



Rethinking US Agricultural Policy:

Changing Course to
Secure Farmer
Livelihoods Worldwide

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What's the Situation?

- **Crop prices have plummeted in recent years affecting farmers worldwide**
- **US is annually paying \$20 billion in cash subsidies to farmers; Total for developed countries worldwide is \$300 billion**
- **Integrated livestock, processors, importers primarily benefit from low crop prices**
- **Farmers in other countries accuse US of dumping crops onto the international market at below the cost of production**
- **Developing countries can't provide cash subsidies to offset low crop prices.**

Questions

- **Were these policy-caused problems?**
To a large extent, yes.
- **If so, why didn't the policies work?**
Markets and policies work differently in agriculture.
- **What needs to be considered when evaluating alternative policies?** Must consider the nature of food and agriculture.

*Historically—there have been **Two** Major Components of Farm\Commodity Policy*

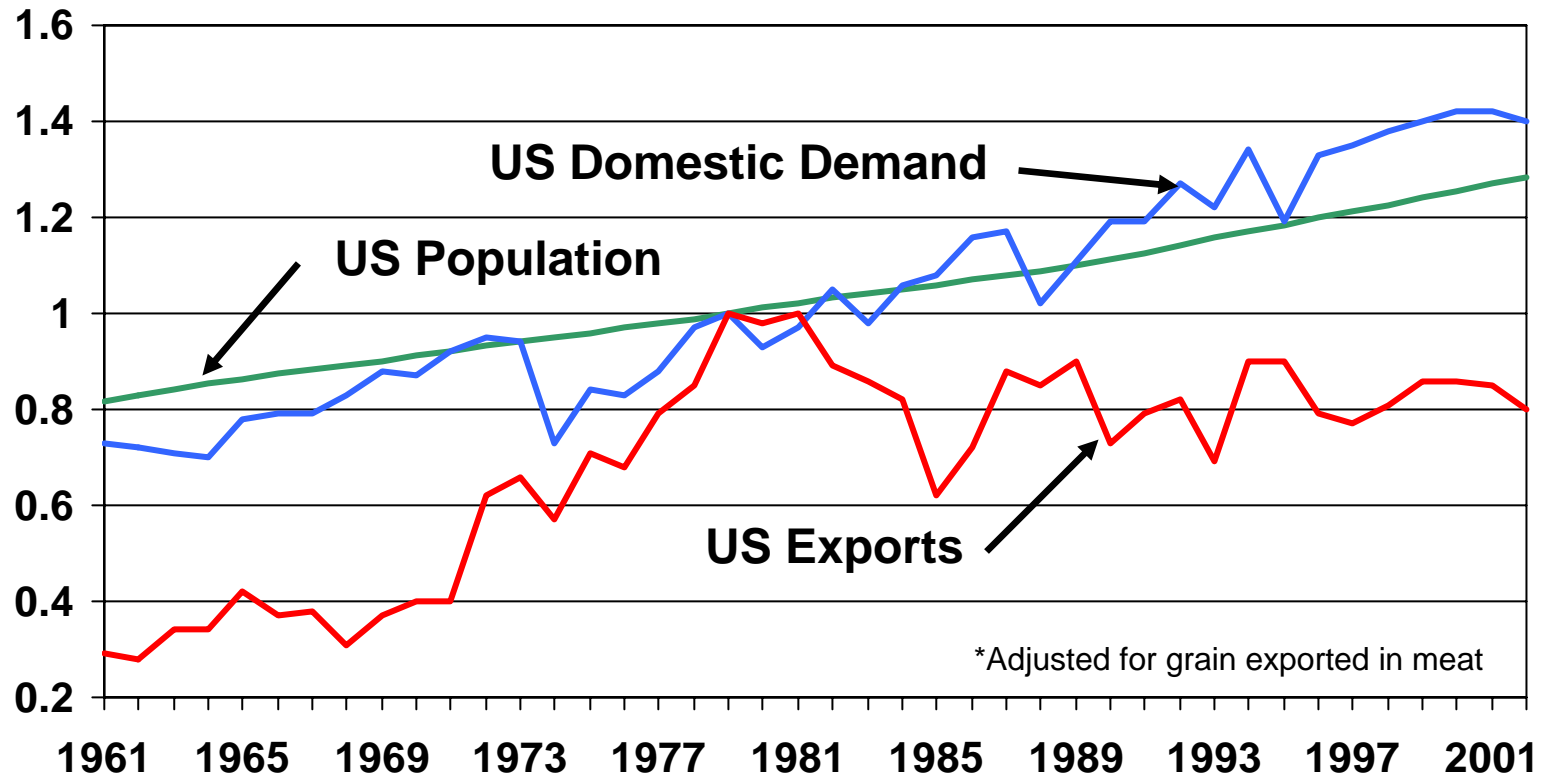
- **Policy of Plenty:** Ongoing public support to expand agricultural productive capacity through research, extension and other means
- **Policy to Manage Plenty:** Mechanisms to manage productive capacity and to compensate farmers for consumers' accrued benefits of productivity gains

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 view culminated in the 1996 FAIR Act:**
 - **Elimination of supply control instrument: set aside program**
 - **Replaced “price floors” with government payments**

Exports Did Not Deliver

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

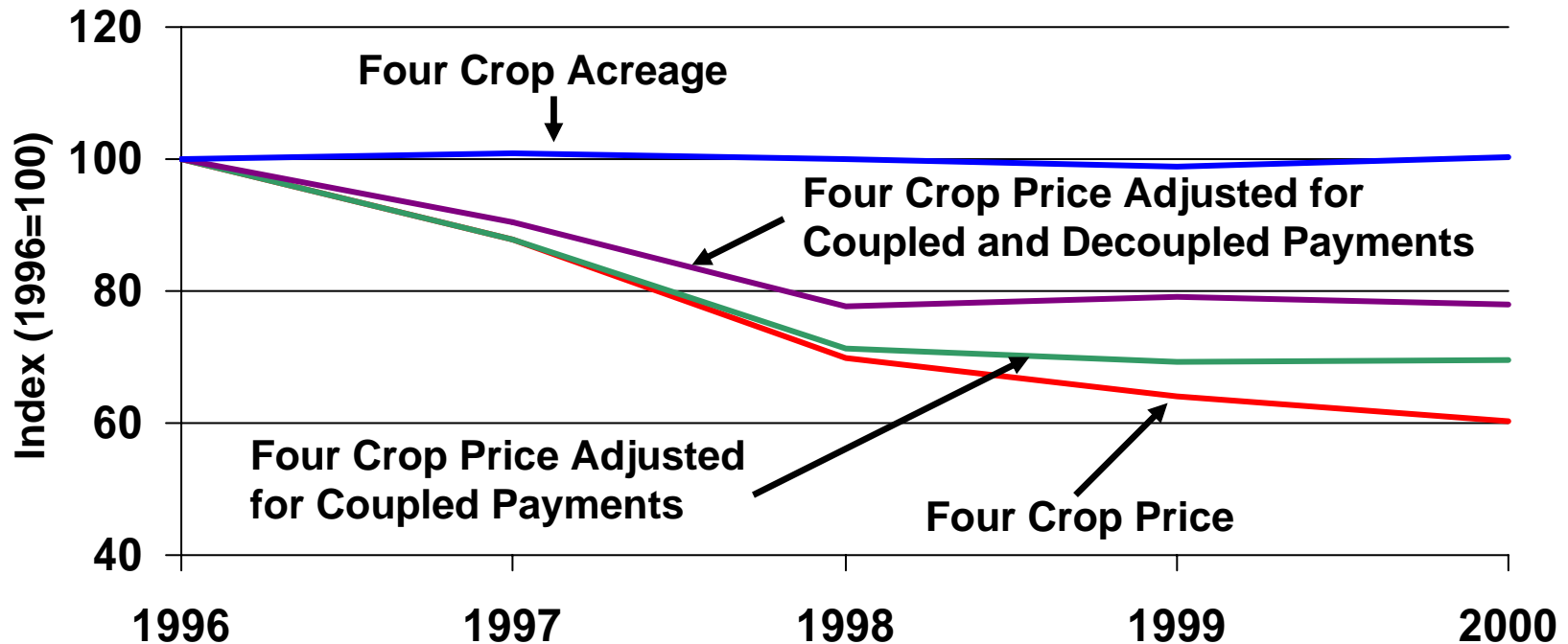


- Exports down to flat for last two decades
- Domestic demand increases steadily
- Since 1979, exports have NOT been the driving force in US crop markets

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

- 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**

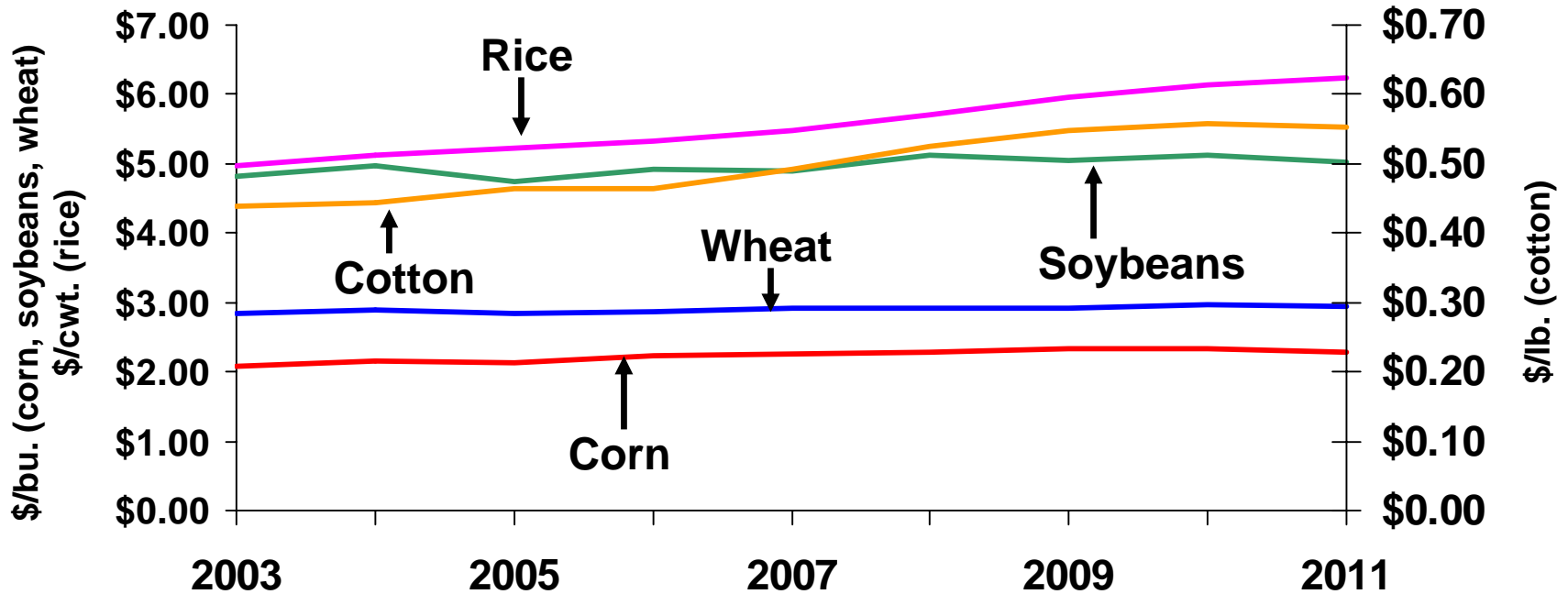
Possible Directions

- *Stay the Course*
- *Intensify the Free Market Prescription*
 - **Eliminate trade barriers and government distortions in developed countries only**
 - **Producers and consumers would be expected to properly adjust to market signals**
- *A More Managed Prescription*
 - **Recognizes unique characteristics of agriculture**
 - **Recognize farmers' actual behavior**

Stay the Course

- **More of the same**
- **Can expect:**
 - **Continued low prices: \$2 corn; \$3 wheat \$5 soybeans**
 - **Continued scheduled large government payments in US and developed world**
 - **Continued accusations of dumping**
 - **Continued benefits to livestock, importers and agribusinesses**

Stay the Course

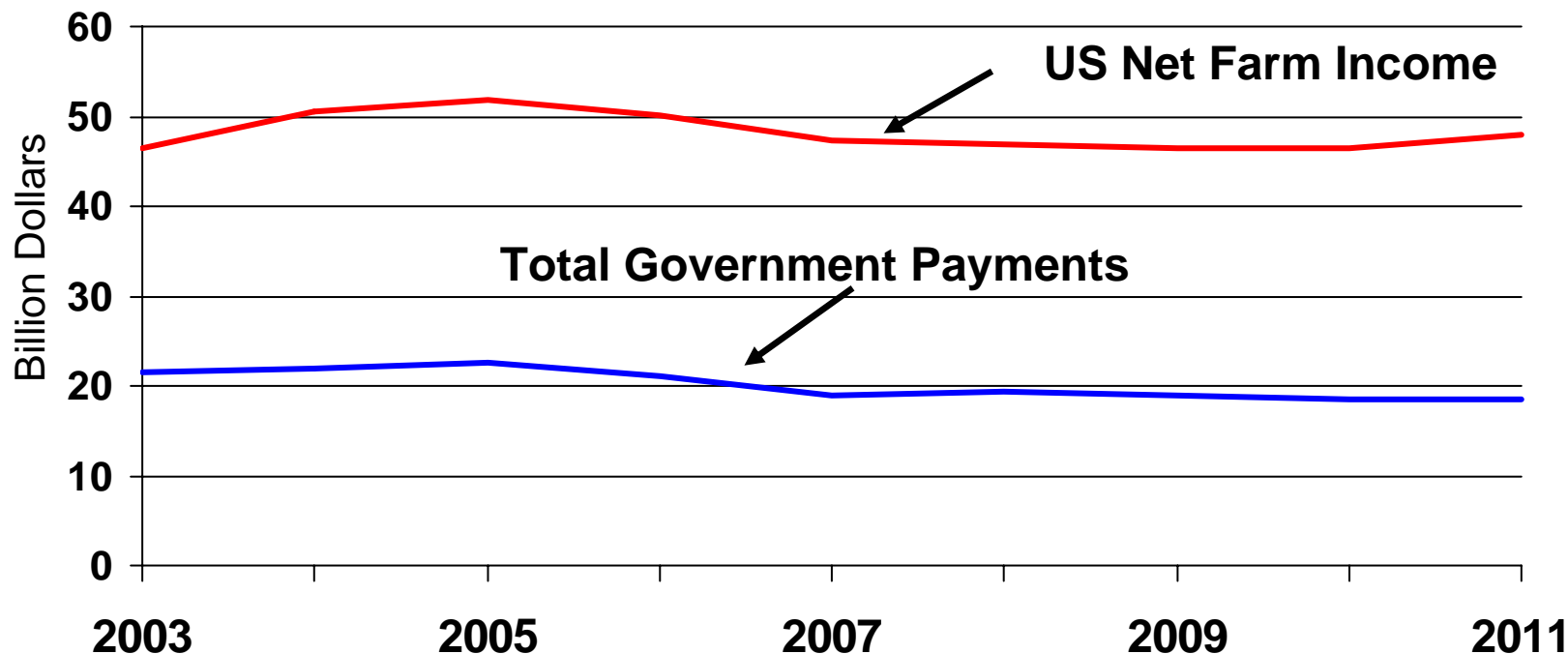


Projected US Prices of Five Major Crops Under Current Farm Policy

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

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Stay the Course

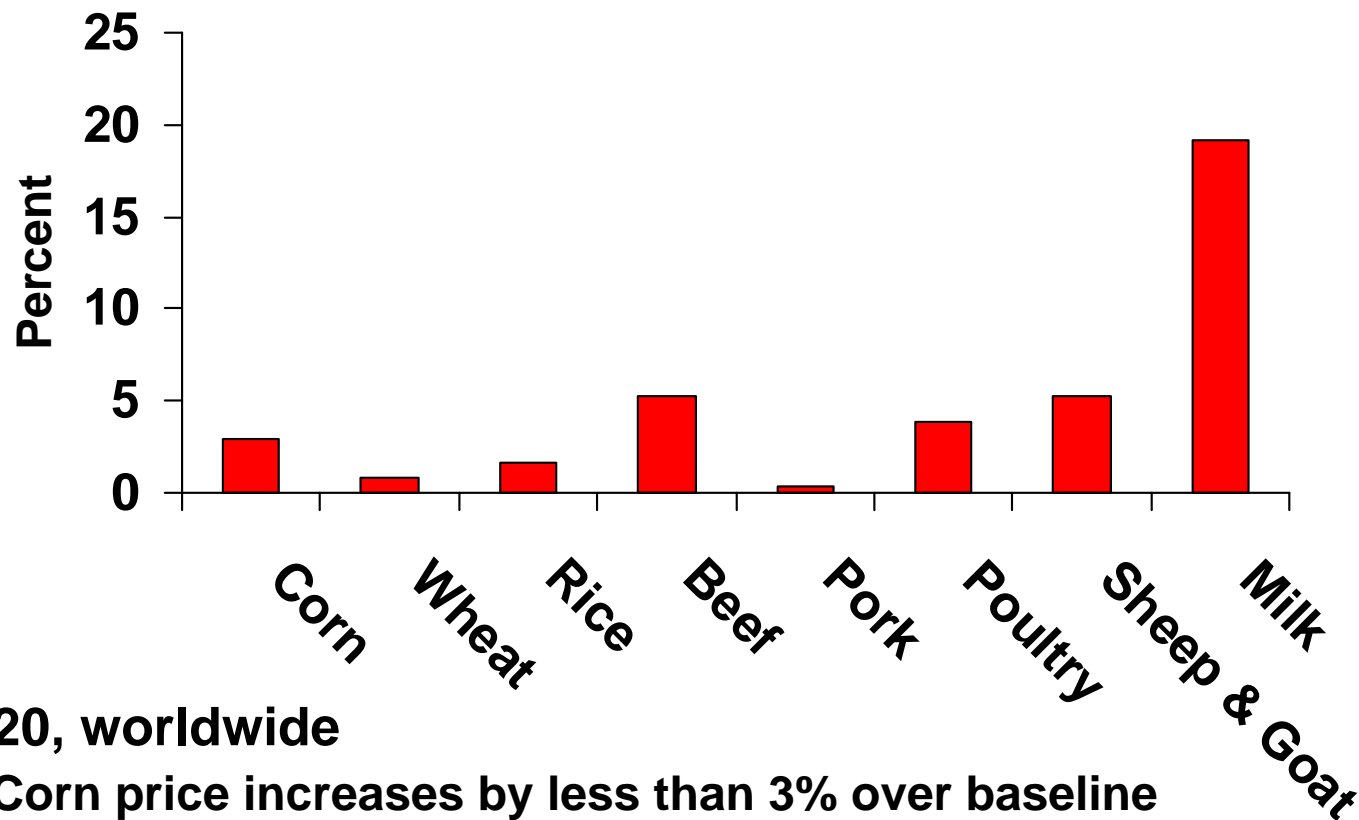


Projected US Net Farm Income and Government Payments

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

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Intensify Free Markets in Developed Countries



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**

IFPRI IMPACT

A More “Managed”

Alternative means of managing crop production could be considered

- **Adding to existing CRP acreage**
- **Creating a shorter-term CRP-like program**
- **Reinstating:**
 - **Annual Set-asides**
 - **Inventory/price support programs**
- **Energy crops – Could be a win-win-win**

Final Point

We May Need to Balance Supply and Demand Globally 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**

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