

# **U.S. Farm Policy: What's That About?**

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# *Introduction:*

- Why have we had chronic price and income problems in agriculture?
- What important changes have occurred in the general direction of crop policy?
- Expectations underlying change in farm policy direction
- Reality Check: Expectations versus Experience
- Is current policy a pattern for the future?

# *What is the Problem?*

- Technology expands output faster than population and exports expand demand
- Market failure: lower prices do not solve the problem
- No self-correction on the demand side
  - People will pay almost anything when food is short
  - Low prices do not induce people to eat more
- No self-correction on the supply side
  - Farmers tend to produce on all their acreage
  - No alternate use for most cropland

# *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

# *Policy Changes Beginning 1996 Act*

- No price support
- No stocks to moderate price spikes
- No annual set-asides
- Government payments used to support farm incomes
  - Some decoupled from production
  - Some not

# *Implications of Commodity Policies*

- No price floor
- No emergency reserves
- No price ceiling
- Incomes are supported, not prices
- Livestock producers and other users are subsidized
- Agribusiness input suppliers and output processors are subsidized

# *Expectations Underlying Change in Policy Direction*

Continued “High” Prices and Incomes of 1995/1996 were assumed because...

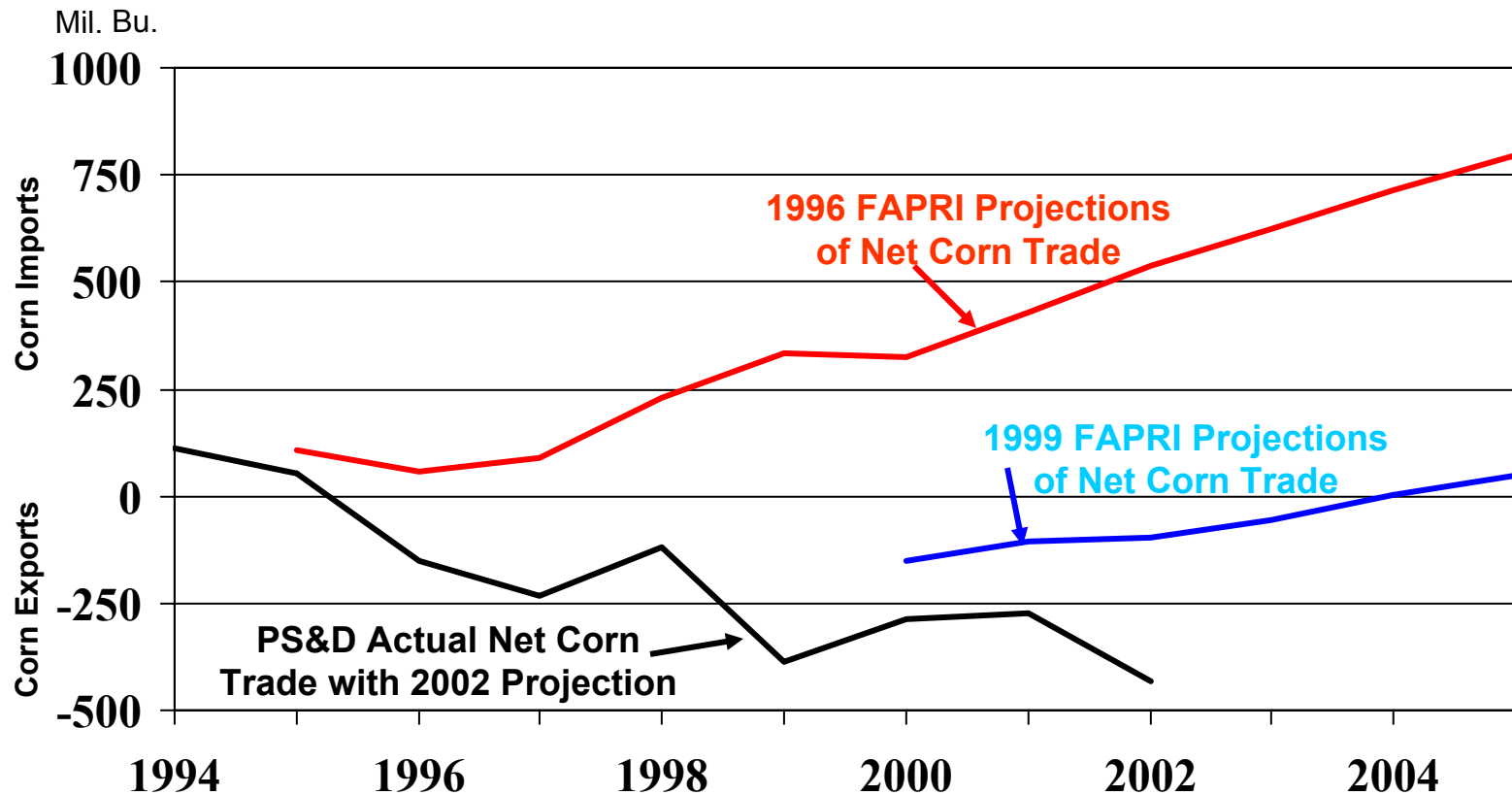
- **Demand Will Grow as Fast or Faster than Supply** – Due to Rapid Per Capita Income Growth in China/Asia
- **Supply Will Be More Elastic** –With Planting Flexibility & Decoupled Payments Farmers Would Plant for the Market and Reduce Production When Needed
- **Export Demand Will Be More Elastic**
  - With No Brake on Prices, Importers Will Import More From the U.S. When Prices Decline –Increase Consumption & Reduce Production When Needed
  - With Marketing Loans, Competitors Would Not Be Under U.S. Price Support Umbrella –Reduce Production When Needed

# *Expectations vs. Experience*

- Price, income and program cost expectations based on optimistic export projections

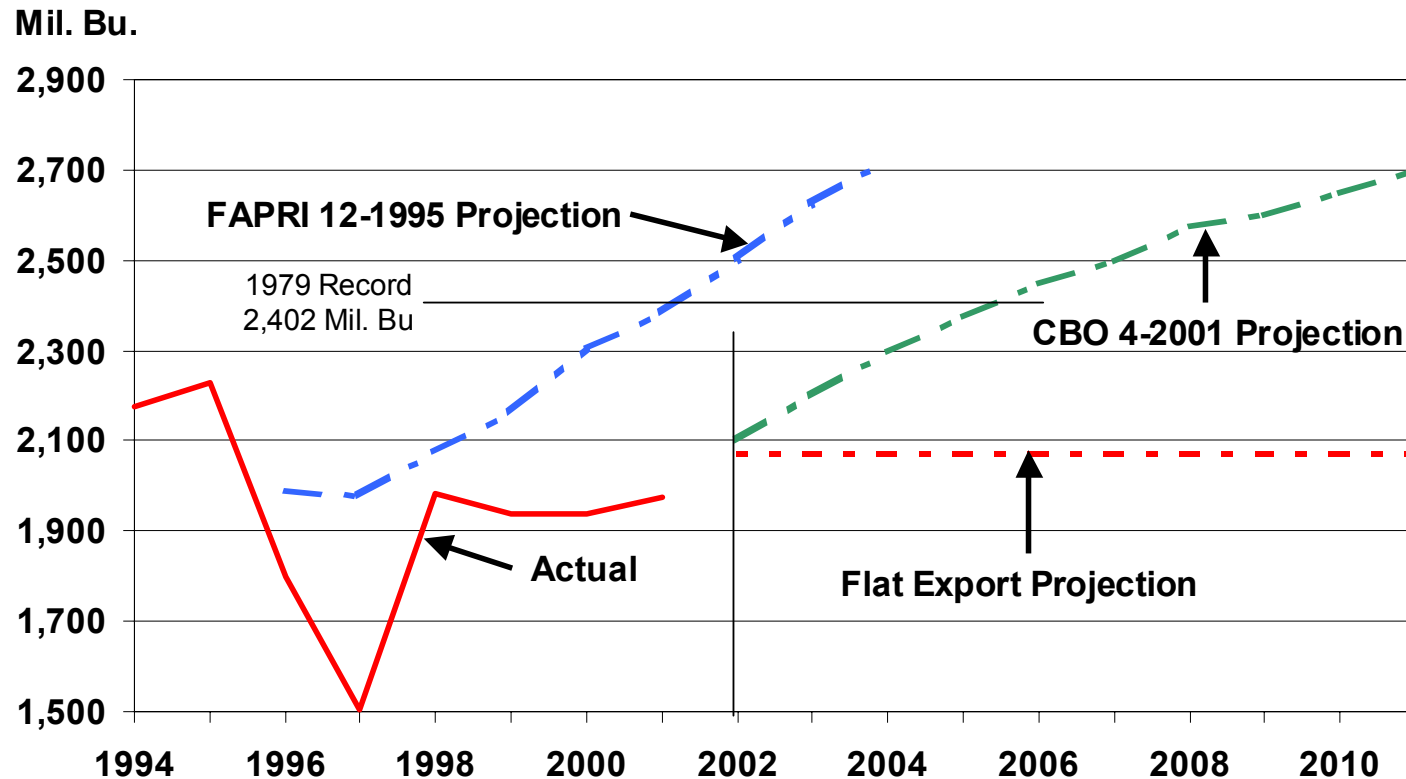
# China Net Corn Trade

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



# *U.S. Corn Exports*

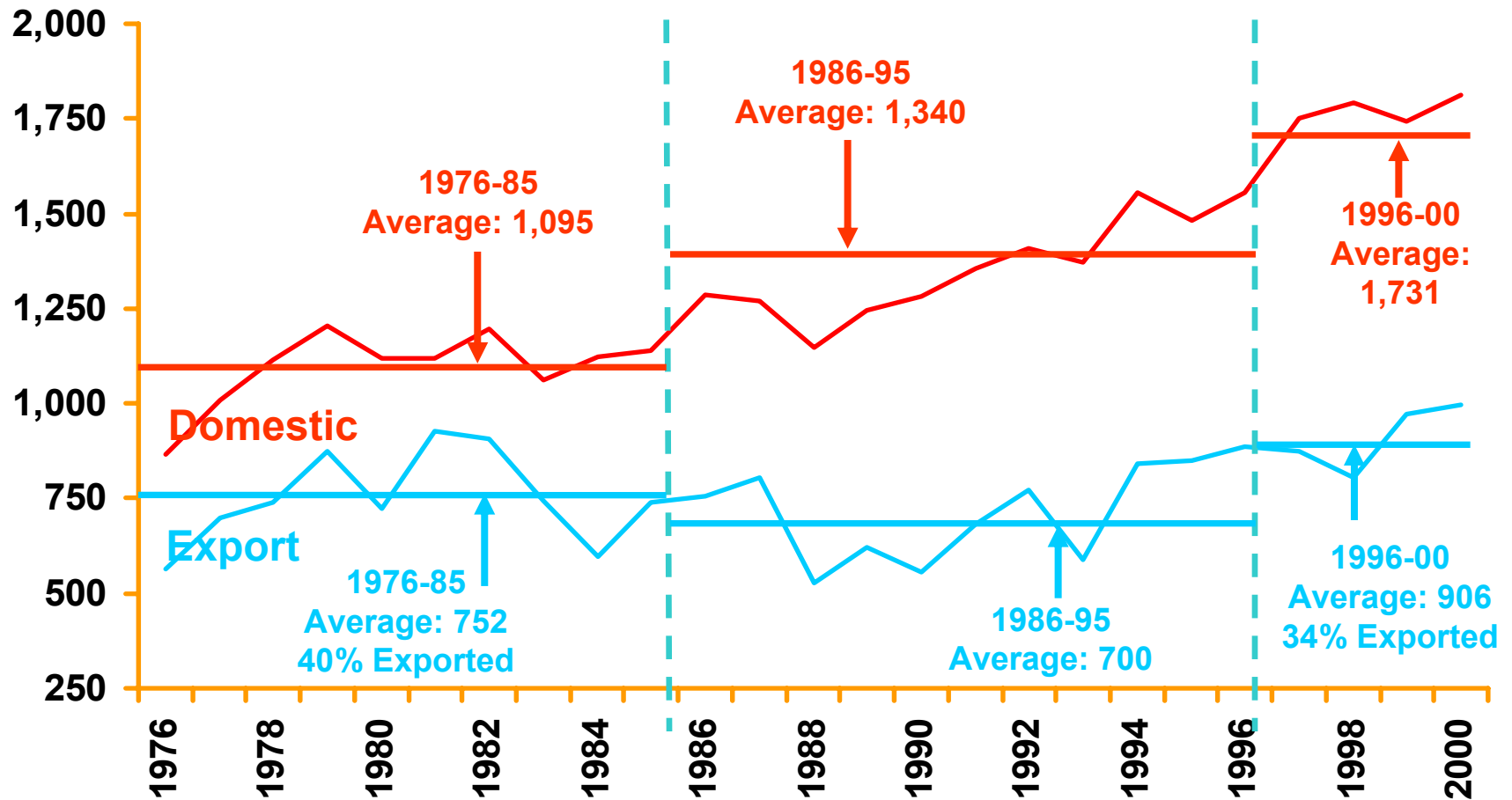
Comparison between 1995 FAPRI projection, 2001 CBO projection, 1994-2001 PS&D actual, and 2002-2011 APAC flat export projection



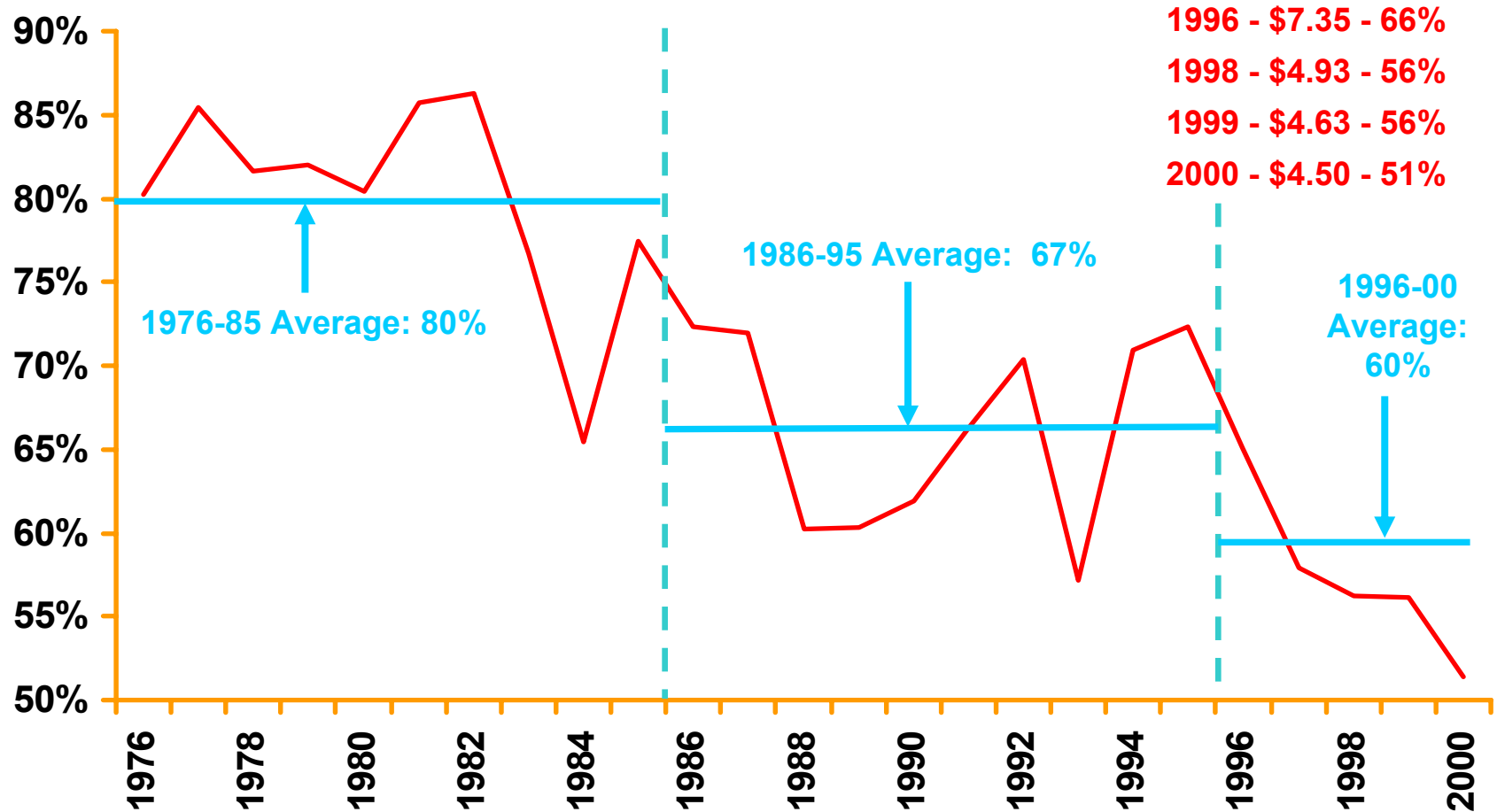
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- Prices and program cost based on optimistic export projections
- Major crop exports have been flat for years

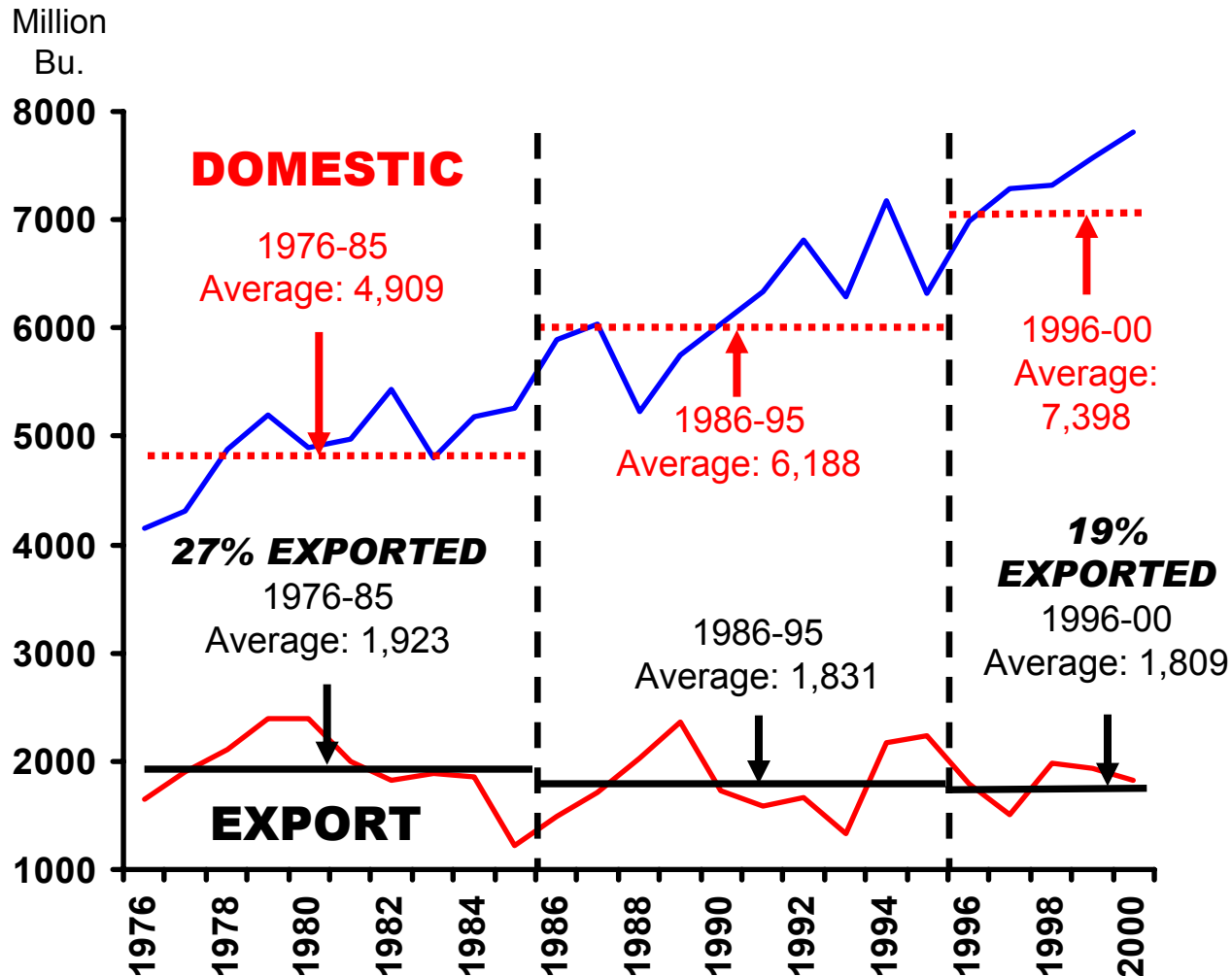
## U.S. Domestic & Export Demand



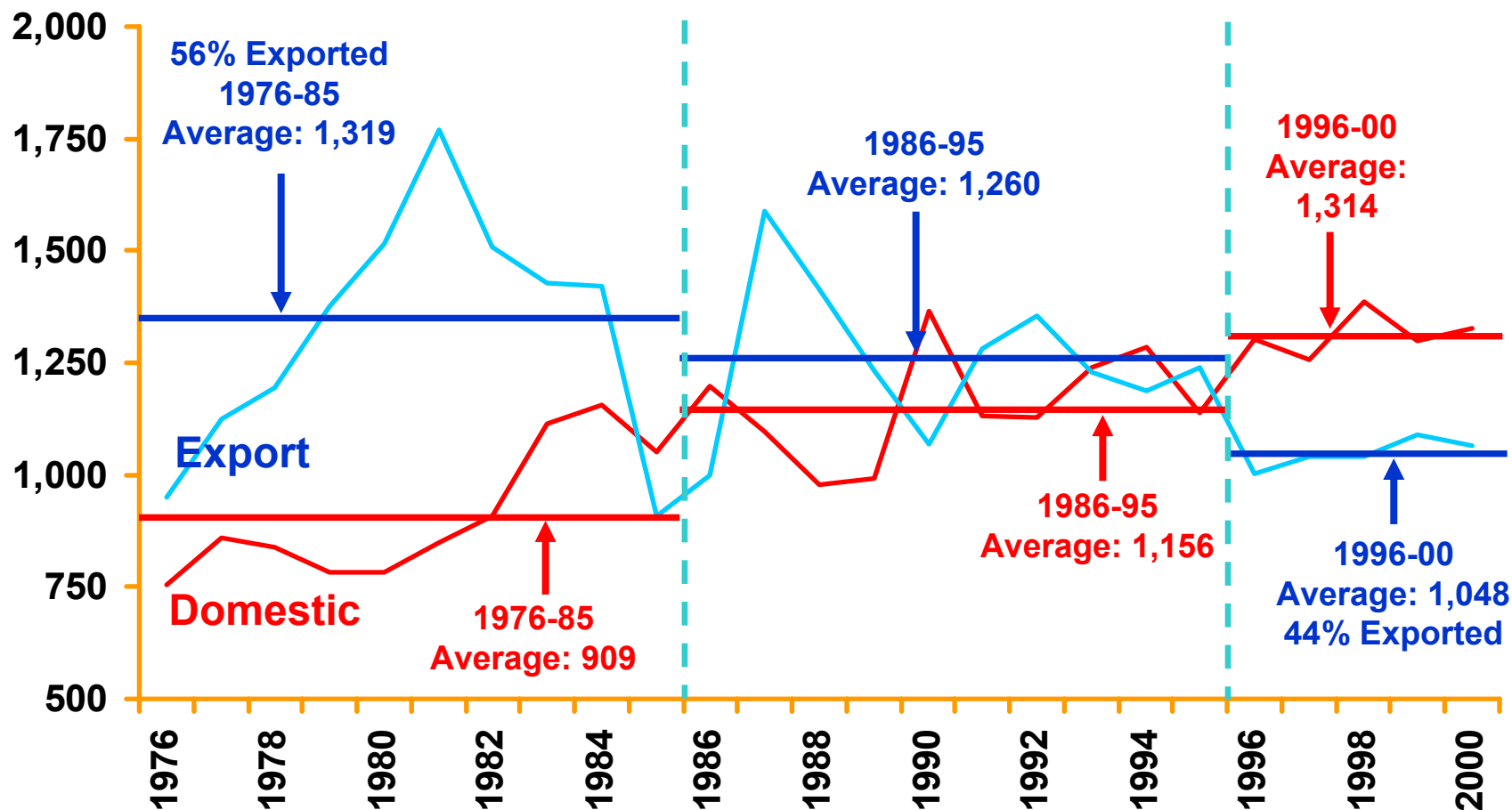
## U.S. Share of World Exports



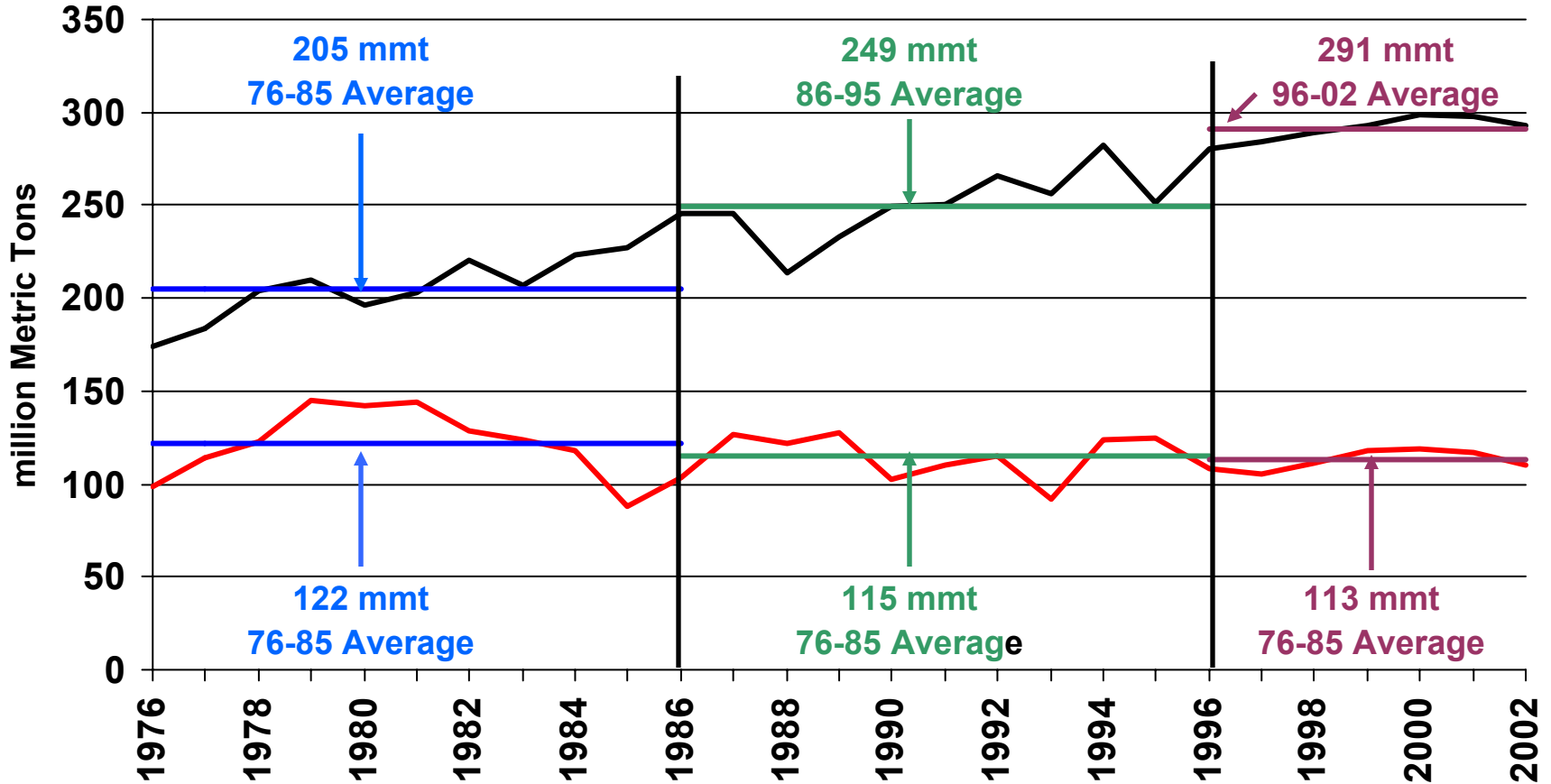
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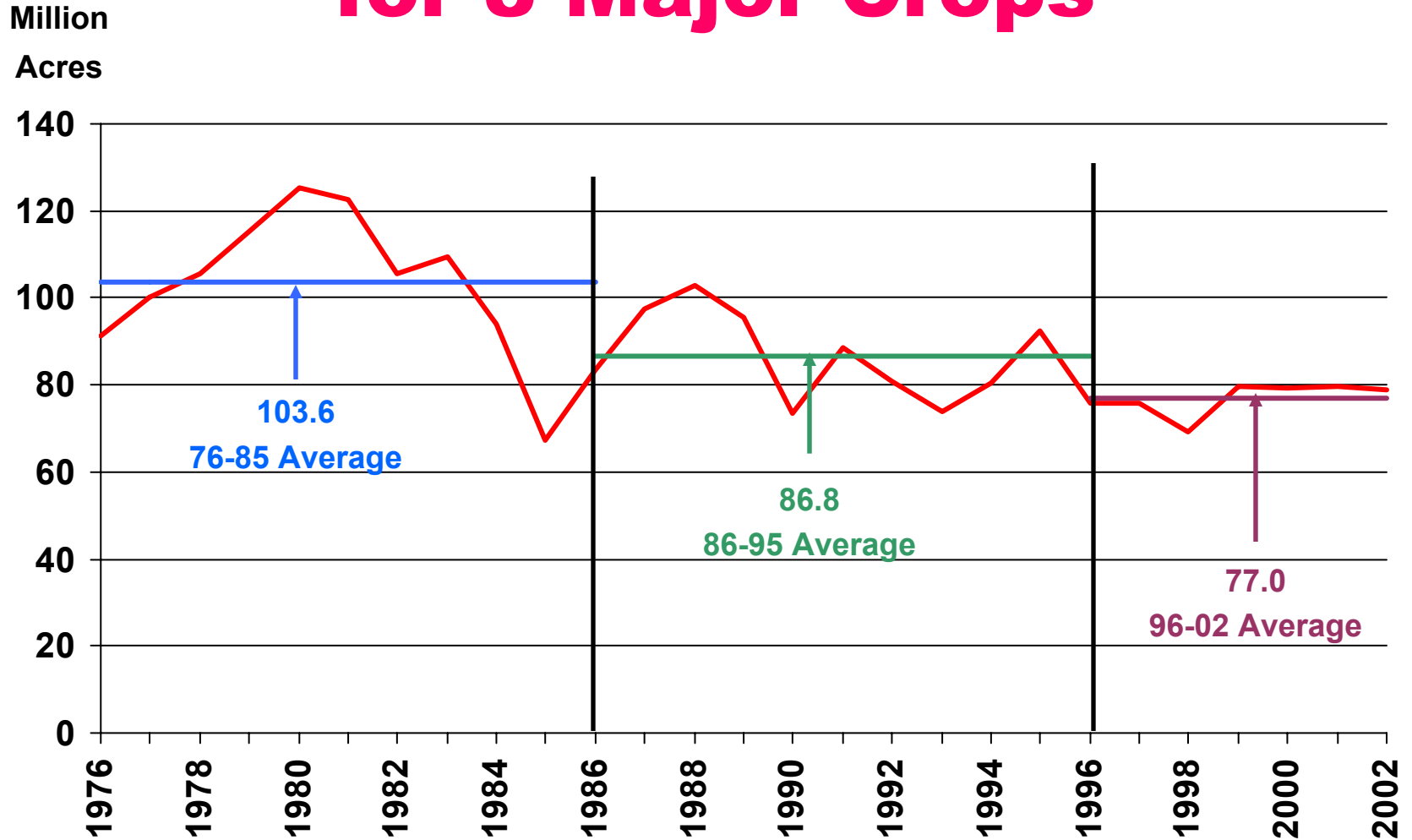


# Net Export and Domestic Demand for 8 Major Crops



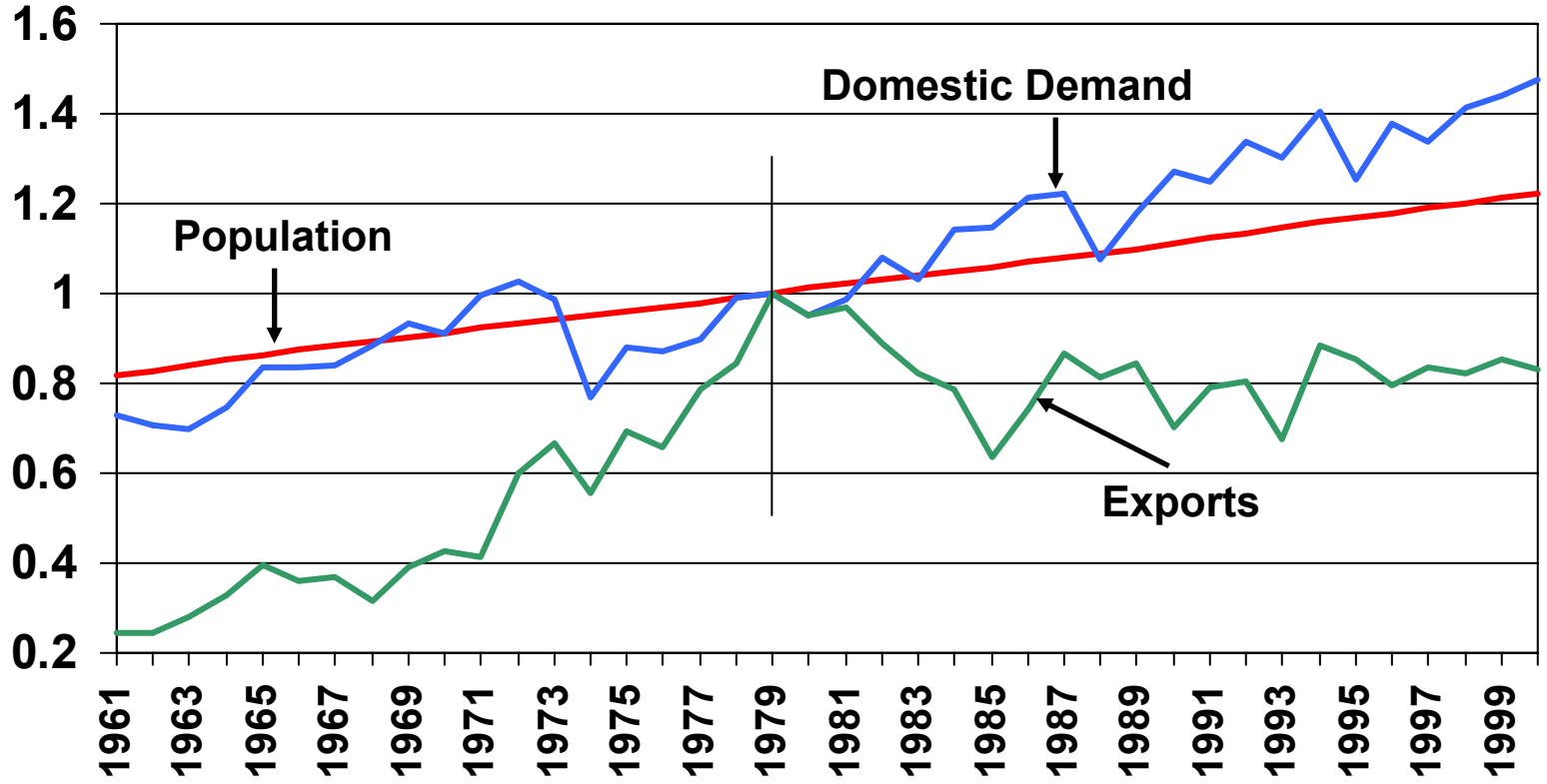
Guess which is exports and which is domestic demand

# Net Export Acreage for 8 Major Crops



# Domestic and Export Demand for Total Grains and Seeds, U.S. Population

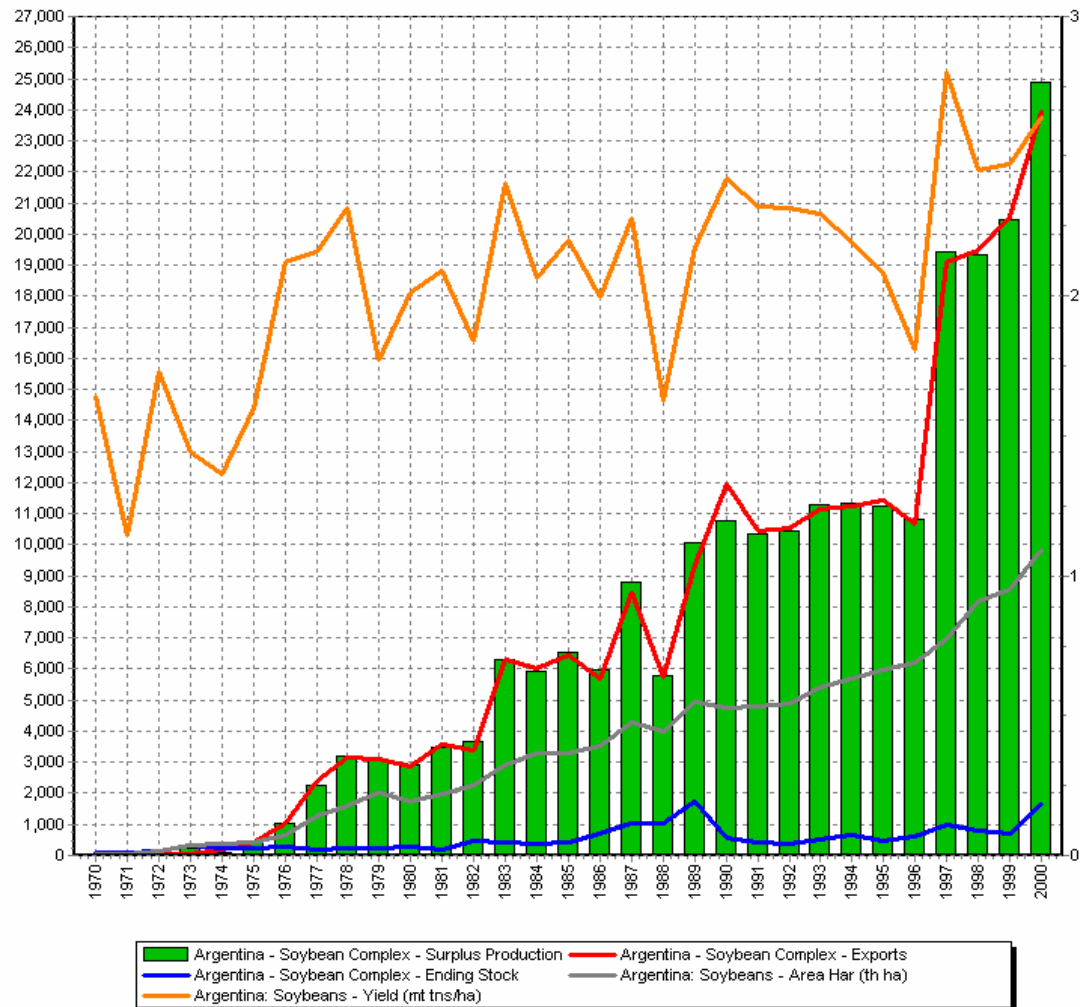
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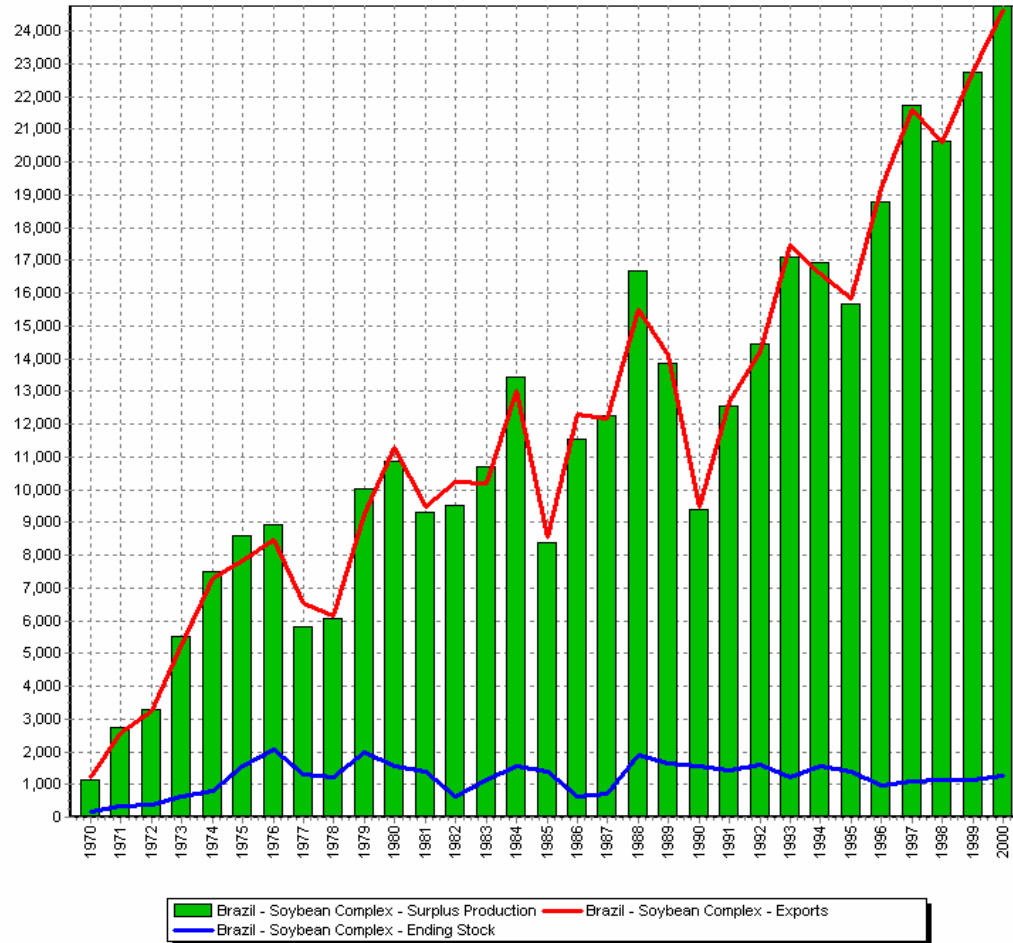
# *Expectations vs. Experience*

- Prices and program cost based on optimistic export projections
- Major crop exports have been flat for years
- Export competitors export all their production above domestic demand in the year it is produced

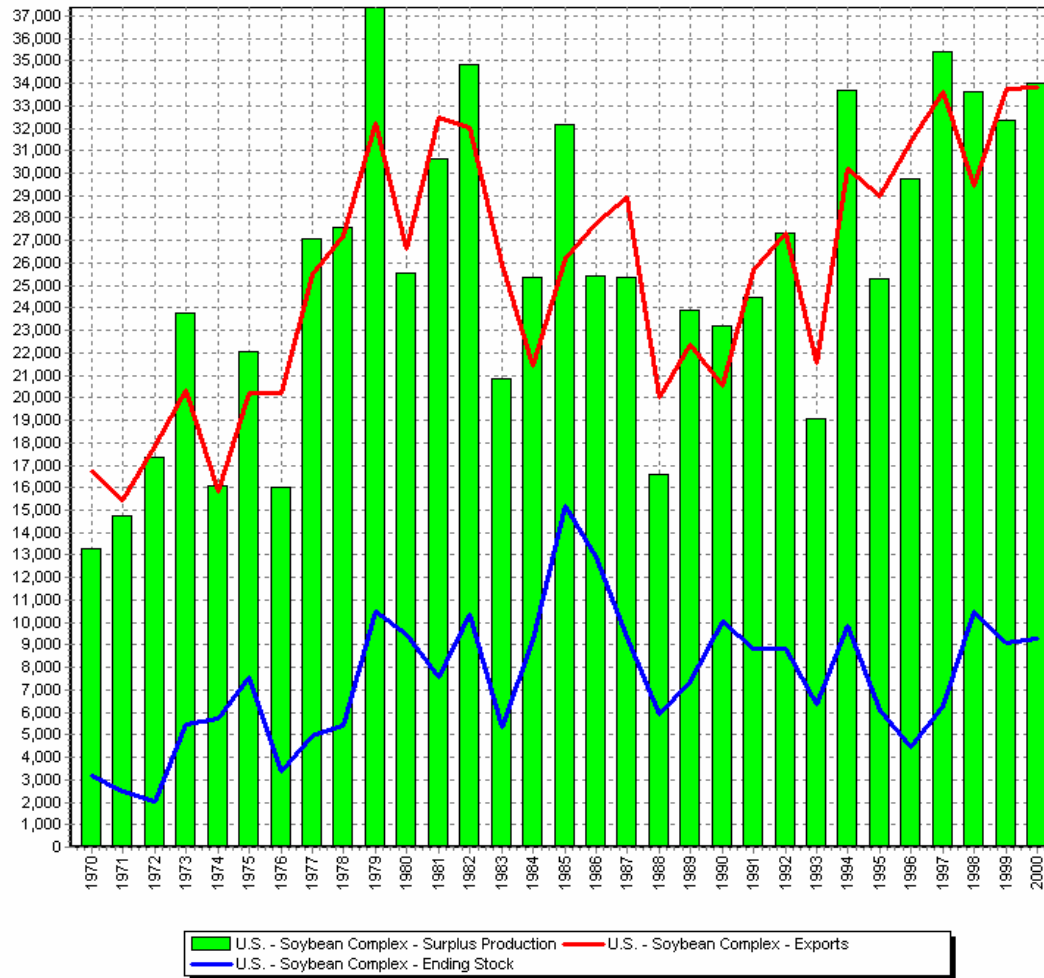
# Argentine Soybean Complex Exports and Surplus Production



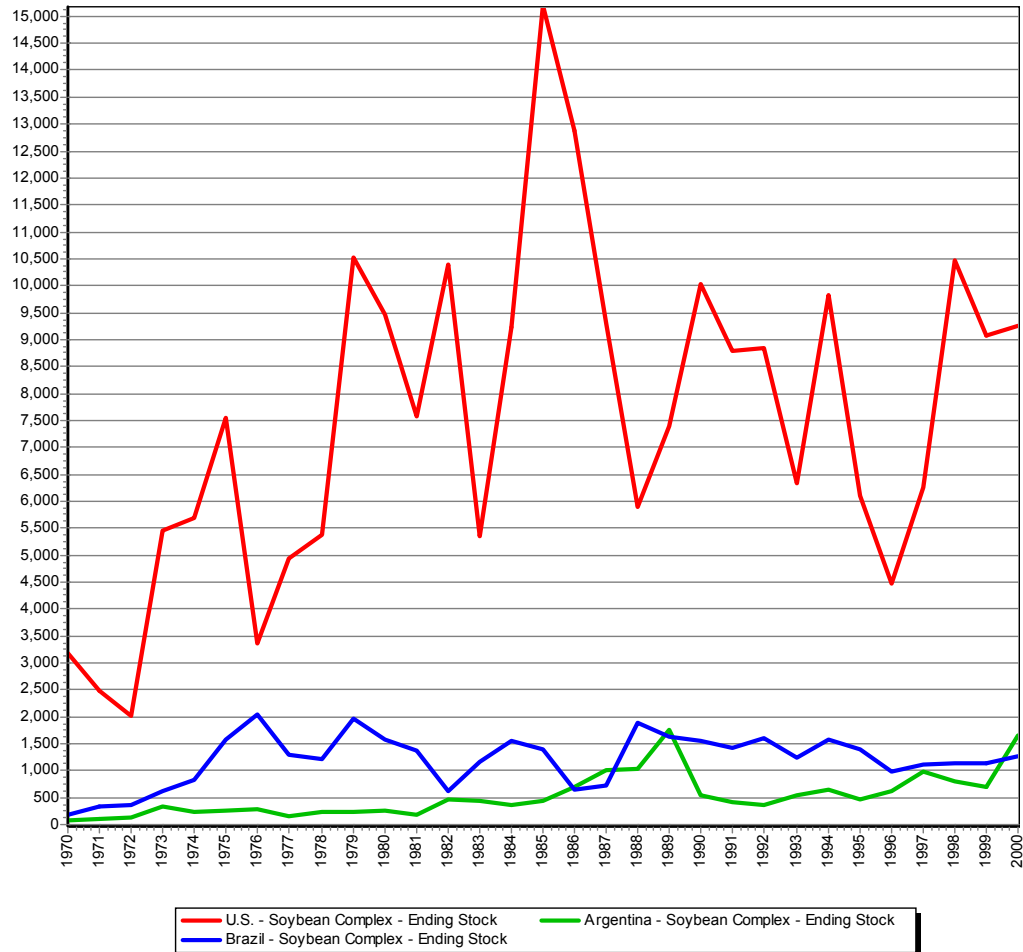
# ***Brazilian Soybean Complex Exports and Surplus Production***



# U.S. Soybean Complex Exports and Surplus Production



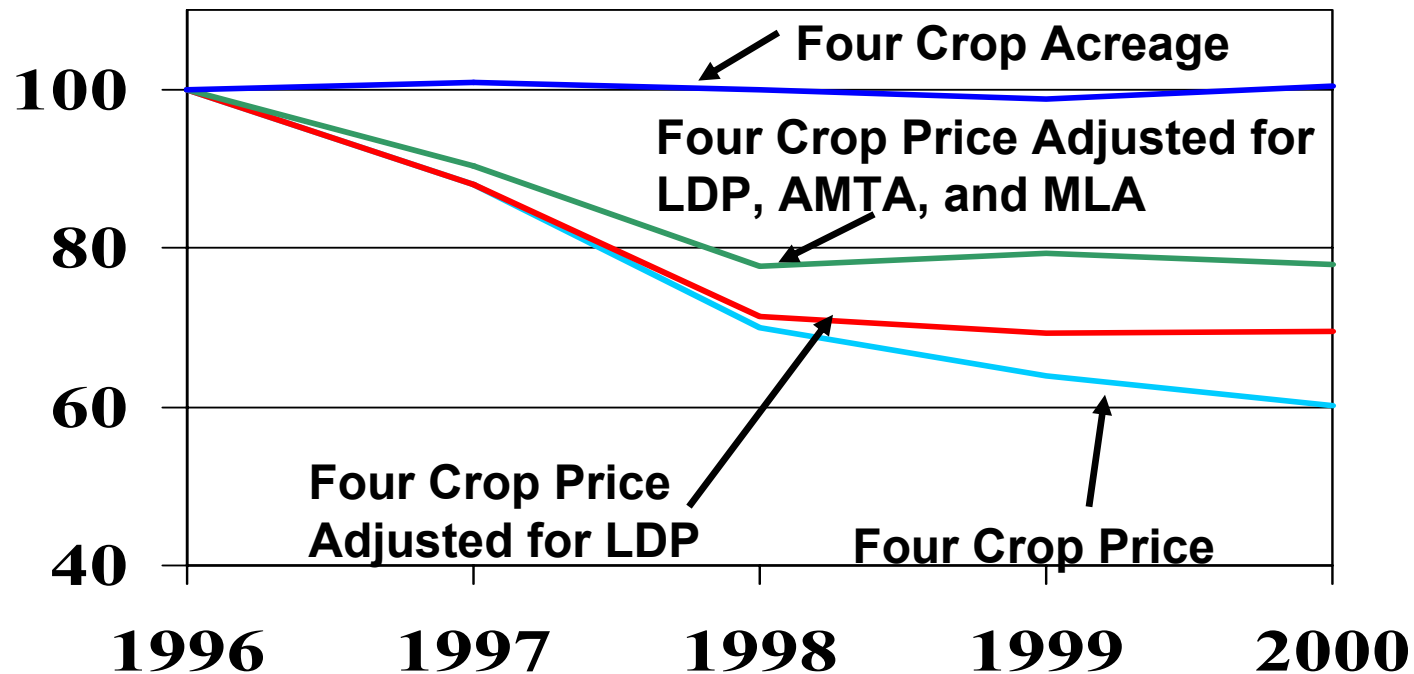
# Comparison of Soybean Complex Ending Stocks



# *Expectations vs. Experience*

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- **With Planting Flexibility & Decoupled Payments Farmers Would Plant for the Market – Reduce Production When Needed**

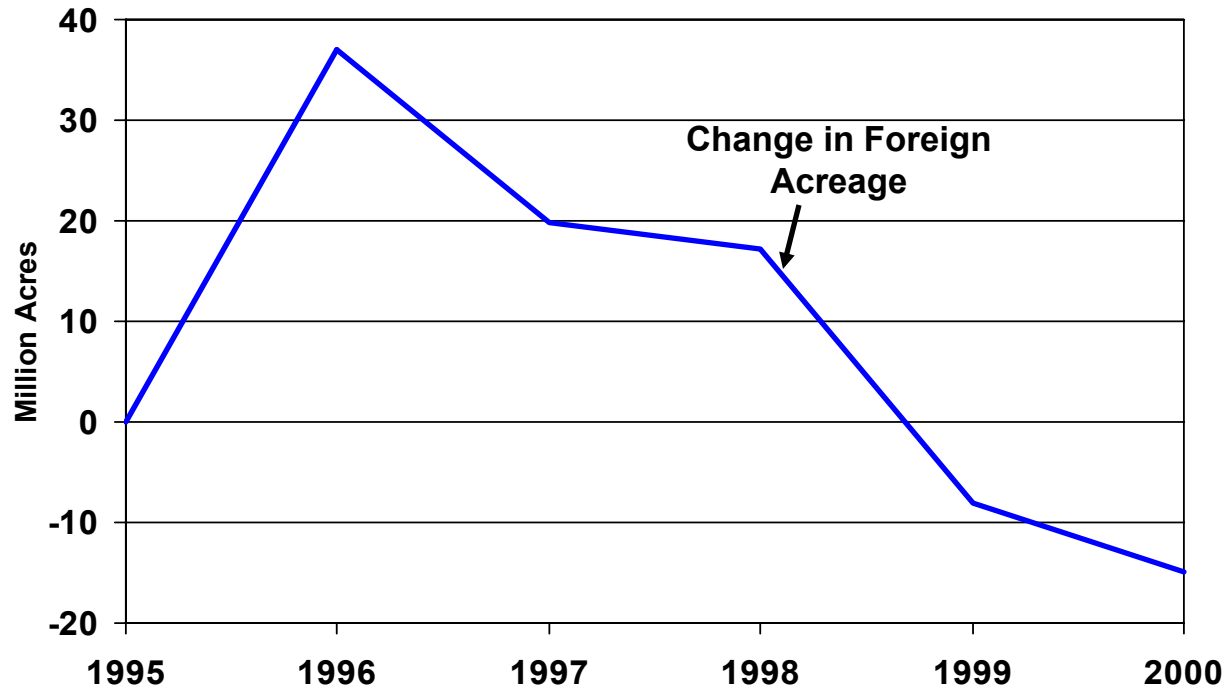
# ***Indexed Four Crop Acreage, Price and Price Adjusted for LDP and Contract Payments***



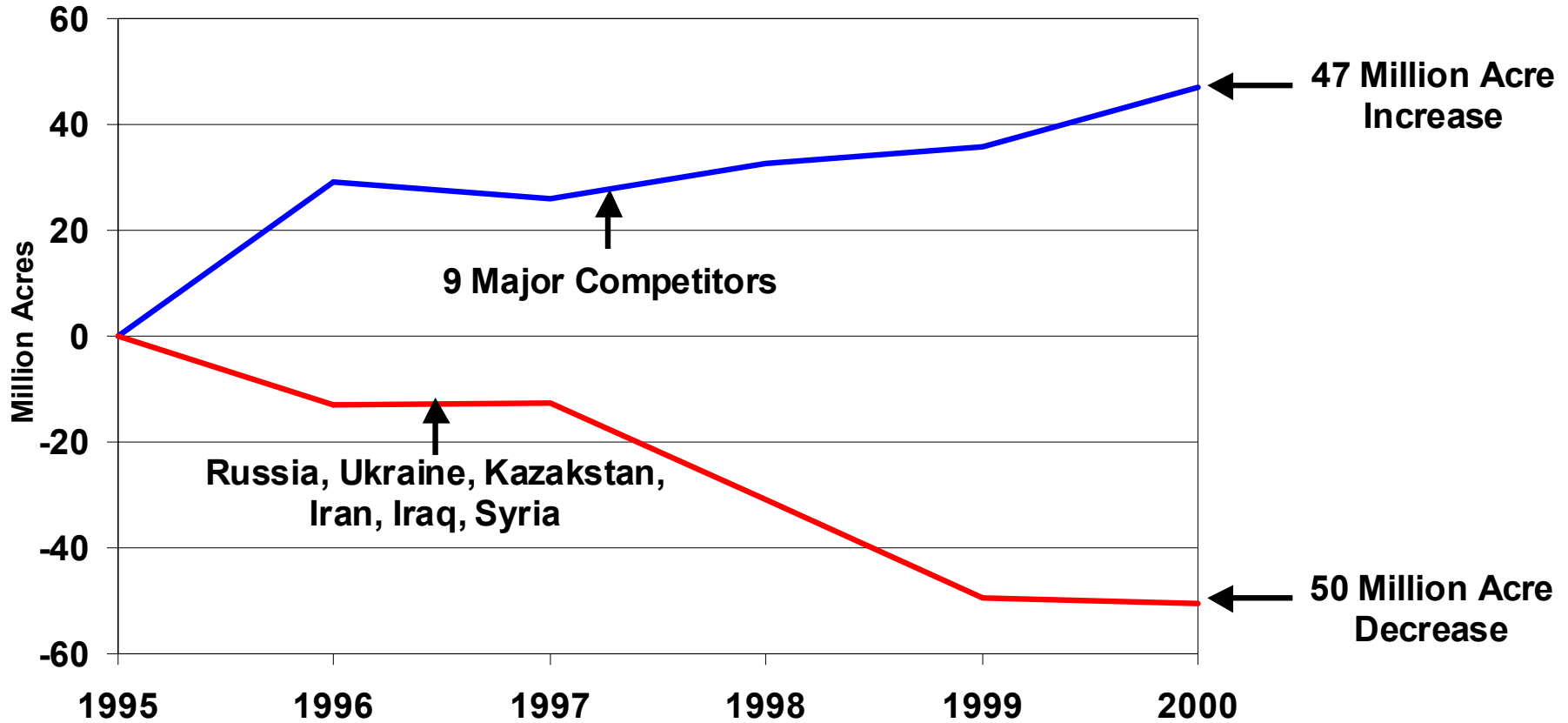
# *Expectations vs. Experience*

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- Export competitors export all their production above domestic demand in the year it is produced
- With Planting Flexibility & Decoupled Payments Farmers Would Plant for the Market – Reduce Production When Needed
- Eliminating set-asides and lower commodity prices did not cause export competitors to reduce acreage

# Foreign Crop Acreage



# *Change in Foreign Crop Acreage*



# Weekly Policy Column

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

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# *For More Information ...*

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