

*Community Market,  
European Market:  
Which Organization for Cereals*

**Daryll E. Ray**

**University of Tennessee  
Agricultural Policy Analysis Center**

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# *Two Components of US Farm Policy*

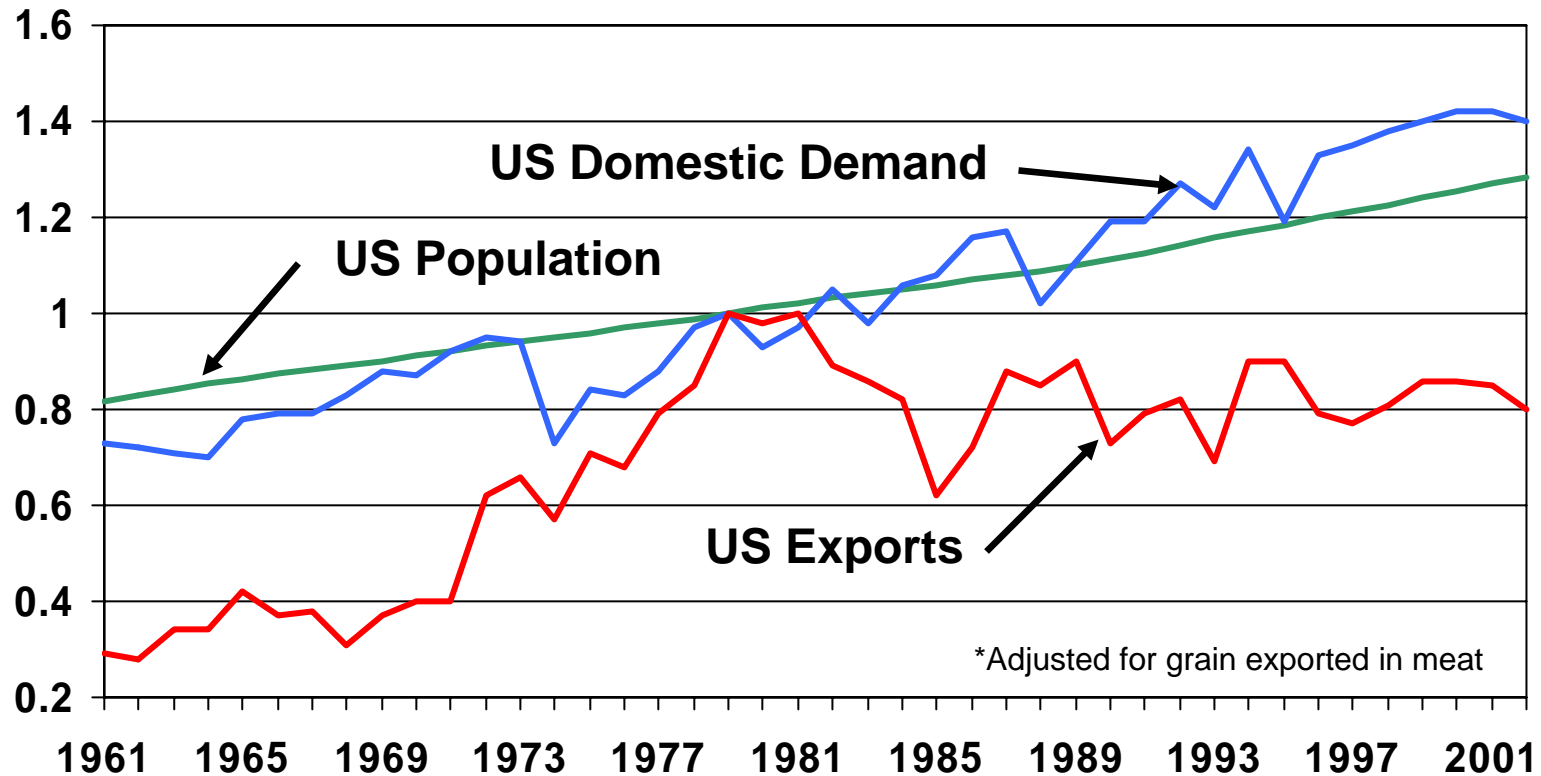
- **Ongoing public support to expand agricultural productive capacity through research, extension and other means**
- **Mechanisms to manage productive capacity and to compensate farmers for consumers' accrued benefits of productivity gains**

# Critical Changes in U.S. Policy

- **Beginning in 1985 “U.S. policy makers” adopted policies that are more export and free-market oriented**
- **The final step in this process was the 1996 FAIR Act:**
  - **Elimination of supply control instrument: set aside program**
  - **Elimination of non-recourse loan as support price mechanism**

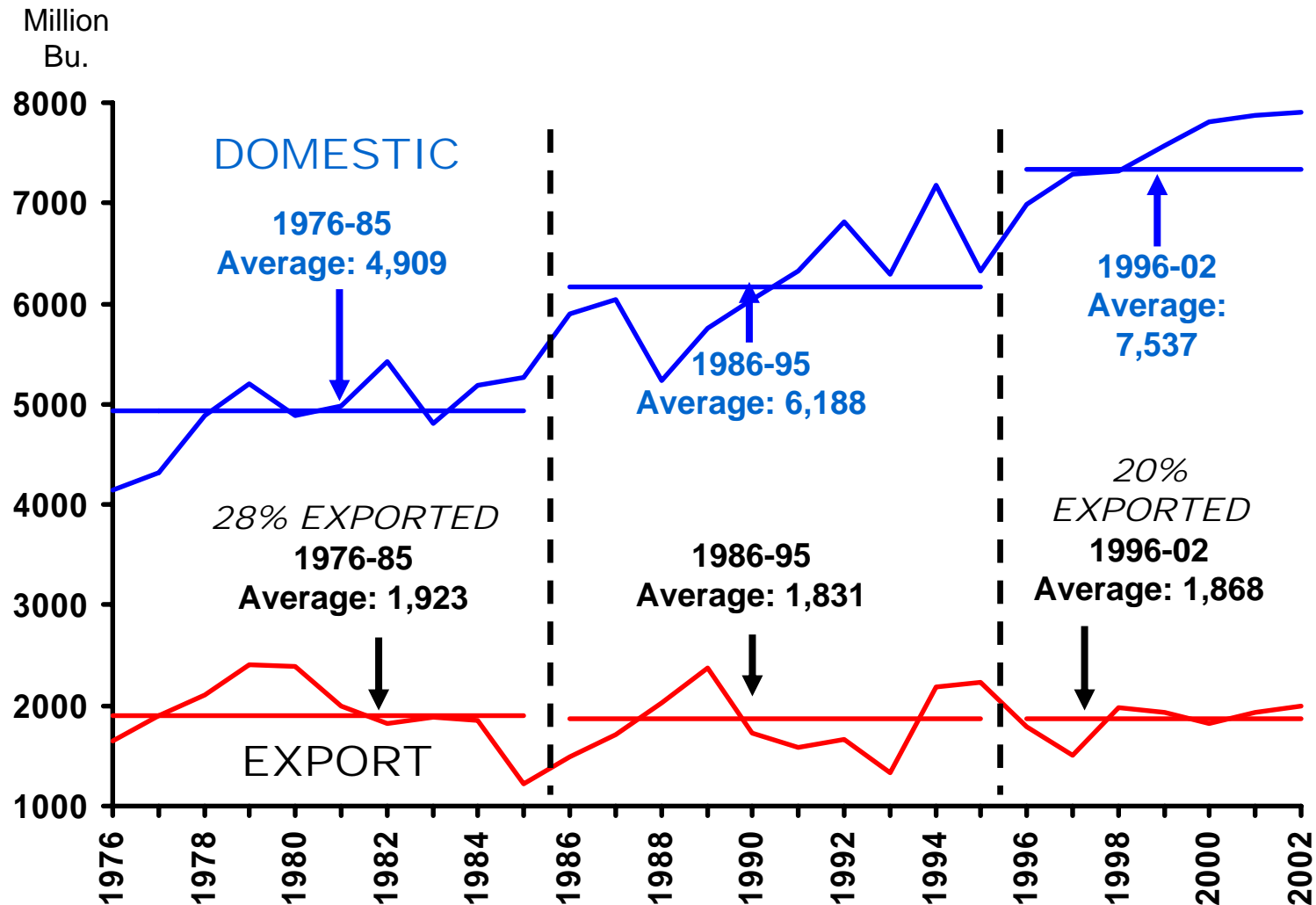
# Exports Did Not Deliver

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

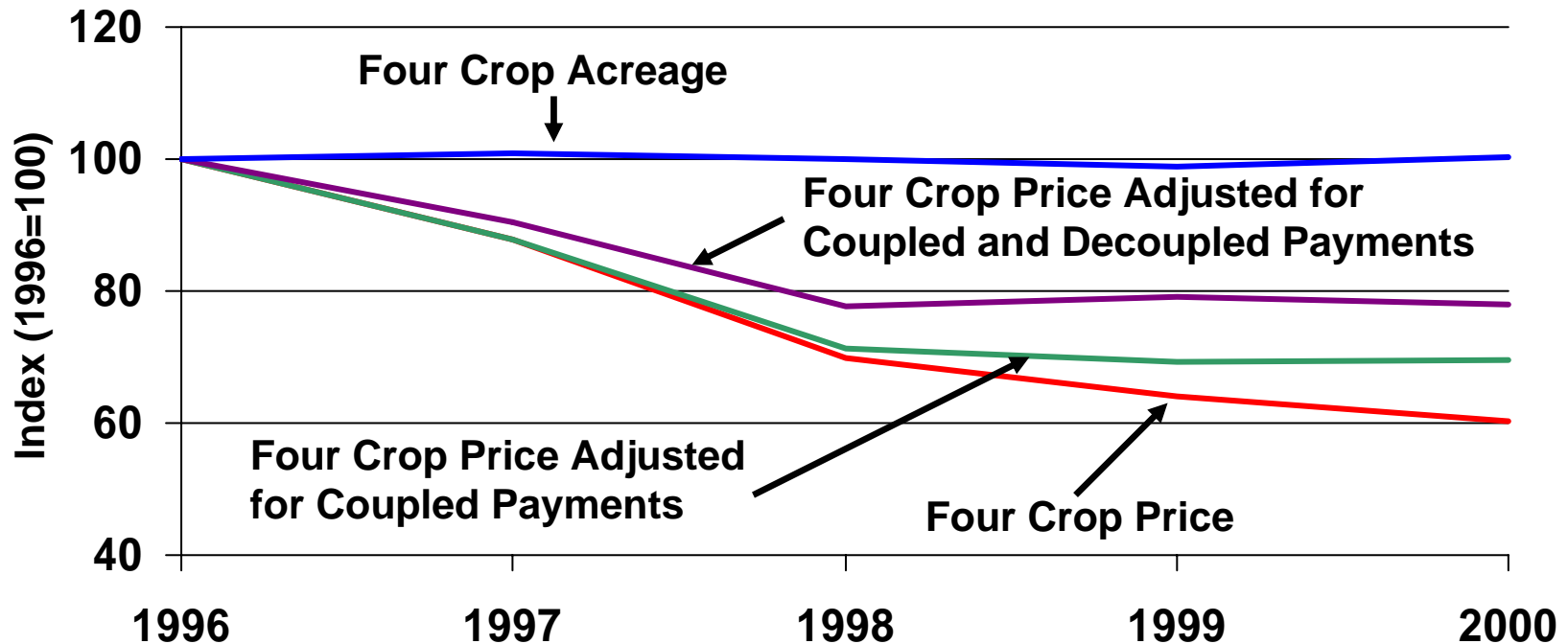
## U.S. Domestic and Export Demand



# 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

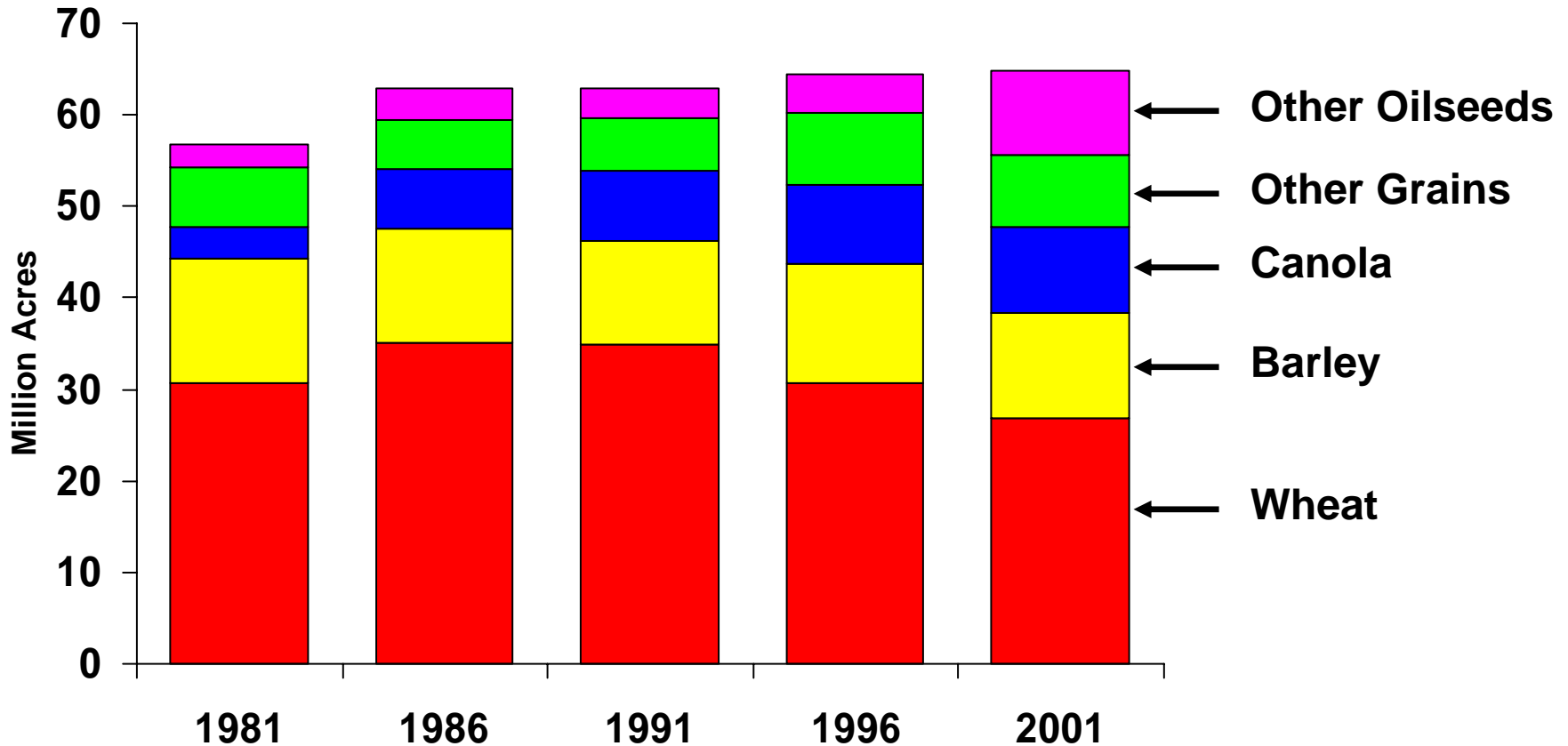
# *Acreage Response to Lower Prices?*



Since 1996

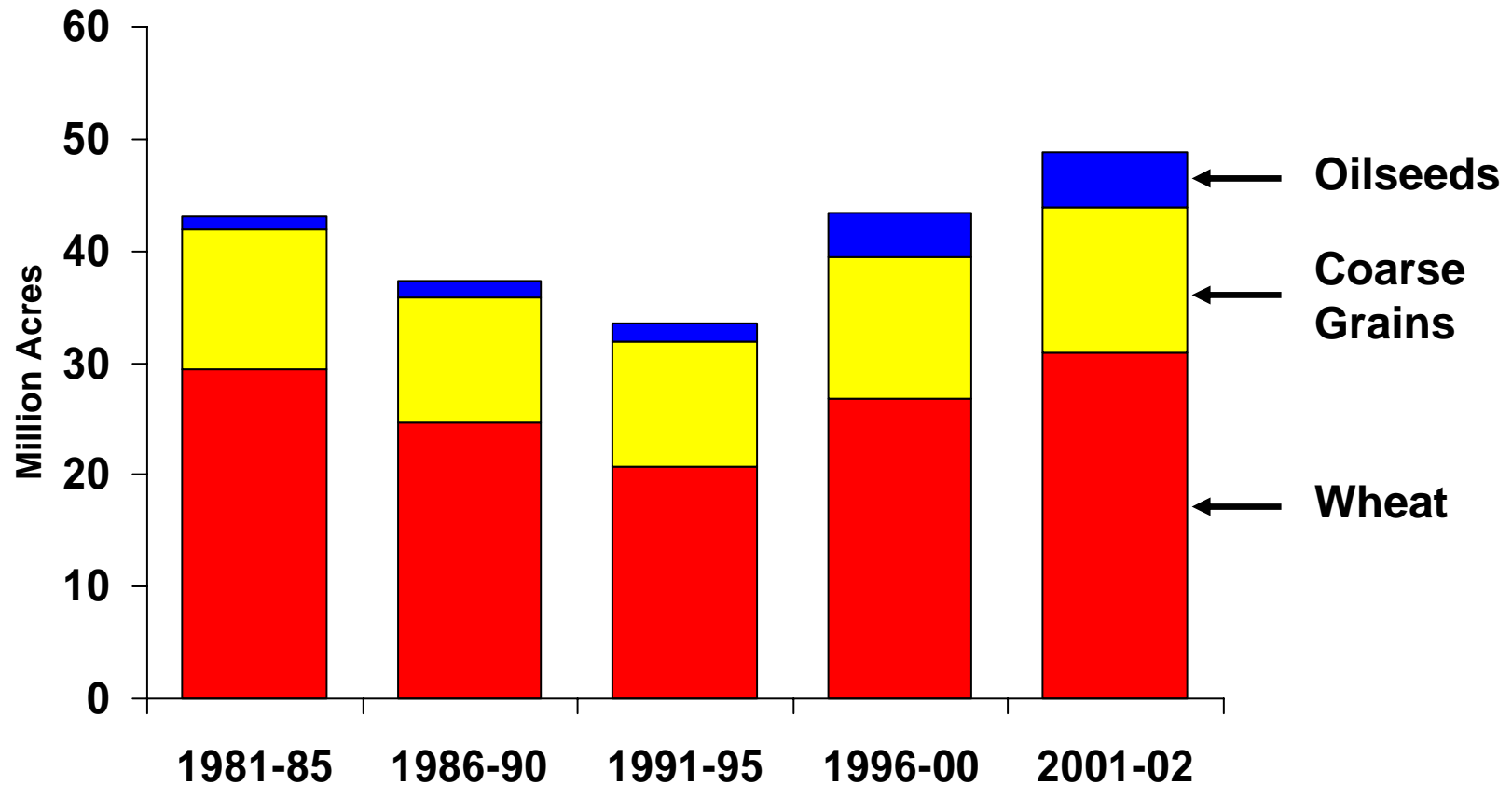
- Aggregate US corn, wheat, soybean, and cotton acreage changed little
- While “prices” (take your pick) dropped by 40, 30 or 22%

# 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

# *Farm Prices Do **NOT** Correct on Their Own*

- **Supply does not respond enough to low prices (has not; does not; will not)**
- **Demand does not respond enough to low prices (has not; does not; will not)**
- **No farmer mechanism to manage supply**

# *Farmer-Oriented Policy Blueprint*

- **Stock Management**
- **Set-Aside / Short-Term  
Land Retirement Program**
- **Price Support Mechanism**

# *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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## Agricultural Policy Analysis Center

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

[www.agpolicy.org](http://www.agpolicy.org)

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