

*Farm Policy for Farmers Around the
Globe: Are Subsidies the cause or Result of
Low Crop Prices?*

Daryll E. Ray

**University of Tennessee
Agricultural Policy Analysis Center**

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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” have 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**

Traditional Policy Levers

- **Government Stock Management**
 - Loan rate/support price to set a floor price.
 - Limit price increases by Gov't & FOR released stocks
- **Restrict supply**
 - Short-term set-aside
 - Long-term Conservation Reserve Programs
- **Expand demand**
 - Domestic
 - Foreign
- **Government payments**
 - Coupled to production
 - Decoupled

Implications of Current Farm Program

- **No price floor** – Since LDPs effectively replaced non-recourse loans
- **No emergency reserves**—Since no CCC or FOR buffer stock policy
- **No price ceiling**—Since Incomes are supported, not prices
- **Primary beneficiaries:**
 - Livestock producers, importers and other users are subsidized
 - Agribusiness input suppliers and output processors are subsidized

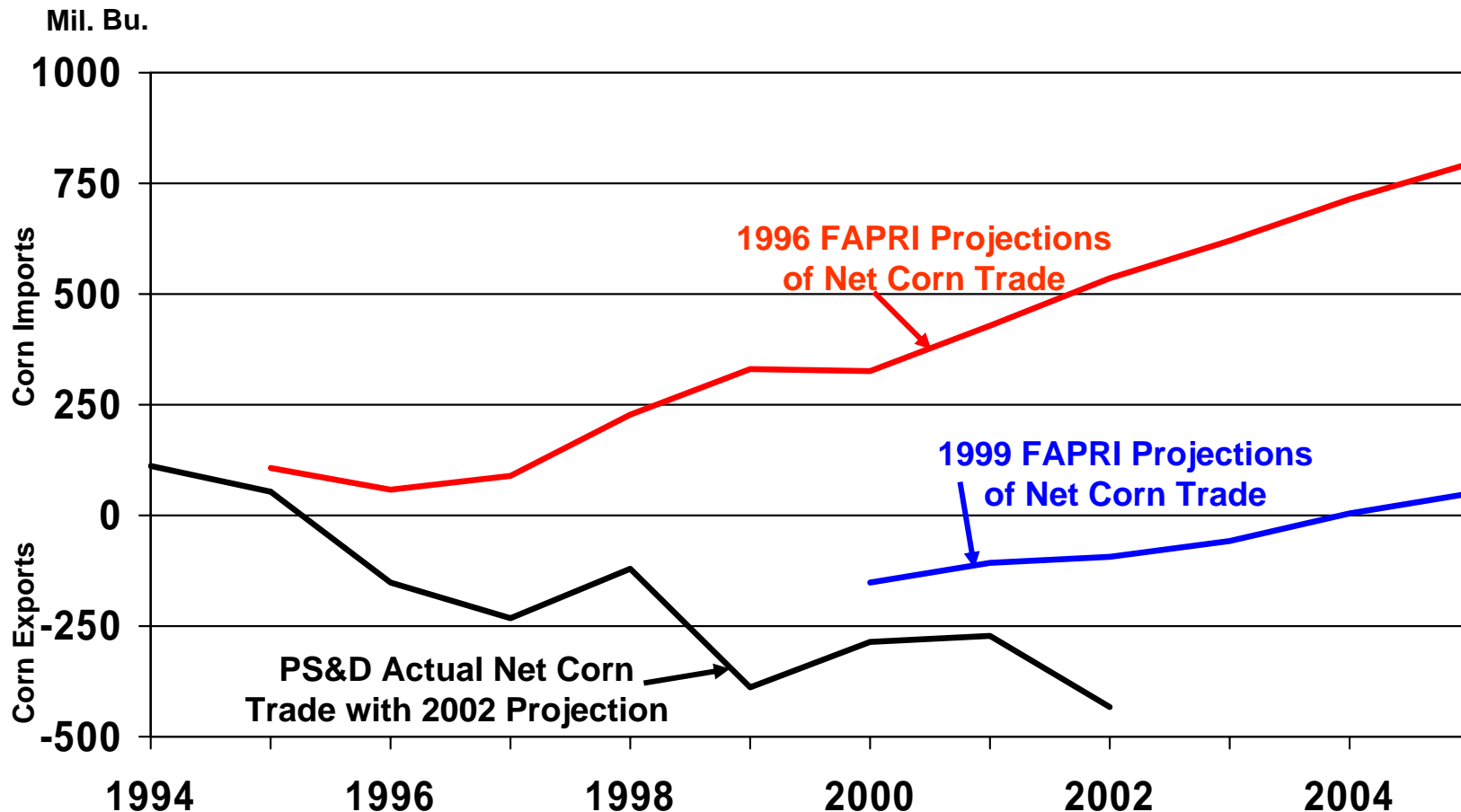
Not crop farmers (land owners?)

Expectations vs. Experience

Expectation: Rapid growth in China imports, especially corn

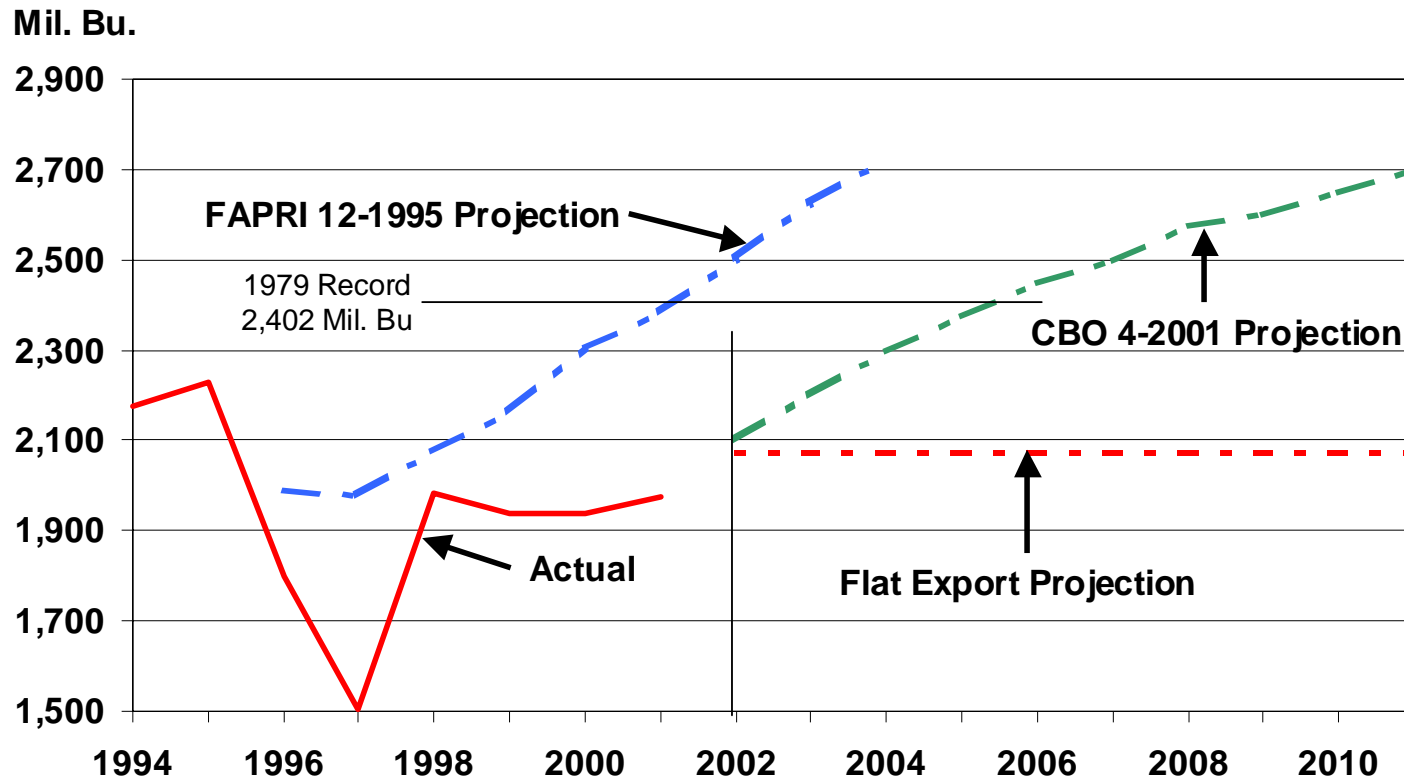
China Net Corn Trade

Comparison between 1996 FAPRI projections and PS&D actual with 2001-2005 using 1999 FAPRI projections



U.S. Corn Exports

Comparison between 1995 FAPRI projection, 2001 CBO projection, 1994-2001 PS&D actual, and 2002-2011 APAC flat export projection

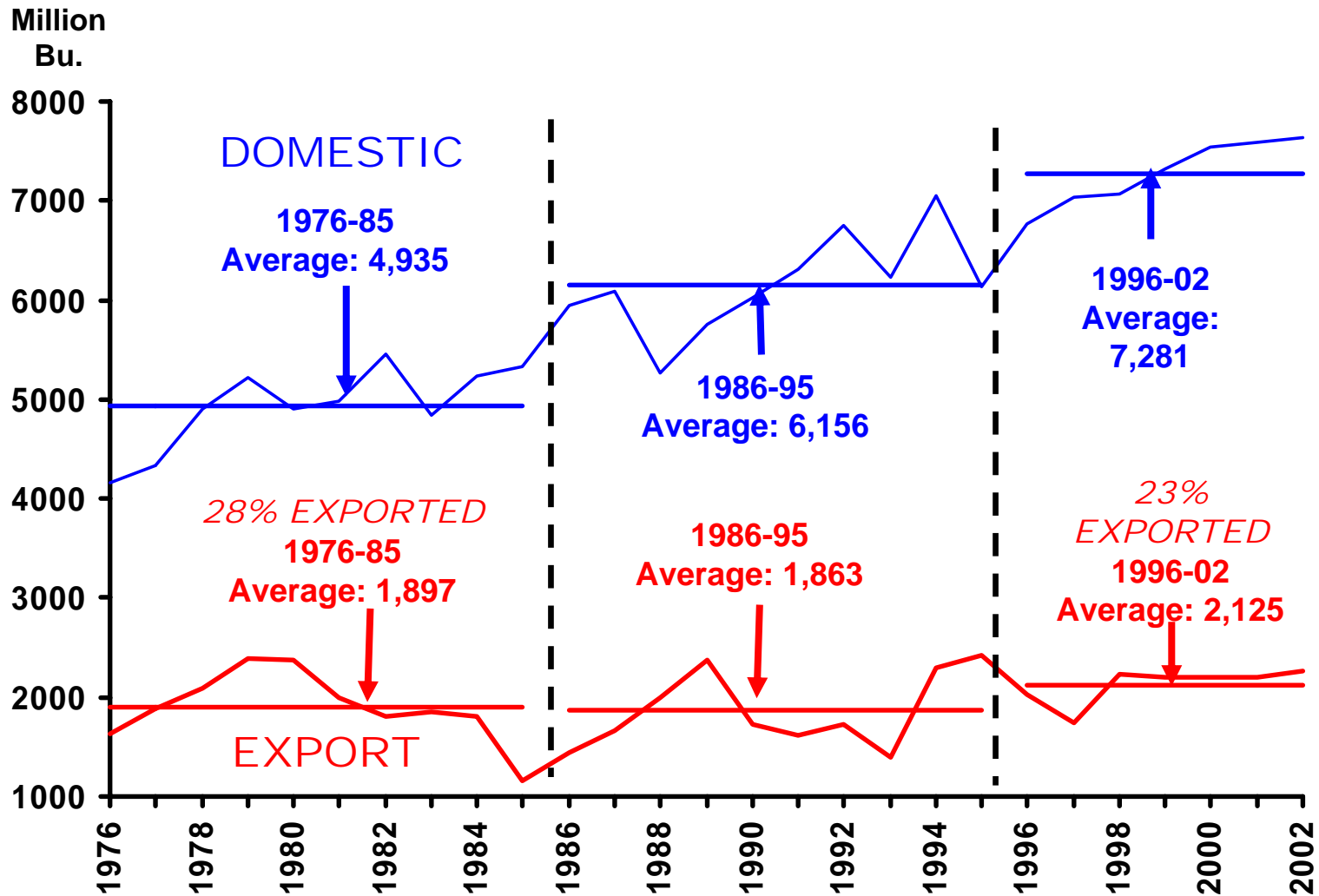


Expectations vs. Experience

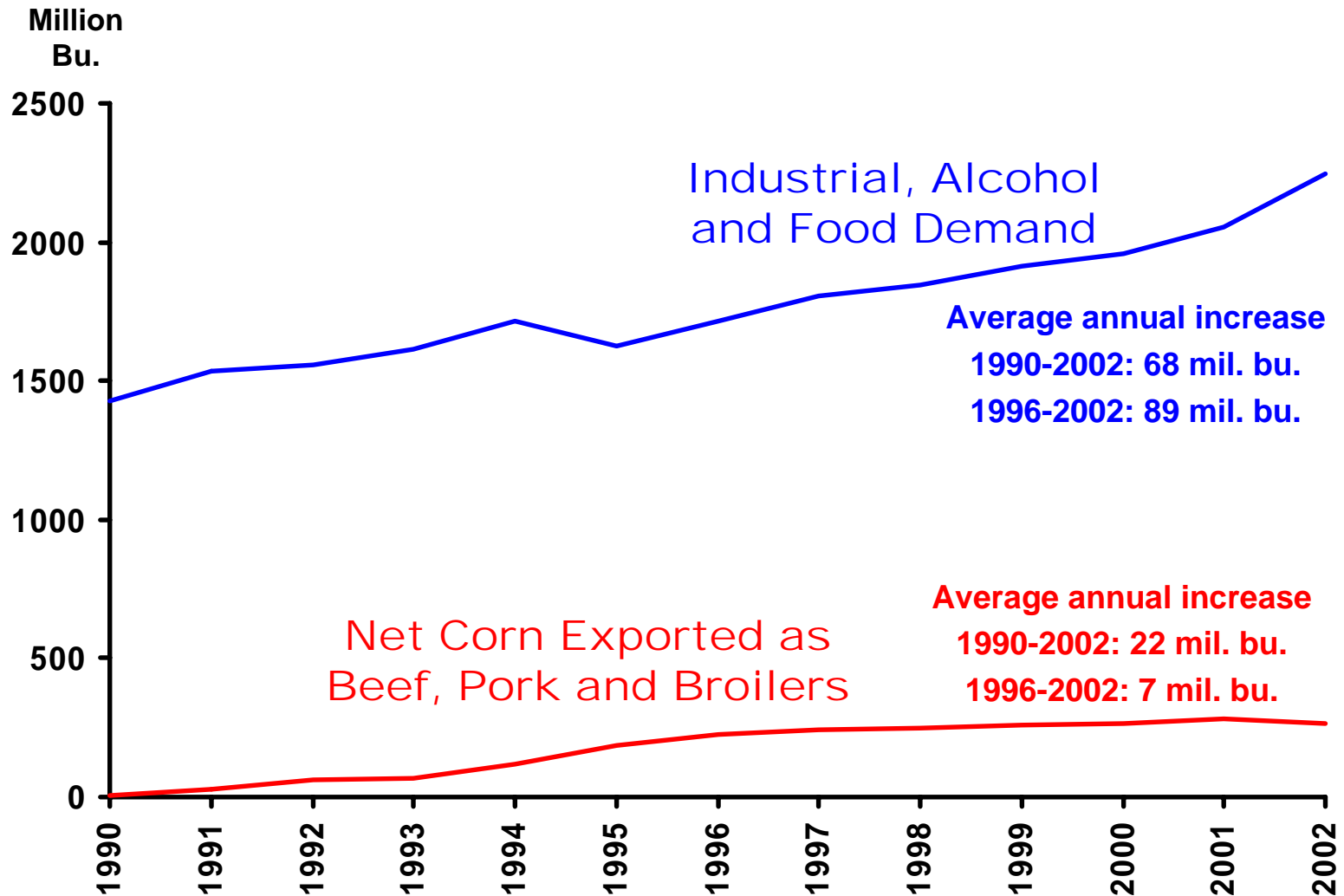
Expectation: Export lead farm prosperity just around the corner (been saying this for over 25 years)

U.S. Net Domestic and Net Export Demand

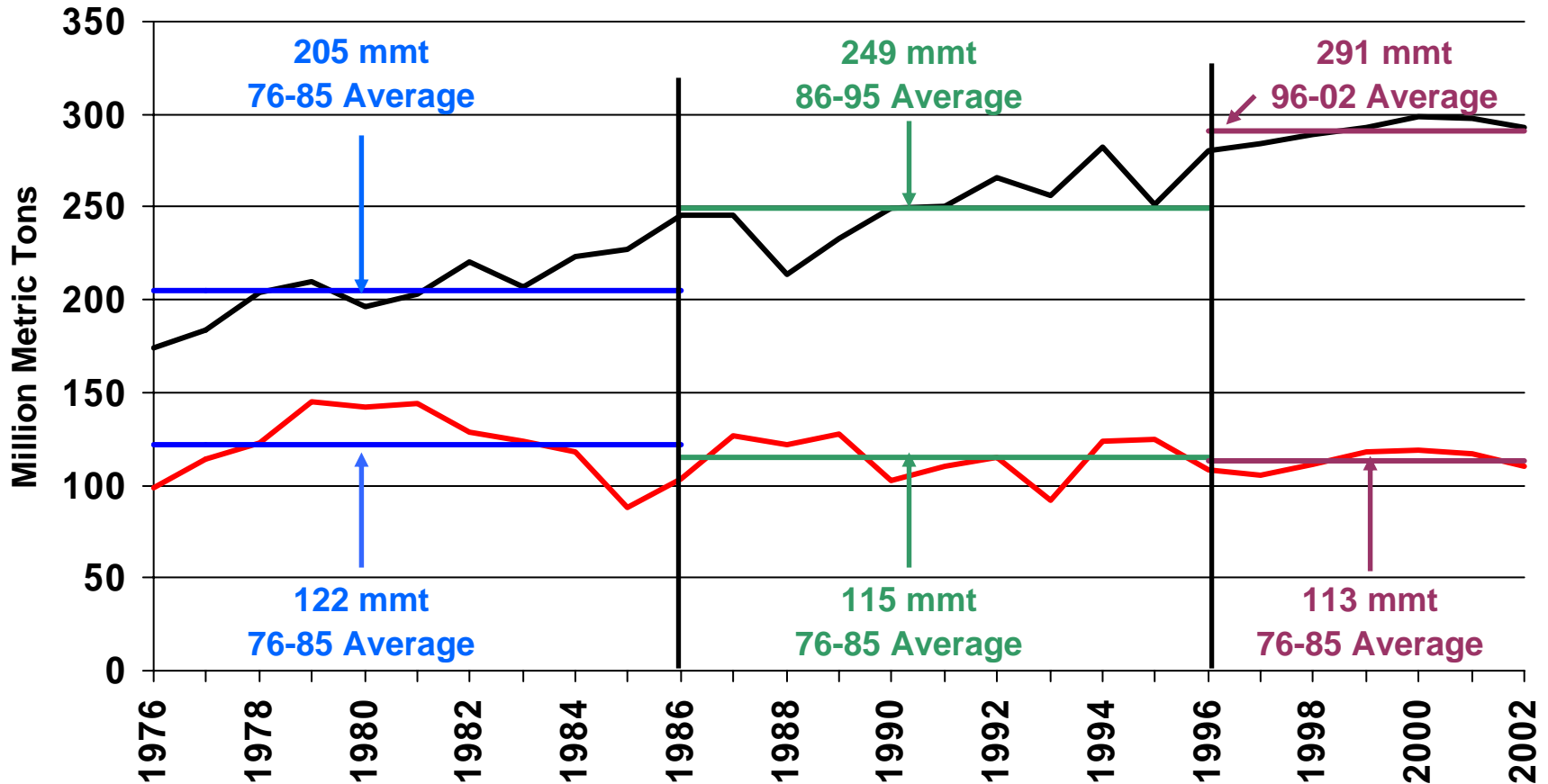
Adjusted for corn fed to import and export beef, pork, and broilers



U.S. Net Corn Exported as Meat and Domestic Industrial, Alcohol and Food Demand



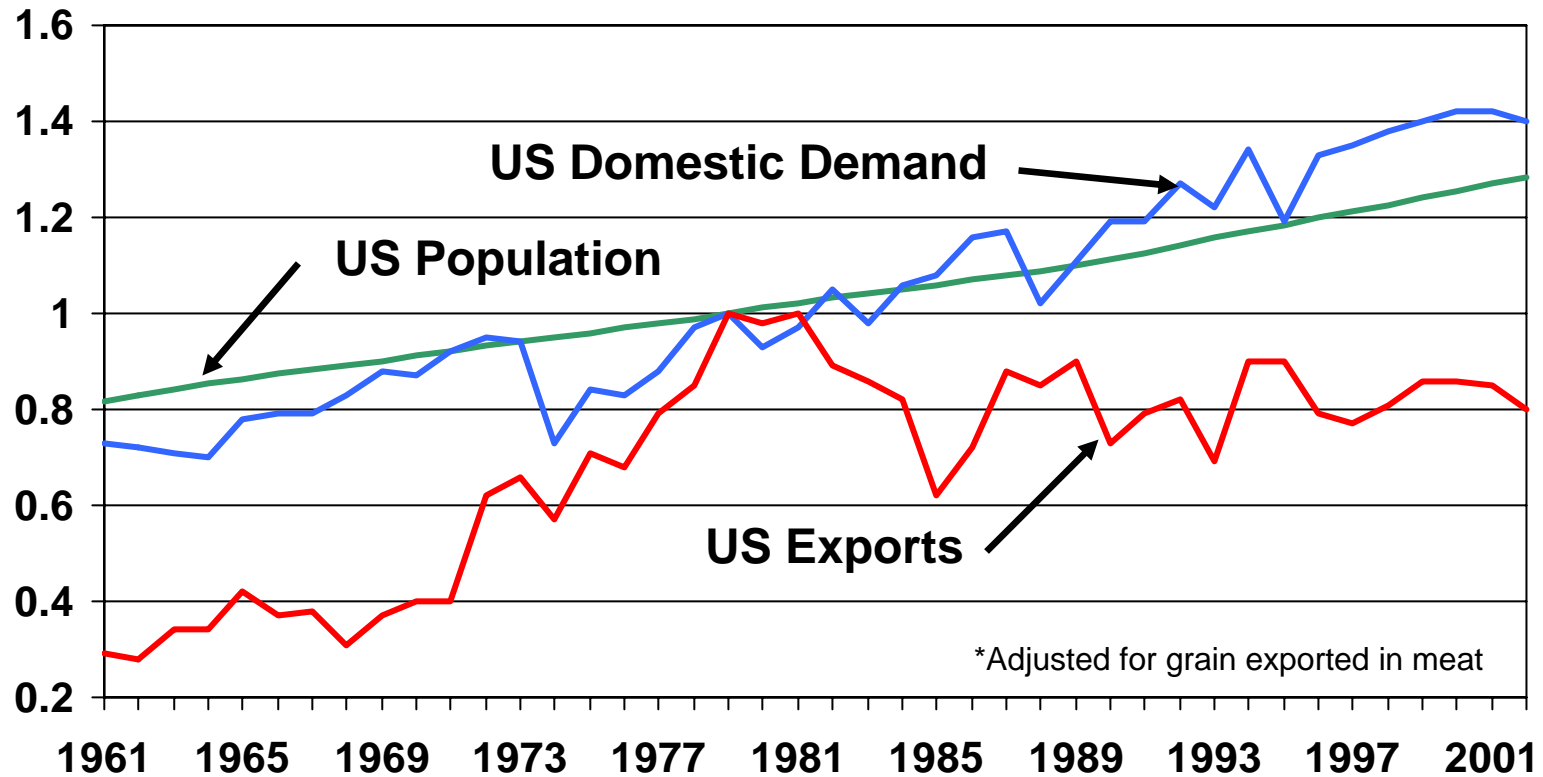
Net Export and Domestic Demand for 8 Major Crops



Guess which is exports and which is domestic demand

Exports Did Not Deliver

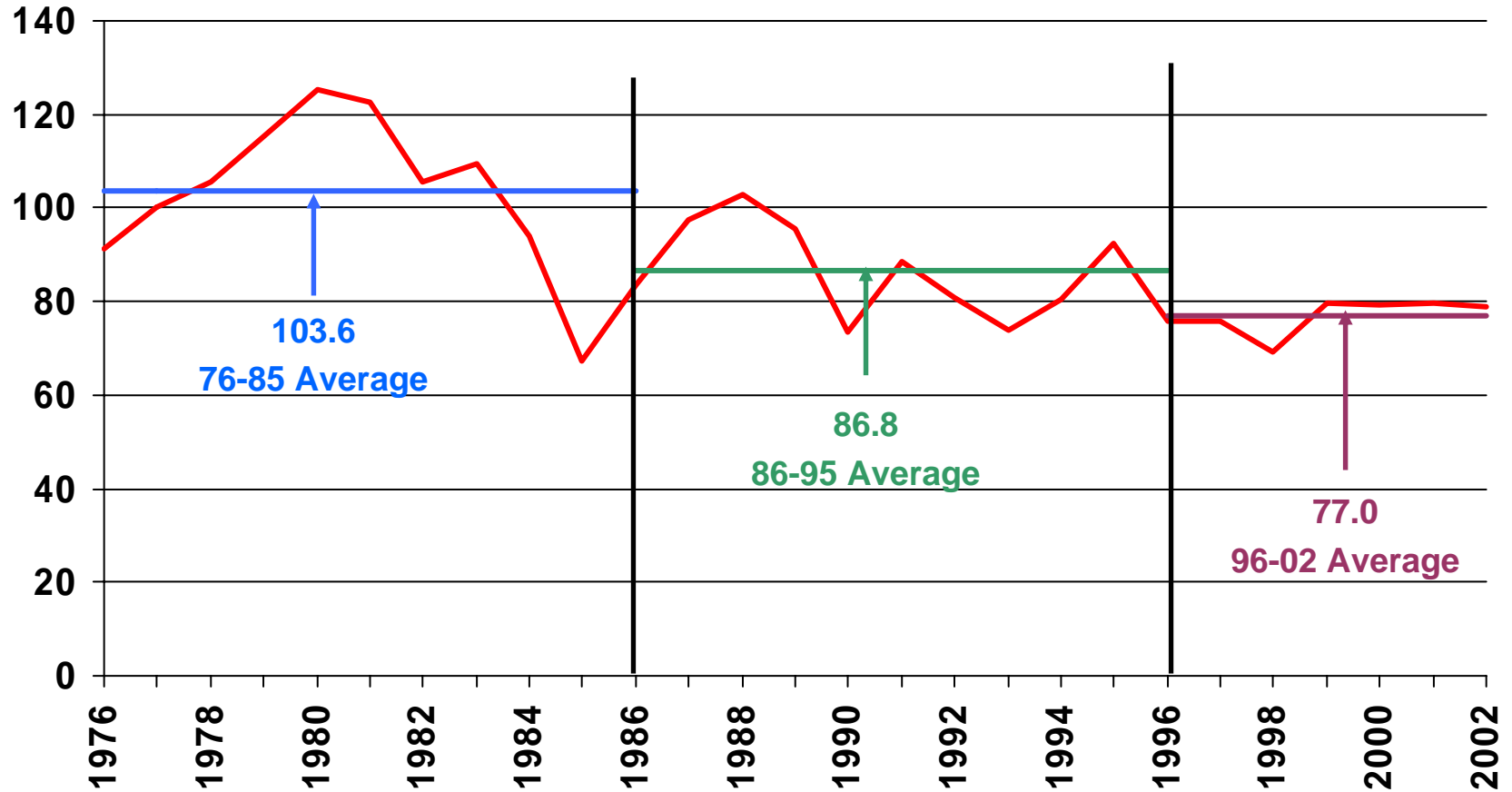
Index of US Population, US Demand* for 8 Crops and US Exports* of 8 Crops 1979=100



- 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

Net Export Acreage for 8 Major Crops

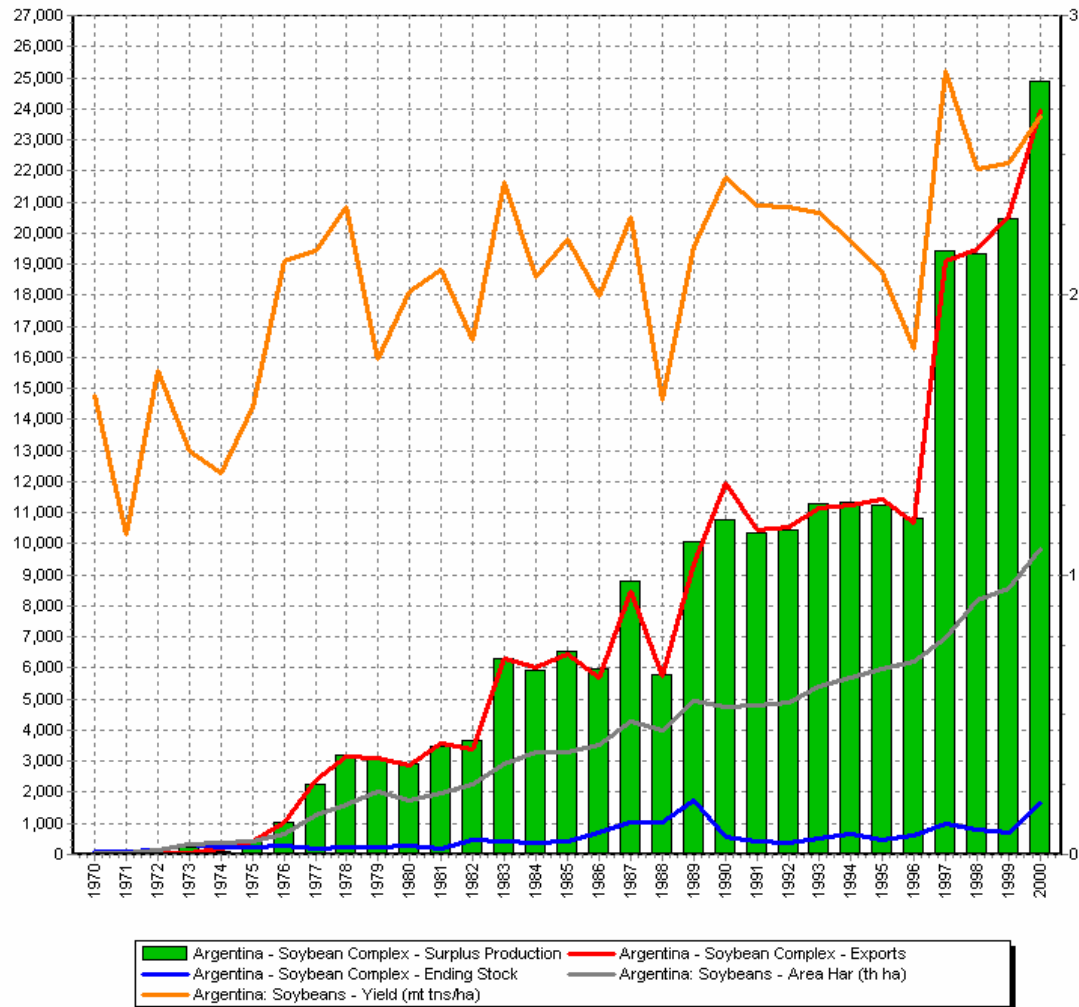
Million
Acres



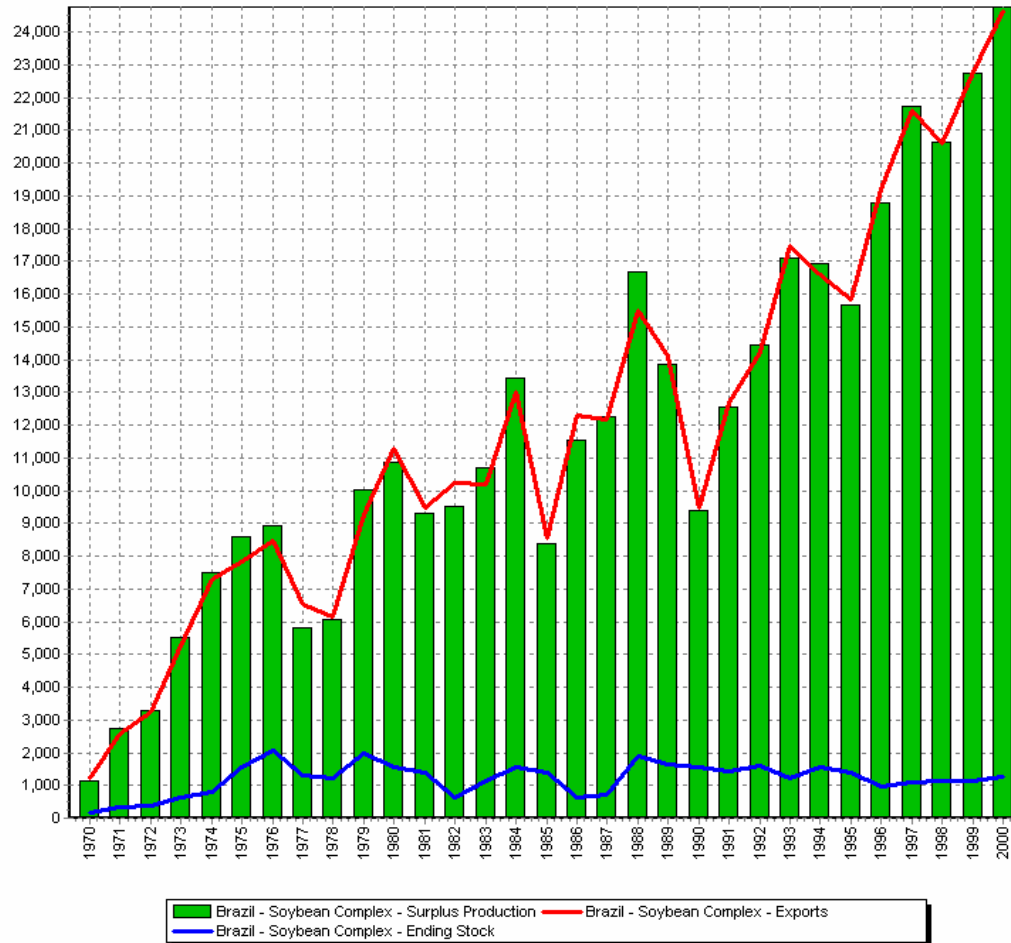
Expectations vs. Experience

Expectation: Export competitors will reduce production in response to lower prices

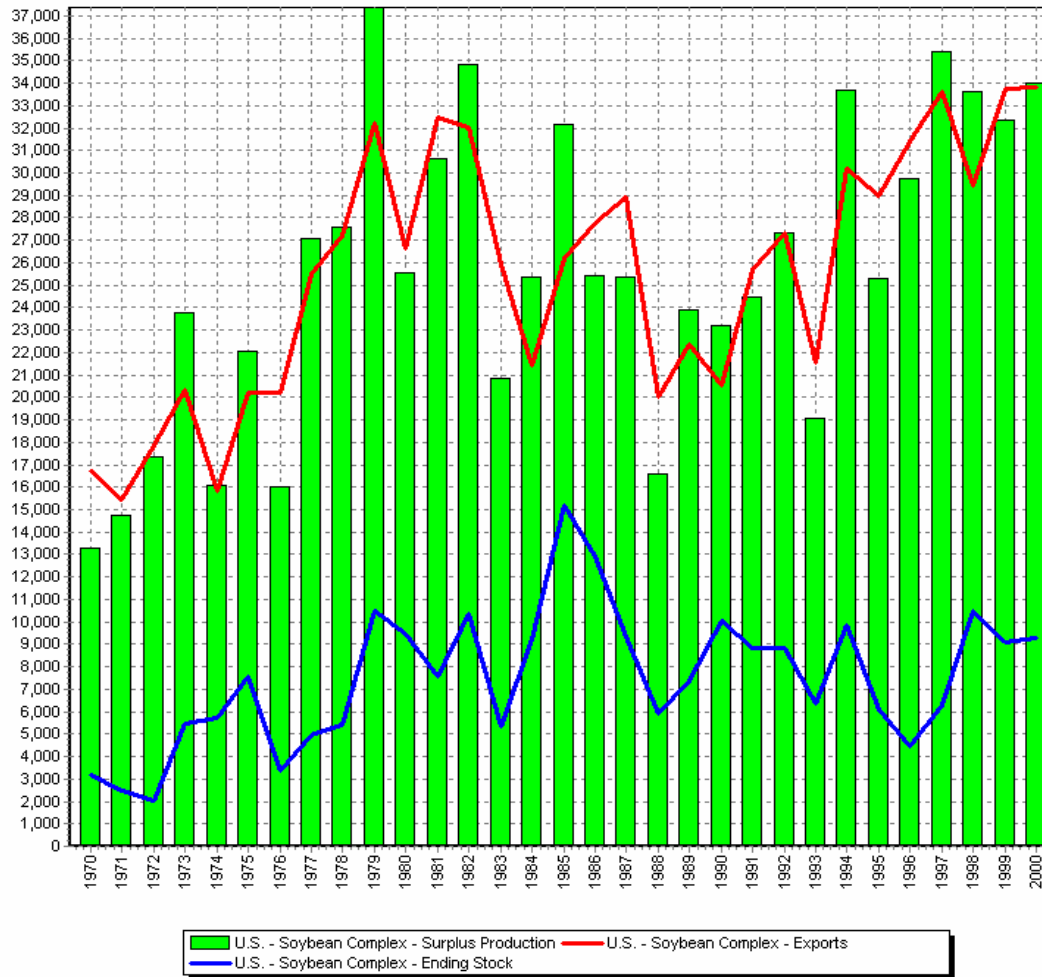
Argentine Soybean Complex Exports and Surplus Production



Brazilian Soybean Complex Exports and Surplus Production



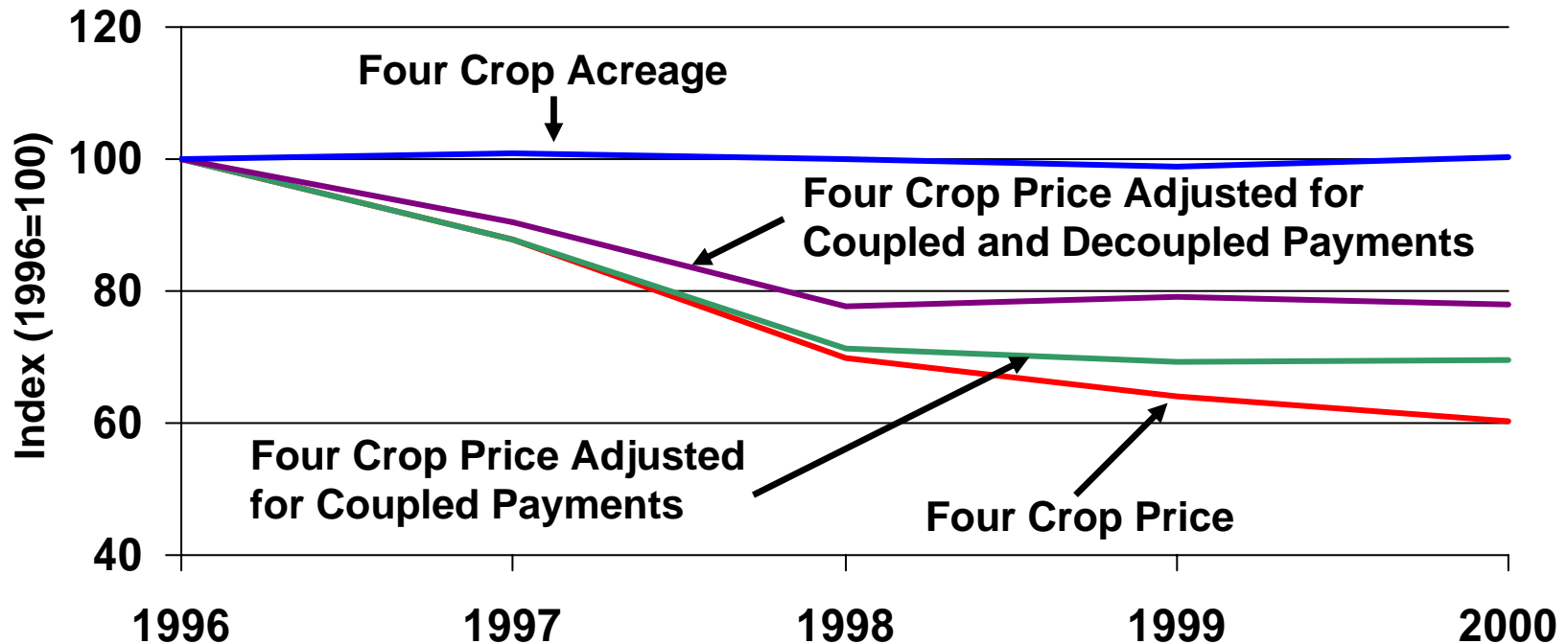
U.S. Soybean Complex Exports and Surplus Production



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?



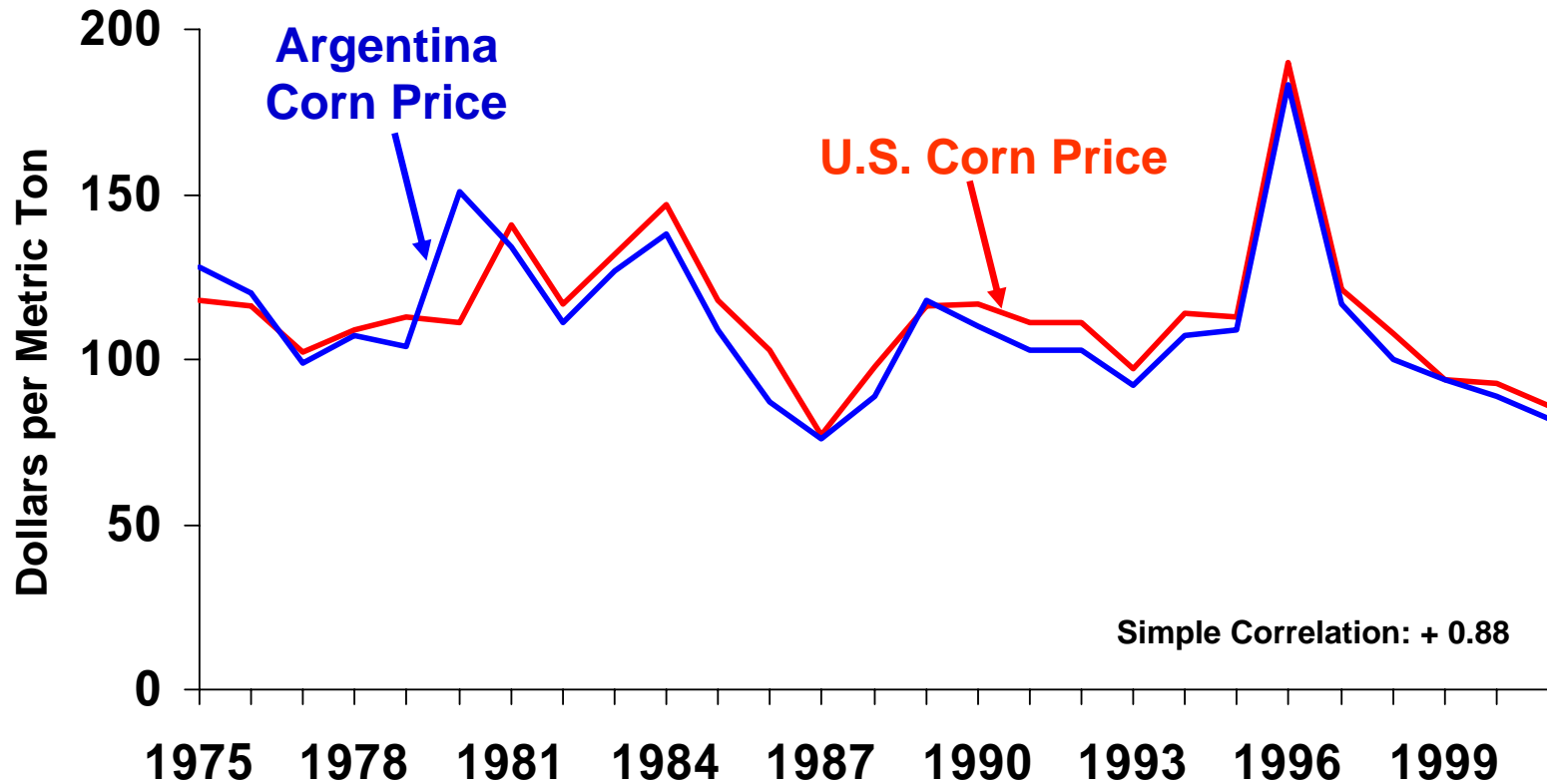
Since 1996

- 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**

Corn Price: US and Argentina



US and Argentine prices move together

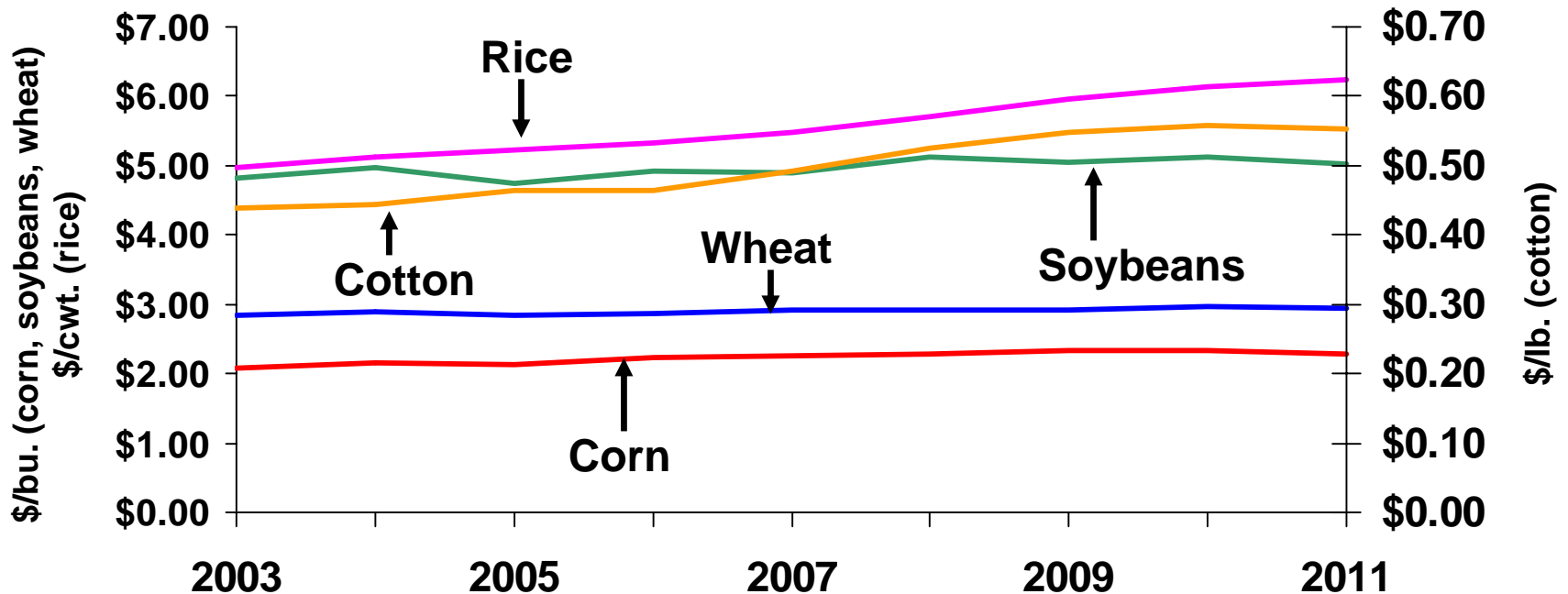
Possible Directions

- *Stay the Course*
- *Intensify the Free Market Prescription*
- *The National Farmers Union Alternative*

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

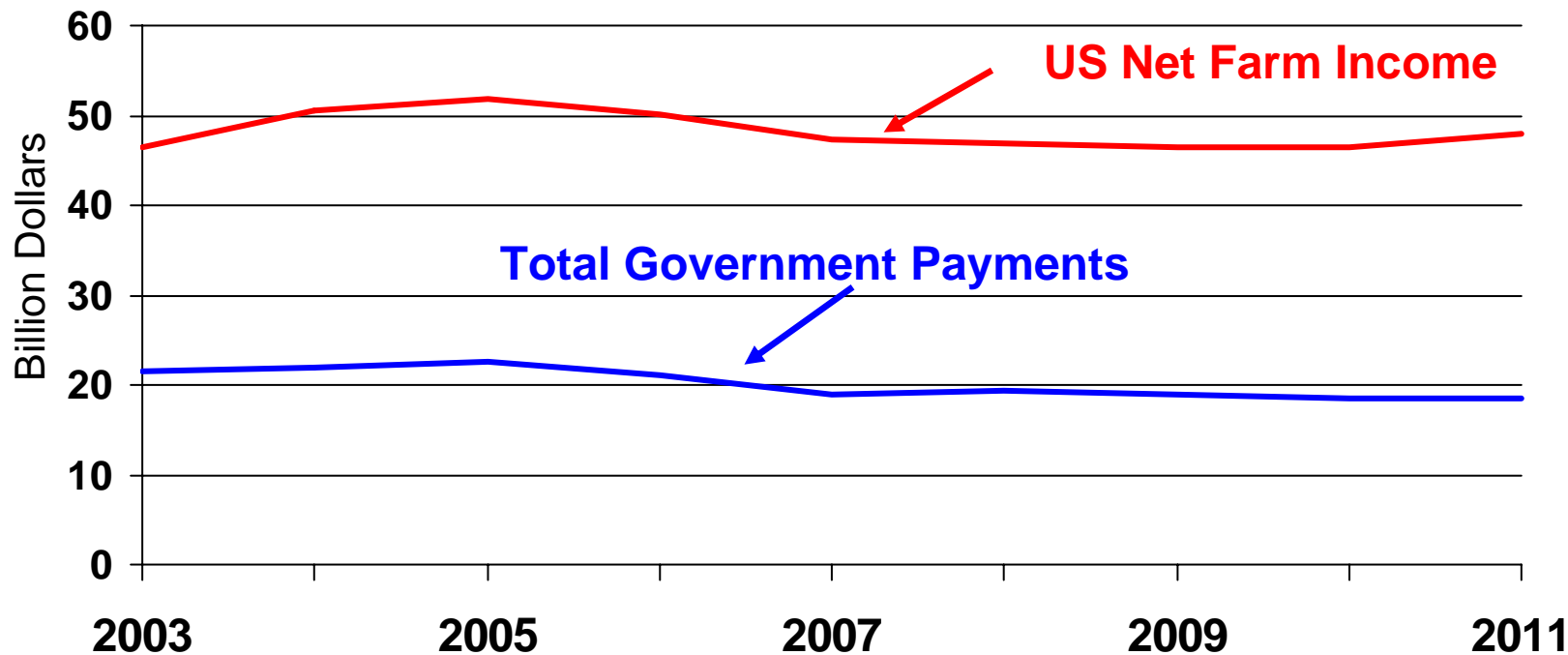


Projected US Prices of Five Major Crops Under Current Farm Policy

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

FAPRI

Stay the Course



Projected US Net Farm Income and Government Payments

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

FAPRI

Problems with Continuing Current US Agricultural Policy

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

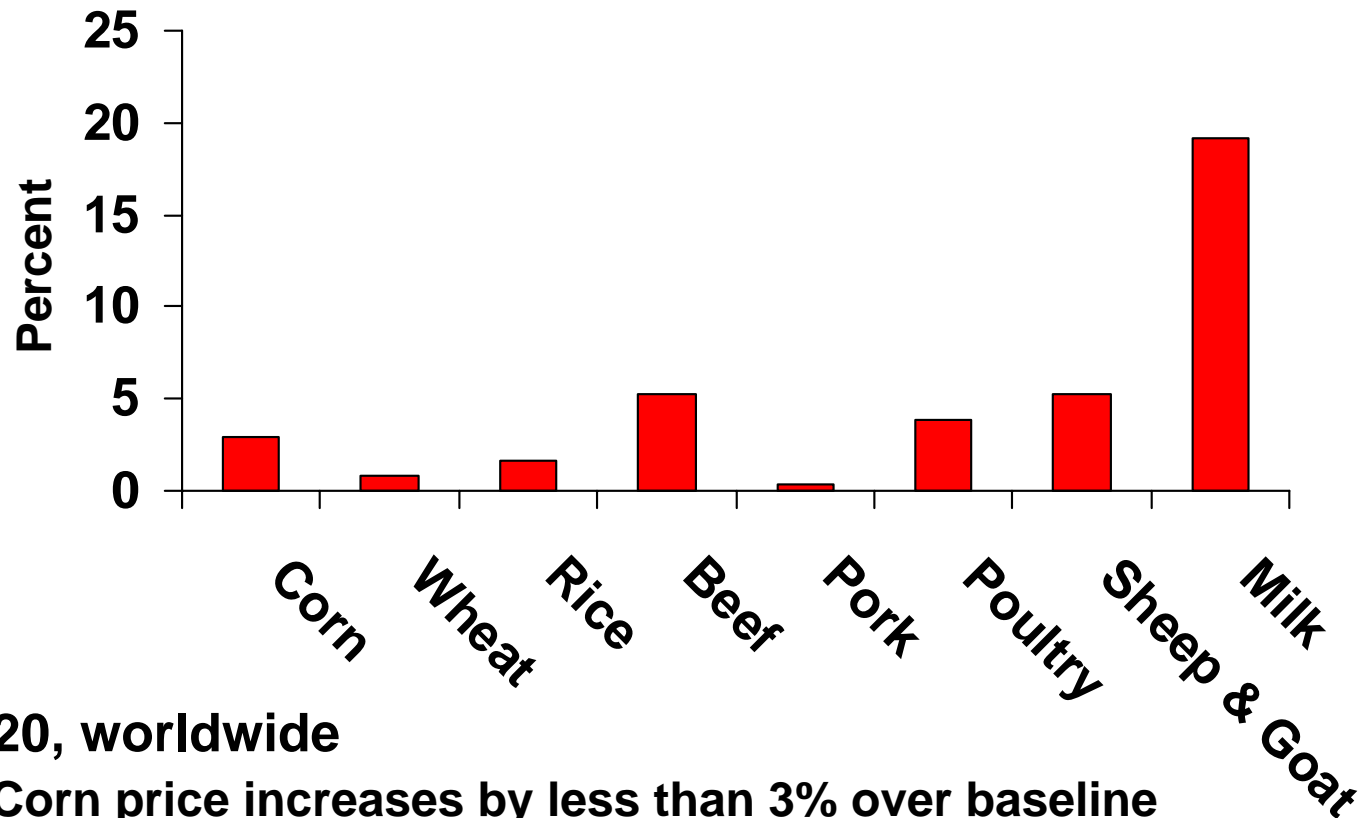
Conflicting Views: How to Fix Broken Policy

- *Free Market Solution*
 - **Eliminate trade barriers and government distortions**
 - **And all will be fine if producers and consumers 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

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

Intensify Free Markets in Developed Countries

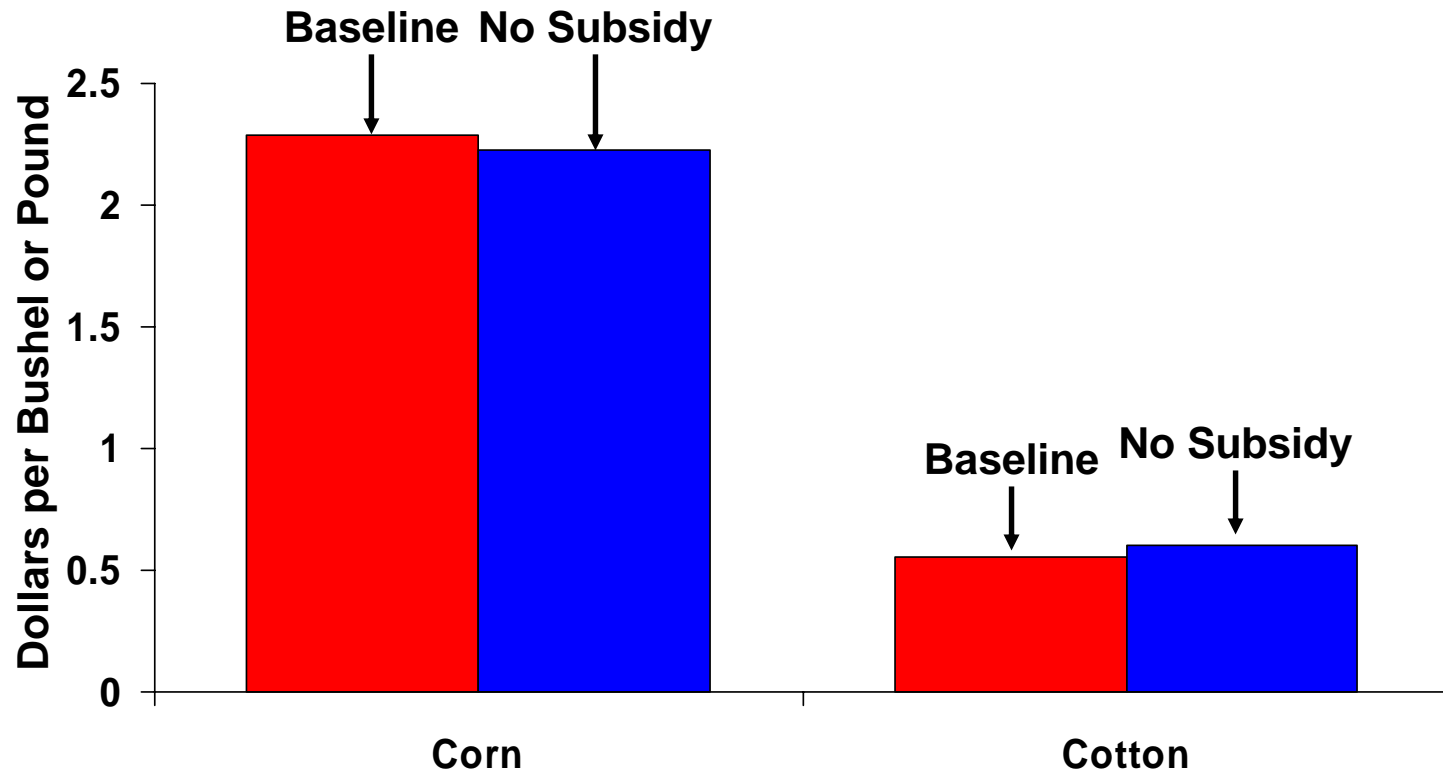


In 2020, worldwide

- **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**

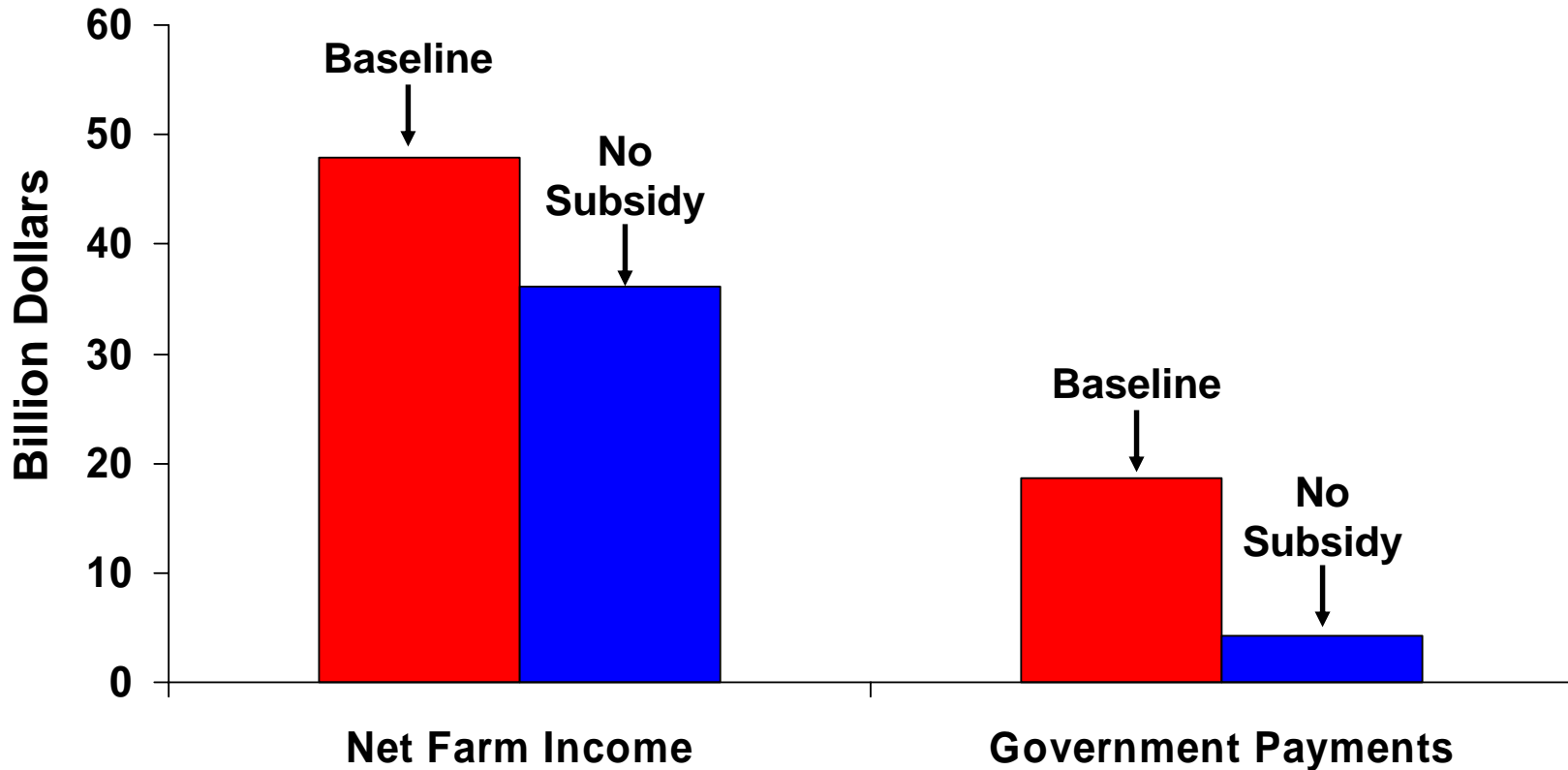
IFPRI IMPACT

No US Subsidies: US Price Impacts, 2011



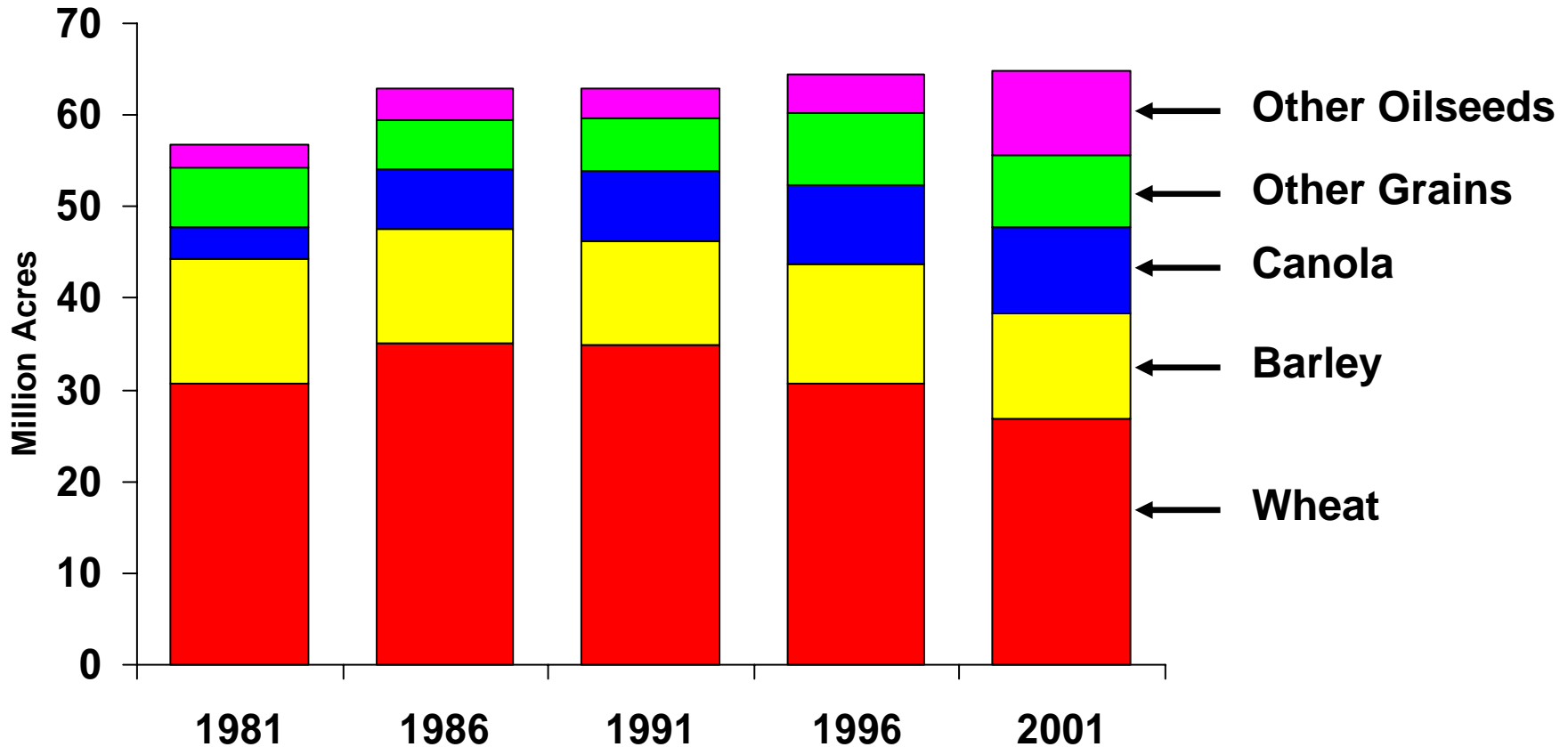
Corn prices decline slightly, while cotton prices edge upward

No US Subsidies: US Farm Income Impacts, 2011



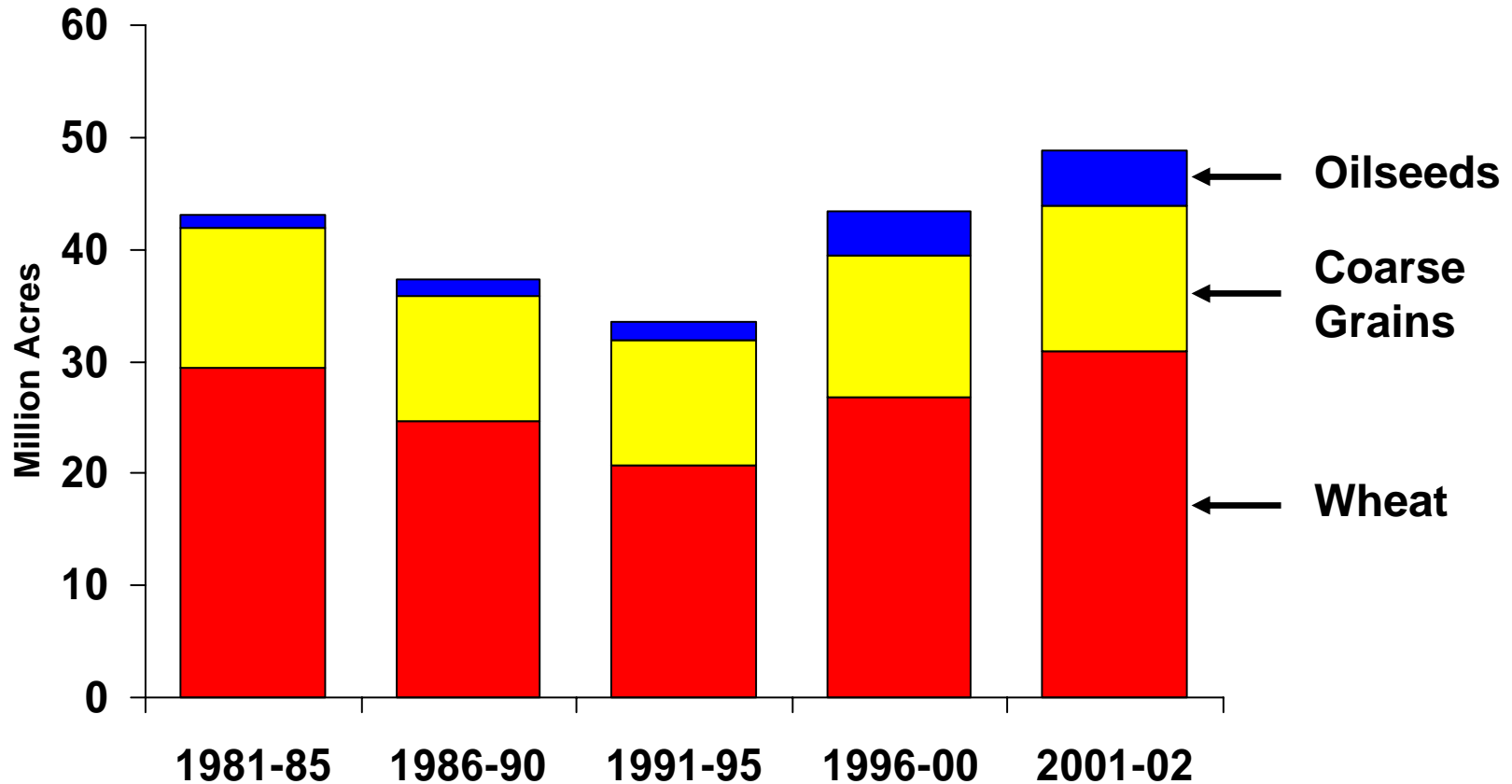
- Net Farm income drops by \$12 billion or 25% in 2011
- Government payments drop by \$14 billion or 77% in 2011

Canada: Farmland Planted



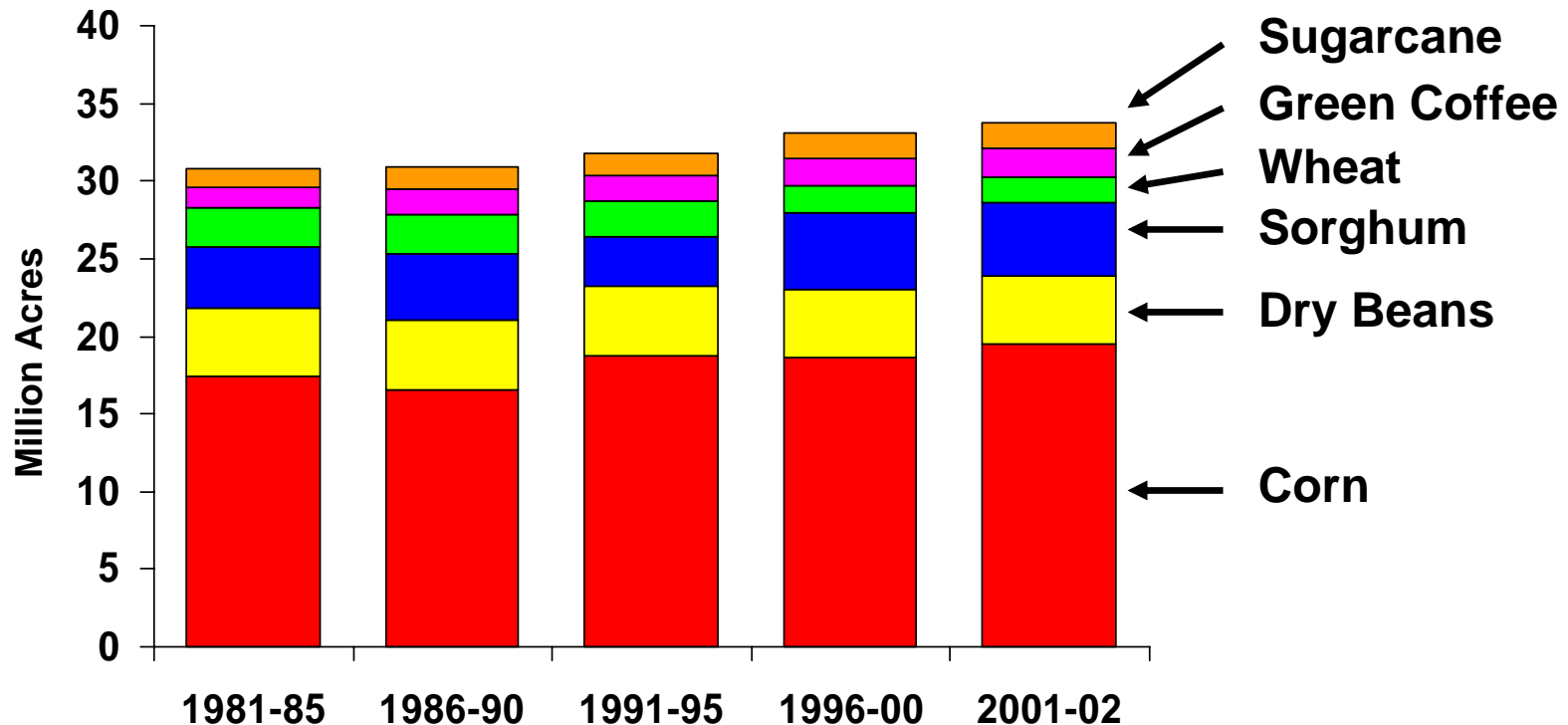
- Canada reduced subsidies in 1990s
- Eliminated grain transportation subsidies in 1995
- Crop mix changed, total acreage remained flat

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

What Food and Agricultural Policies are Needed? The NFU Alternative

Policies that:

- **Improve economic sustainability for producers**
- **Recognize the need for cooperative solutions**
- **Preserve the autonomy of each country to determine its food and agricultural policies**
- **Address Food Security and global hunger issues**

Action Elements to Restore Farm Profitability

- **Demand Expansion**
 - Attention to society priorities
- **Reserves**
 - Humanitarian relief
 - Food security/Buffer stocks
- **Global capacity issues—Balancing supply and demand**

Why a Global Commitment to Balance Supply and Demand?

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

Establish International Humanitarian Relief Reserve

- **Reserve should be available to meet food EMERGENCIES**
- **Release should be based on need NOT price or desire to clear storage**
- **Distinct from stock management programs to stabilize price**
- **Distribution should be in manner that does not penalize local producers**

Why Do We Need a New Food/Farm Policy?

- **Farmers must join together to stop the 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**

Advantages of the NFU Food/Farm Policy based on Food Security and Sovereignty

- **Balance supply and demand to ensure profitable producer returns**
- **Establish conditions less conducive to market concentration**
- **Reflect national priorities including social objectives and sovereignty—Reduce intervention costs**
- **Reduce/eliminate global hunger**
- **Guarantee food security for all**
- **Eliminate dumping and trade distortions**
- **Enable cooperative management of excess capacity**

Agricultural Policy Analysis Center

The University of Tennessee
310 Morgan Hall
2621 Morgan Circle
Knoxville, TN 37996-4519

www.agpolicy.org

