

Farm Policy and World Trade Issues

Daryll E. Ray

University of Tennessee
Agricultural Policy Analysis Center

2003 NFRBMEA National Conference

International Inn, Minot, ND

Monday June 9, 2003

Introduction

- Most often heard criticisms of U.S. policy
- Will payment limitations address those issues?
- Other considerations of payment limitations

Criticisms of U.S. Farm Policy

- Depresses market prices
- Encourages consolidation of farms
- Bolsters land prices benefiting land owners, owner/operators but higher prdn costs for renters
- Major benefits flow to integrated livestock producers, processors, sellers on farm inputs, and export customers
- Caused incomes of farmers worldwide to collapse

Some Preliminaries

- Gov't payments to crop agriculture are high but gross and total net crop incomes are not
- Crop agriculture is producing too much:
 - Prices do not cover production costs
 - Payments are used to fill income gap
- Under other farm program régimes, output could be curtailed, expenses reduced and the same income be realized from the market place
- Those up and down stream from crop agriculture receive benefits

How Would Strict Payment Limitations Affect: **Commodity Prices?**

- Overall, not much—acreage changes are the key
- Stricter payment limitations would NOT significantly reduce acres used to grow crops
- Mix of crops would change
 - Less acreage devoted to cotton and rice
 - But more acreage devoted to soybeans, corn and wheat
- Prices would increase for cotton and rice
- Prices would decrease for soybeans, corn and wheat

Prices changes would be similarly felt in other countries

How Would Strict Payment Limitations Affect:

Land Prices?

- Downward pressure, ditto for cash rents
- Initially, additional land would come onto the market, depressing prices
- Through time, payment limitations would reduce “discretionary” income of larger farm operators—the very operators that buy land
 - Side note: Large operators affected by payment limitations often blame high cash rents for low returns

How Would Strict Payment Limitations Affect:

Consolidation?

- Rate of farm consolidation to mega-size crop farms would be slowed in all areas
- The wording of the legislation and administrative regulations would determine how existing large farms would react
 - Change crop mix
 - Sell off acreage to another farmer who is under limit
 - Reconfigure operation to meet the letter, but not necessarily the intent, of the law
- Would not slow down and would likely exacerbate concentration in the livestock industry

How Would Strict Payment Limitations Affect:

The Real Beneficiaries of the Farm Bill?

- Prices of grain and soybean meal would be pushed even further below cost of production
- Agribusiness
 - Negative for cotton and rice ginner/mills/processors
 - Positive for grain and soybean processors/transporters
 - Positive/negative for input suppliers
- Still would subsidize integrated livestock producers, agribusiness and export customers

Other Considerations

- Why are payment limitations an issue:
 - 1996 & 2002 Farm Bills failed to recognize that
 - Self-correction does not take place in agriculture
 - Aggregate demand of major crops responds very little to price
 - Aggregate supply of major crops responds very little to price
 - Crop exports are NOT going to provide the ever-increasing rate of growth agriculture needs to be prosperous on its own
 - The policy choice was to
 - reject these realities
 - allow prices to plummet
 - write very large checks to cover losses; which, in turn, has raised all kinds of distributional issues including the issue facing this commission

Final Thought

- As of April the goods manufacturing industry was operating at 72.5% capacity
 - In contrast to agriculture, other industries can and do self-correct.

(Rhetorical Question: How large would “payments” have to be if other industries always operated at 100% of capacity regardless of demand conditions?)

Weekly Policy Column

To receive an electronic version of our weekly ag policy column send an email to:

dray@utk.edu

requesting to be added to APAC's Policy Pennings listserv

