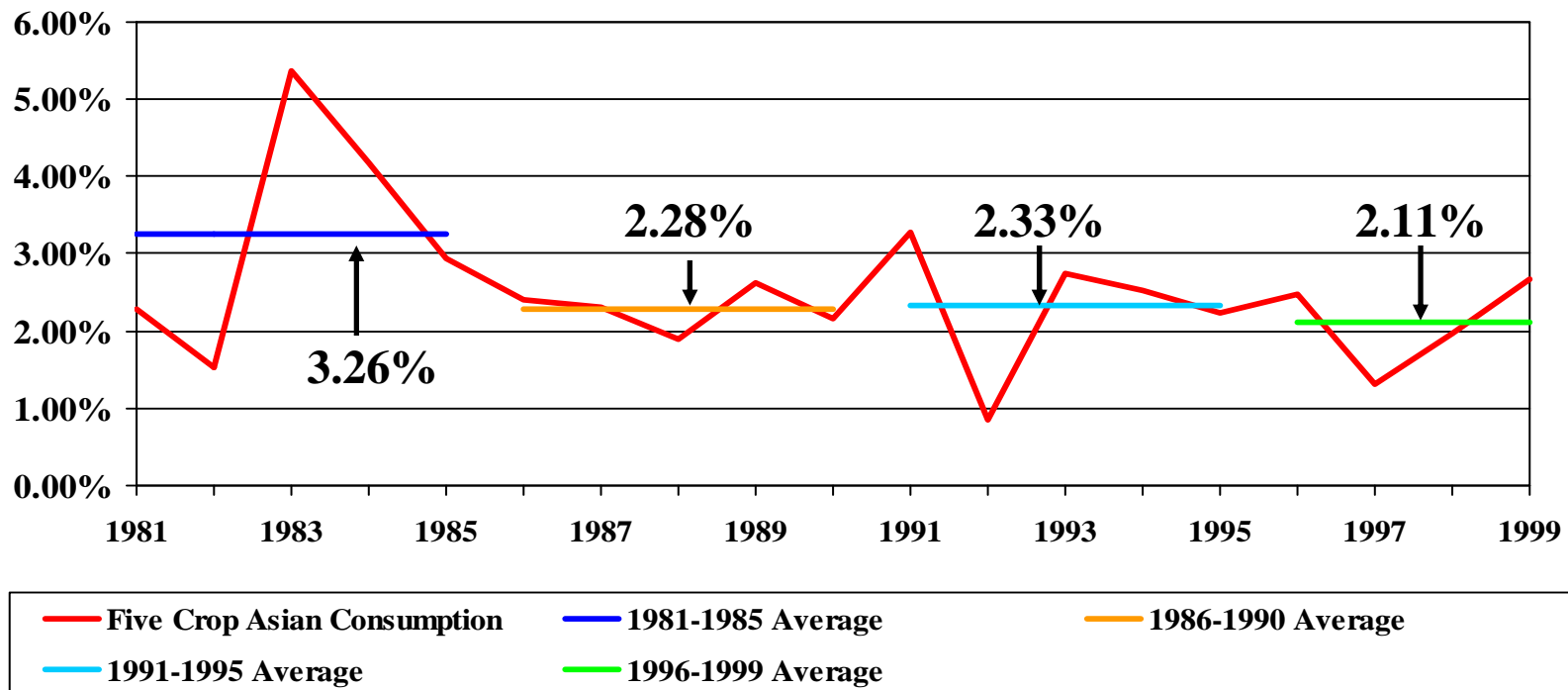
# ASIAN CRISIS

Asian consumption of corn, cotton, rice, soybeans and wheat



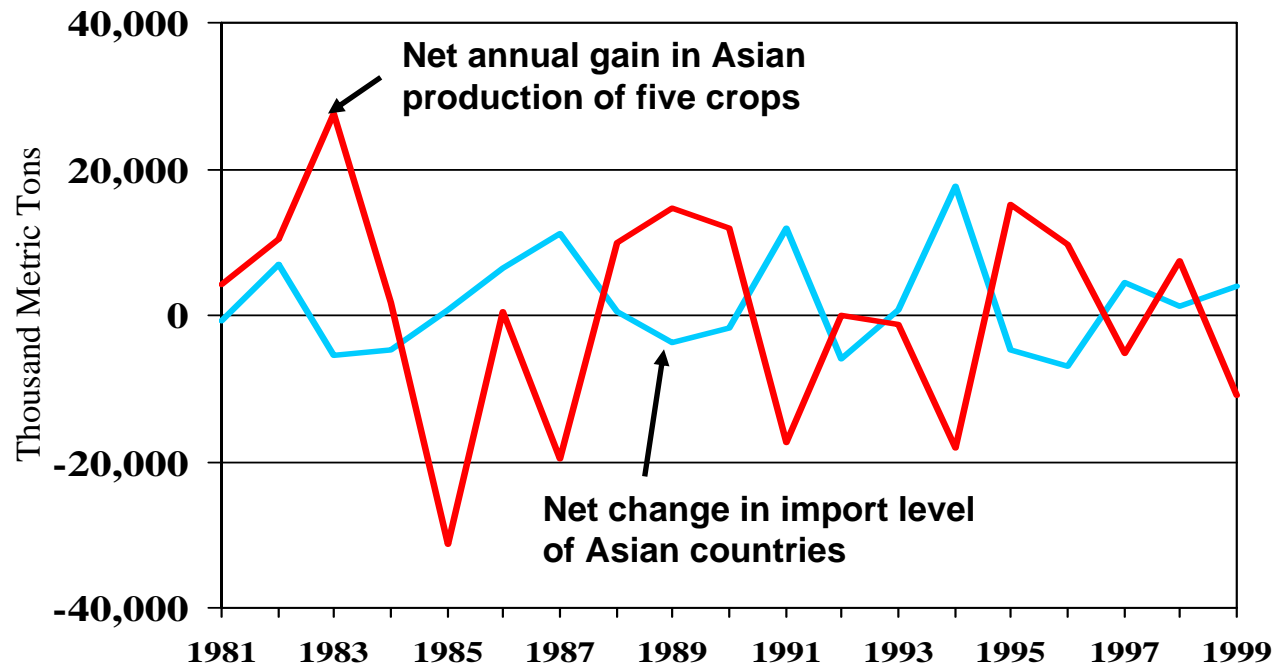
# ASIAN CRISIS

Annual % Growth in Asian Consumption of Corn, Cotton, Rice, Soybeans and Wheat



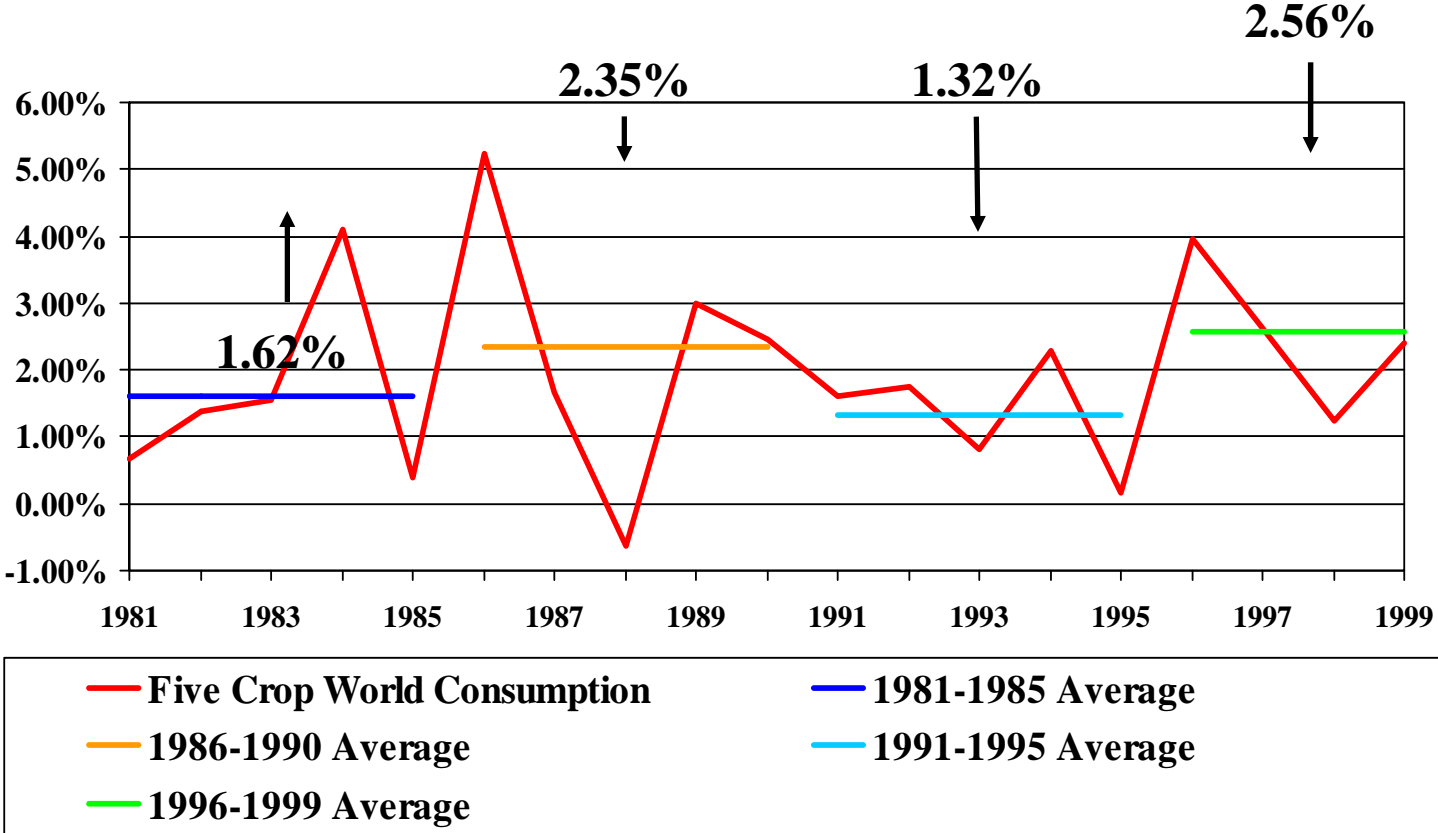
# ASIAN CRISIS

Change in Asian imports of corn, cotton, rice, soybeans and wheat as compared to net gains in production over increases in demand

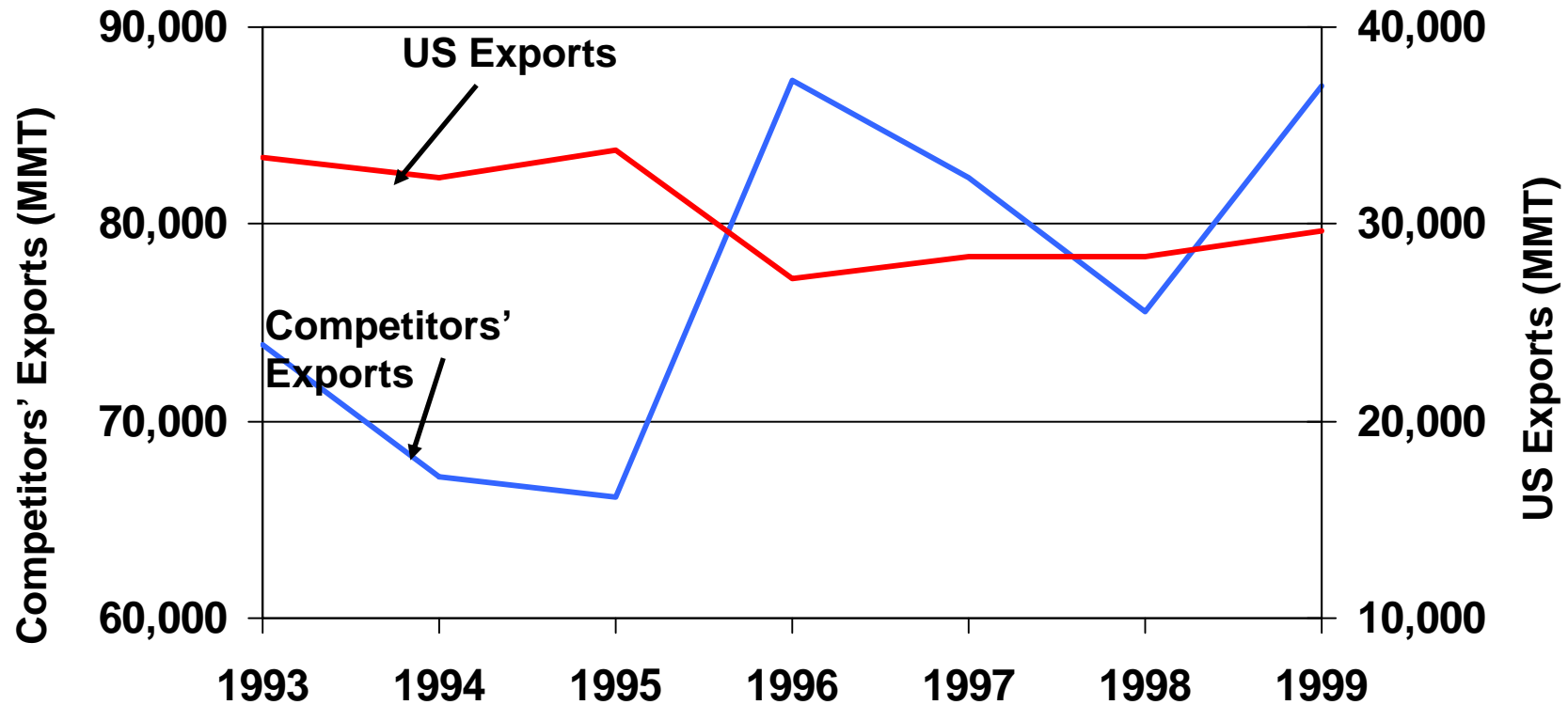


# ASIAN CRISIS

Annual % growth in world consumption of corn, cotton, rice, soybeans and wheat



# U.S and Competitors' Wheat Exports

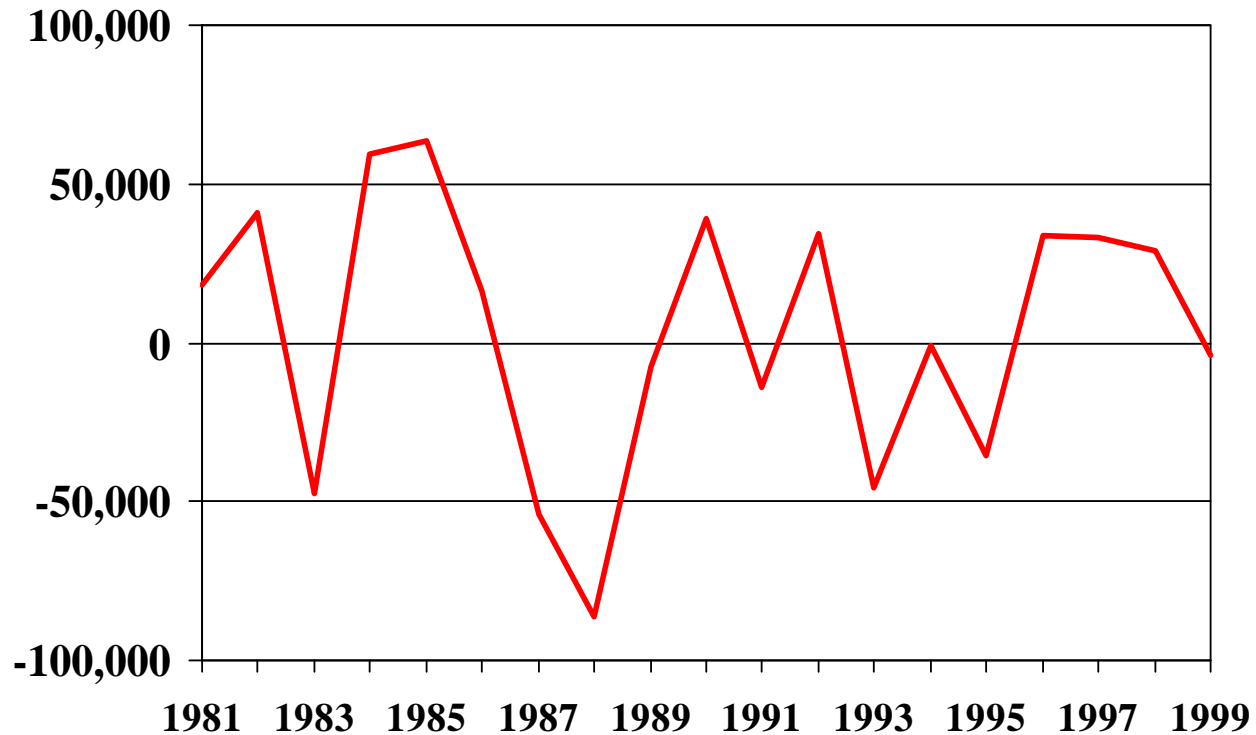


In addition to being affected by surplus production among our competitors, US wheat exports are also affected by changes in production, demand and stocks among the consuming nations (World less the US and our 5 major wheat export competitors).

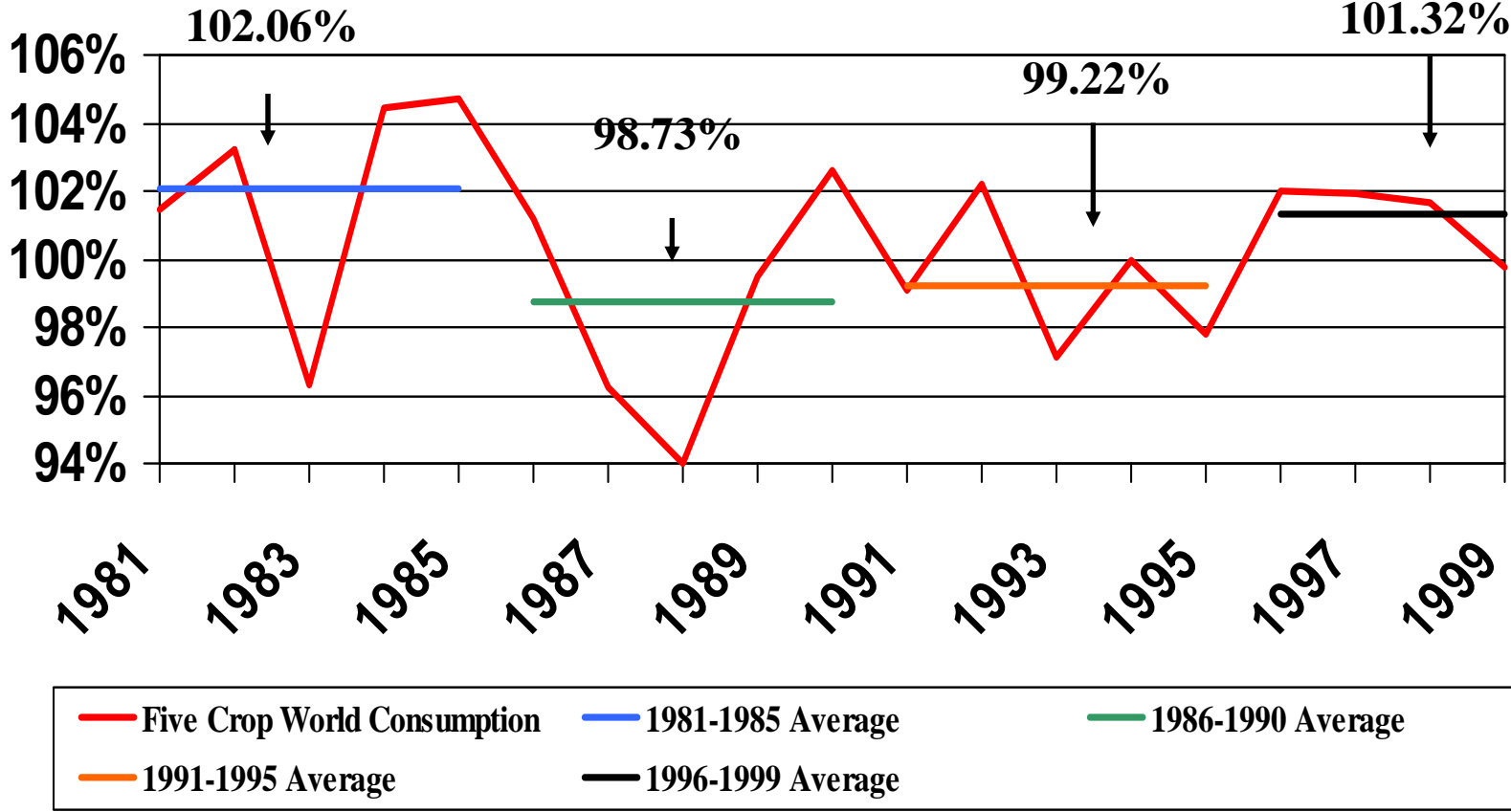
- US exports in 1996 did not drop as much as our competitors increased their production because domestic demand in consuming nations increased significantly
- US exports did not rise in 1998 in response to lower exports by our competitors because carryover stocks in consuming nations decreased significantly.

# ASIAN CRISIS

World 5 crop gain in production over demand



# World Production of Corn, Cotton, Rice, Soybeans and Wheat as a Percent of Consumption





# Policy Components

- **FOR/NonRecourse Loans**
- **Cropland (Not Crop-By-Crop) Set Aside**
- **Counter Cyclical Income Payments**
- **Replace Crop Insurance With A Disaster Payment Program(?)**