



Rethinking US Agricultural Policy:

Changing Course to
Secure Farmer
Livelihoods Worldwide

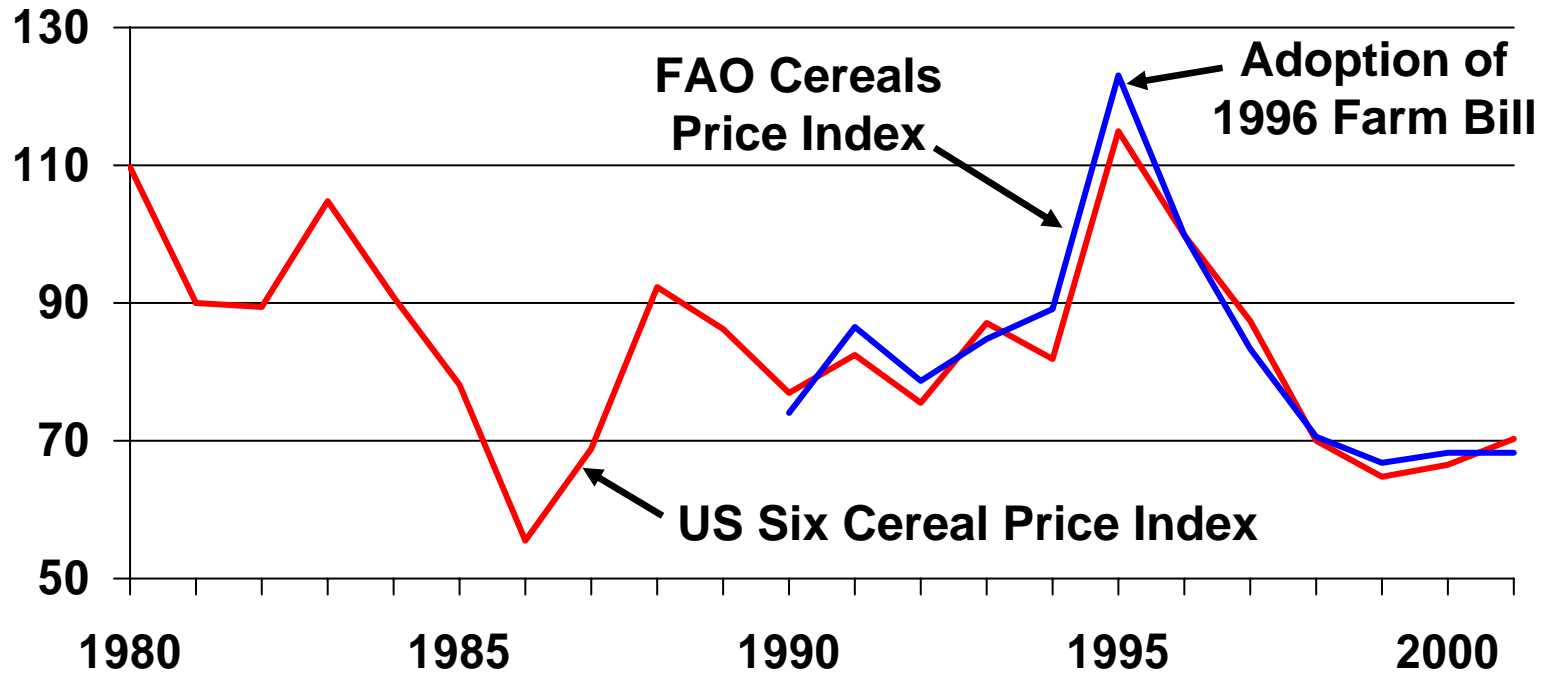
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Agriculture: In a Policy-Caused Economic Crisis

- **US commodity prices have plummeted**
- **Lower US prices triggered low prices in international ag commodity markets**
- **Accusations of US dumping**
- **Countries in the South unable to neutralize impacts of low prices**

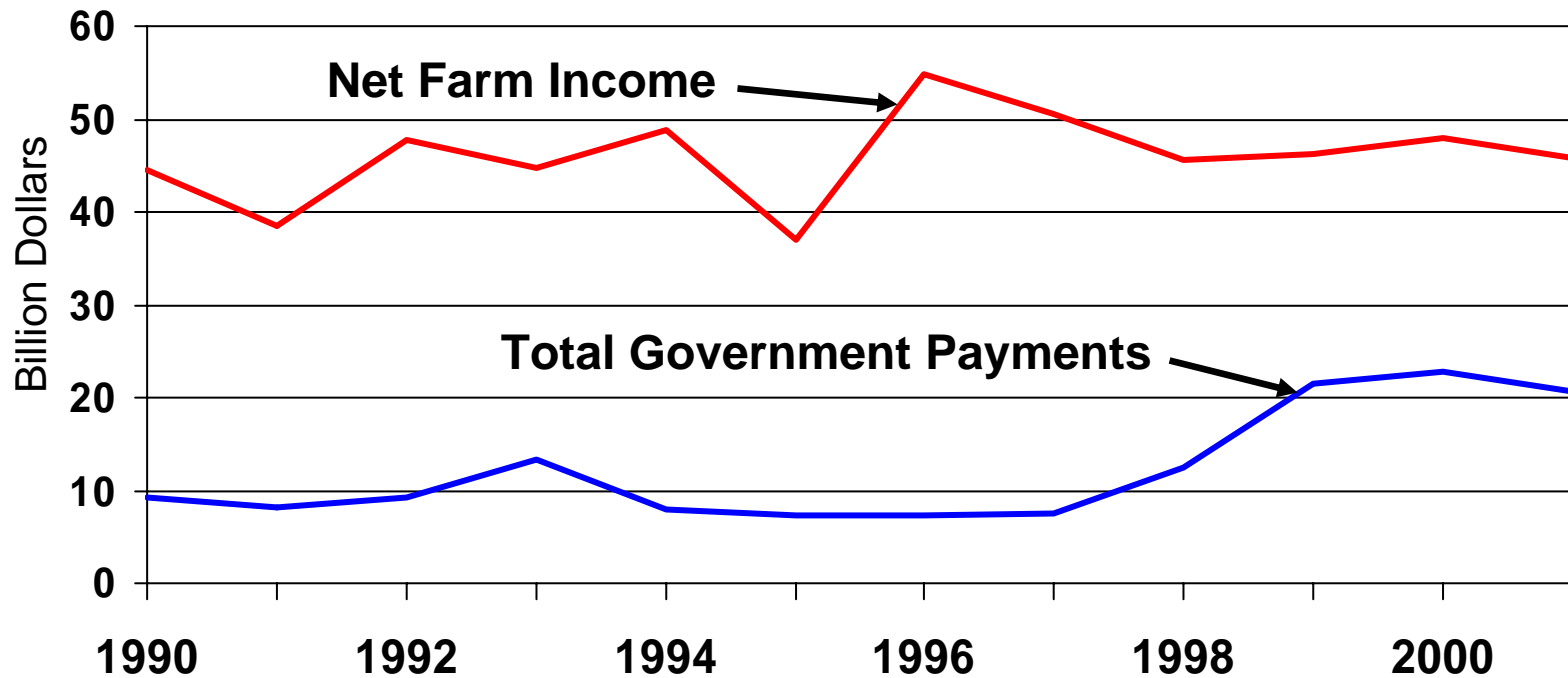
US Six Cereals and FAO Cereals Price Indices



After 1996

- US prices plummeted
- World prices followed

US Net Farm Income and Government Payments

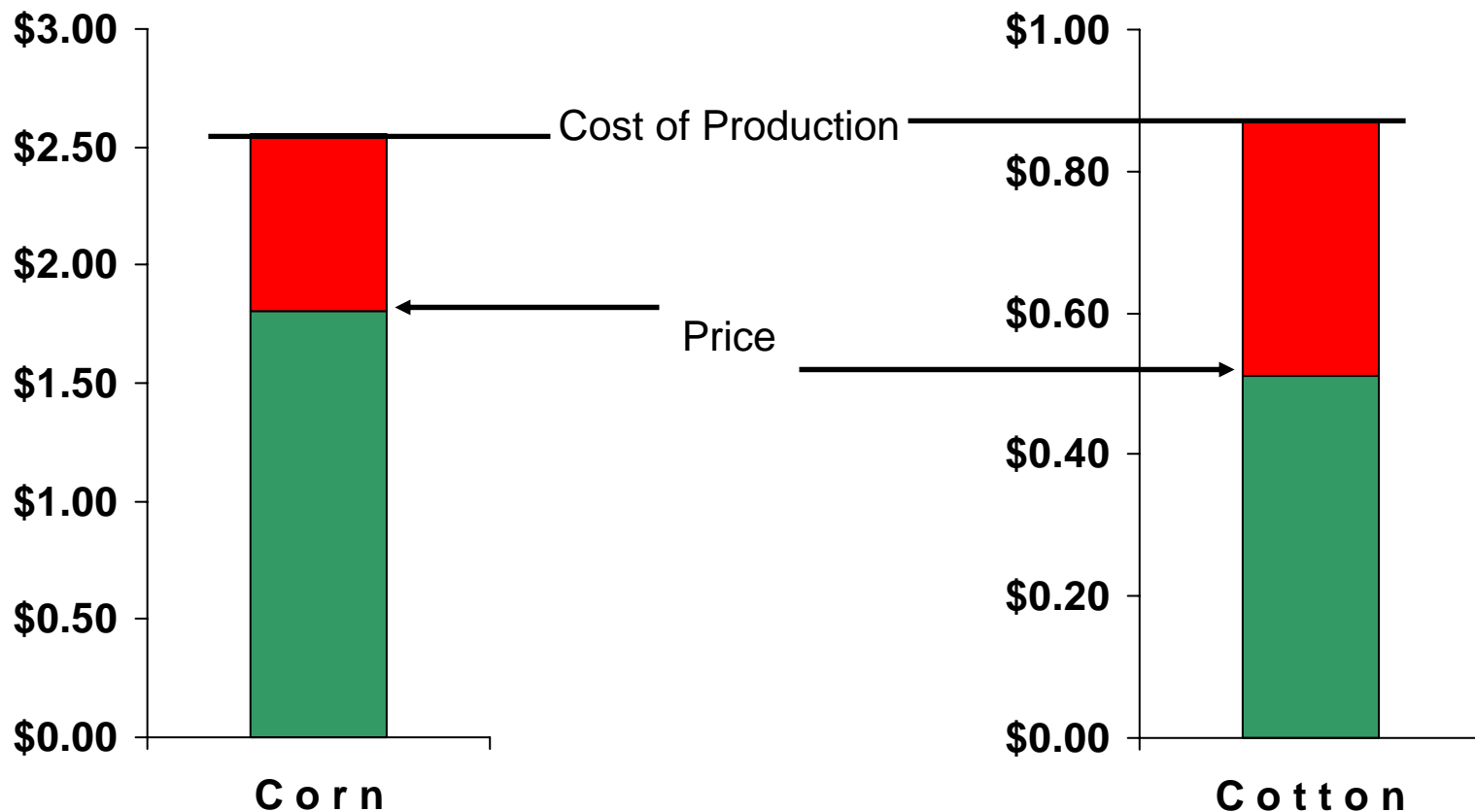


Since 1996 US

- **Government payments are up over 100%**
- **Net Farm Income declined anyway**

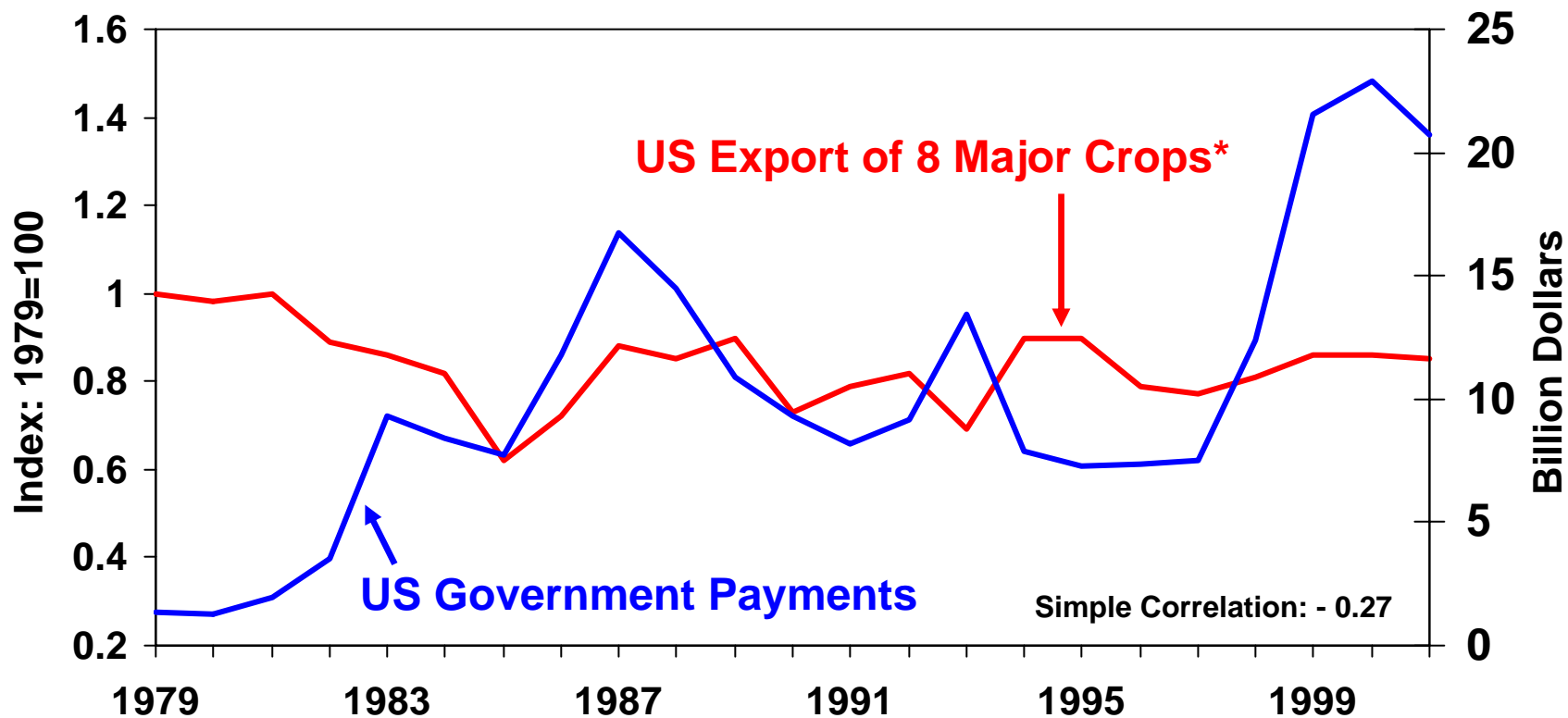
US Prices and Cost of Production

2001-2002 Average



- Prices cover only 60 to 75% for cotton and corn, respectively
- Even less for other crops
- Corresponding graphs for other countries would look even worse

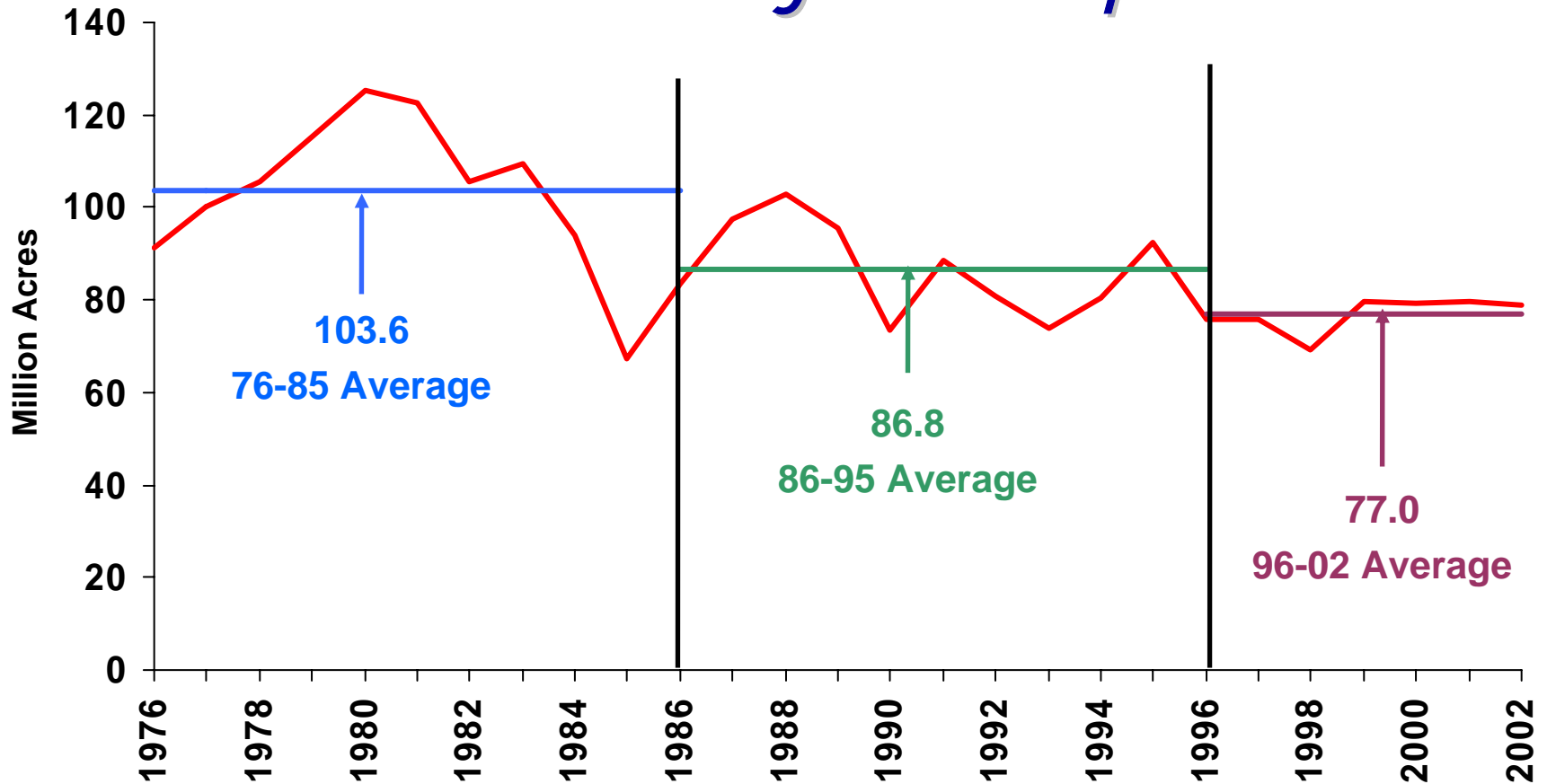
US Exports and Government Payments



US government payments have not resulted in additional movement of US crops into world markets

*Adjusted for grain exported in meat

US Net Export Acreage for 8 Major Crops



27 million fewer acres are currently used for eight major crop exports than in the 1976-1985 period

Historical Background

- **Since food is absolutely essential, the US and other countries have had a policy of plenty**
- **And until recently, the US has had policies to throttle the use of that expanding productive capacity**

Policy of Plenty

- Public policy of ensuring an ever-increasing food supply by cropland expansion and by investing in:
 - Research
 - Education
 - Extension/Technology transfer
- The development and maintenance of an excess capacity to provide food is a desirable, if not necessary, public policy goal

Managing Plenty and The Role of Farm Policy

In the past farm policies included

- Floor price
- Supply management tools
- Price stabilization

Recent international policy trends

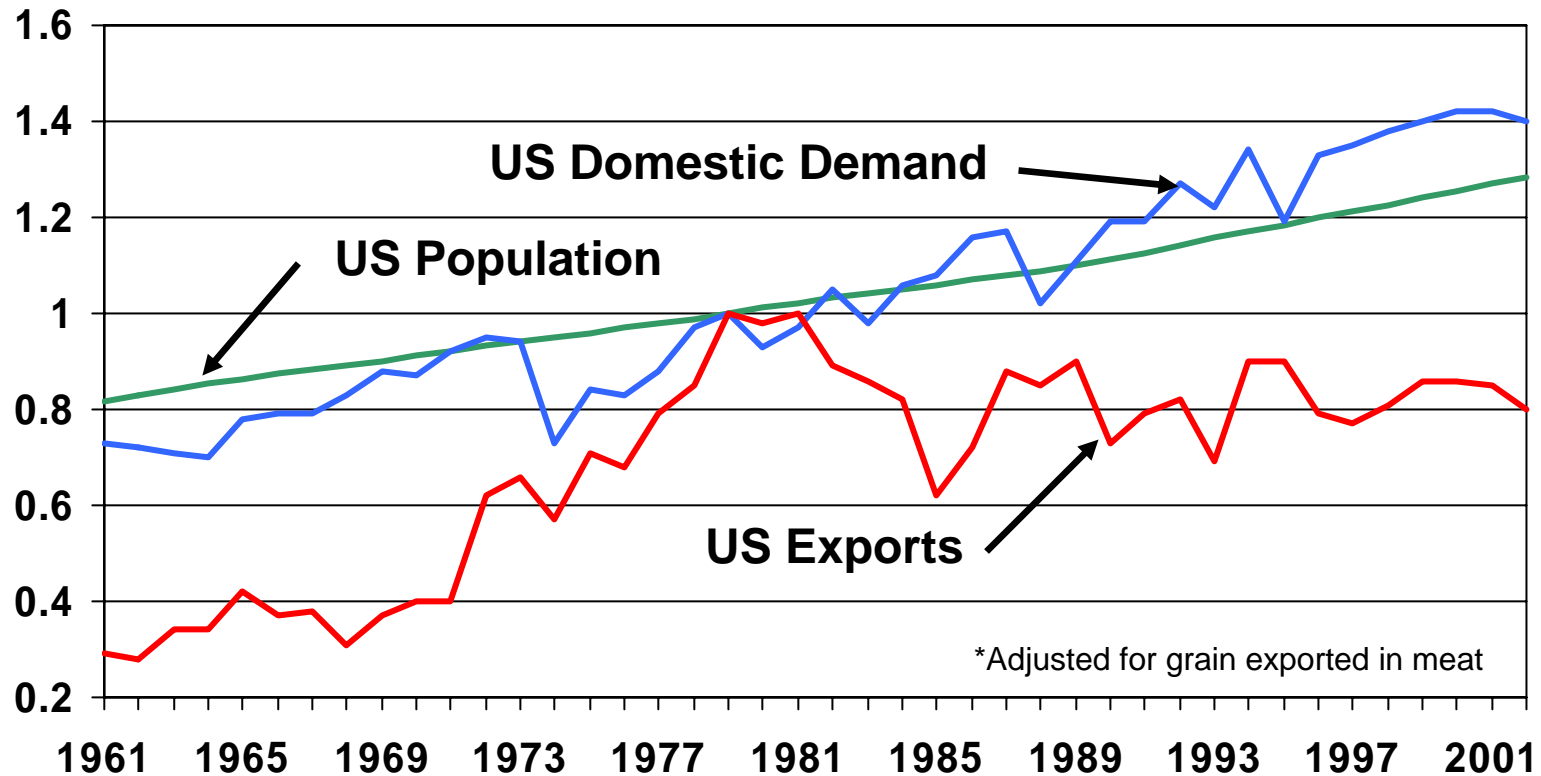
- Eliminated all three
- Set prices free to fall well below cost of production
- Provided revenue supplements to compensate when prices are low

Critical Changes in U.S. Policy

- **Since 1985 “policy makers” believed that to allow exports to drive agricultural growth, markets should be allowed to work**
- **This finally materialized in the 1996 FAIR Act:**
 - **Elimination of supply control instrument: set aside program**
 - **Elimination of non-recourse loan as support price mechanism**

Exports Did Not Deliver

Index of US Population, US Demand* for 8 Crops and US Exports* of 8 Crops 1979=100



- Exports down to flat for last two decades
- Domestic demand increases steadily
- Since 1979, exports have NOT been the driving force in US crop markets

Predictable Consequences of Overcapacity

- Millions of acres previously “set-aside” are brought back into production
- Prices fall in world markets
- Government payments increasingly support land values but have little impact on production/prices

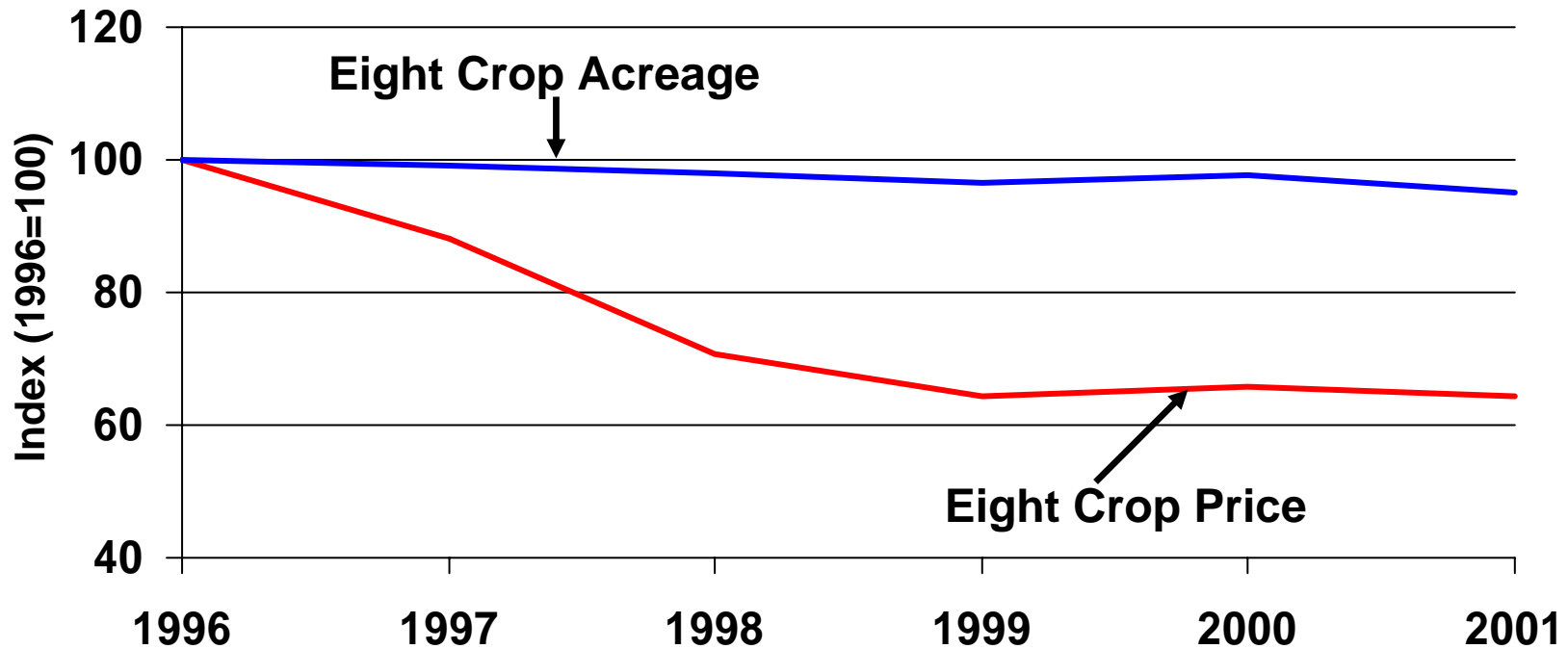
Who Benefits from Low Crop Prices?

- **Hurts all crop farmers: US and worldwide**
- **Users of agricultural commodities benefit by not paying full cost of production:**
 - **Large livestock producers**
 - **Agribusinesses: input and machinery, processors, marketing and retailers**
 - **Importers**
 - **Consumers, if marketing system transmits lower prices**

Nature of Crop Markets

- **Technology expands output faster than population and exports expand demand**
- **Market failure: lower prices do not solve the problem**
- **Little self-correction on the demand side**
 - **People will pay almost anything when food is short**
 - **Low prices do not induce people to eat more**
- **Little self-correction on the supply side**
 - **Farmers tend to produce on all their acreage**
 - **Few alternate uses for most cropland**

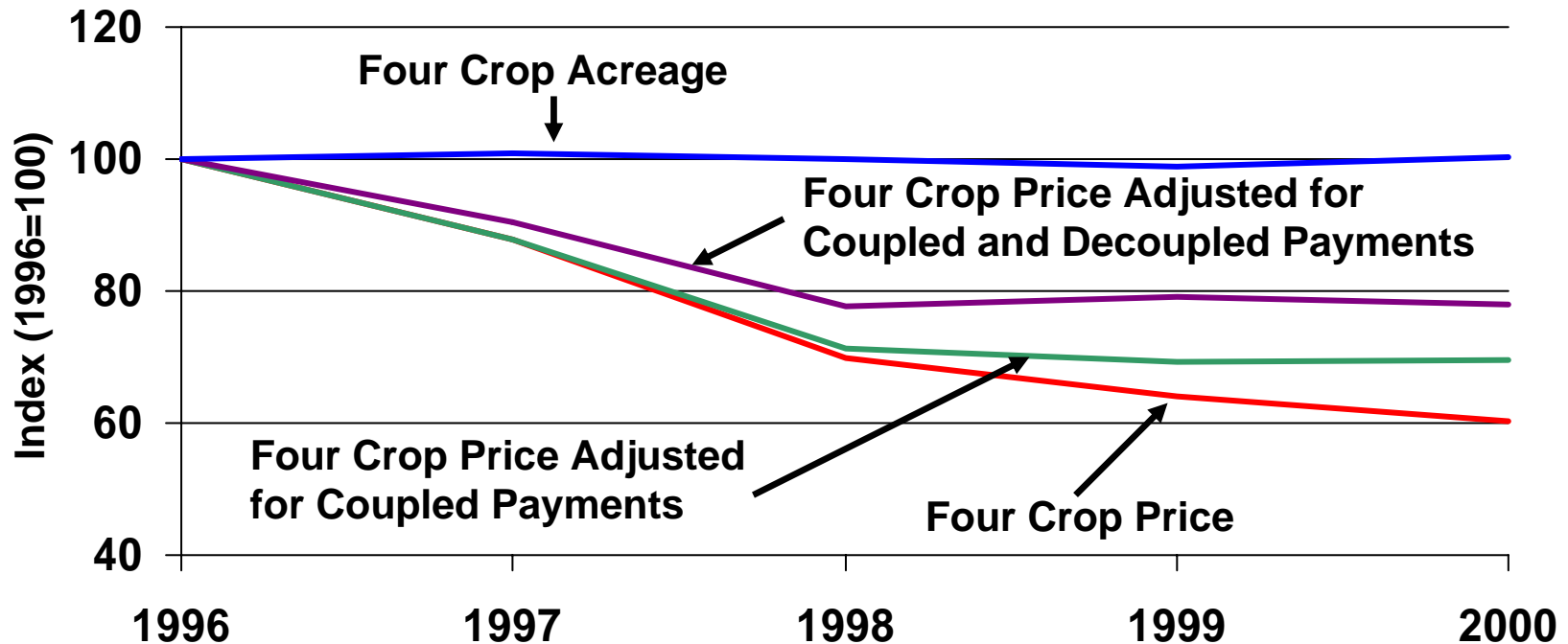
Acreage Response to Lower Prices?



Since 1996 US

- Eight major crops maintain acreage
- Eight-crop price drops by 36%

Acreage Response to Lower Prices?



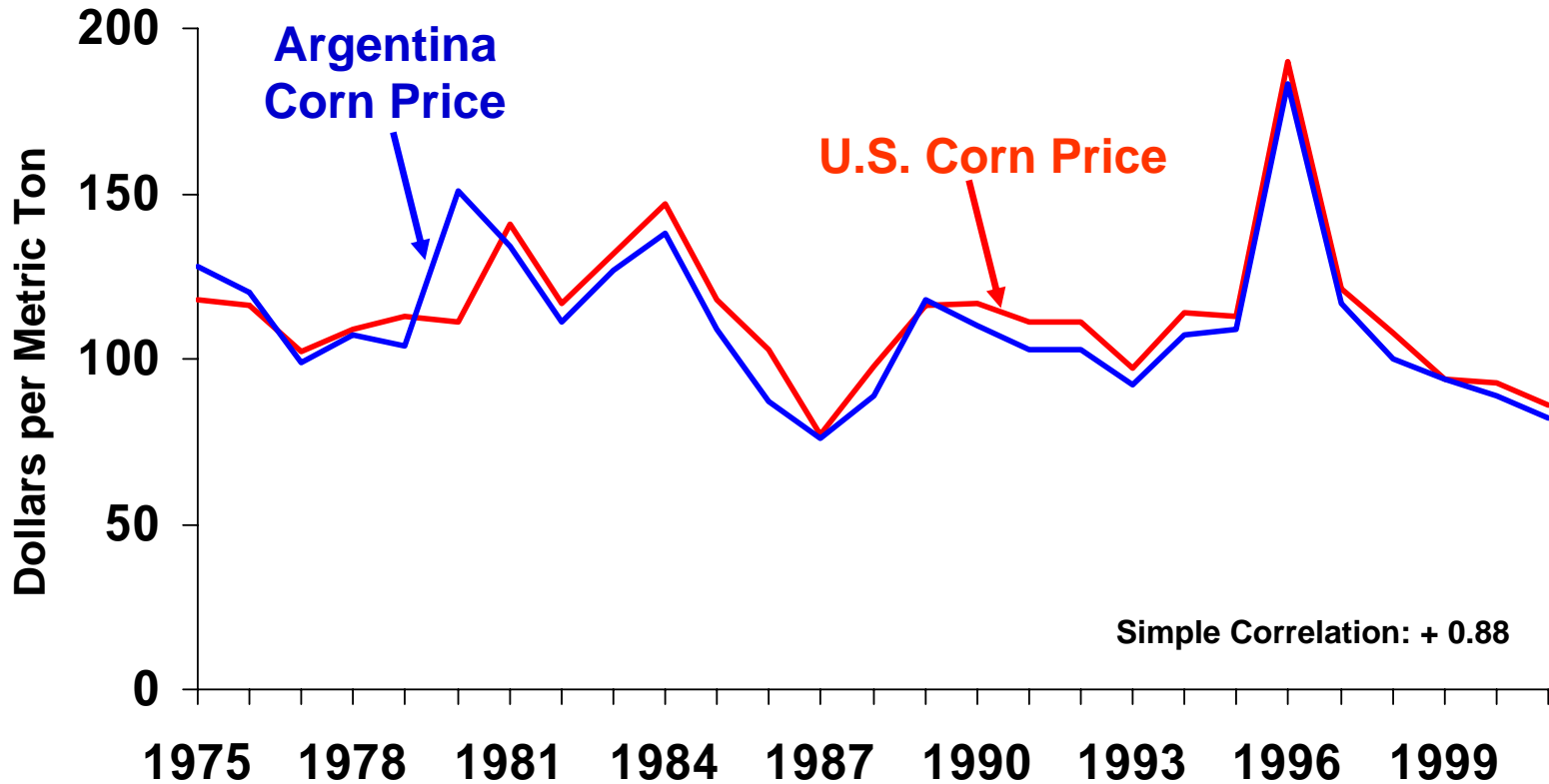
Since 1996

- Aggregate US corn, wheat, soybean, and cotton acreage changed little
- While “prices” (take your pick) dropped by 40, 30 or 22%

Impacts of Low Prices on Farmers in Developing Countries

- **No protection mechanisms:**
 - **Pressure to deregulate economy**
 - **Eliminated tariffs in compliance with trade agreements**
 - **Unable to provide payments to farmers**
- **Mexico: corn price halved and tortilla prices doubled**
- **Haiti: from self-sufficient to malnourished**
- **Africa and SE Asia in downward spiral**

Corn Price: US and Argentina

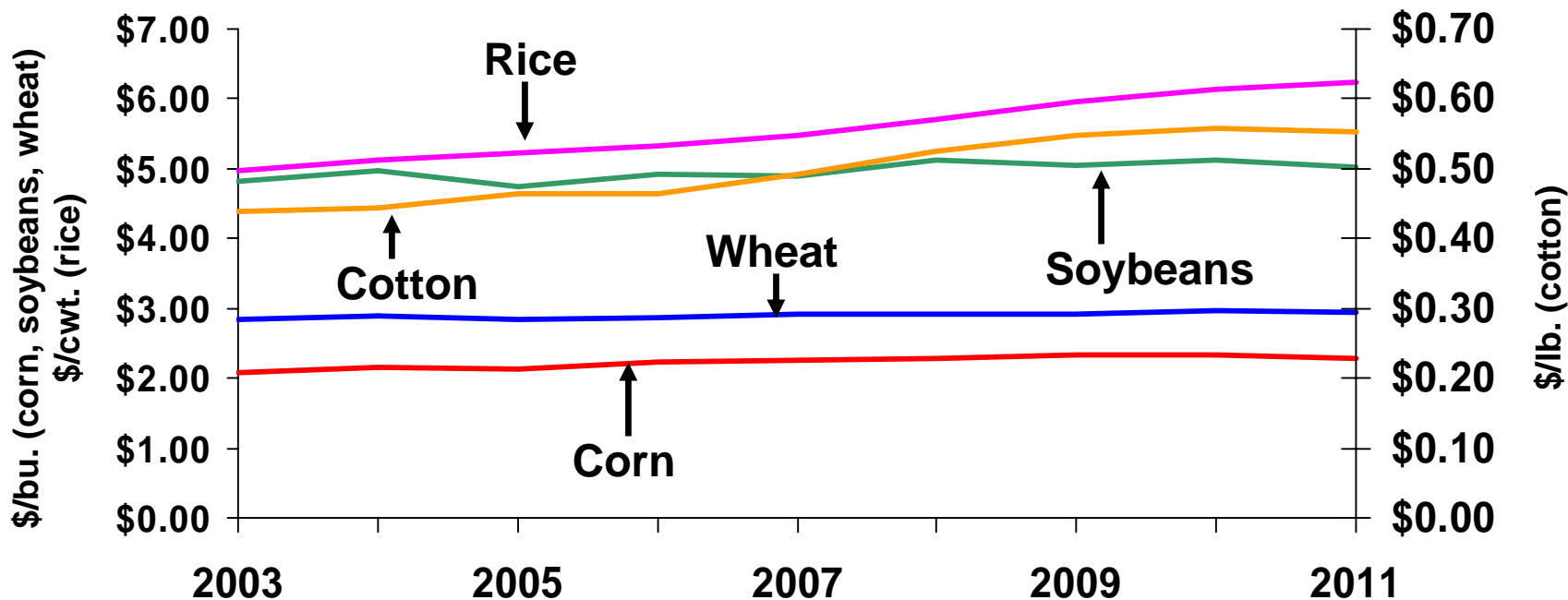


US and Argentine prices move together

Continuation of Present US Agricultural Policies

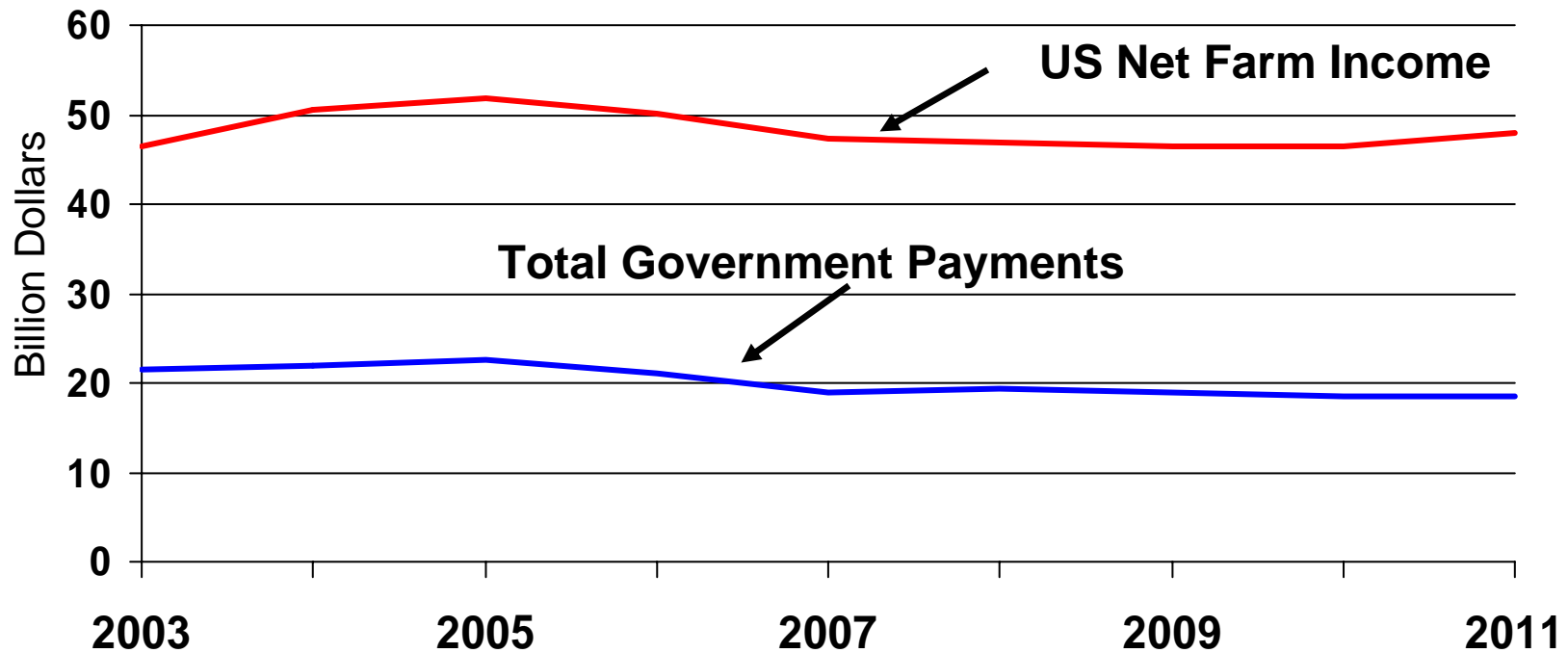
- **More of the same**
- **Prices and net farm income will remain largely flat**
- **Government payments will remain high**

Projected US Prices of Five Major Crops Under Current Farm Policy



- Corn, wheat, soybean prices at \$2, \$3, \$5 per bushel over period
- Some improvement in rice and cotton prices

Projected US Net Farm Income and Government Payments



- Net Farm Income flat through 2011
- Large government payments over full period

Problems with Continuing Current US Agricultural Policy

- **Prices projected to remain below the cost of production**
- **Continued “dumping”**
- **Large government payments in the US and countries**
- **Depressed crop prices worldwide**

A Couple of Conflicting Views on How to Fix a Broken Policy

- *Free Market Solution*

- Eliminate trade barriers and government distortions
- Producers and consumers will properly adjust to market signals

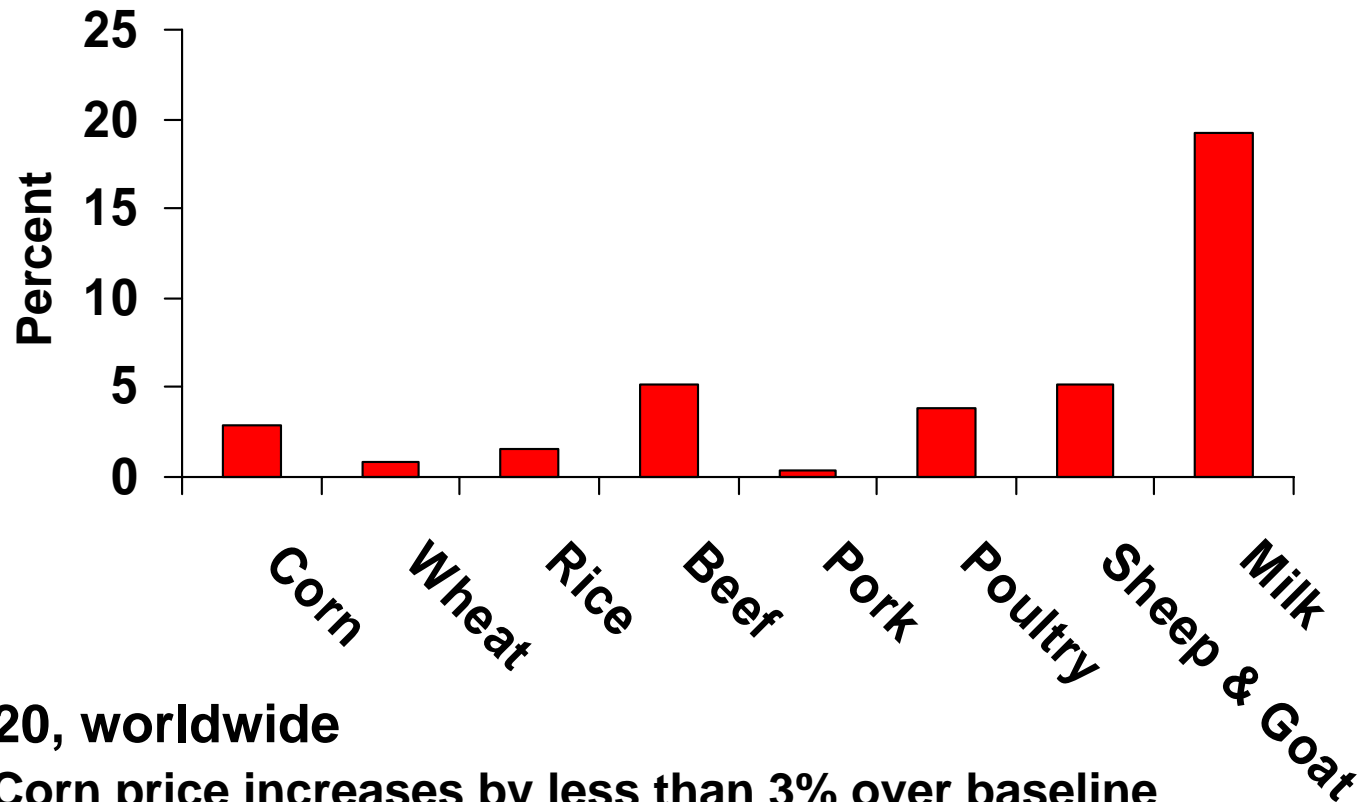
- *Farmer Oriented Solution*

- Recognizes unique characteristics of agriculture
- Policy should recognize farmers' actual behavior

What If We Did Get Rid of Subsidies in Developed Countries

- **Worldwide price impacts**
- **US price impacts**
- **Supporting evidence from other countries:**
 - **Canada**
 - **Australia**
 - **Mexico**

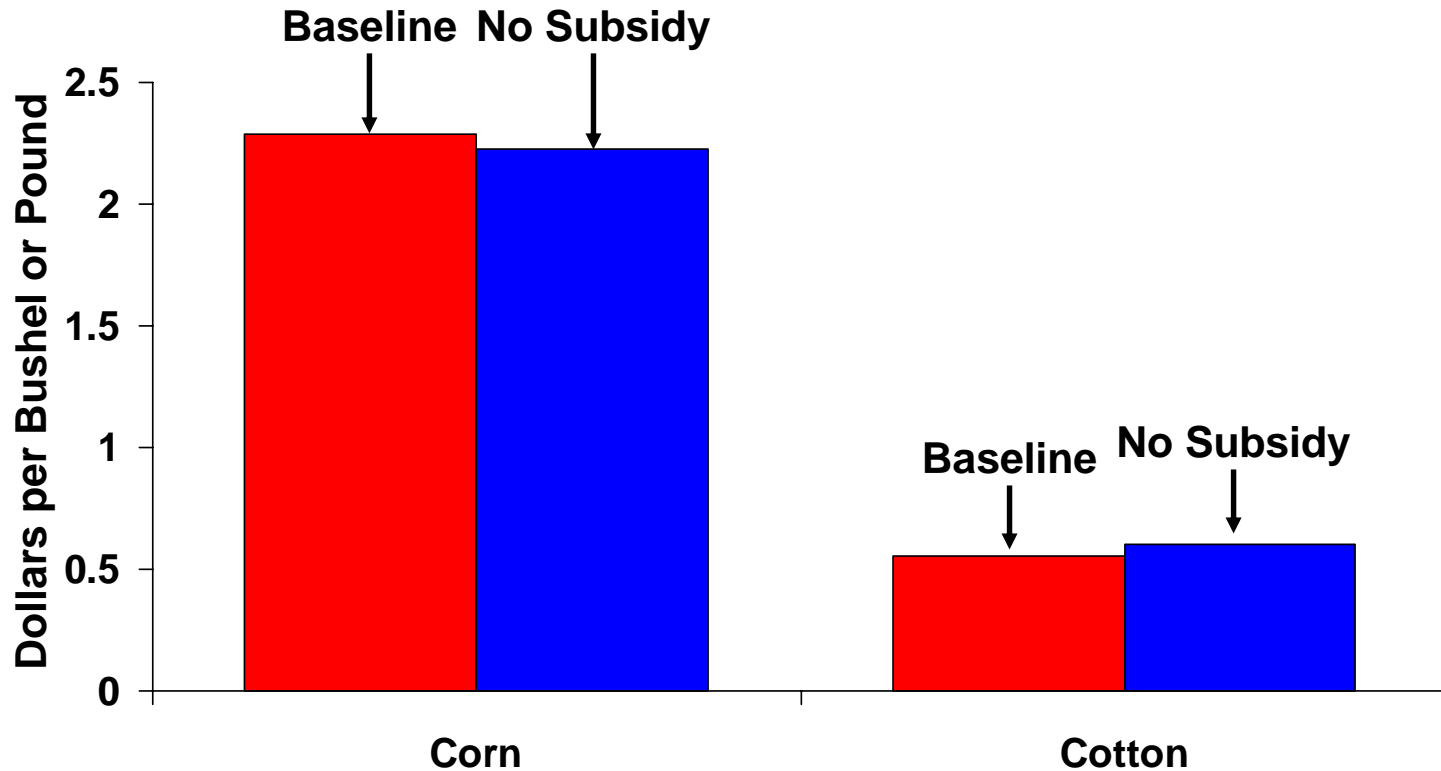
No Subsidies in Developed Countries: Worldwide Price Impacts, 2020



In 2020, worldwide

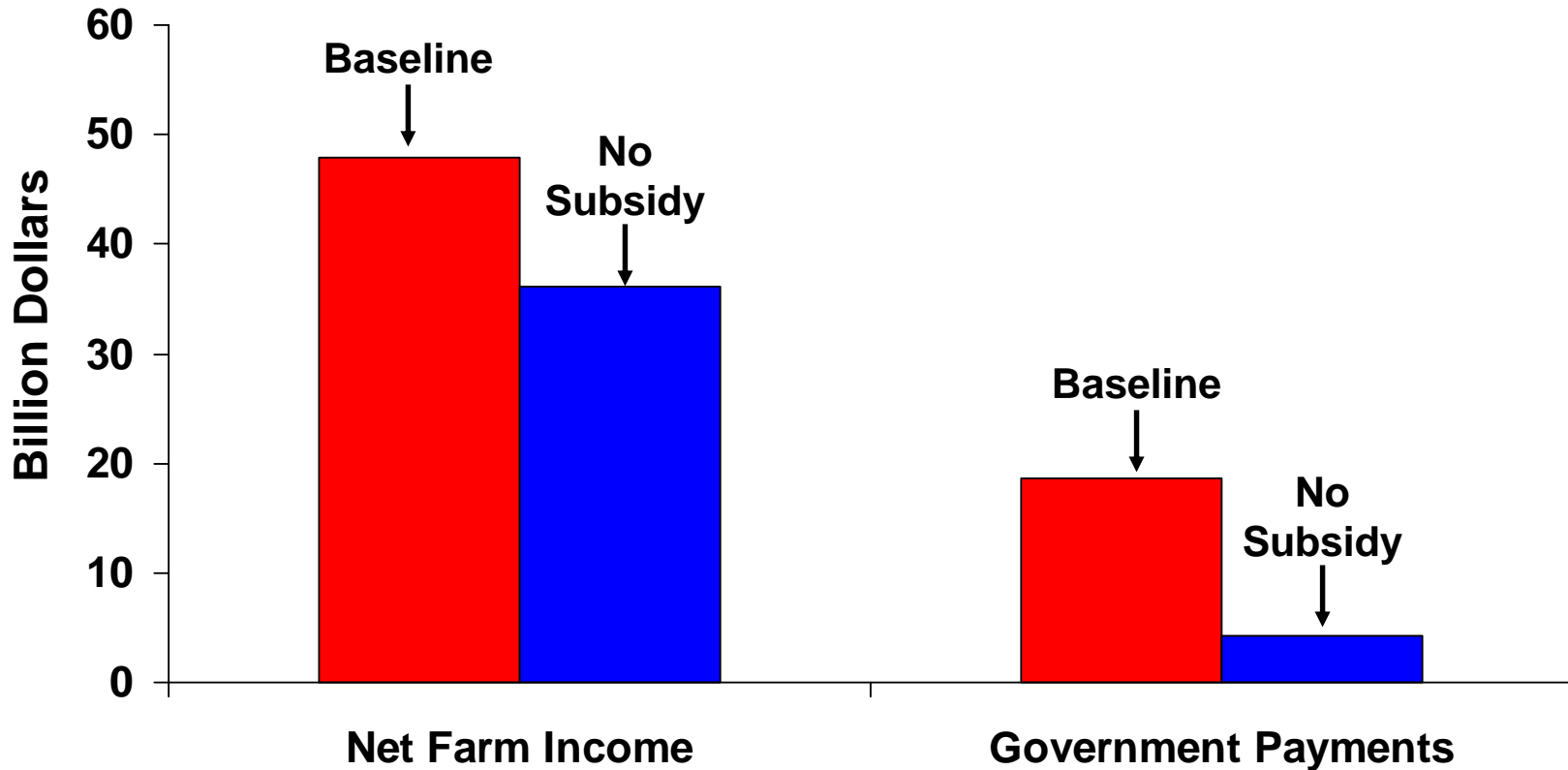
- **Corn price increases by less than 3% over baseline**
- **Wheat price increases by less than 1% over baseline**
- **Rice price increases by less than 2% over baseline**

No US Subsidies: US Price Impacts, 2011



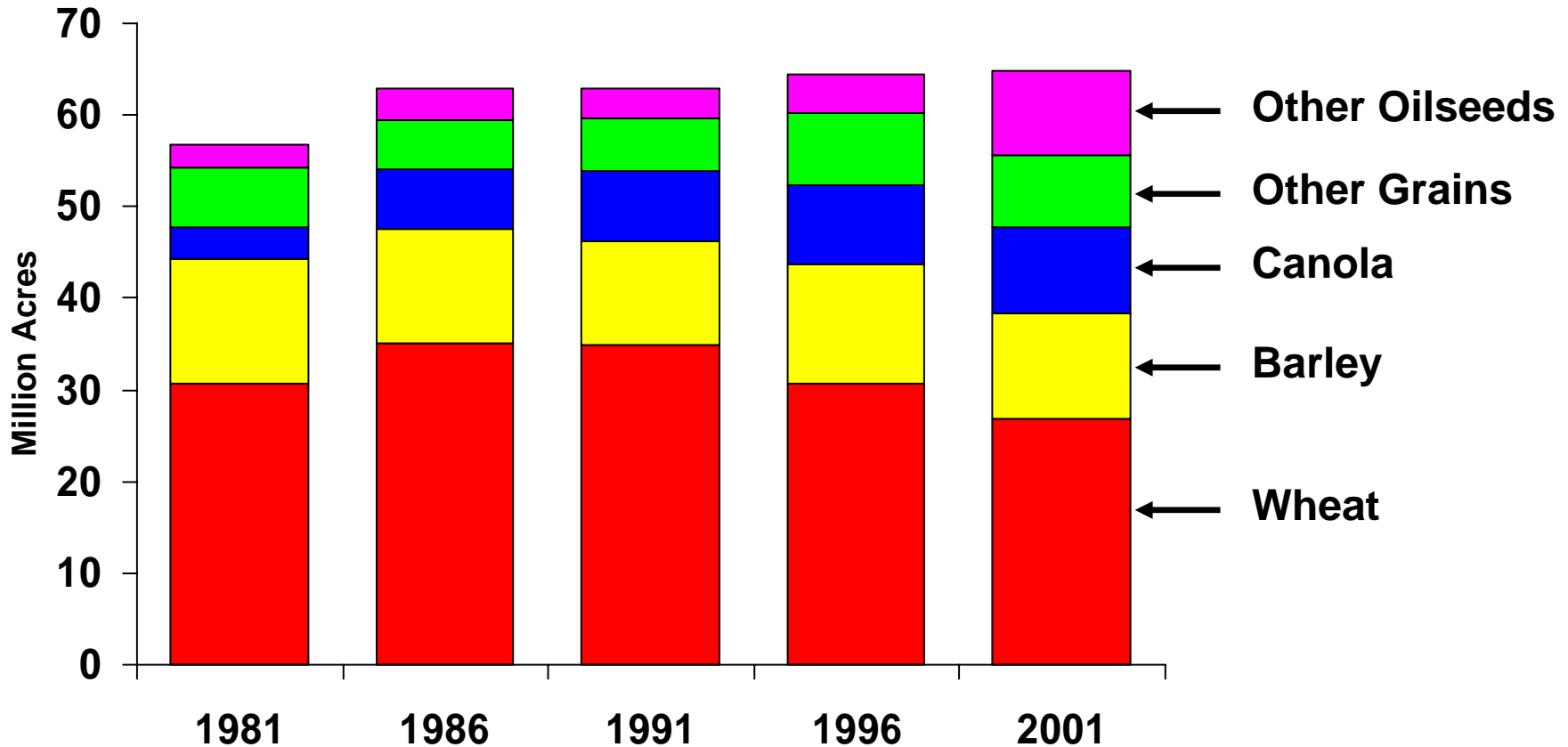
Corn prices decline slightly, while cotton prices edge upward

No US Subsidies: US Farm Income Impacts, 2011



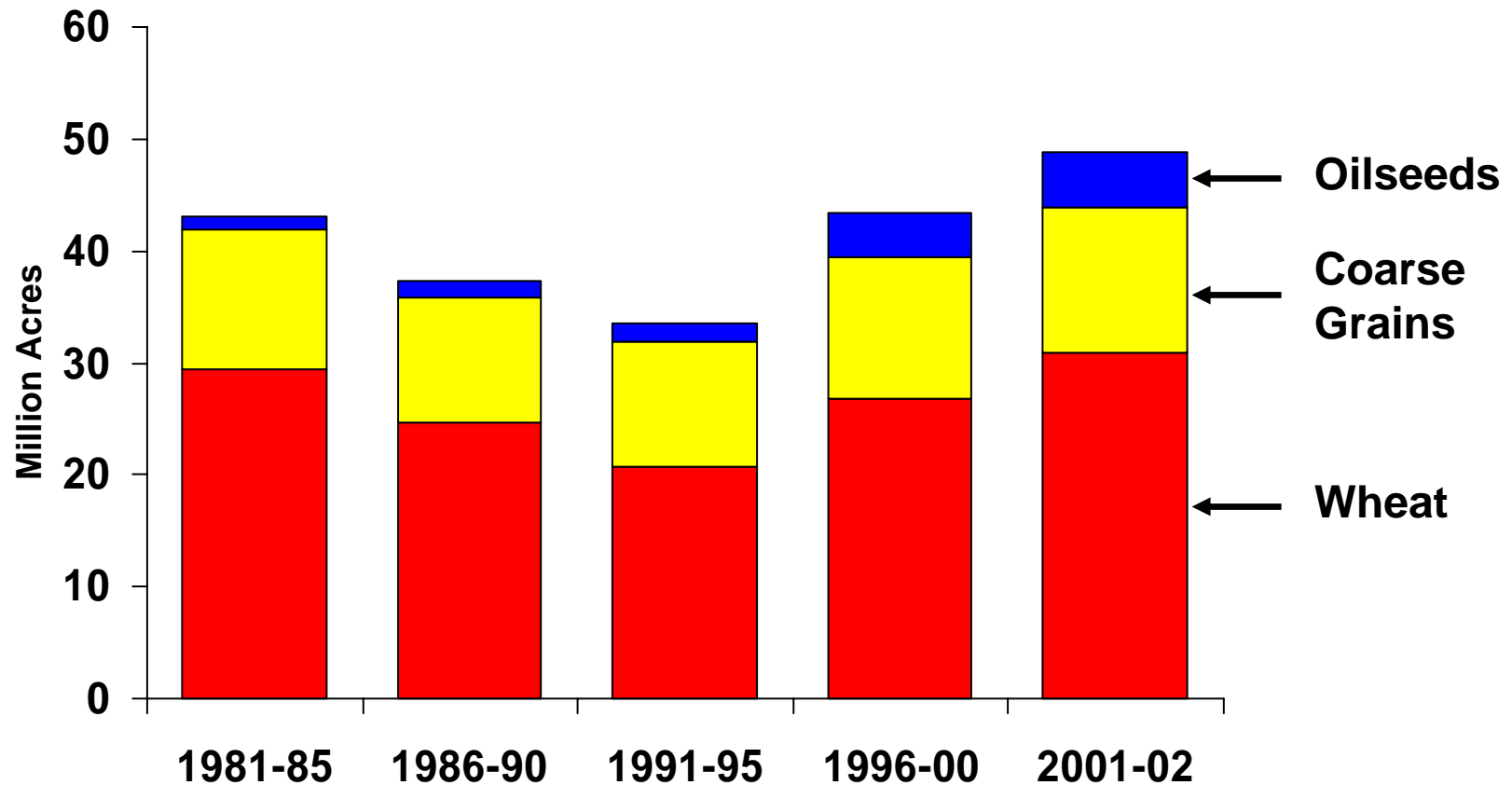
- Net Farm income drops by \$12 billion or 25% in 2011
- Government payments drop by \$14 billion or 77% in 2011

Canada: Farmland Planted



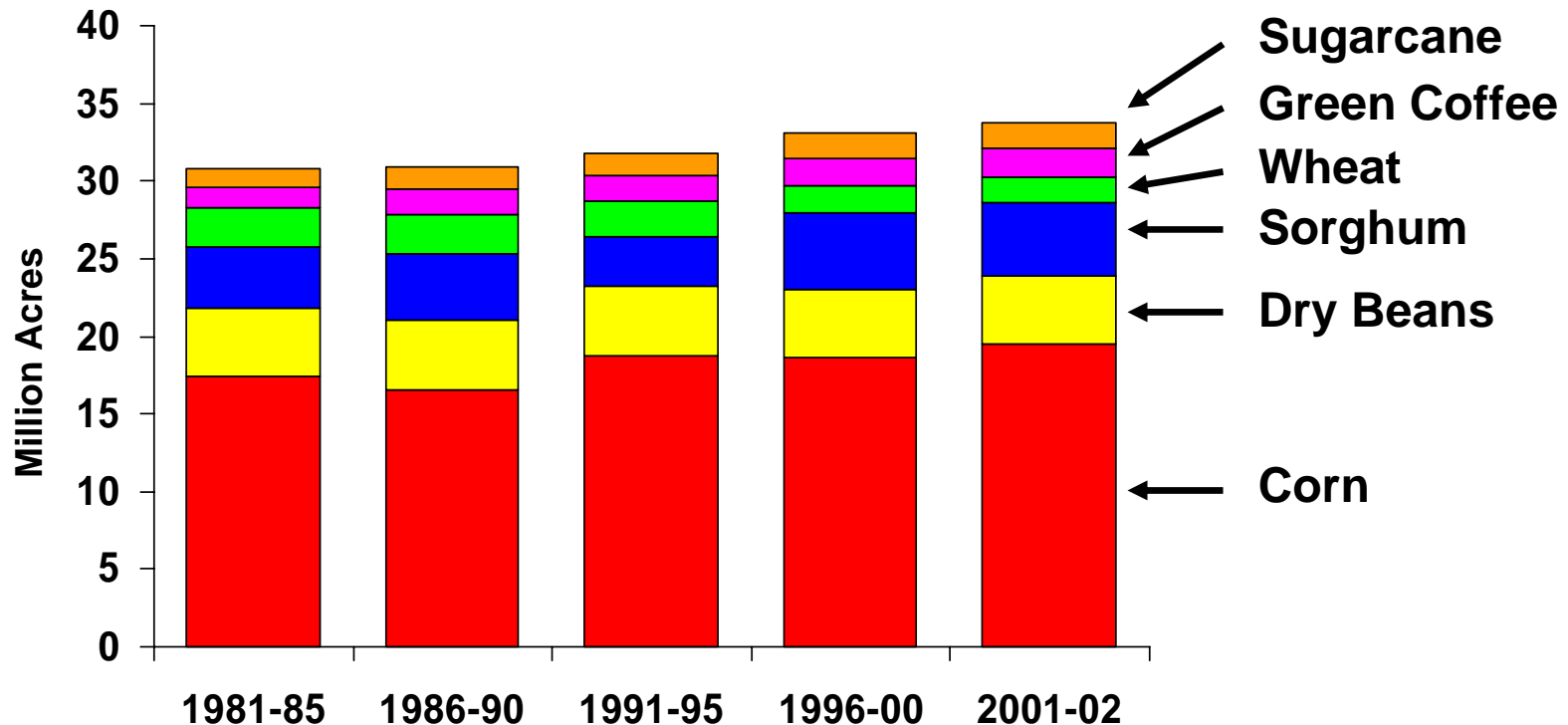
- Canada reduced subsidies in 1990s
- Eliminated grain transportation subsidies in 1995
- Crop mix changed, total acreage remained flat

Australia: Farmland Planted



- Australia dramatically reduced wool subsidies in 1991
- Acreage shifted from pasture to crops
- All the while, prices declined

Mexico: Farmland Planted

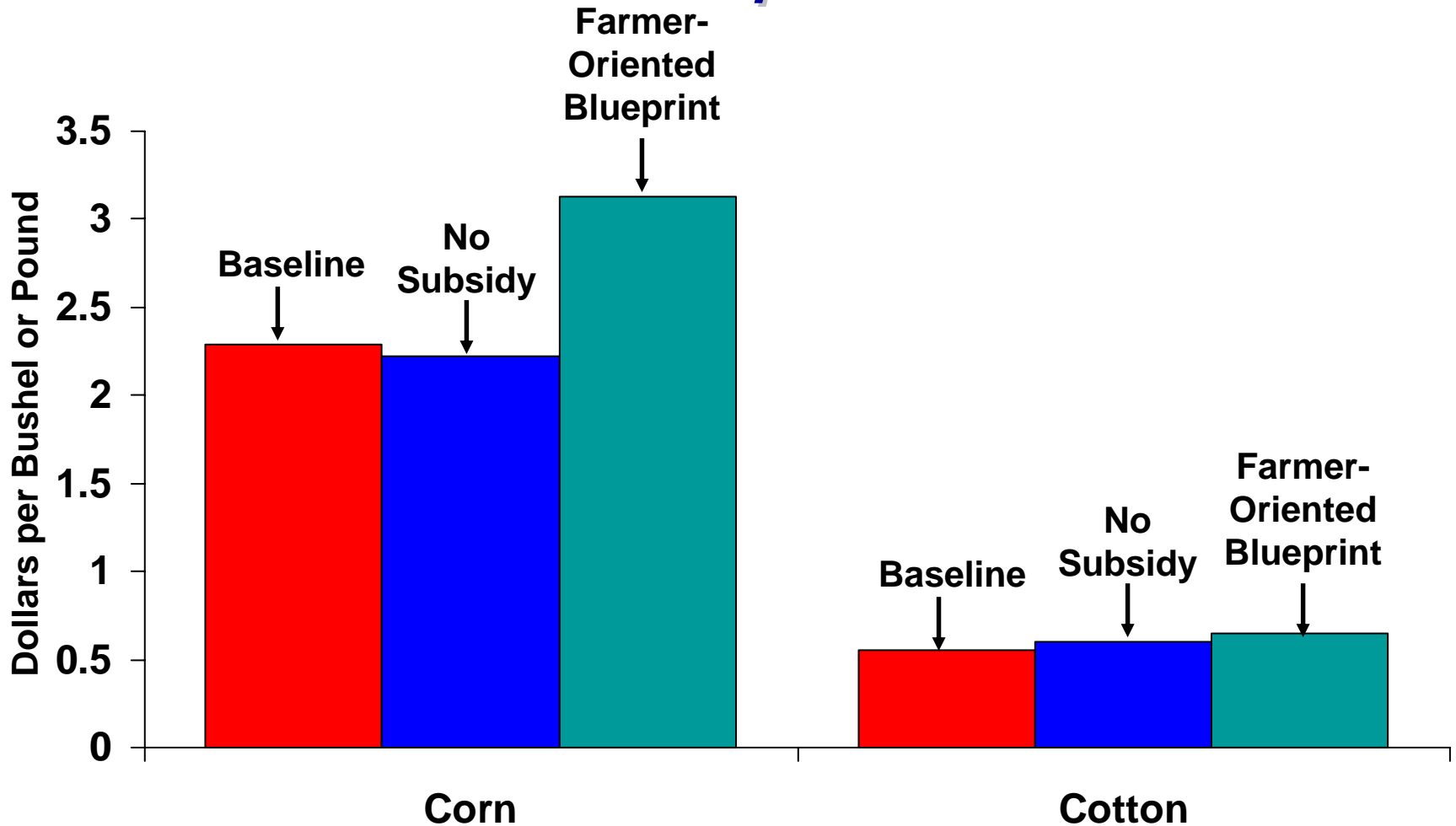


- Mexico eliminated or reduced supports in the 1990s
- Phased out import quotas under NAFTA
- Increased acreage of above selected major crops
- Total crop acreage also increases – 256 million acres in 1991, 265 million acres in 2001

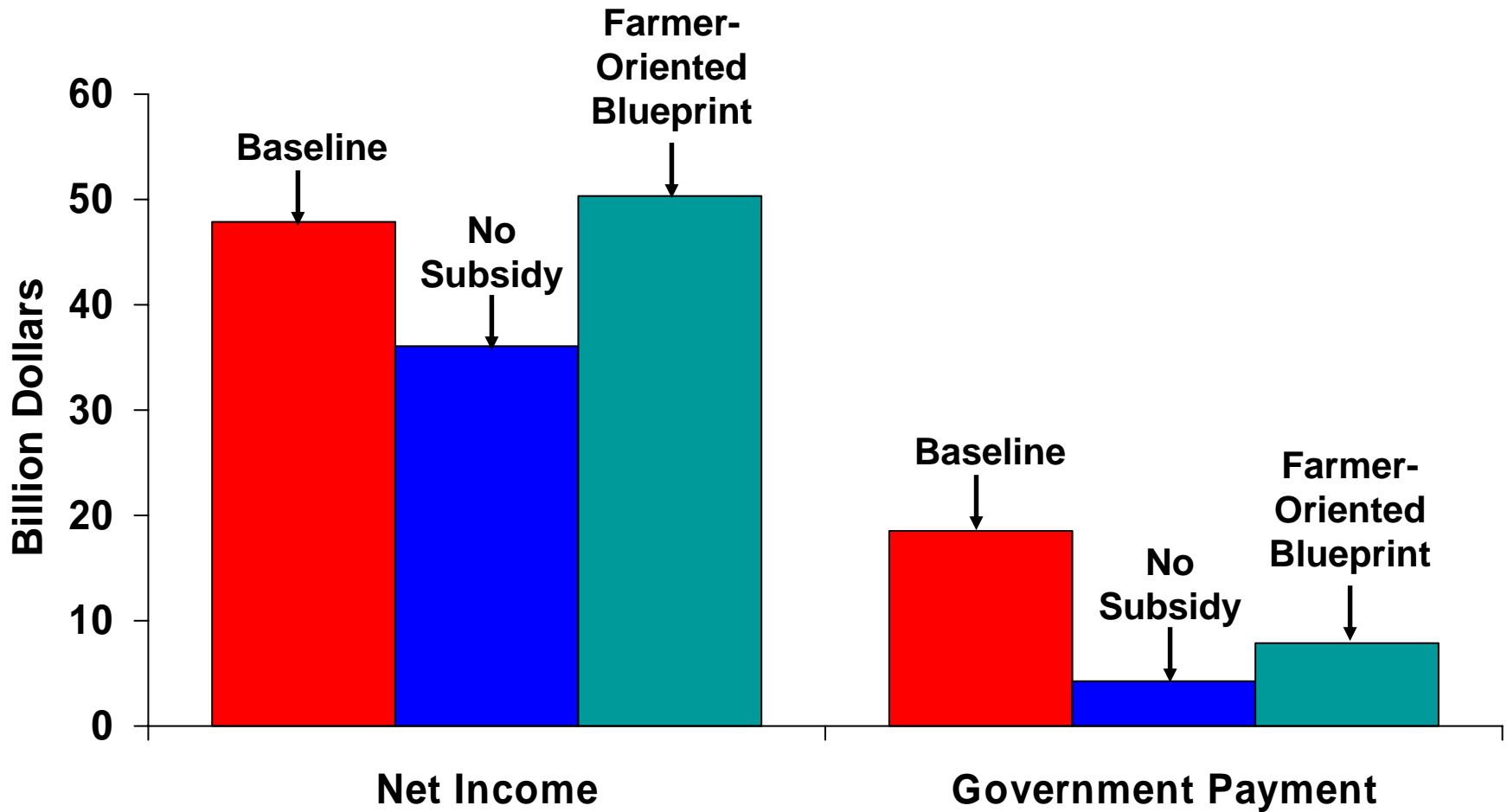
Farmer-Oriented Policy Blueprint

- **Elimination of Government Payments**
- **Stock Management**
- **Set-Aside / Short-Term Land Retirement Program**
- **Price Support Mechanism**

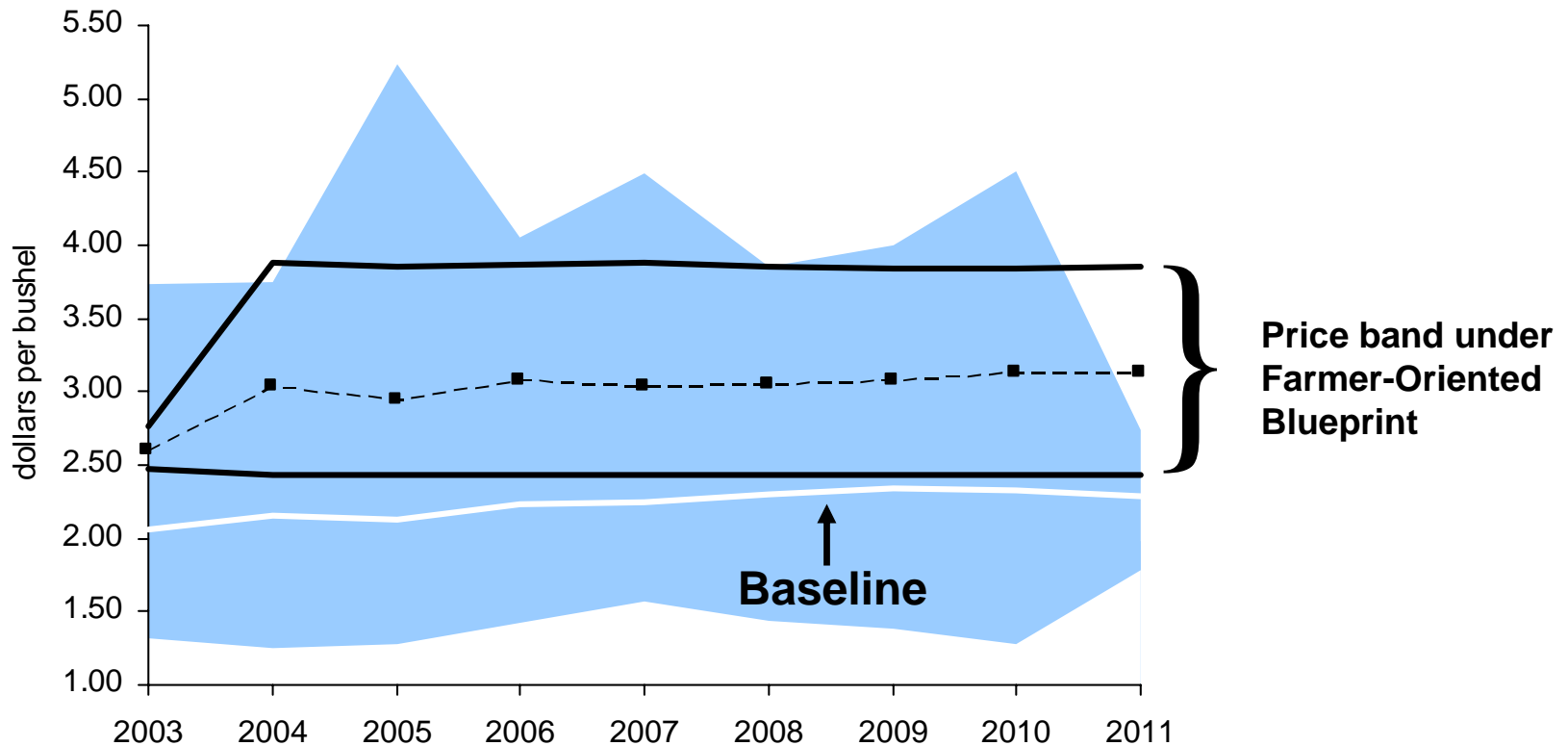
Farmer-Oriented Blueprint: US Price Impacts, 2011



Farmer-Oriented Blueprint: US Farm Income Impacts, 2011

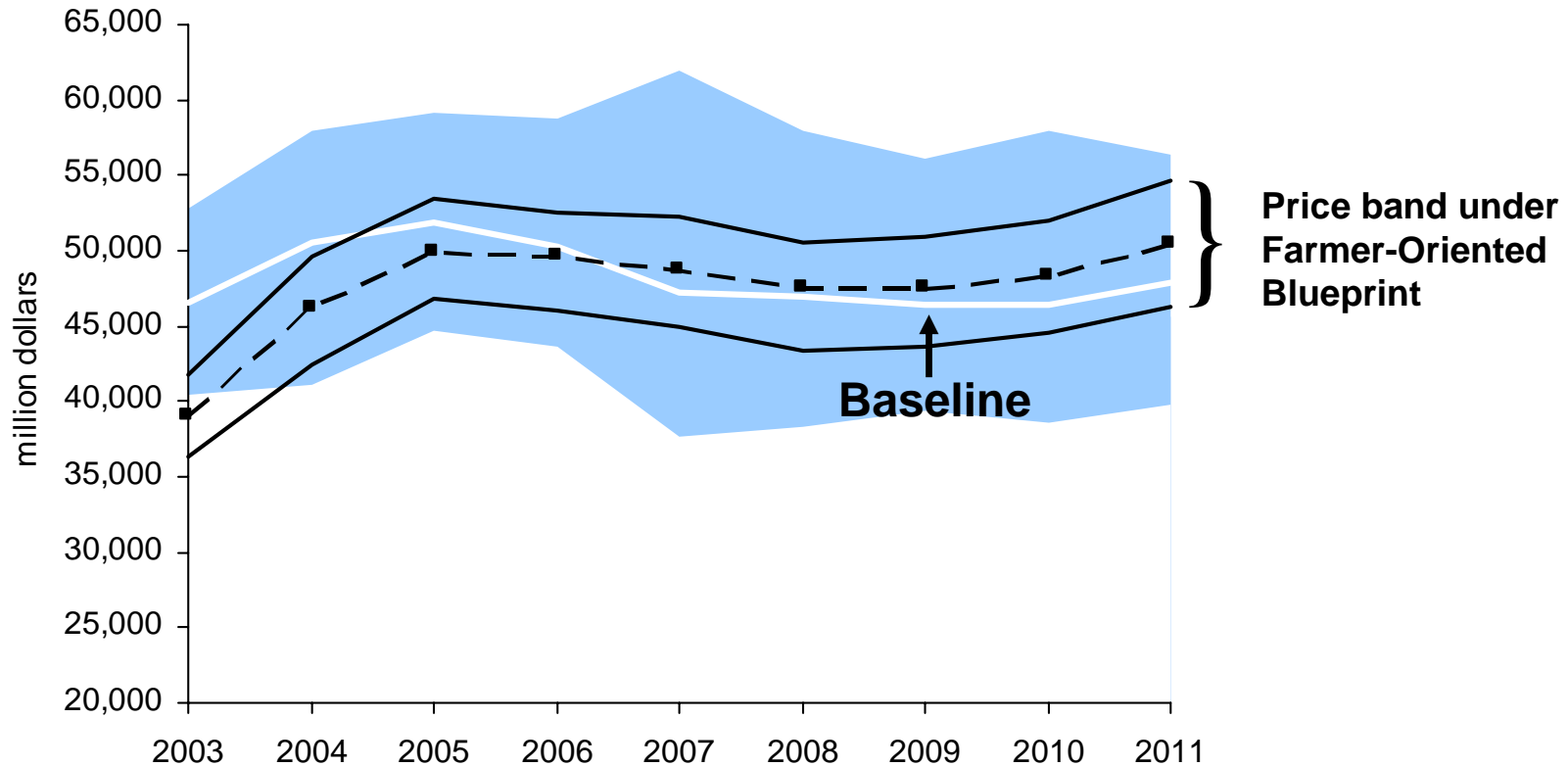


Farmer-Oriented Blueprint: US Corn Price Variability



Higher and more stable corn prices

Farmer-Oriented Blueprint: US Net Farm Income Variability



Slightly higher and reduced variability in Net Farm Income

This Is Only A Blueprint

Alternative means of managing crop production should be considered

- **Adding to existing CRP acreage**
- **Creating a shorter-term CRP-like program**
- **Energy crops – Could be a win-win-win**

Farm Policy in a Global Context

- Worldwide, farmers are in a race to the bottom in commodity prices
- Structure of agricultural marketplace pits farmers against one another
- Government cost of policies
- 800 million people lack adequate nutrition

Need for Global Balancing of Supply and Demand in the Future

- Significant additional productive capacity is being brought online in several countries around the world
- Technological advances now increase yields worldwide
- May be politically impossible for a nation to do unilaterally

Conclusions

- **Low price policies benefit agribusinesses, integrated livestock producers, import customers**
- **US is exporting poverty because it no longer manages supply**
- **US farmers would produce nearly the same quantity of aggregate crop output over a wide range of subsidies**
- **Trade liberalization, by itself, is not a solution**
- **A farmer-oriented policy is possible**
- **Changing US policy alone is not enough, international cooperation is needed**

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