



*Agriculture IS Different From Other  
Industries*

*Here and in Other Countries*

**Daryll E. Ray**

**Fifth Annual National Conservation Tillage Cotton and  
Rice Conference**

**Grand Casino Convention Center, Tunica, Mississippi**

**January 24, 2002**

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

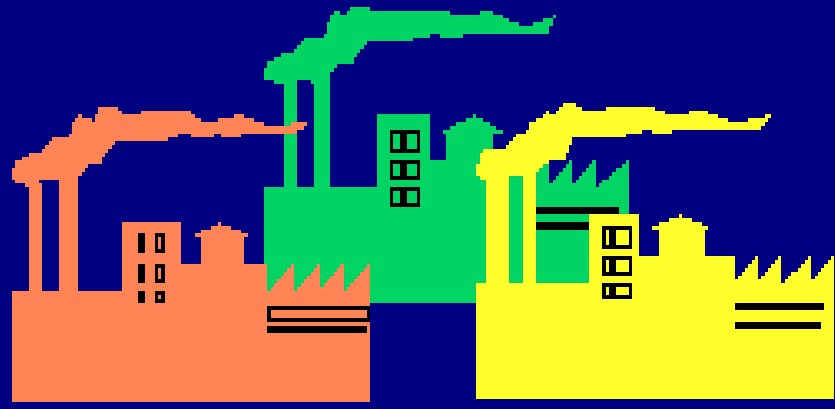
# Introduction

- **Why Do We Have Farm Programs?**
  - We Must Do A Better Job Telling the Story
  - Because Others Are Telling “Tree” Stories As If There Is No “Forrest”
- **The 1996 Farm Bill: A Classic Case of Reality Smashing Into Grandiose Expectations**

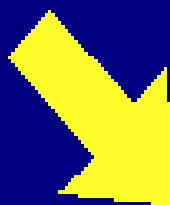
# Other Industries Self-Correct

- **If Price Drops, What Should Happen?**
  - **Consumers Buy More**
    - **Yes, Except for Food**
  - **Producers Produce Less**
    - **Yes, Except in Agriculture**

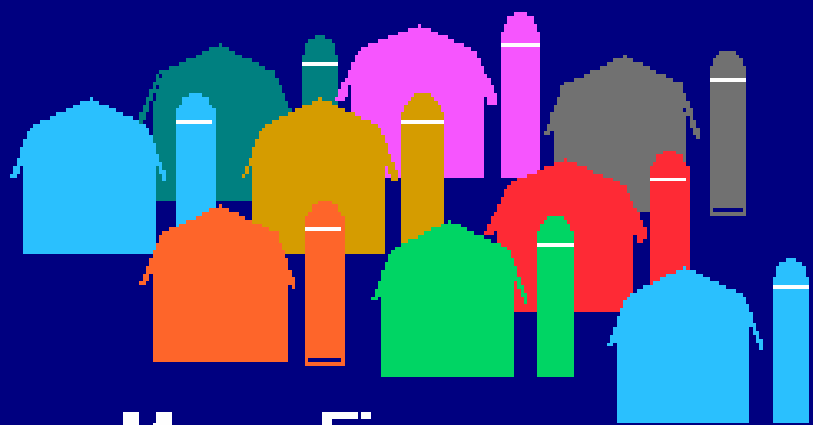
# Farm Size & Supply Determinants



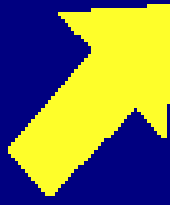
Relatively Few Firms



Leading Firms  
Govern Supply



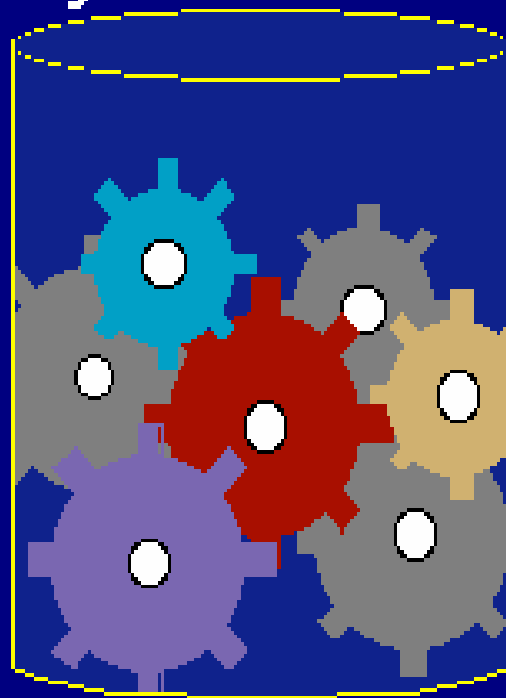
Many Firms



No One Firm is Large  
Enough to Affect Supply

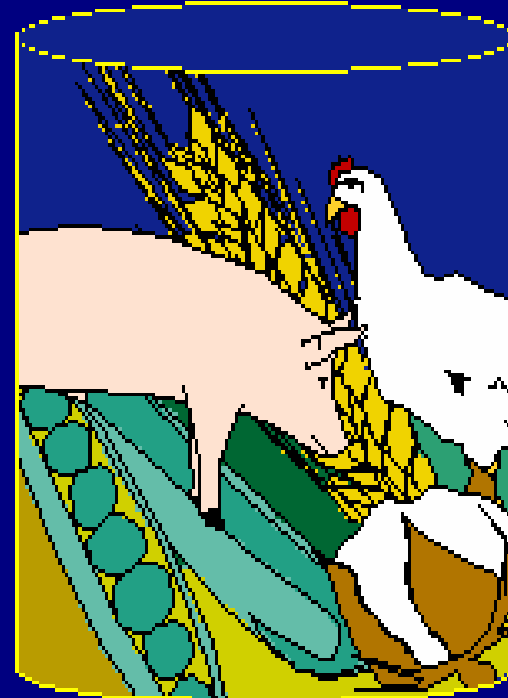
# Production Capacity

Long-Term Capacity  
Determined By  
Planning



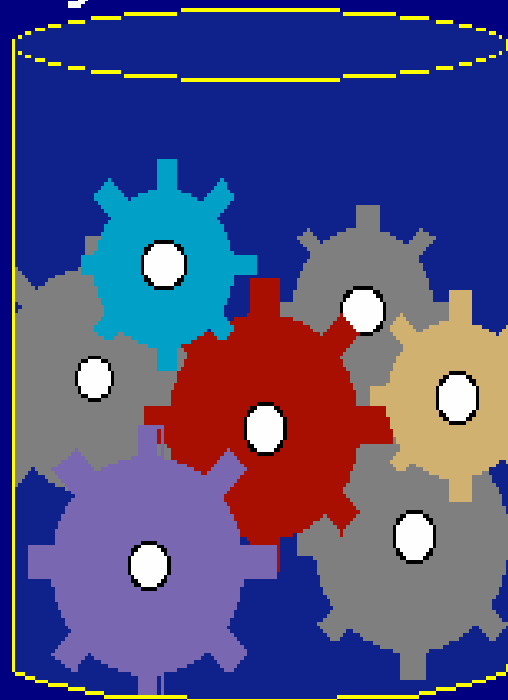
Nonfarm  
Industries

Expect to Keep Excess  
Capacity in Reserve



# Production Capacity

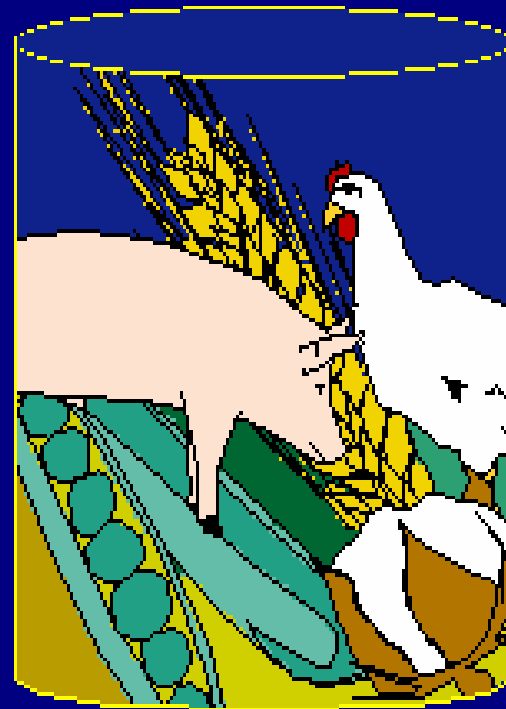
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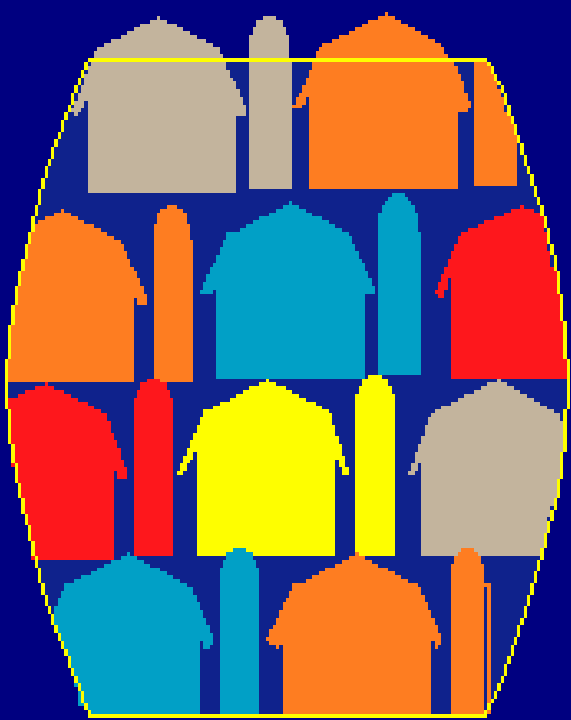
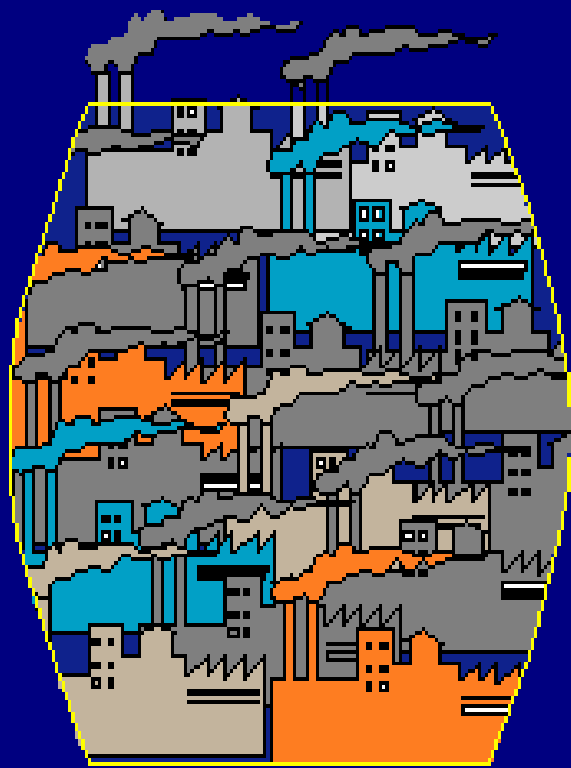
Long-Term Capacity  
Determined by  
Technology



Production  
Capacity Tends  
to be Fully Used

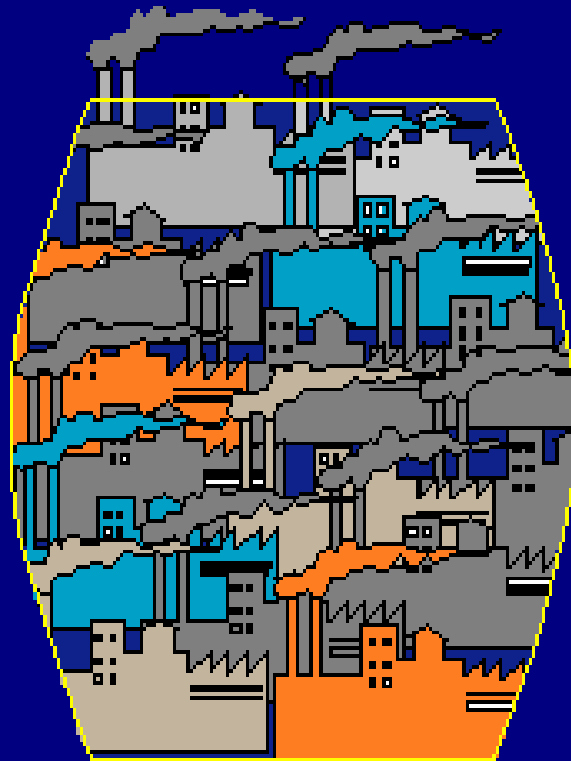
# When Industries Overbuild

When  
Nonfarm  
Industries  
Grow Too  
Large,  
Plants go  
Out of  
The  
Industry

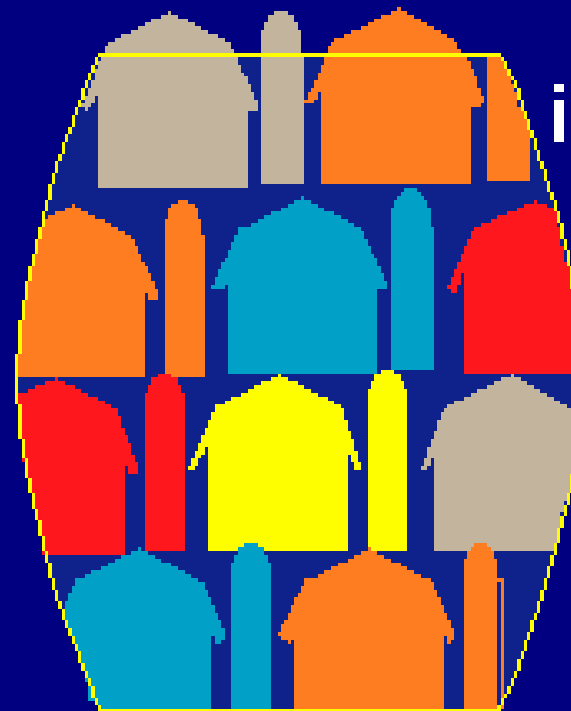


# When Industries Overbuild

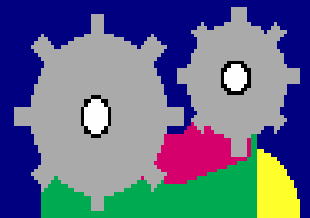
When  
**Nonfarm**  
Industries  
Grow Too  
Large,  
Plants go  
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Industry



When  
**Agriculture**  
is Overbuilt,  
Land  
Changes  
Hands  
But Output  
is Not  
Reduced



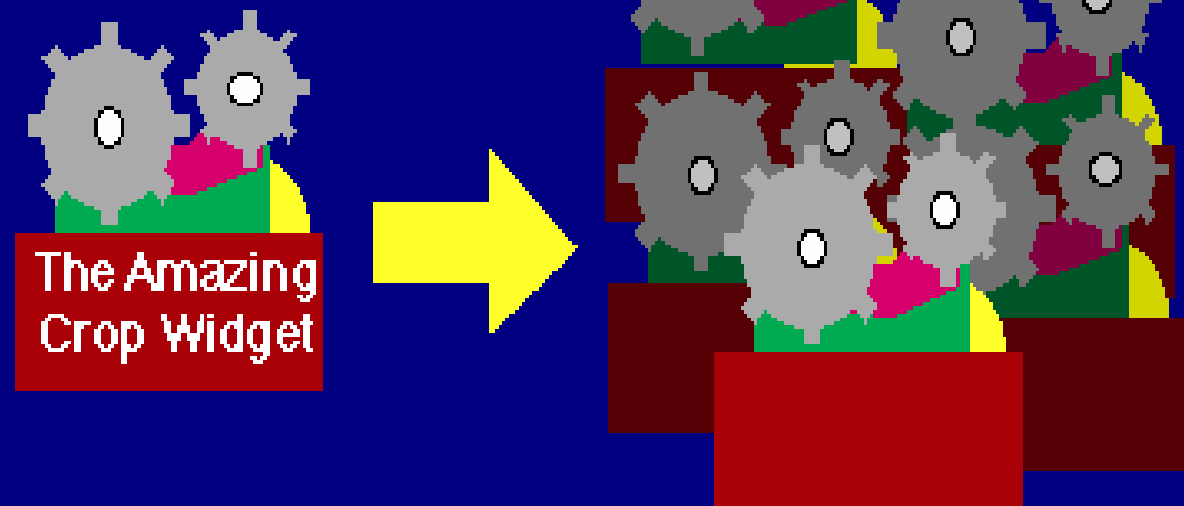
# Technology Treadmill



• The Amazing Crop Widget

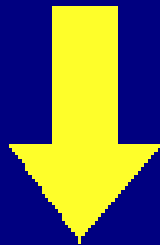
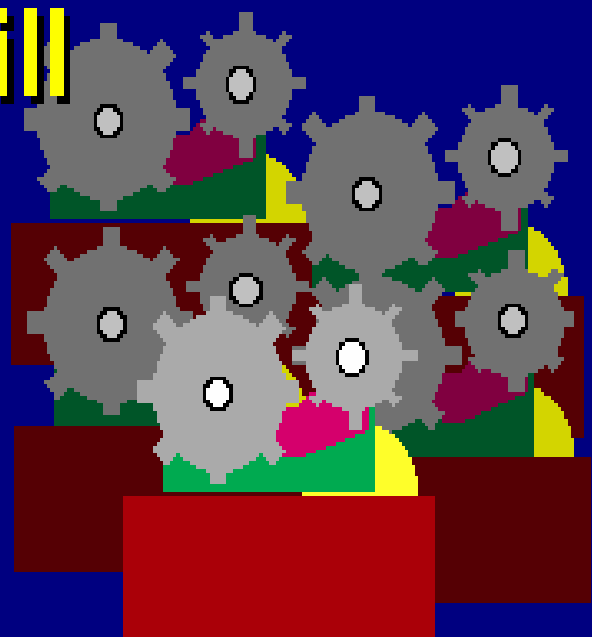
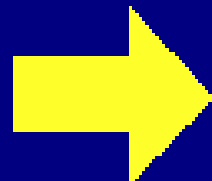
- Because Farmers Produce Only a Tiny Part of Total Production, They Cannot Influence **Price**
- Therefore, Farmers Try to Reduce Their Per-Unit Production **Costs**
- Adopting **New Technologies** Early on Allows Farmers to Reduce Costs Without Affecting Price

# Technology Treadmill

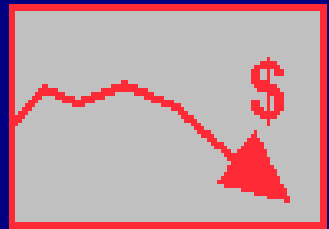
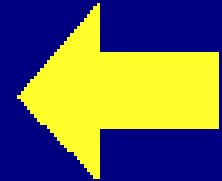
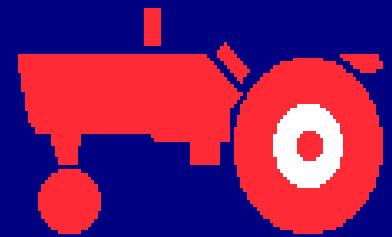


- As Adoption of a New Technology **Spreads**, Output Increases
- As Output Increases, **Prices** Drop
- Thus, The Benefits of Technology Continually Slip Through Farmers' Hands

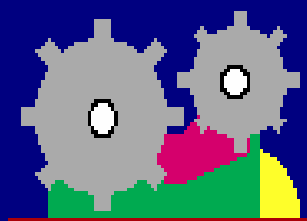
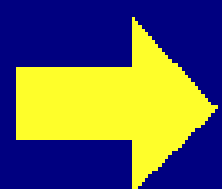
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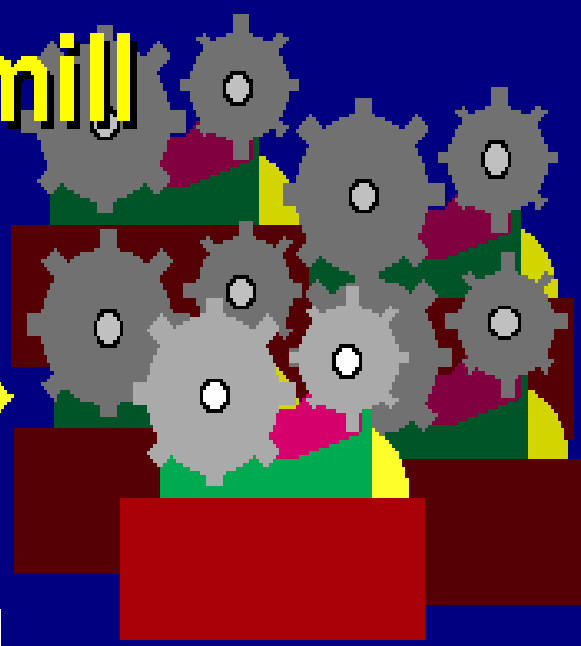
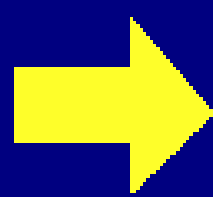
- Once Prices Fall, Agricultural **Production** Declines Slowly
  - Farm Assets Can be Used For Little Else
  - Farmers Tend to Prefer Farm Living



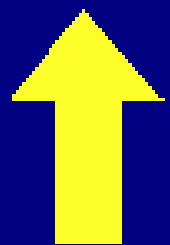
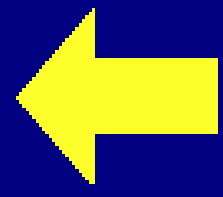
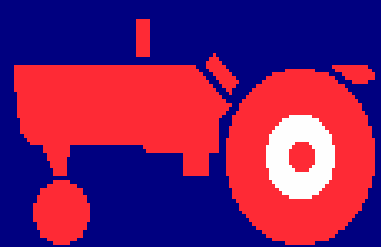
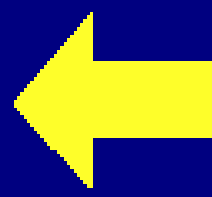
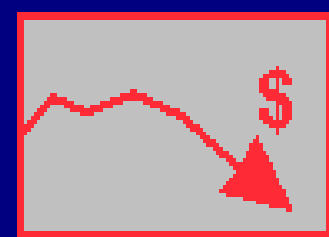
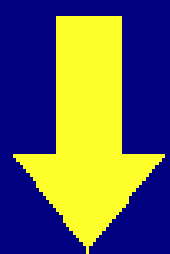
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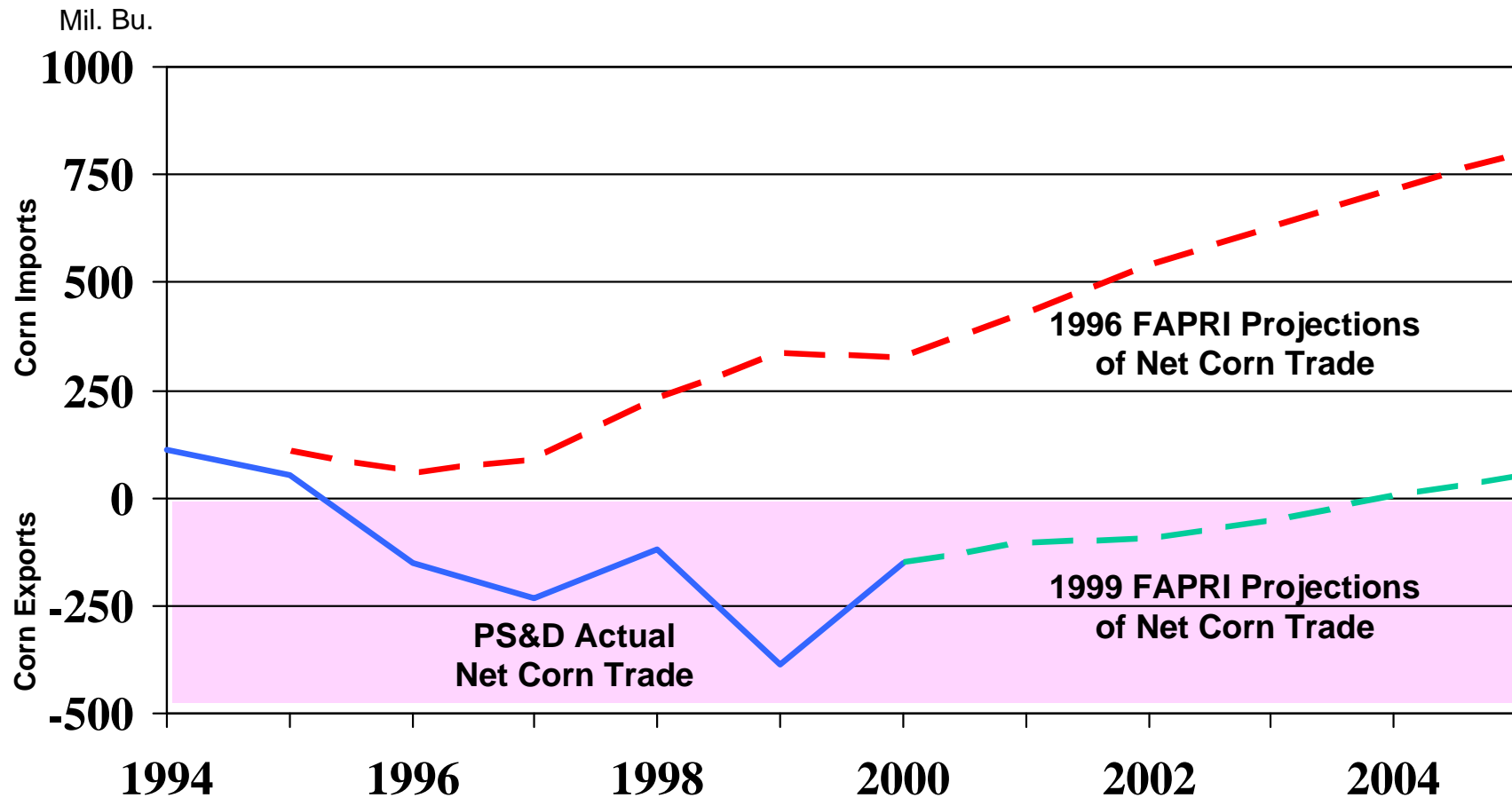
- Consumers Benefit From Low Prices
- Farm Programs Try to Shift Part of This Benefit Back to Farmers



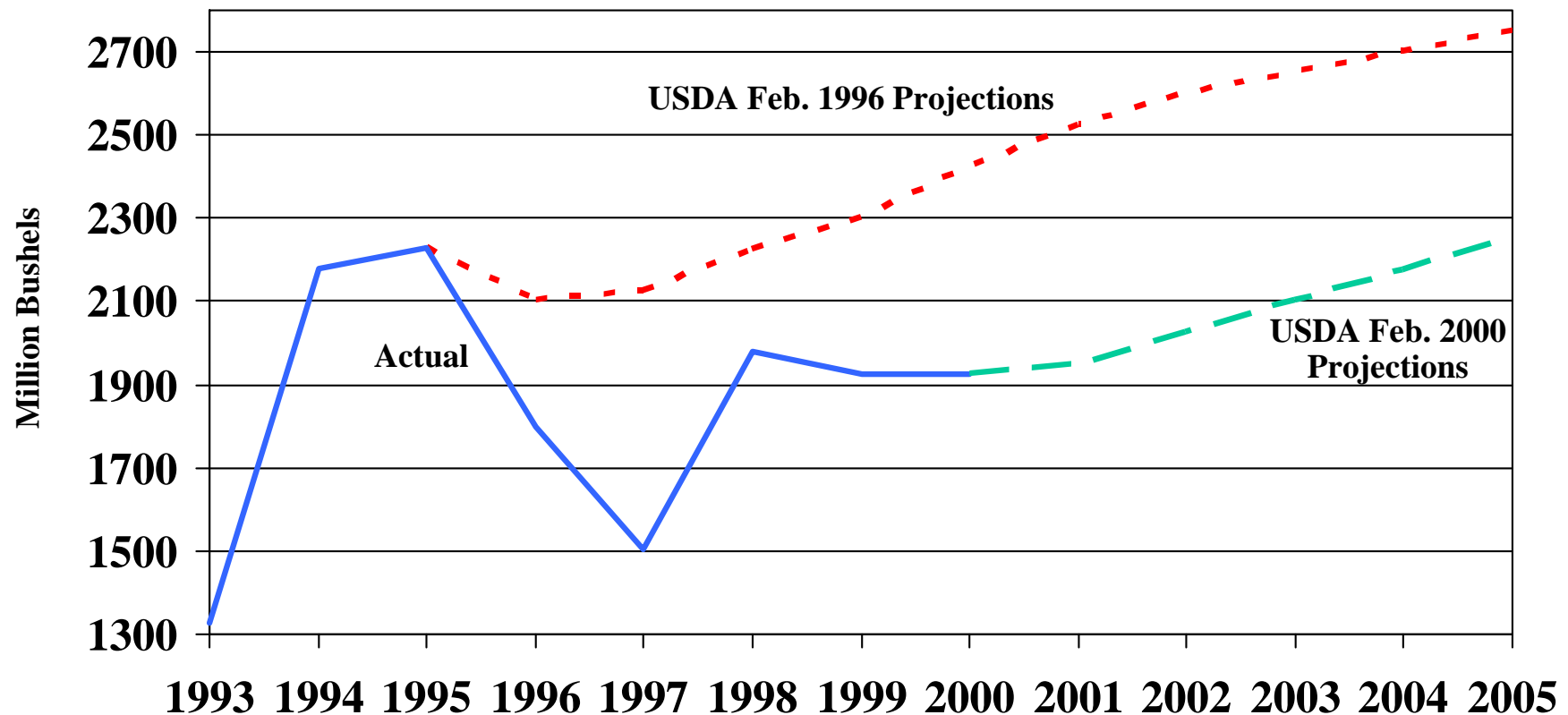
# Expectations

- **“High” Prices and Incomes Like 1995/1996**
- **Because:**
  - **Rapid Per Capita Income Growth in China/Asia Will Increase Demand and U.S. exports**
  - **With Planting Flexibility & Decoupled Payments Farmers Would Plant for the Market – Reduce Production When Needed**
  - **With No Brake on Prices, Importers Will Import More From the U.S. When Prices Decline –Increase Consumption & Reduce Production When Needed**
  - **With Marketing Loans, Competitors Would Not Be Under U.S. Price Support Umbrella –Reduce Production When Needed**

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



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

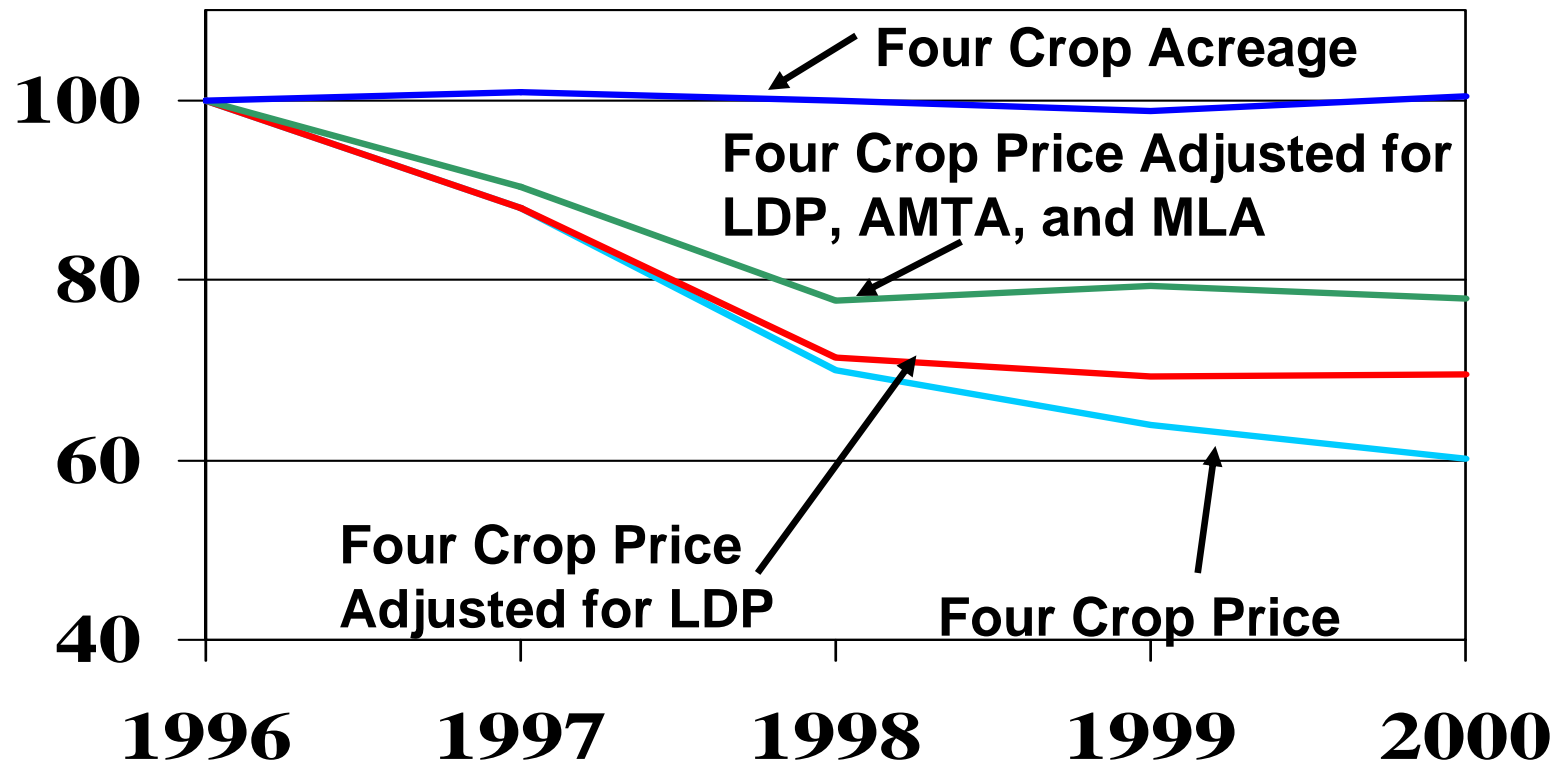


- **Expected Rapid Growth in Exports Did Not Occur**

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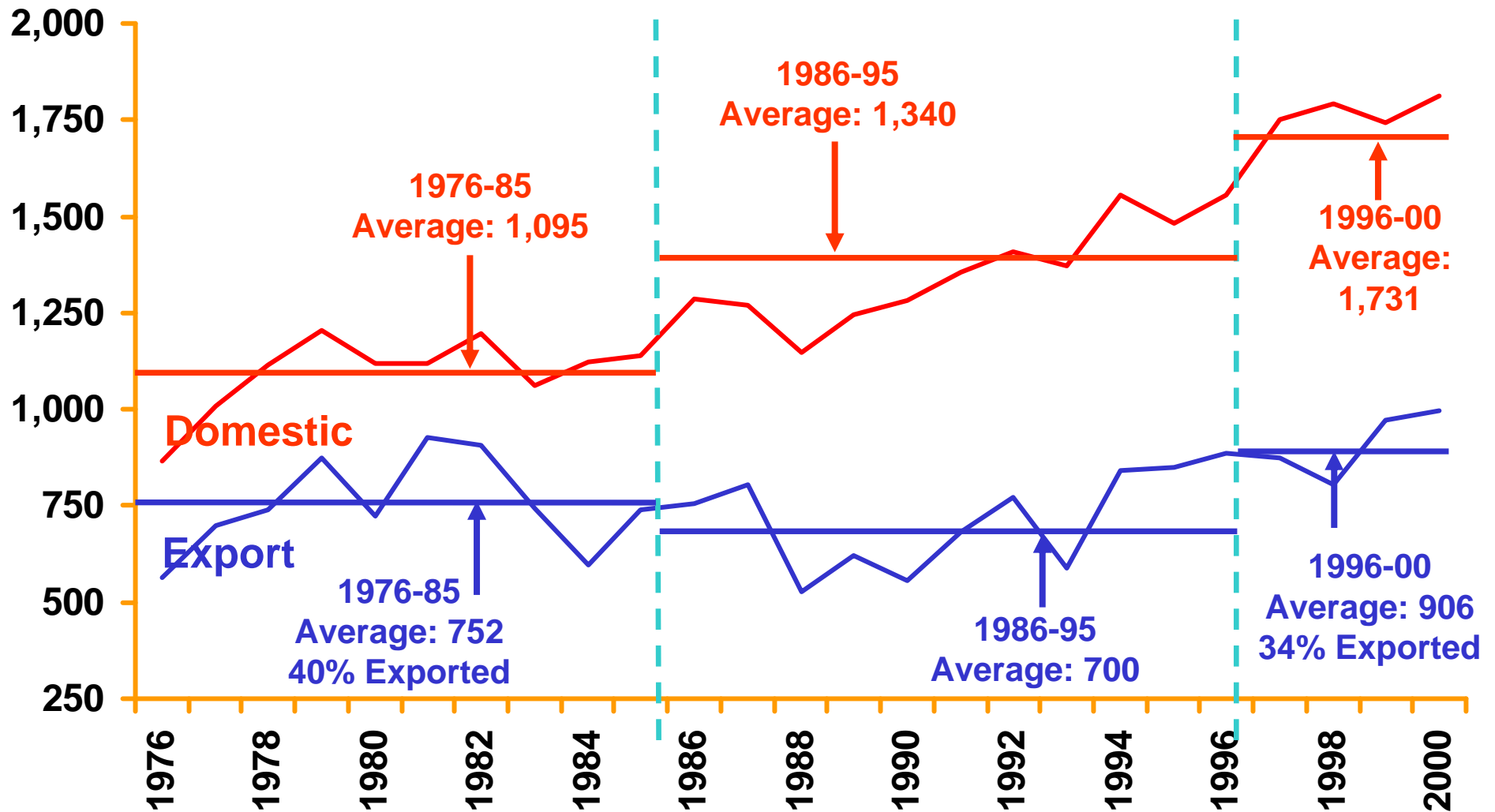
# *Indexed Four Crop Acreage, Price and Price Adjusted for LDP and Contract Payments*



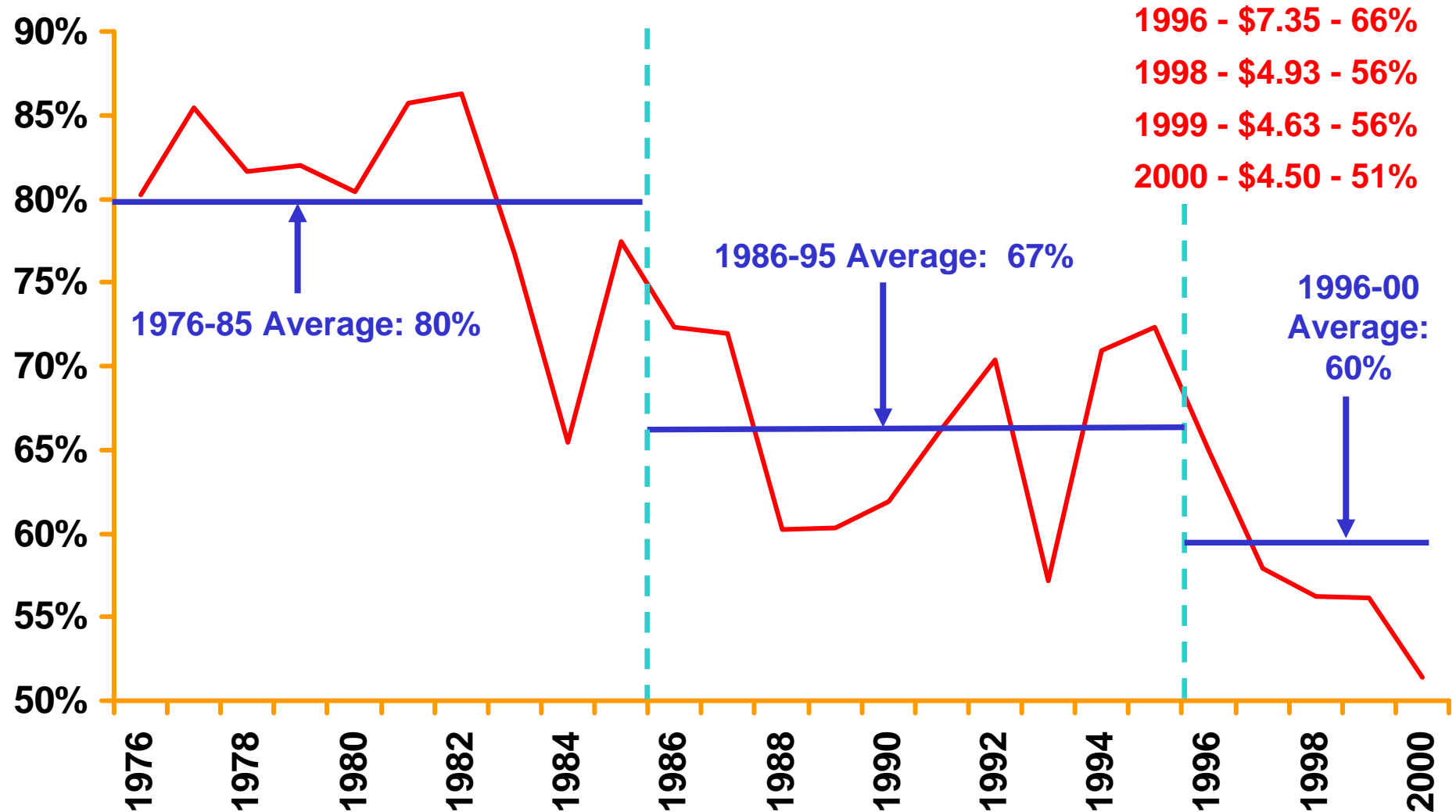
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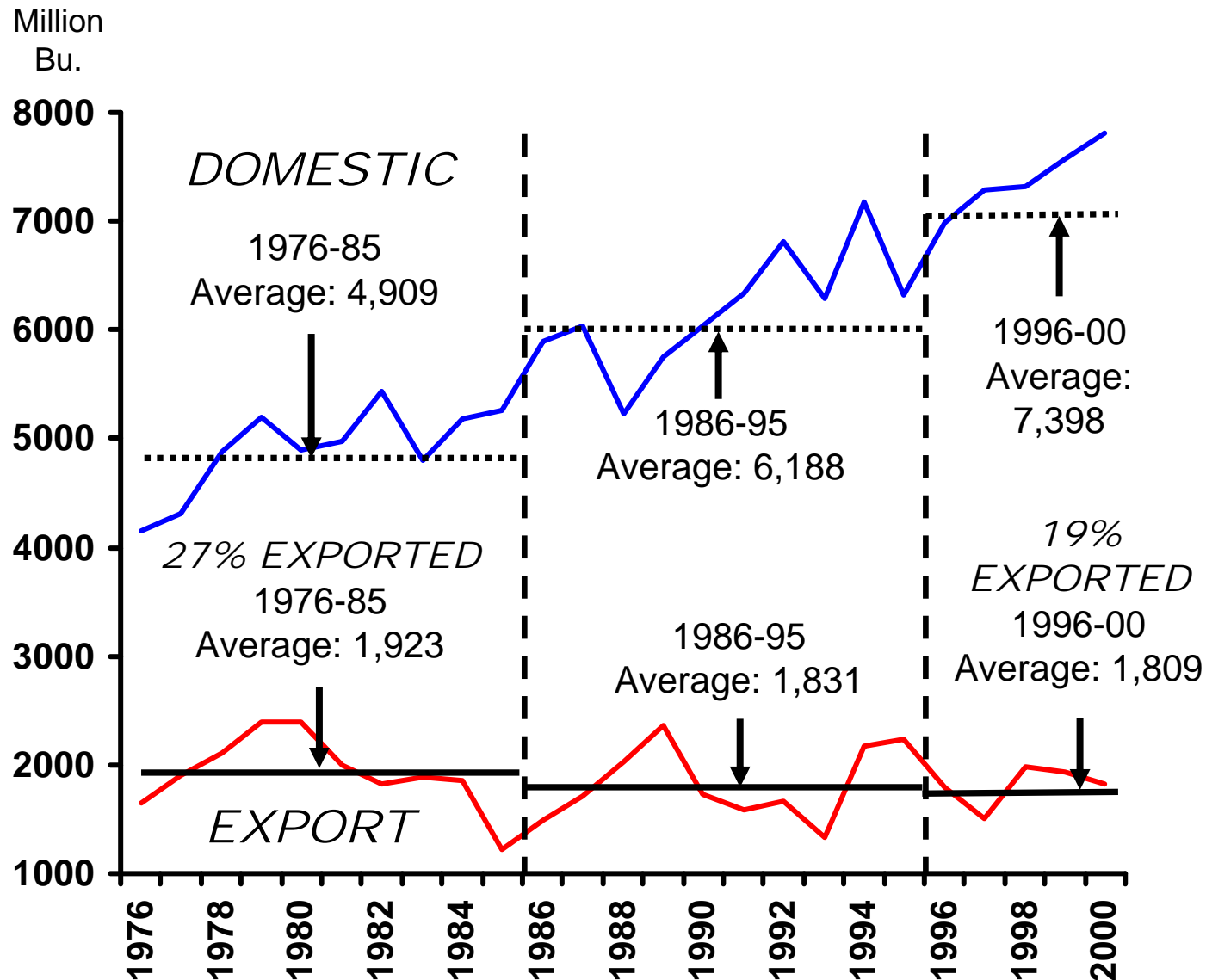
## U.S. Domestic & Export Demand



## U.S. Share of World Exports



## U.S. Domestic and Export Demand

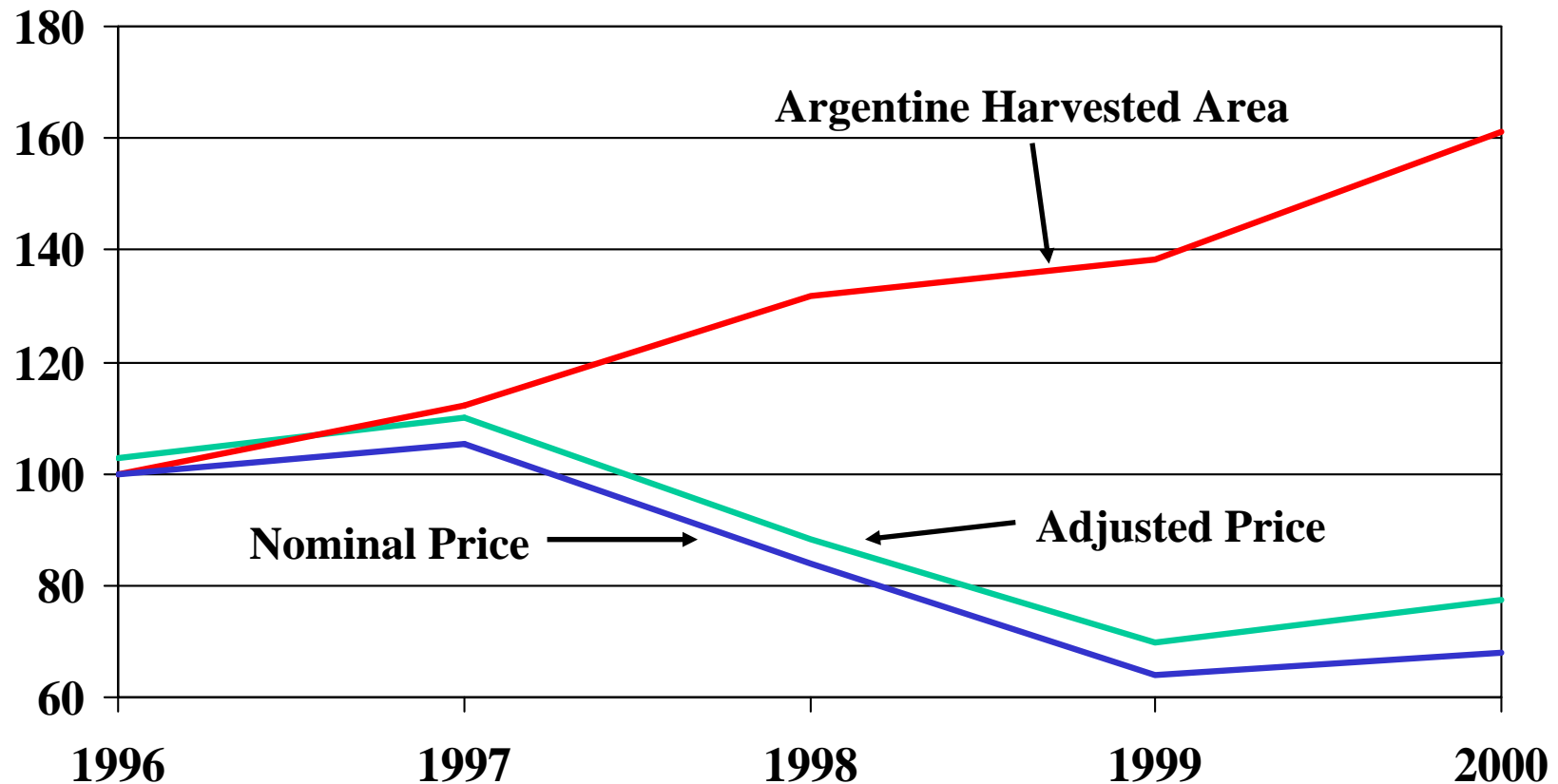


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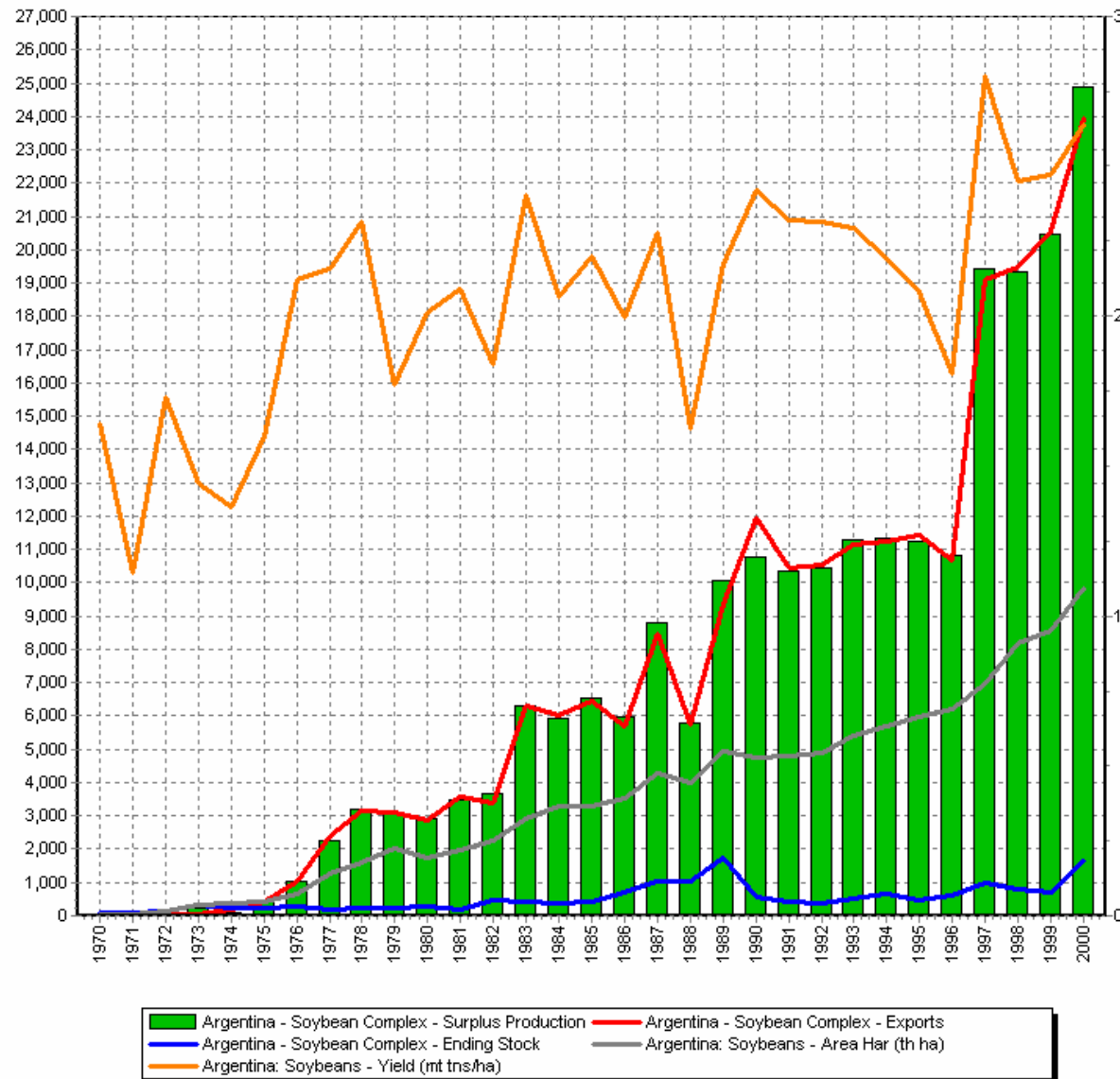
# Argentine Soybean Price\* and Harvested Area

Indexed 1996=100

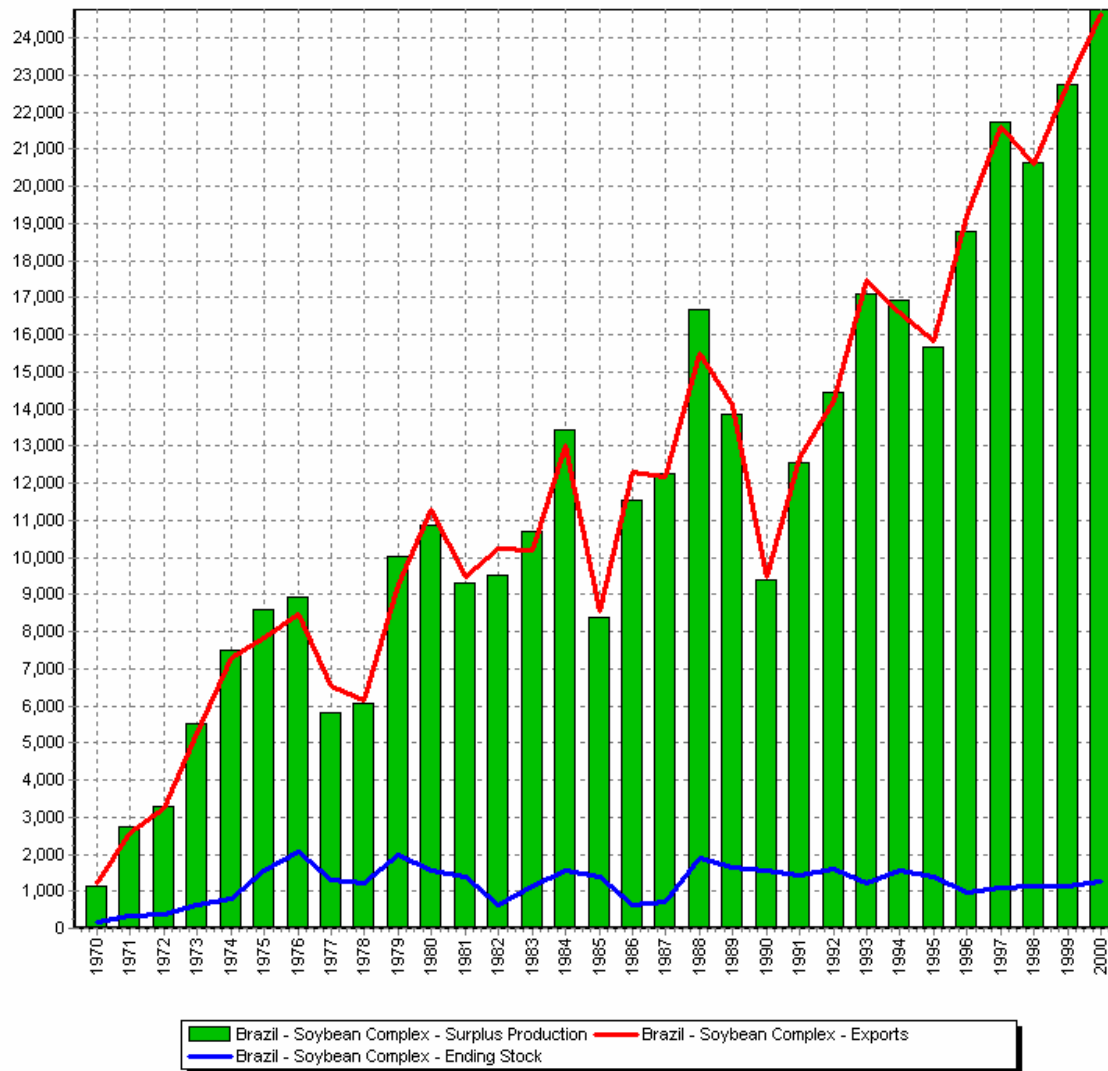


\* Price is the export price posted by Abiove, the Brazilian Vegetable Oil Industry Association. Adjusted price is adjusted for changes in exchange rate and inflation.

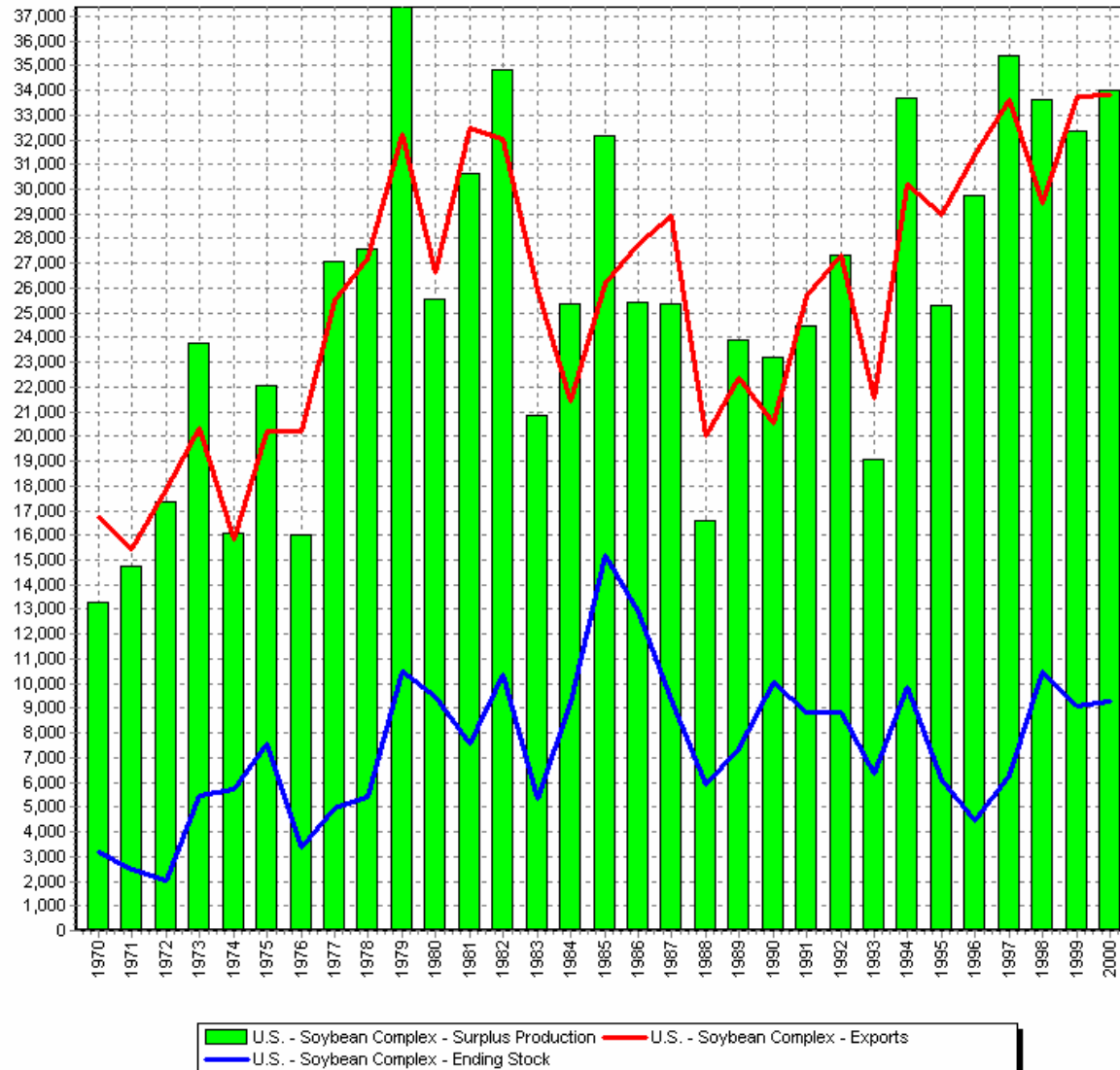
# Argentine Soybean Complex Exports and Surplus Production



# Brazilian Soybean Complex Exports and Surplus Production

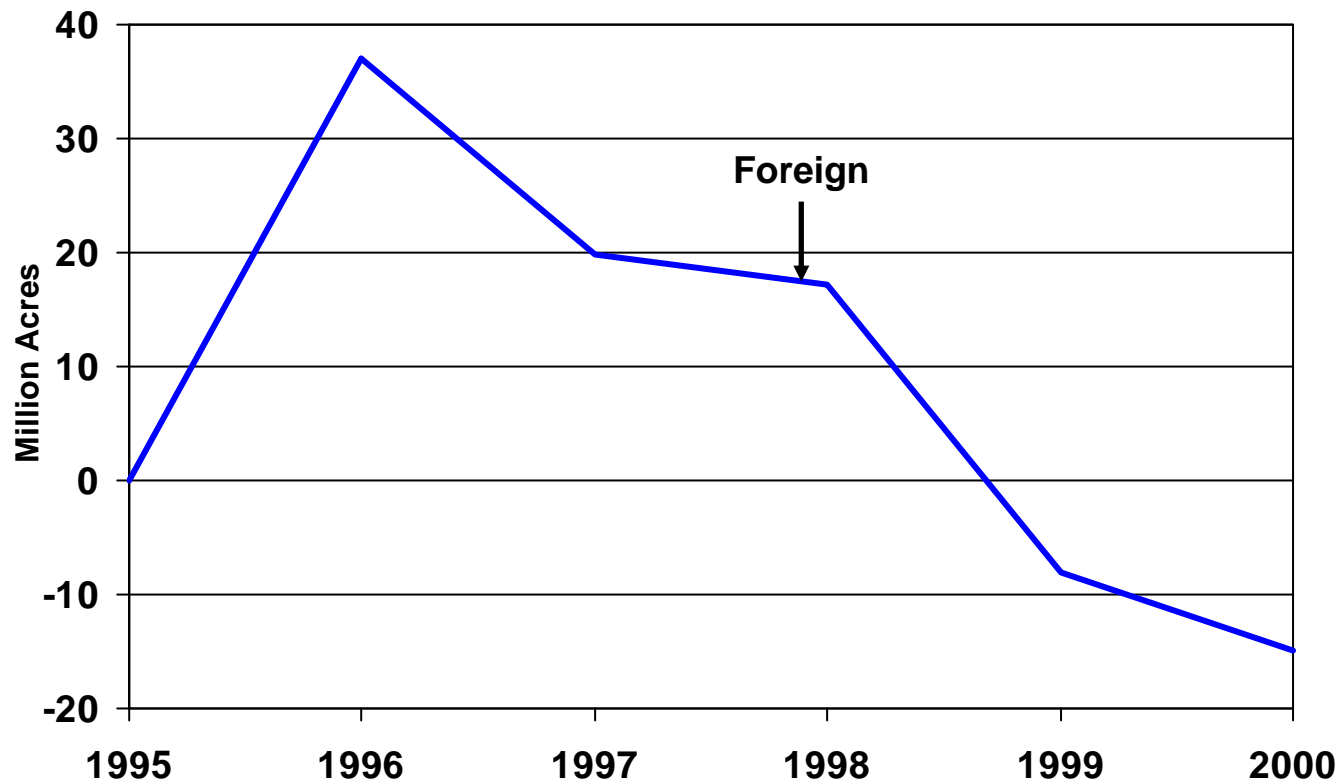


# U.S. Soybean Complex Exports and Surplus Production



# *Foreign Crop Acreage*

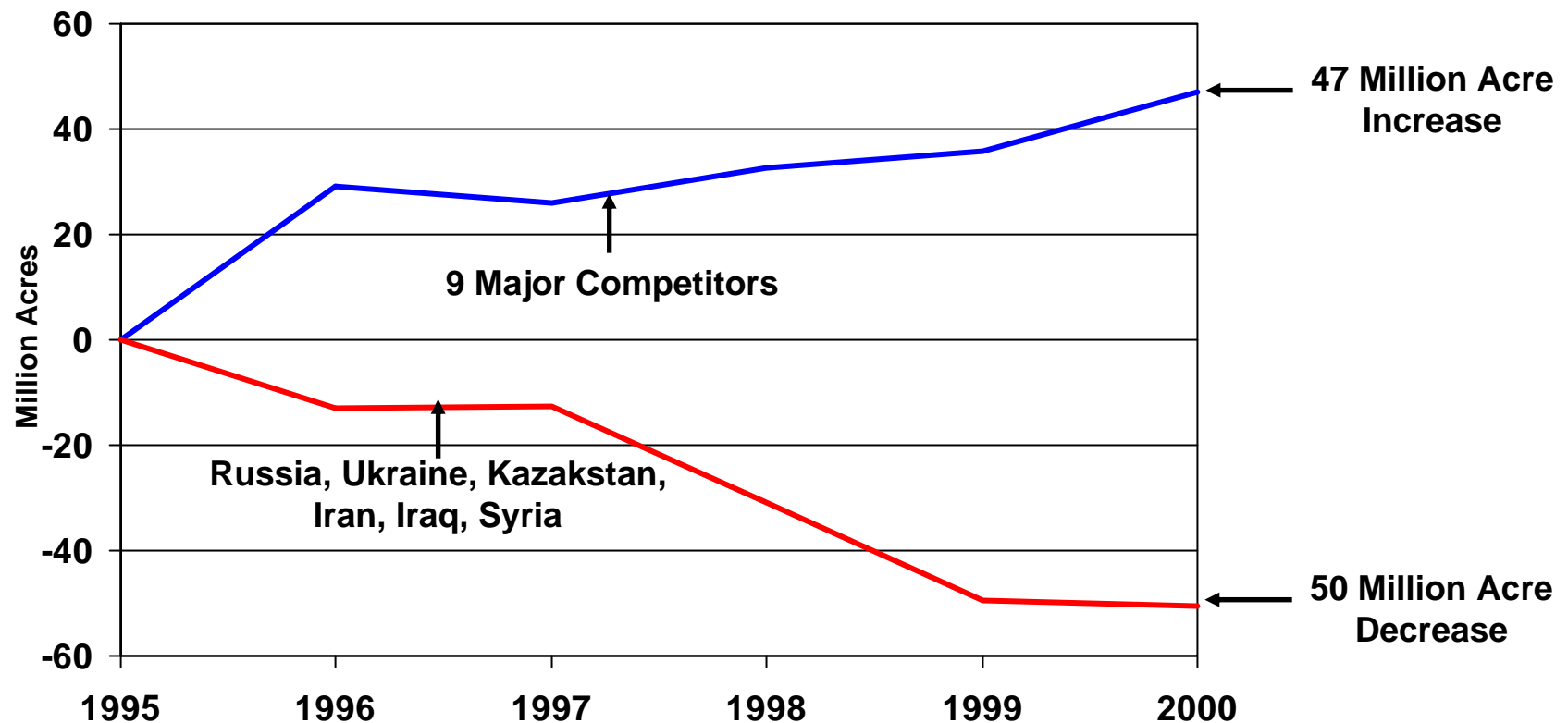
**Some have cited the 1999 reduction in foreign harvested acreage as indicative of the benefits of eliminating set-asides**



**Gain or loss in foreign harvested acres when compared to 1995**

# Foreign Crop Acreage

What countries did we hope would reduce their acreage when we eliminated set-asides?



Gain or loss in 9 competitors' and a grouping of 3 former Soviet Union and 3 Middle Eastern countries' harvested acres when compared to 1995.

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