

Legacy of the New Farm Policy Direction

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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...

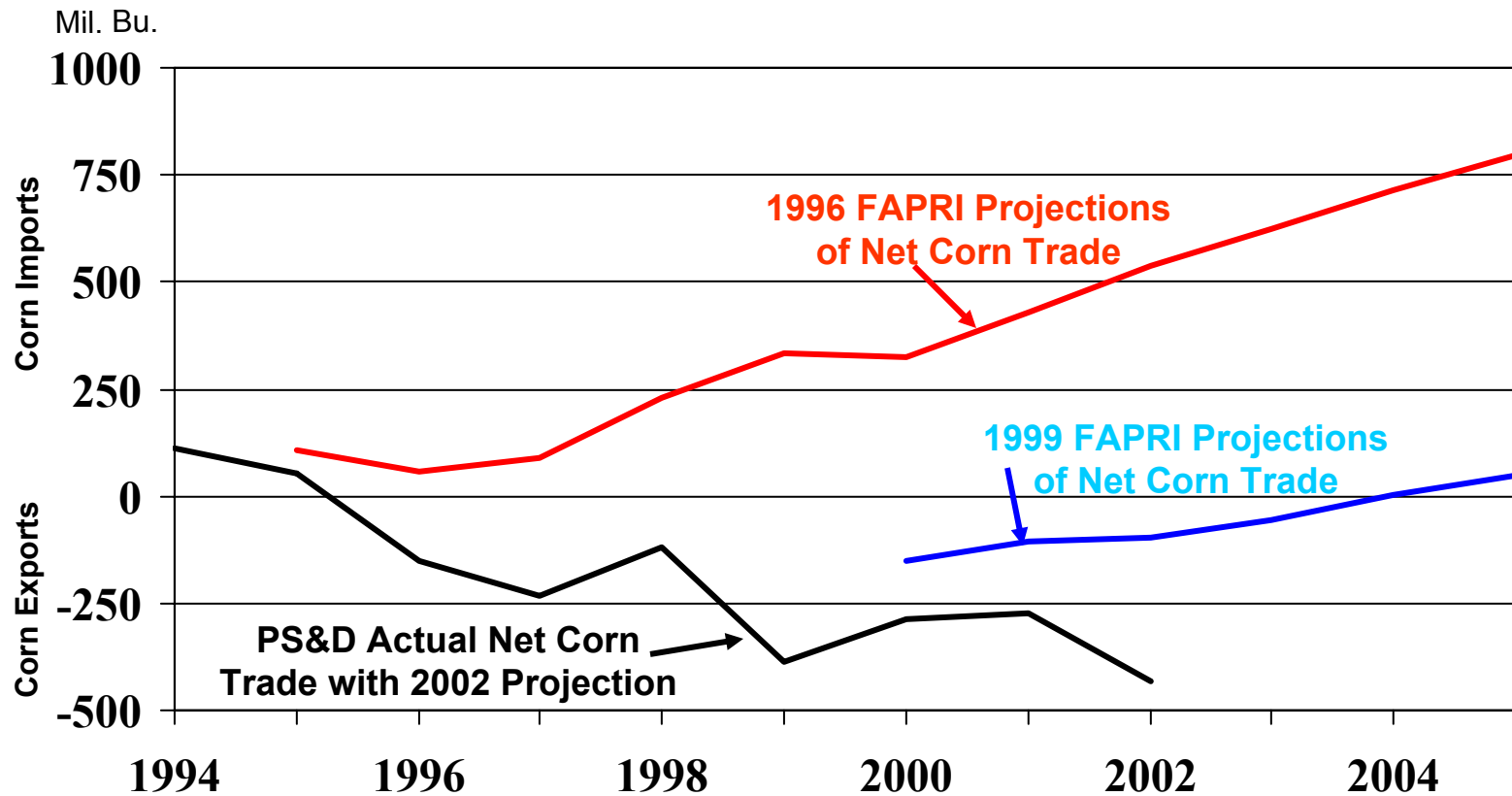
- **Demand Will Grow as Fast or Faster than Supply** – Due to Rapid Per Capita Income Growth in China/Asia
- **Supply Will Be More Elastic** –With Planting Flexibility & Decoupled Payments Farmers Would Plant for the Market and Reduce Production When Needed
- **Export Demand Will Be More Elastic**
 - 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

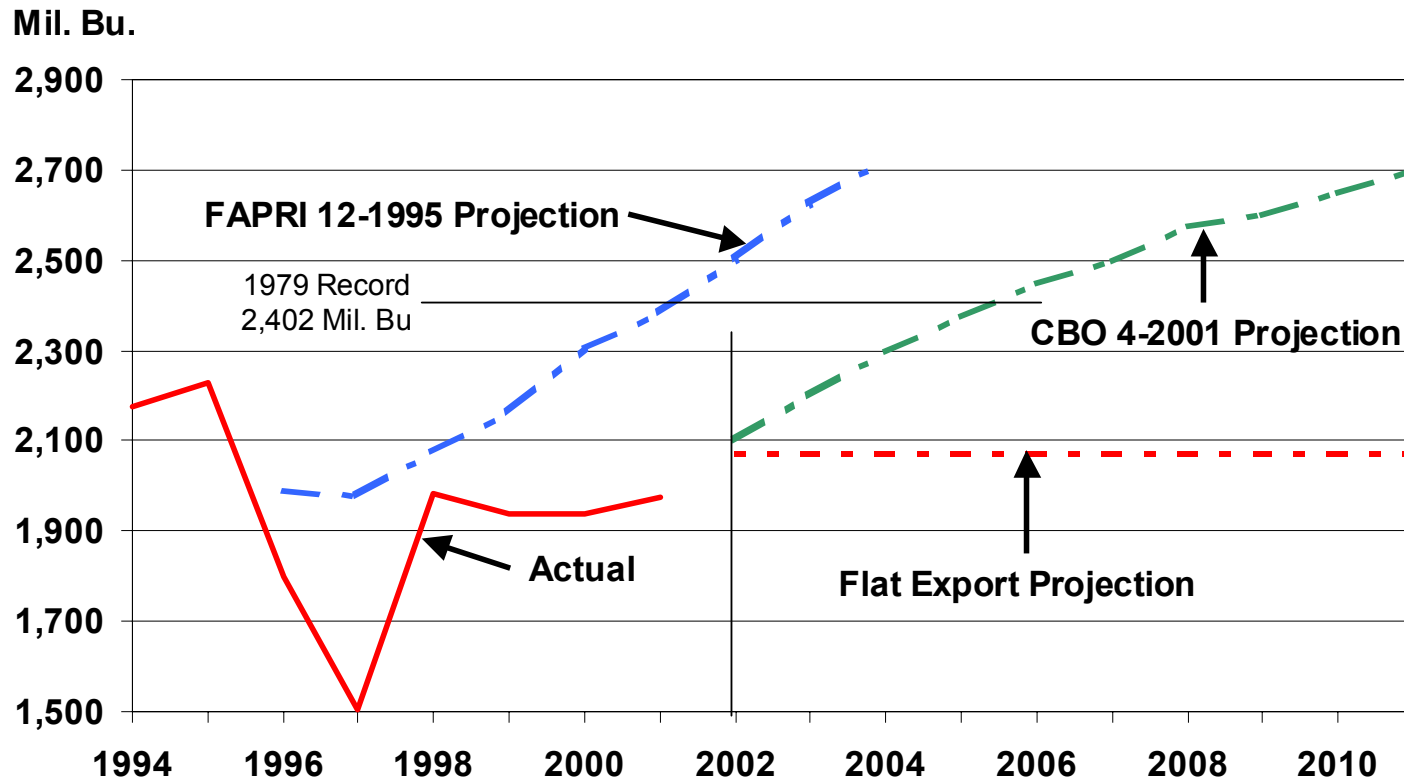
China Net Corn Trade

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



U.S. Corn Exports

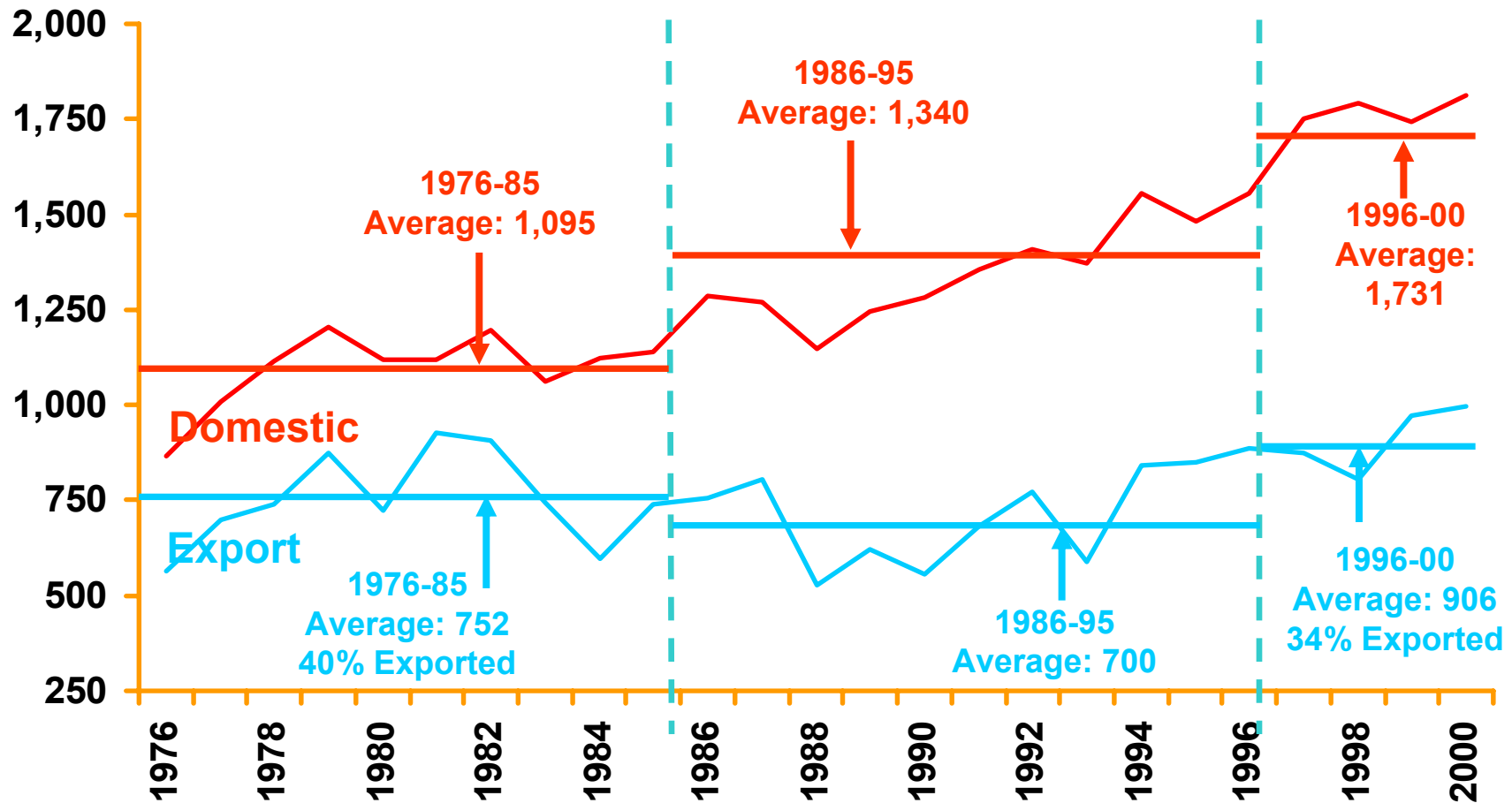
Comparison between 1995 FAPRI projection, 2001 CBO projection, 1994-2001 PS&D actual, and 2002-2011 APAC flat export projection



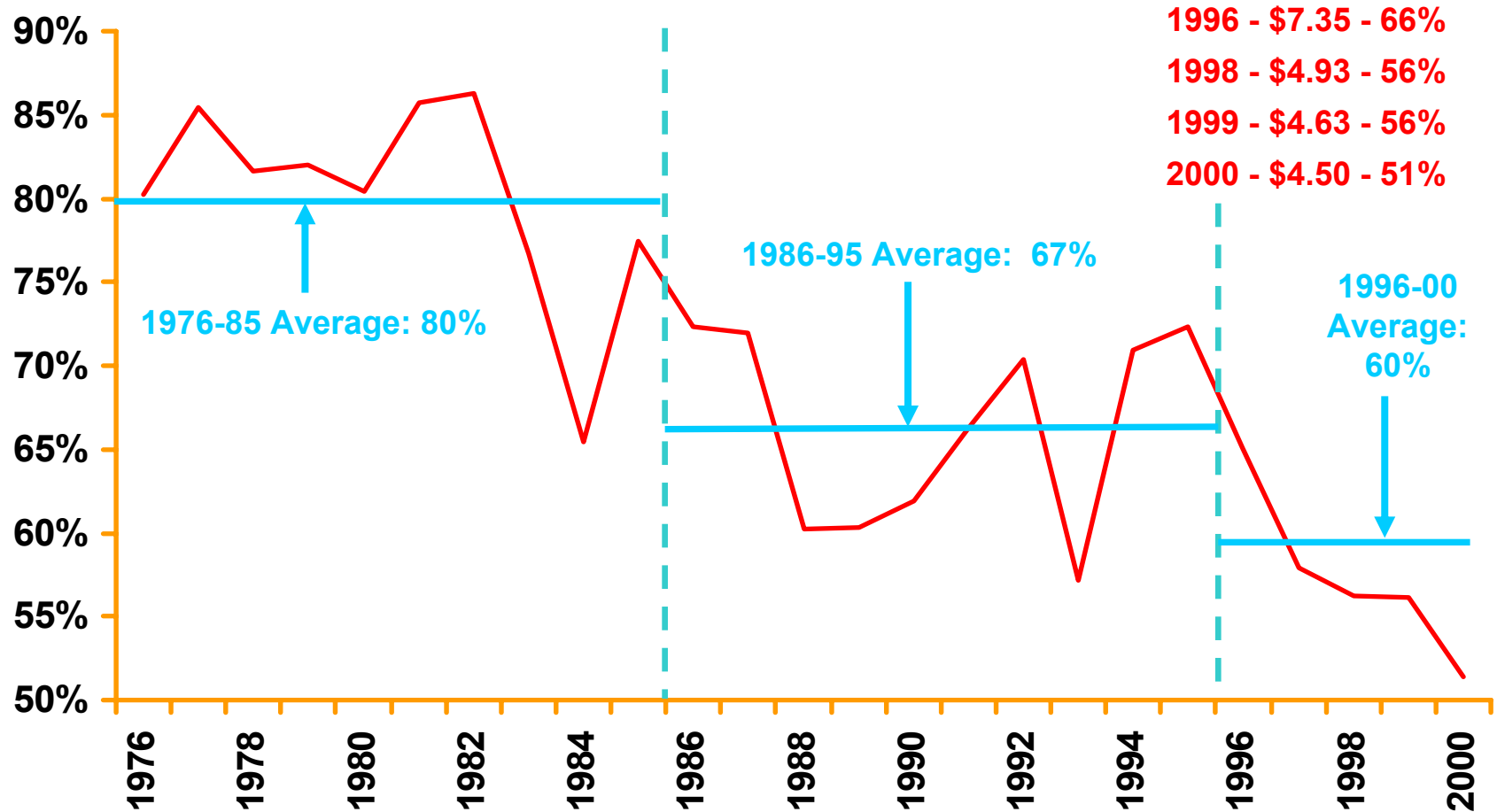
Expectations vs. Experience

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

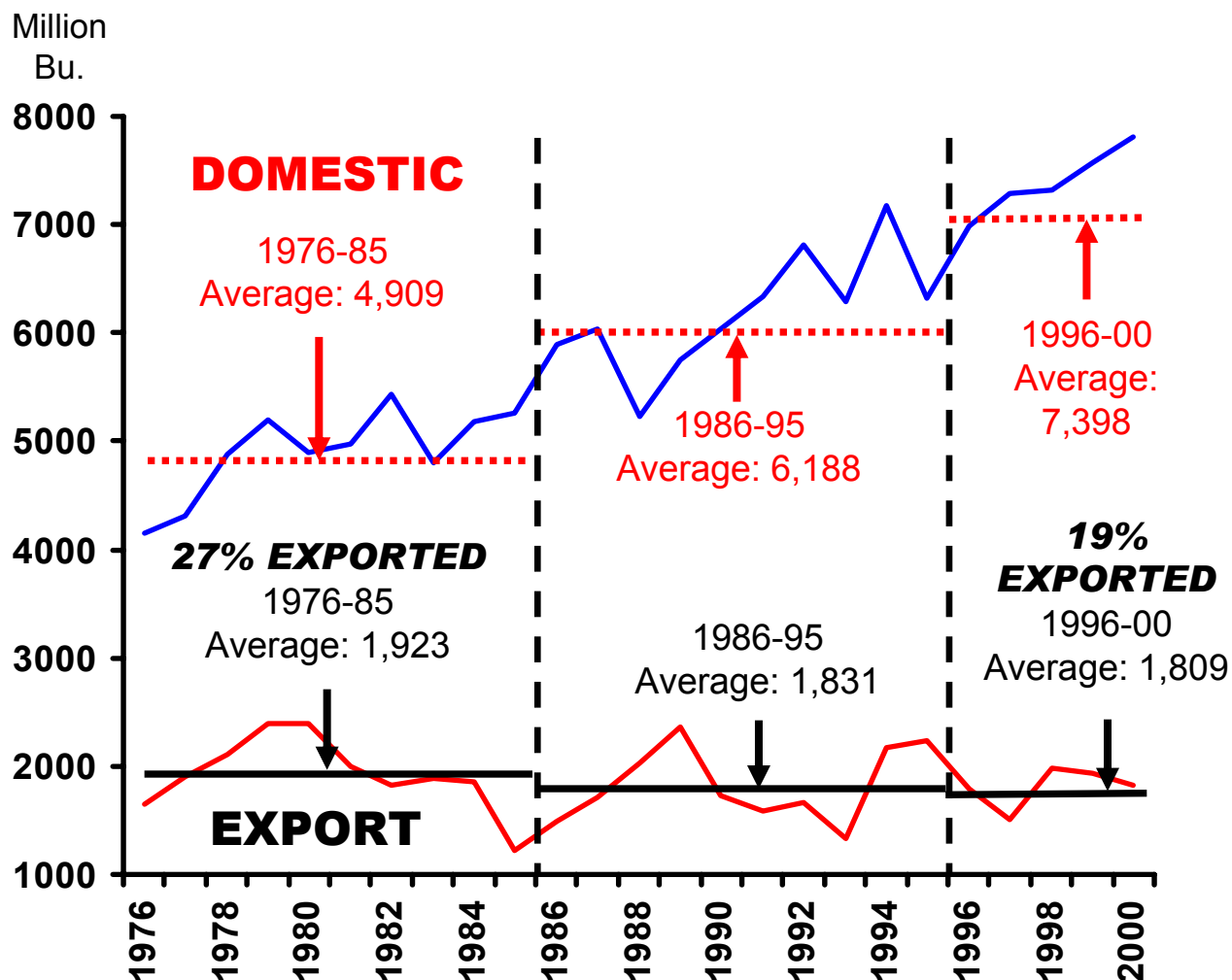
U.S. Domestic & Export Demand



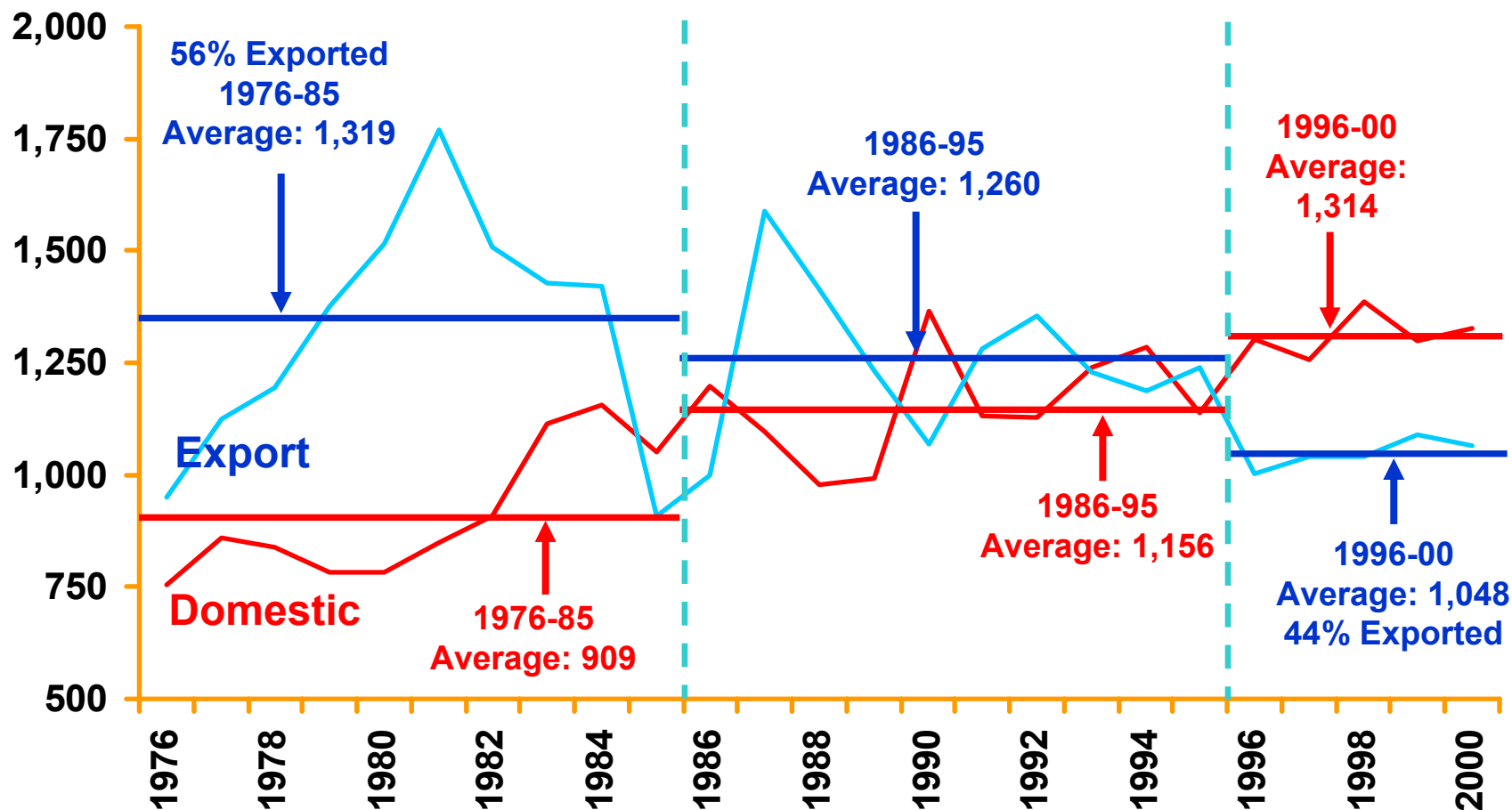
U.S. Share of World Exports



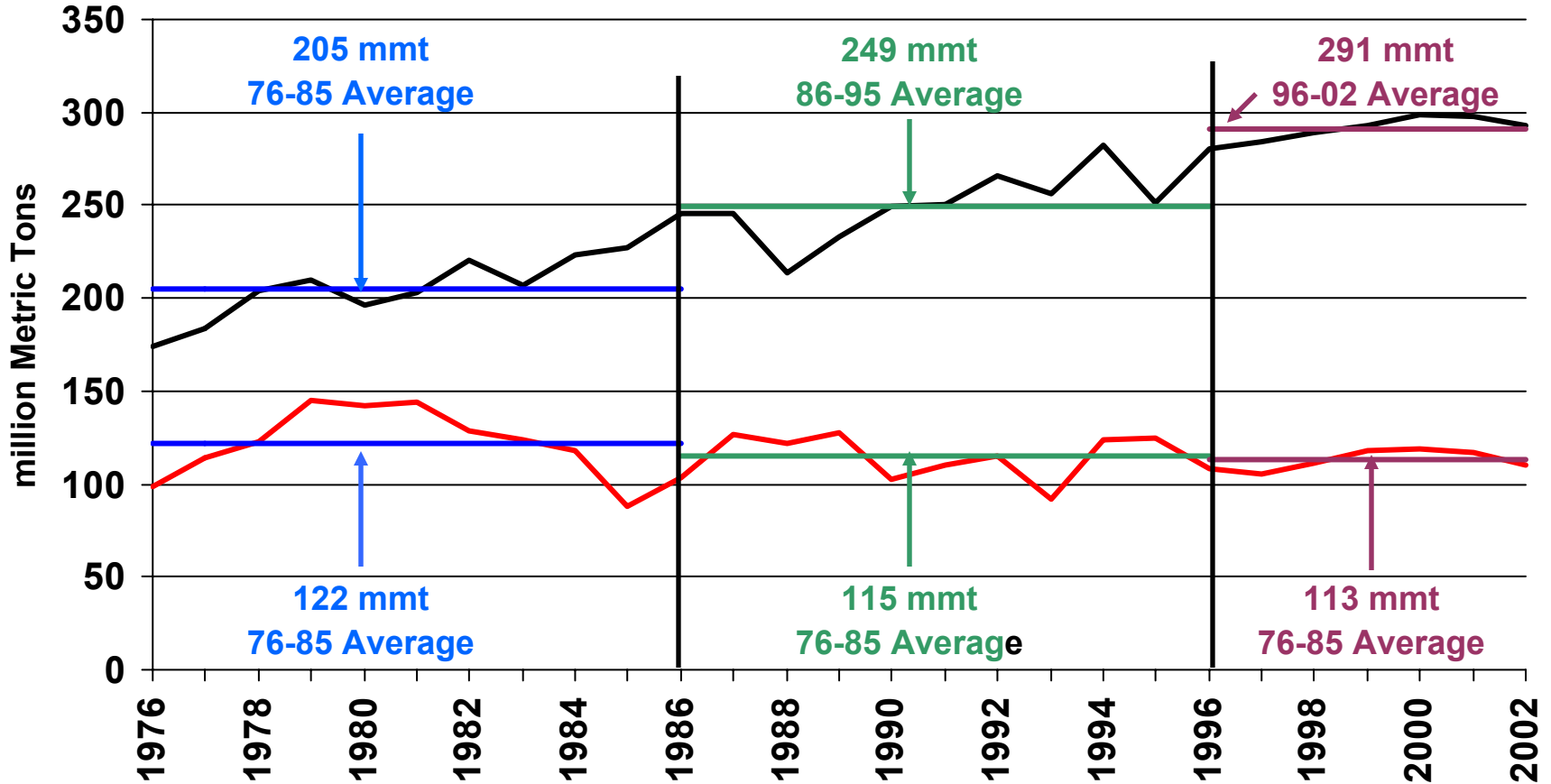
U.S. Domestic and Export Demand



U.S. Domestic & Export Demand

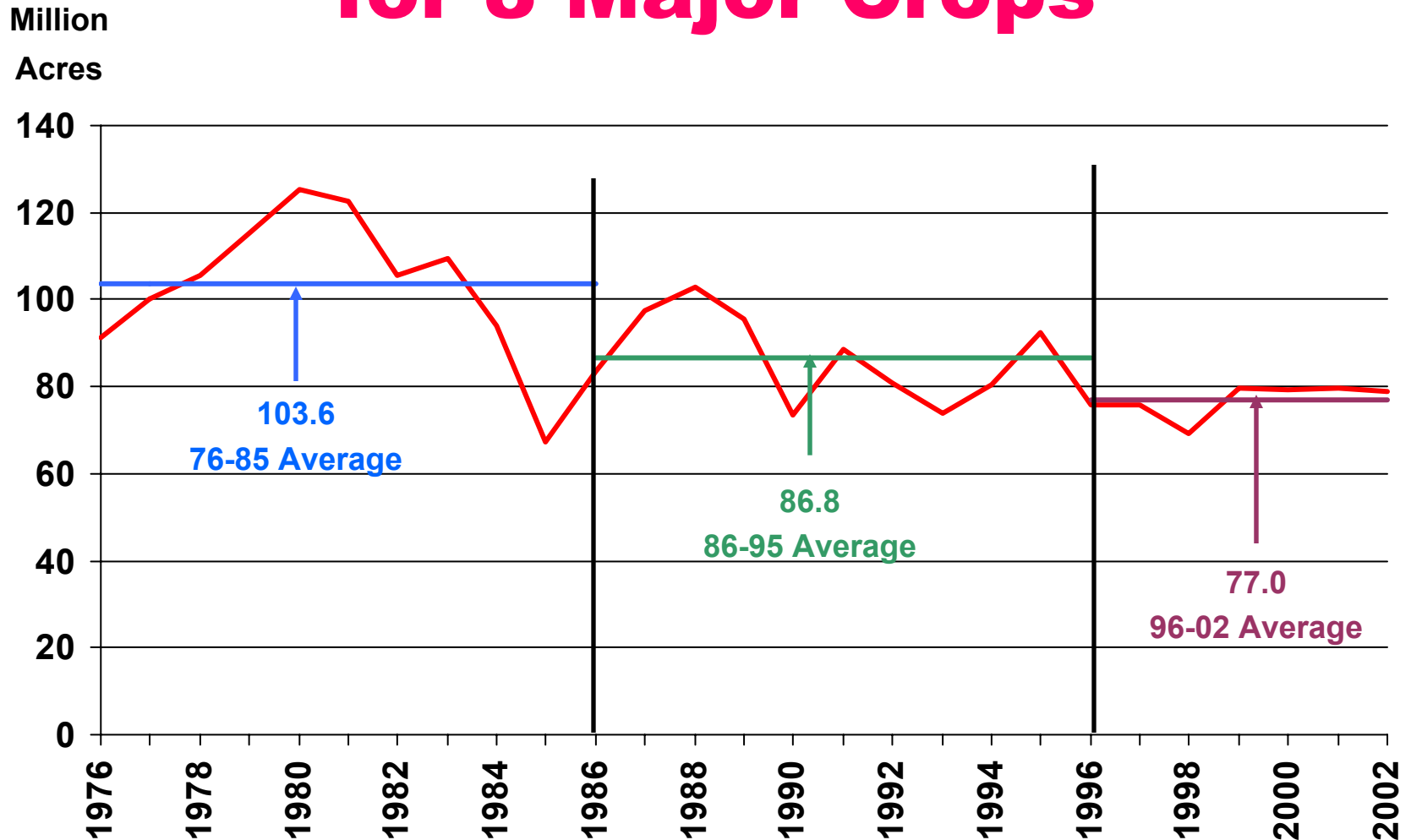


Net Export and Domestic Demand for 8 Major Crops



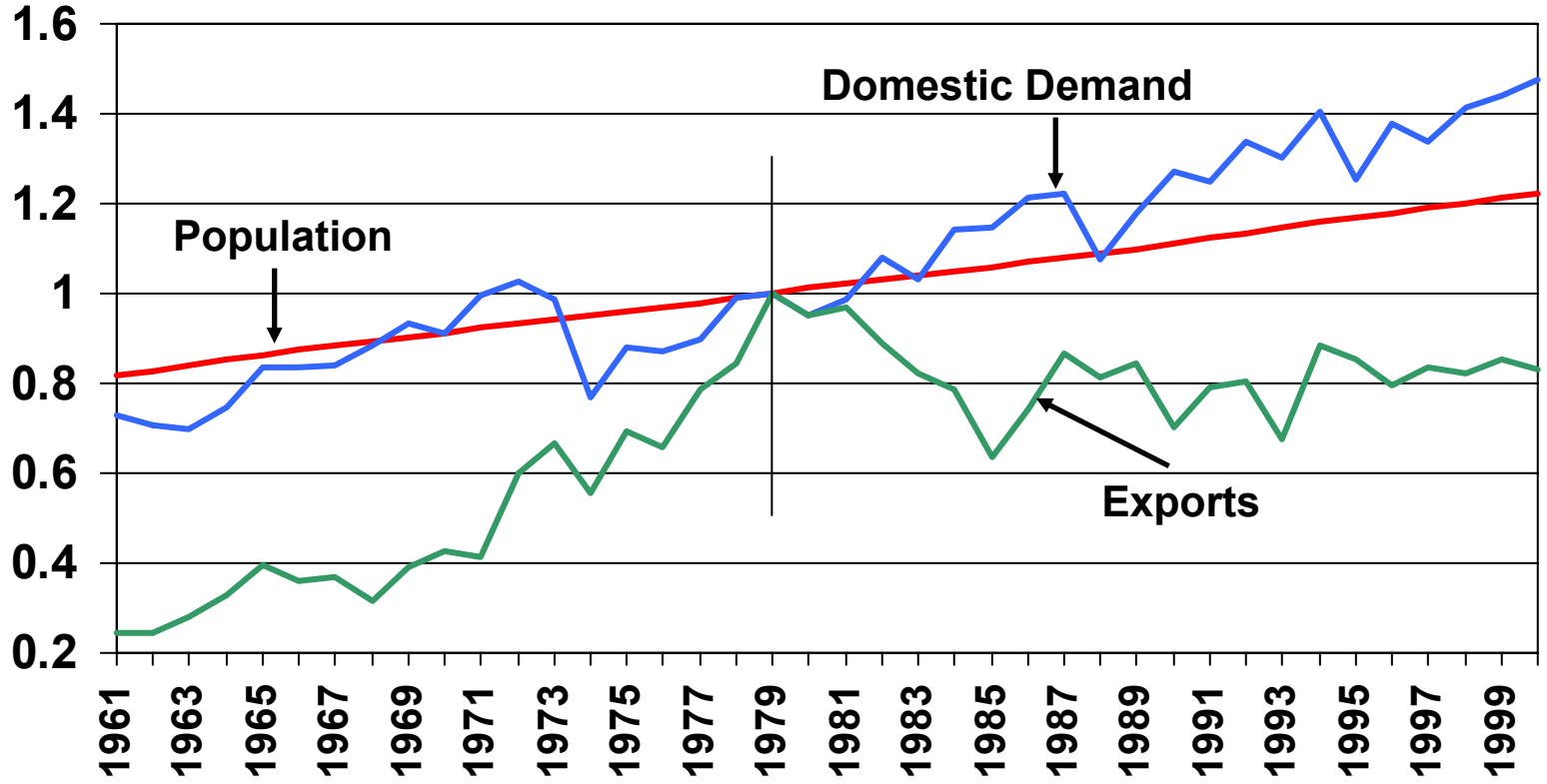
Guess which is exports and which is domestic demand

Net Export Acreage for 8 Major Crops



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

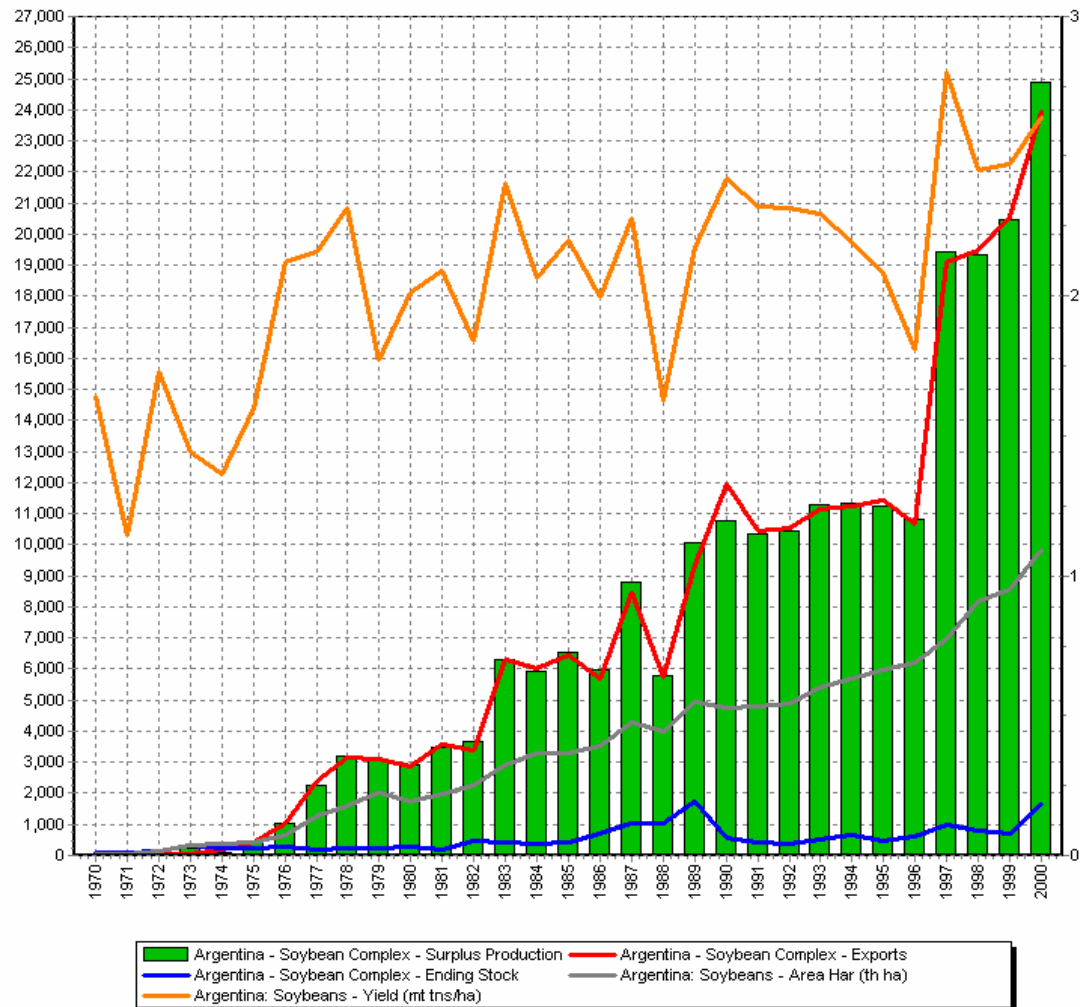
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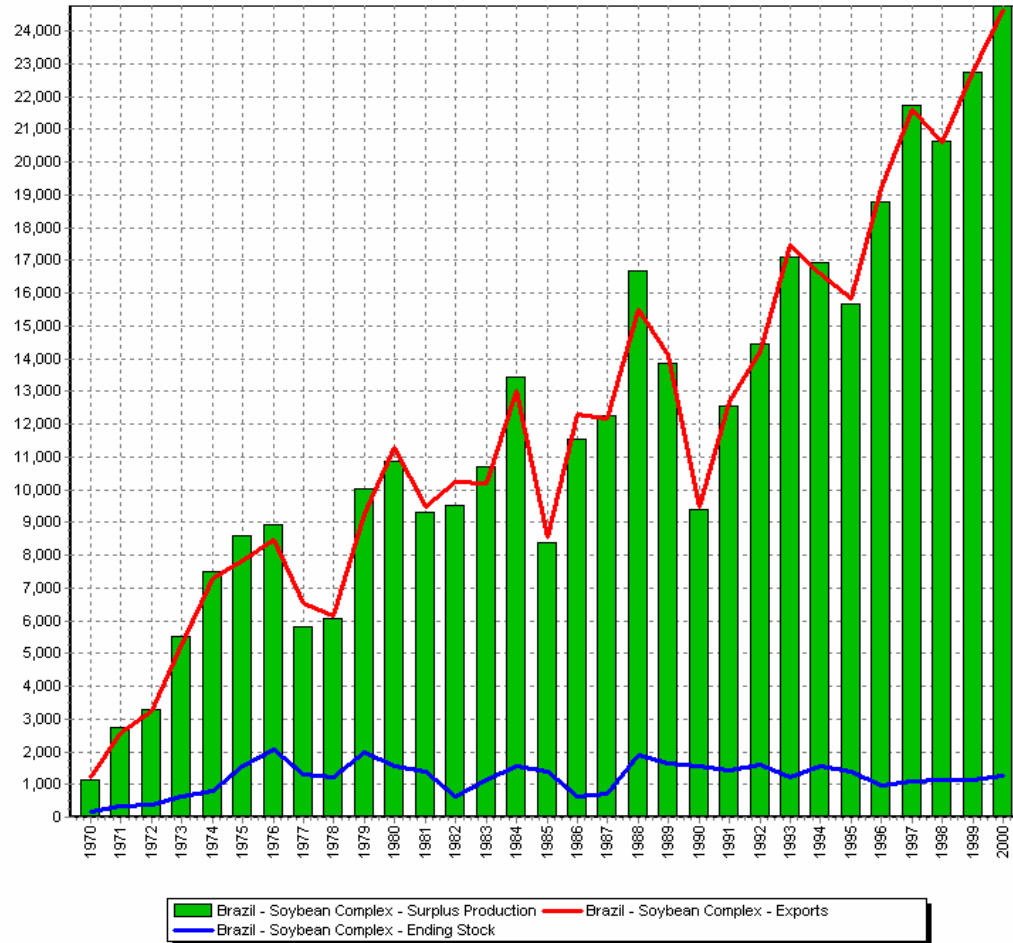
Expectations vs. Experience

- 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

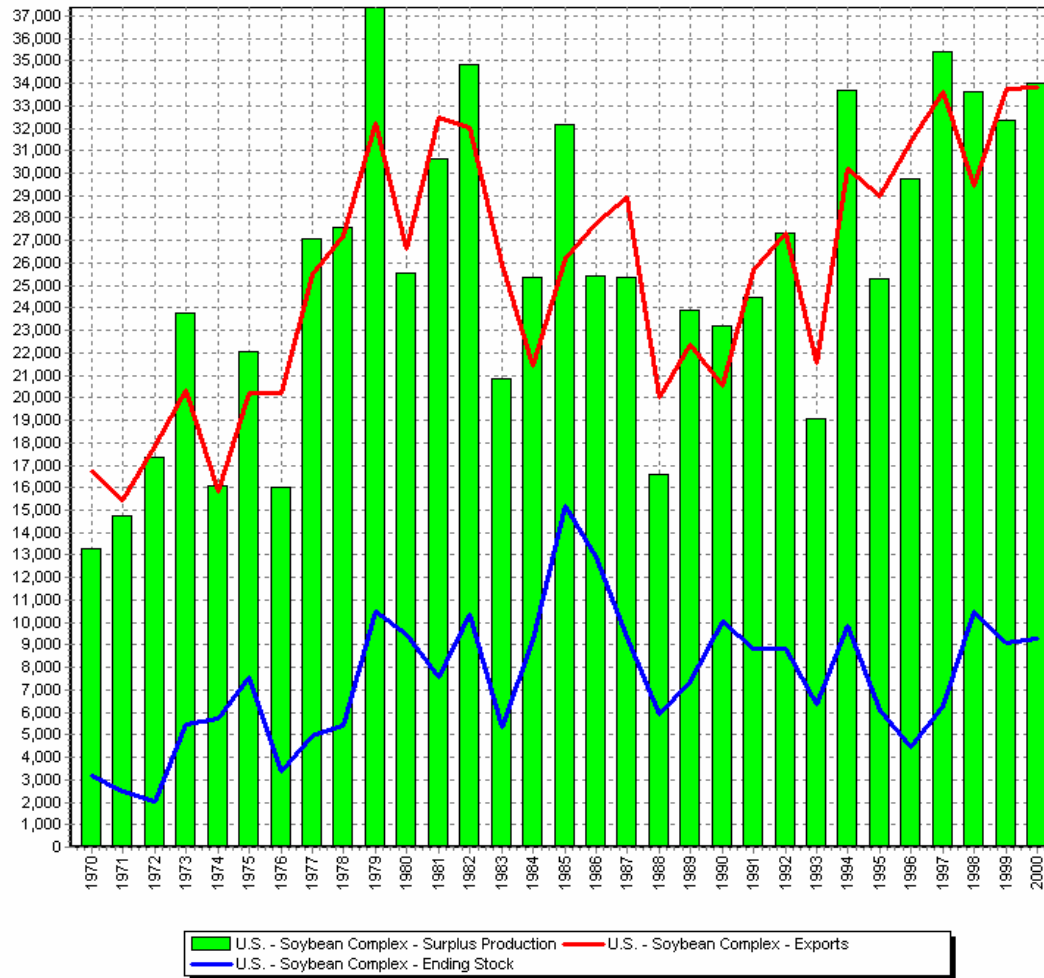
Argentine Soybean Complex Exports and Surplus Production



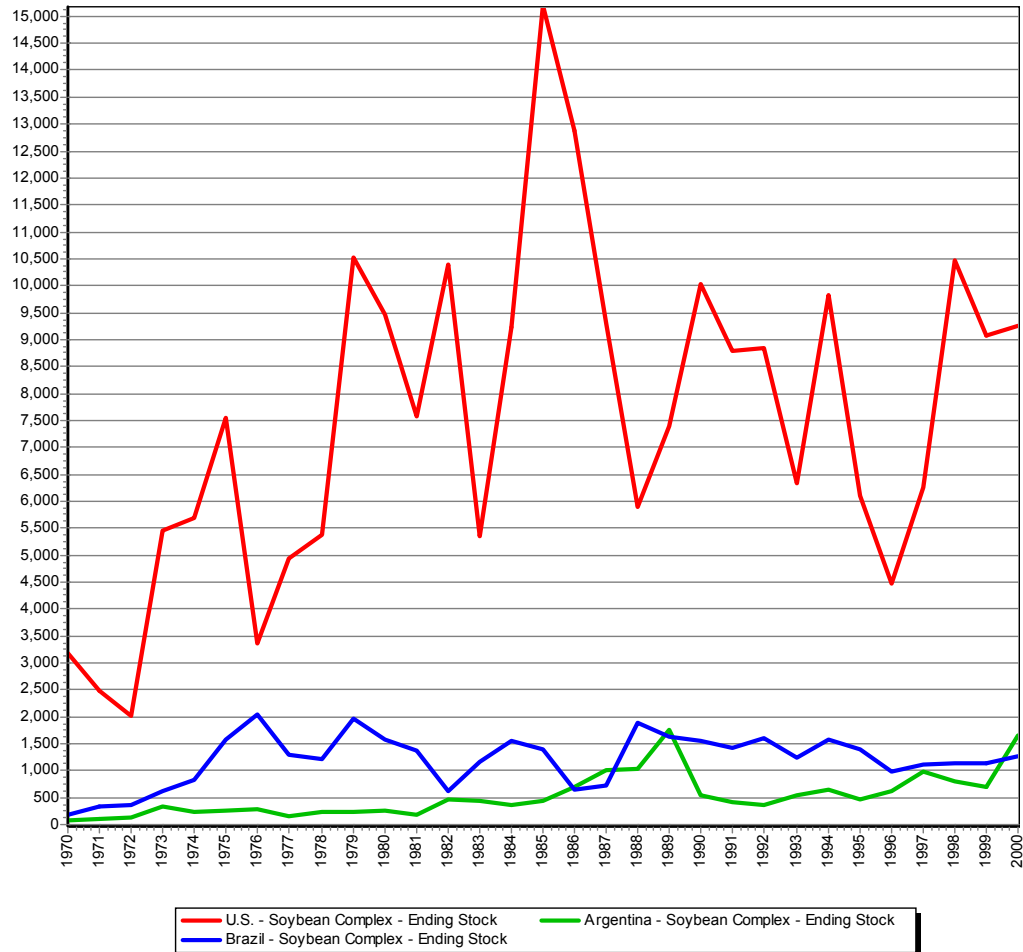
Brazilian Soybean Complex Exports and Surplus Production



U.S. Soybean Complex Exports and Surplus Production



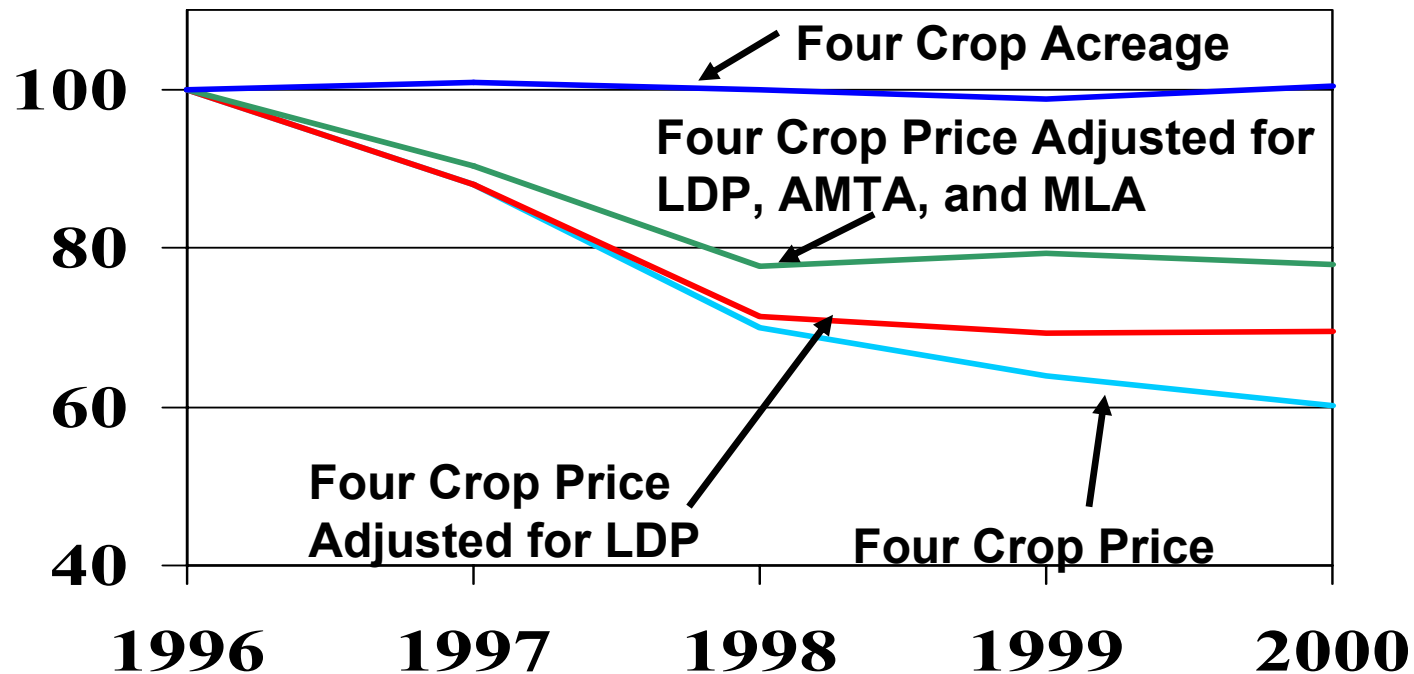
Comparison of Soybean Complex Ending Stocks



Expectations vs. Experience

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

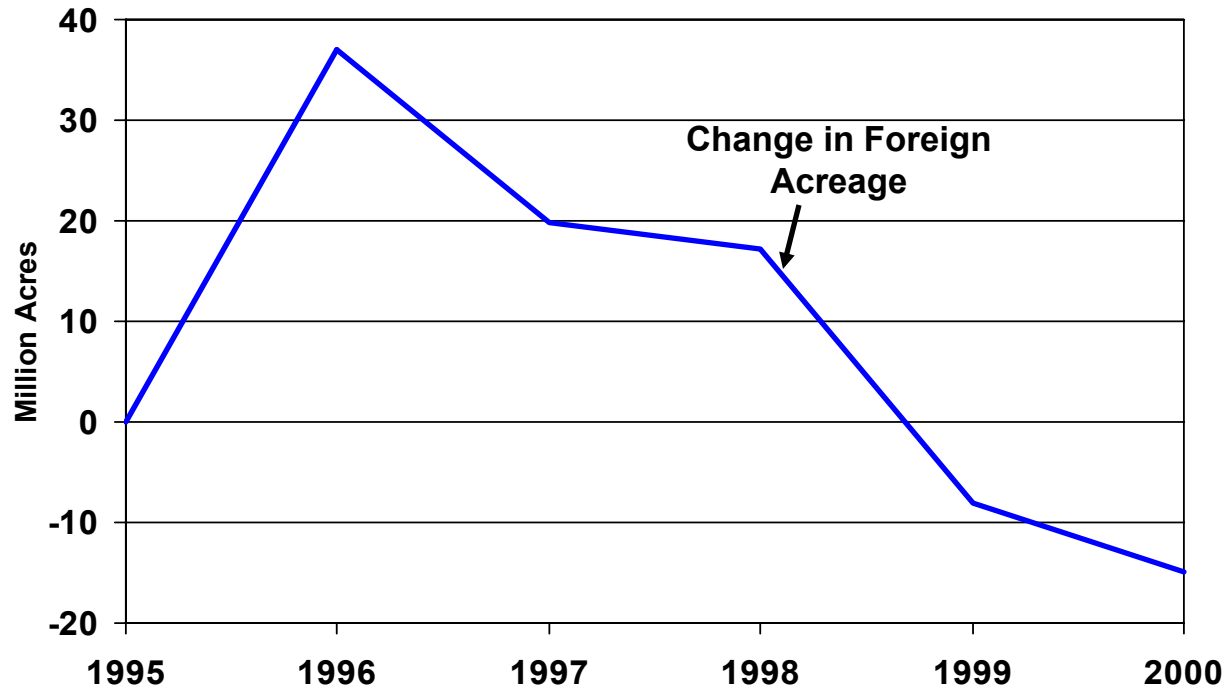
Indexed Four Crop Acreage, Price and Price Adjusted for LDP and Contract Payments



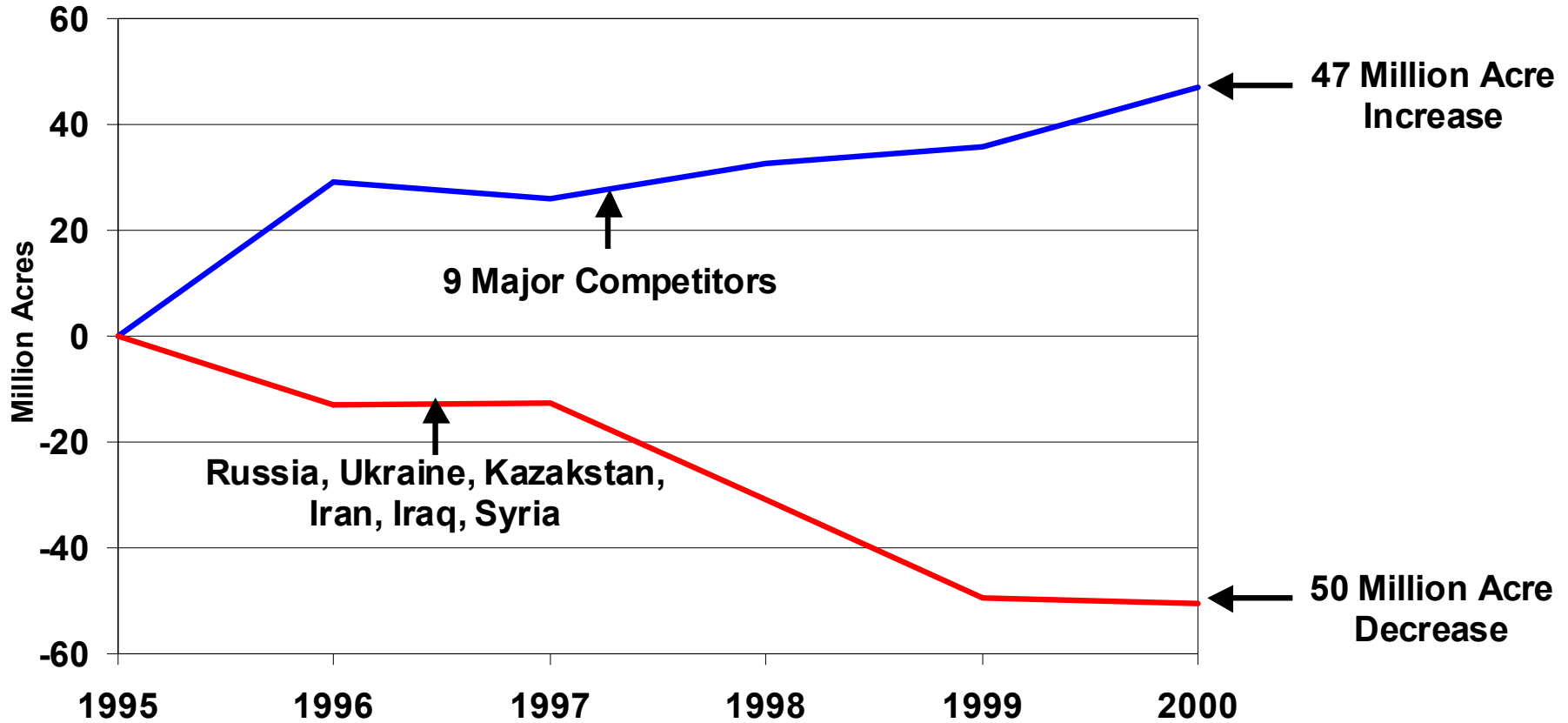
Expectations vs. Experience

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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

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