

Has US Farm Policy Helped Farmers Here Or Anywhere Else in the World?

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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**
- **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.**
- **800 million people lack access to adequate nutrition**

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.

Internationally...

Were promised that the policy trio of:

- De-regulation
- Trade Liberalization
- Privatization

Would provide:

- Reduced malnutrition
- Increased the rate of social gains
- Increased farm prices and incomes

But it Hasn't Worked Out

International policy trio of de-regulation, trade liberalization and privatization...

- Ineffective, contentious and uncooperative
- Decrease in the rate of improvement of social measures
- Collapse in farm incomes
- Increase in concentration and benefits to multinational agribusinesses
- Increase public cost
- Does not allow for distinctive national policies

In the U.S.—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

We Have Dropped the “Managing Plenty” Part

In the past farm policies included:

- Floor price
- Supply management tools
- Price stabilization

Over the years and especially since 1996:

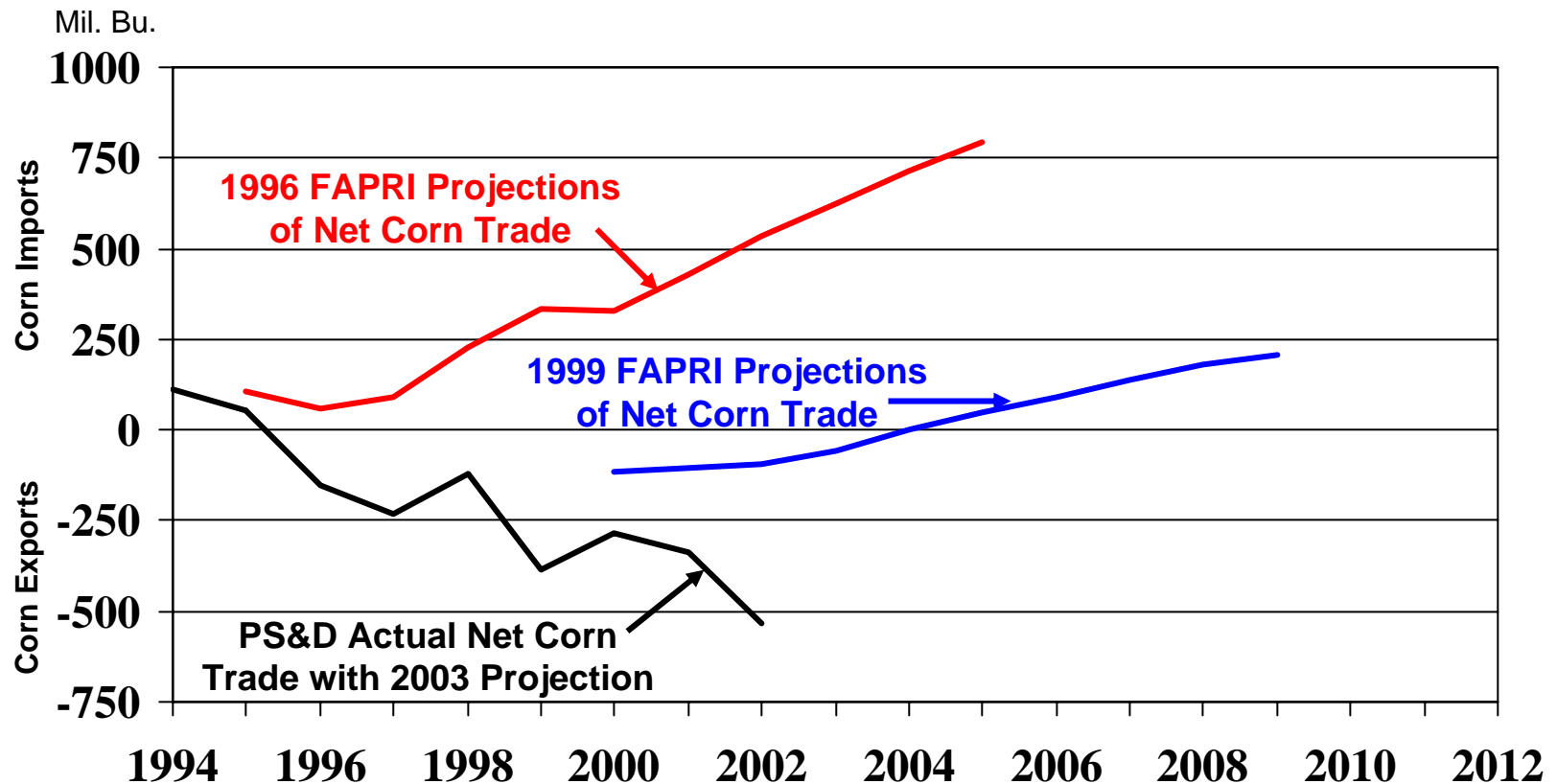
- All three were eliminated because of expectations—expectations that:
- **Exports would drive agricultural growth and prosperity, besides that...**
- *If markets are allowed to be allowed to work agriculture will do just fine*

Expectations vs. Experience

Expectation: Rapid per capita growth in China/Asia will increase demand and US exports

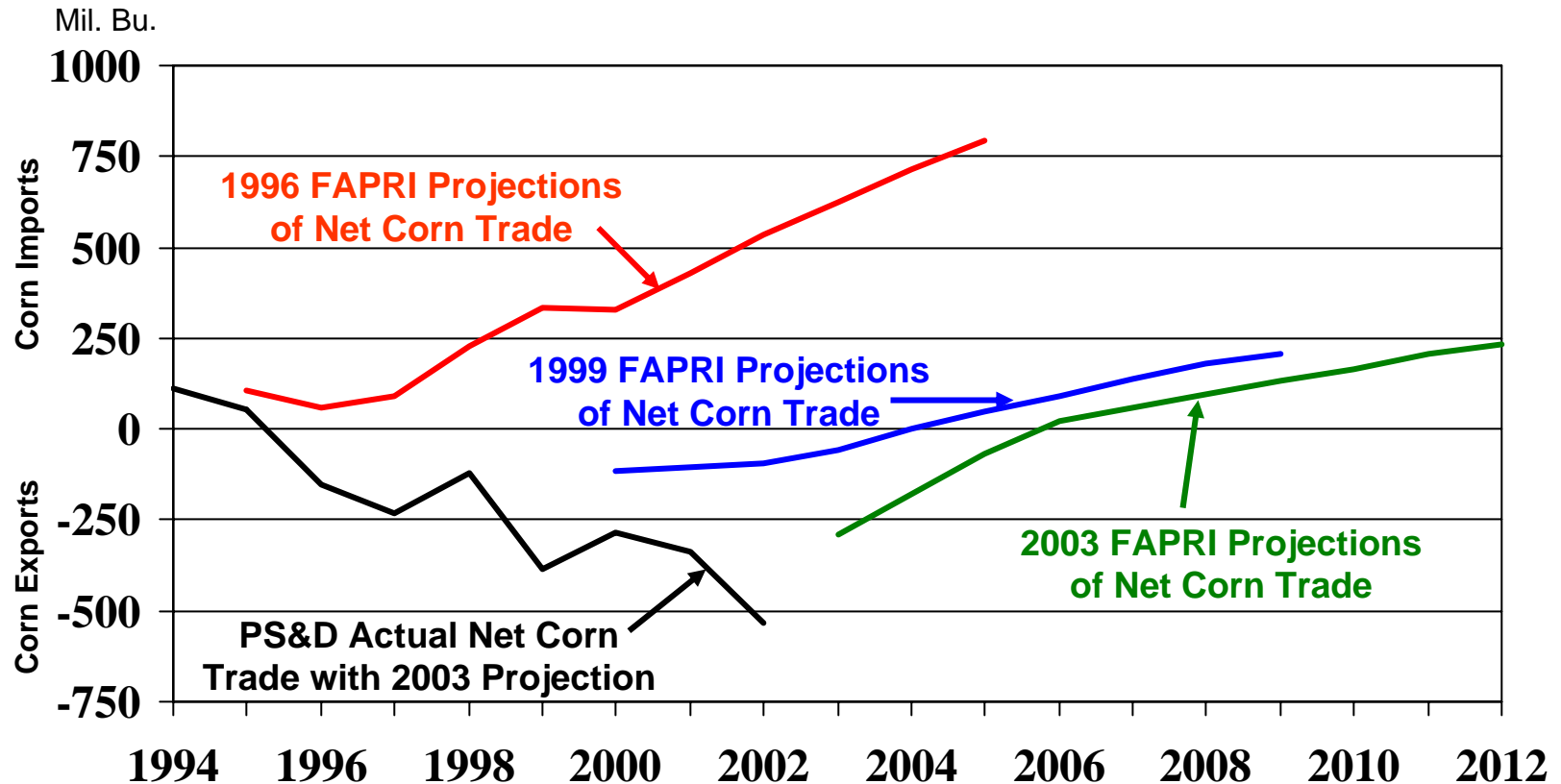
China Net Corn Trade

Comparison between 1996 and 1999 FAPRI projections and PS&D actual

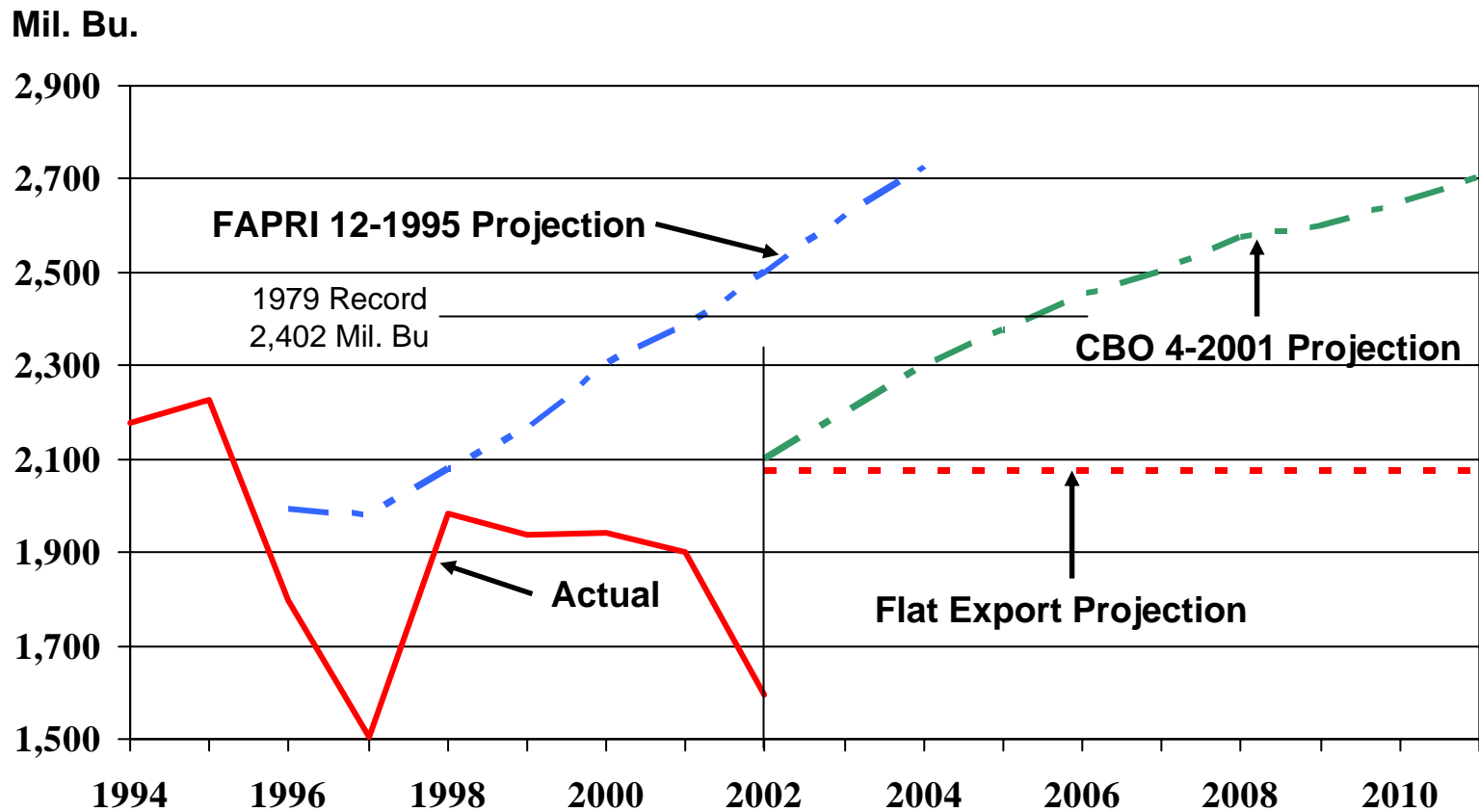


China Net Corn Trade

Comparison between 1996, 1999 and 2003 FAPRI projections and PS&D actual



Corn Baseline Projections U.S. Exports



Expectations vs. Experience

Expectation: Rapid per capita growth in China/Asia will increase demand and US exports

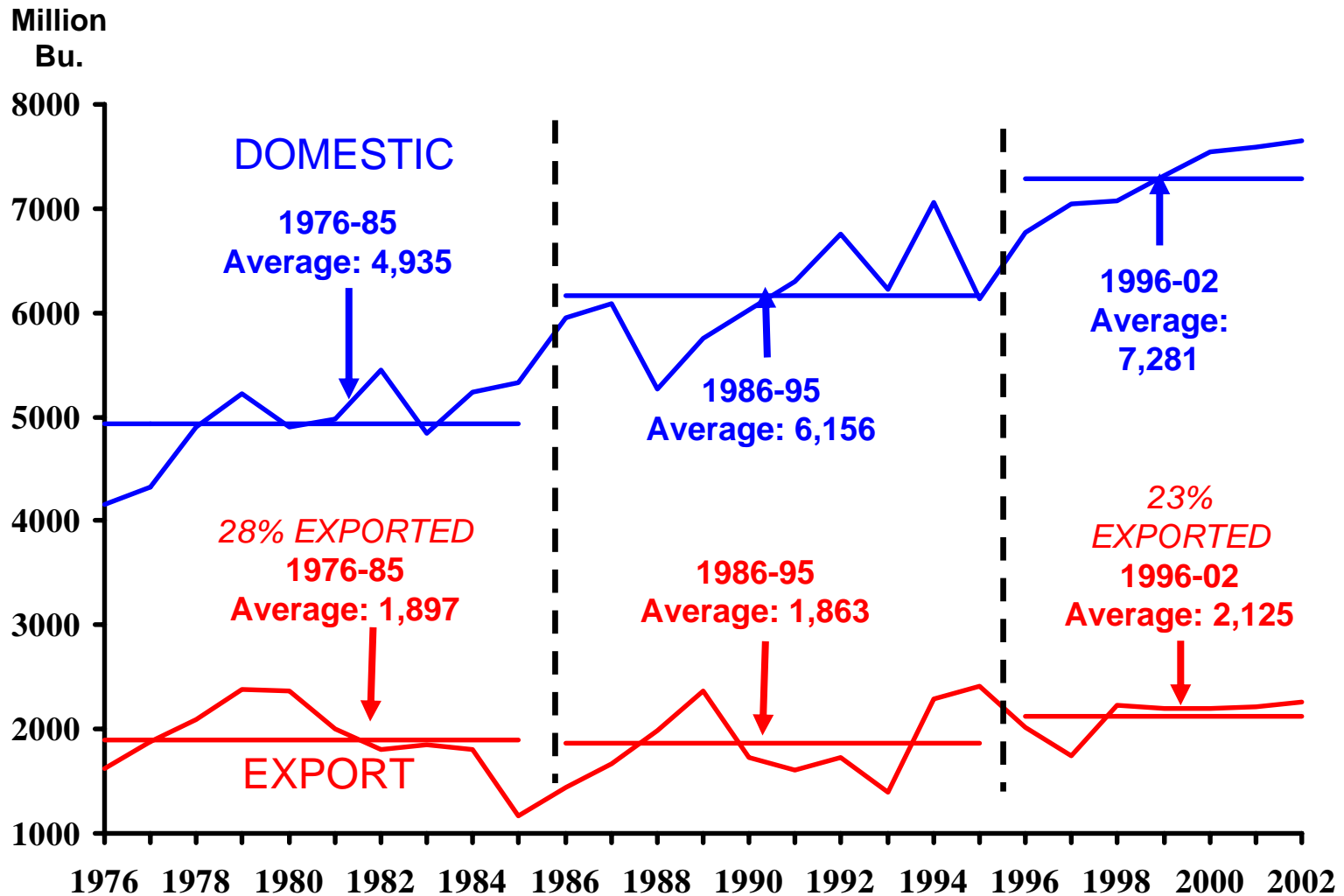
Experience:

China exported over 500 million bushels of corn last crop year

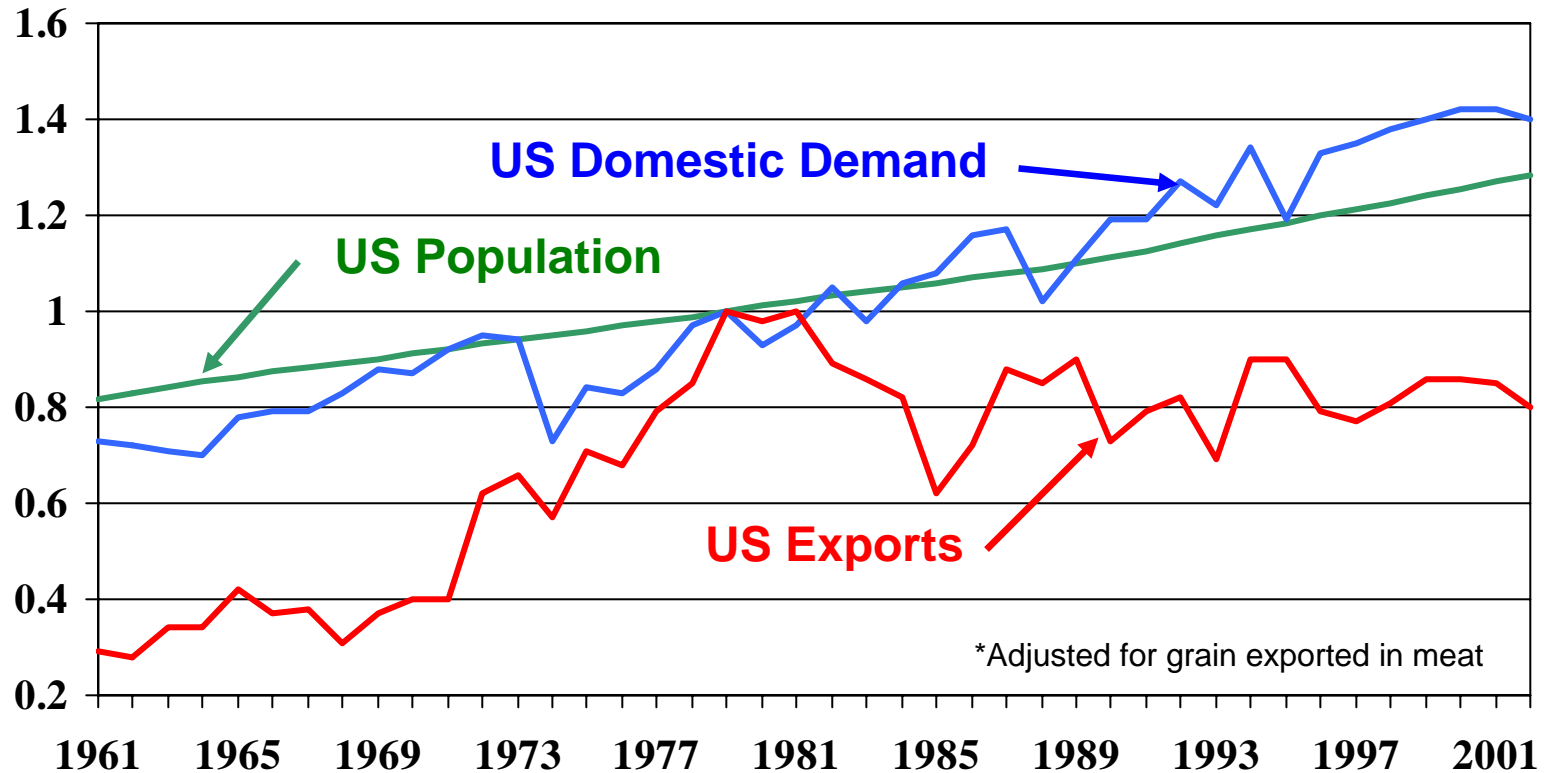
Expectations vs. Experience

Expectation: Export led 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



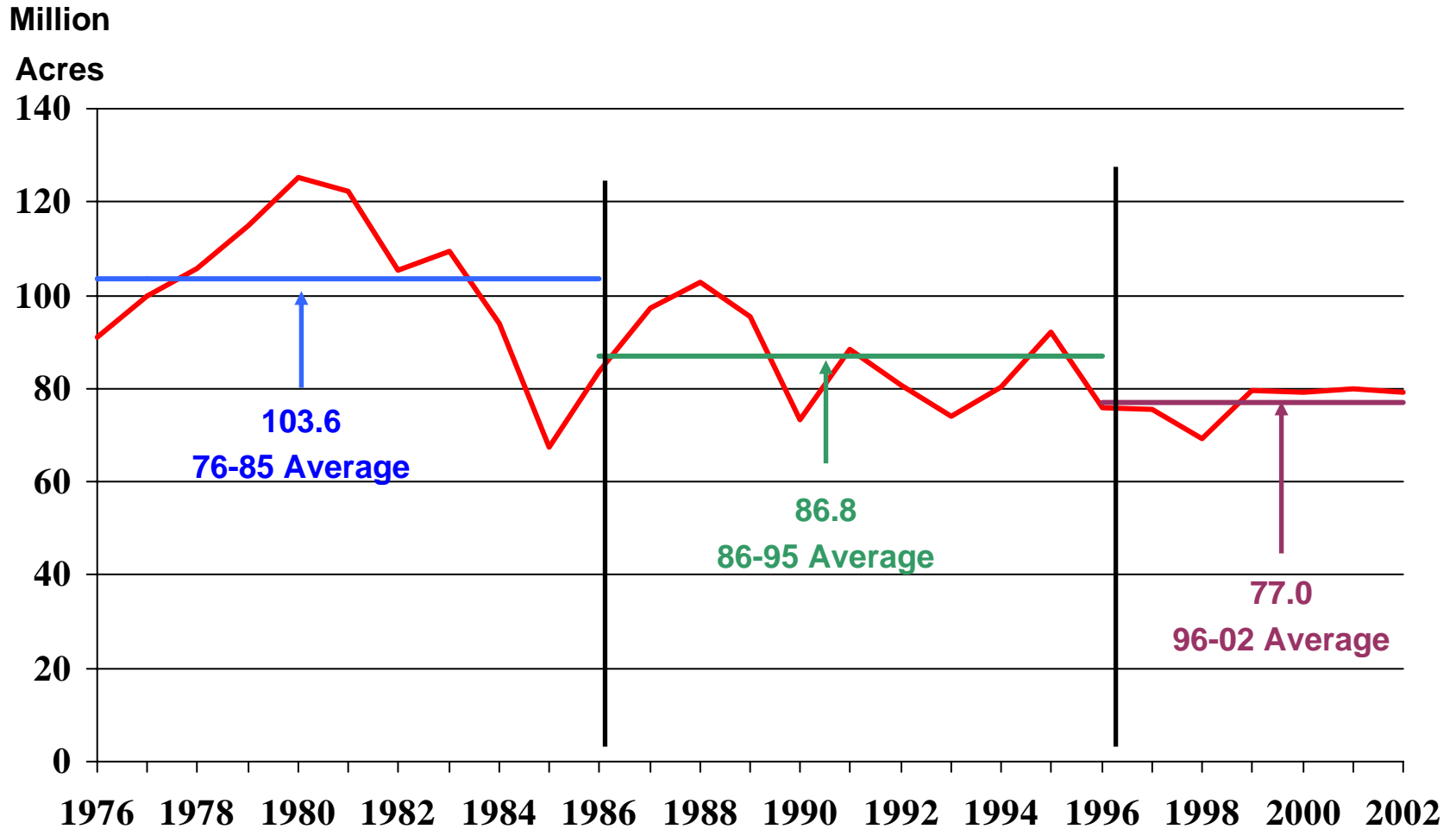
Exports Did Not Deliver



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



Expectations vs. Experience

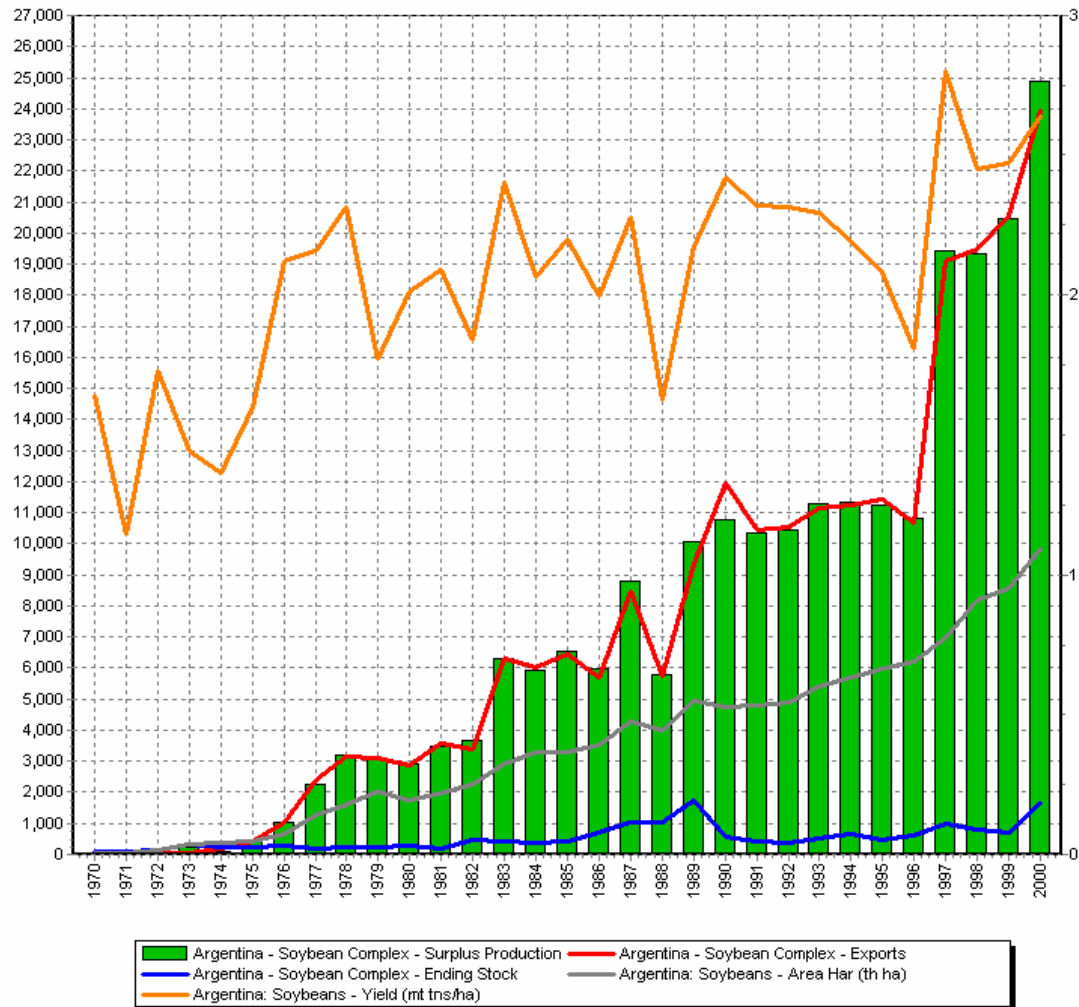
Expectation: Export lead farm prosperity just around the corner (been saying this for over 25 years)

Experience: Crop exports have been flat for years. Exports have not been the driving force of crop utilization

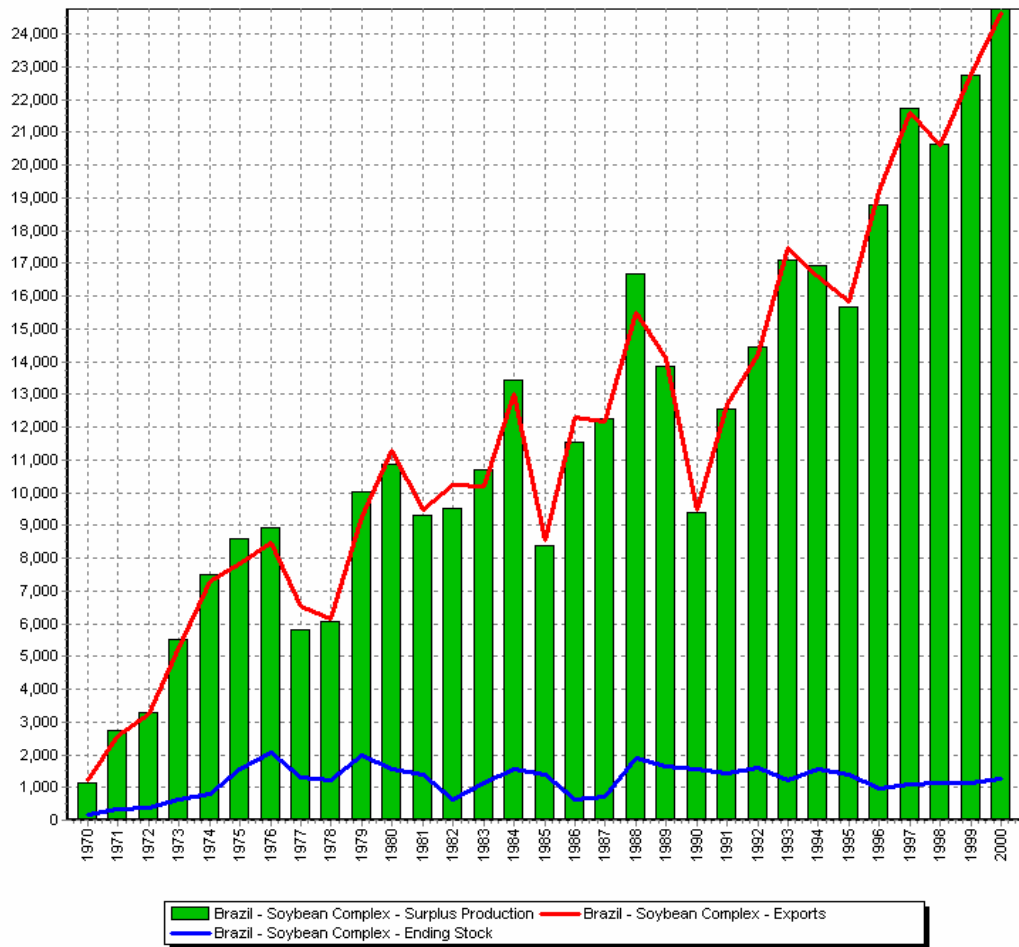
Expectations vs. Experience

Expectation: With no acreage set-asides and use of direct payments in US, competitors would not be under the US price support umbrella—would reduce production as needed

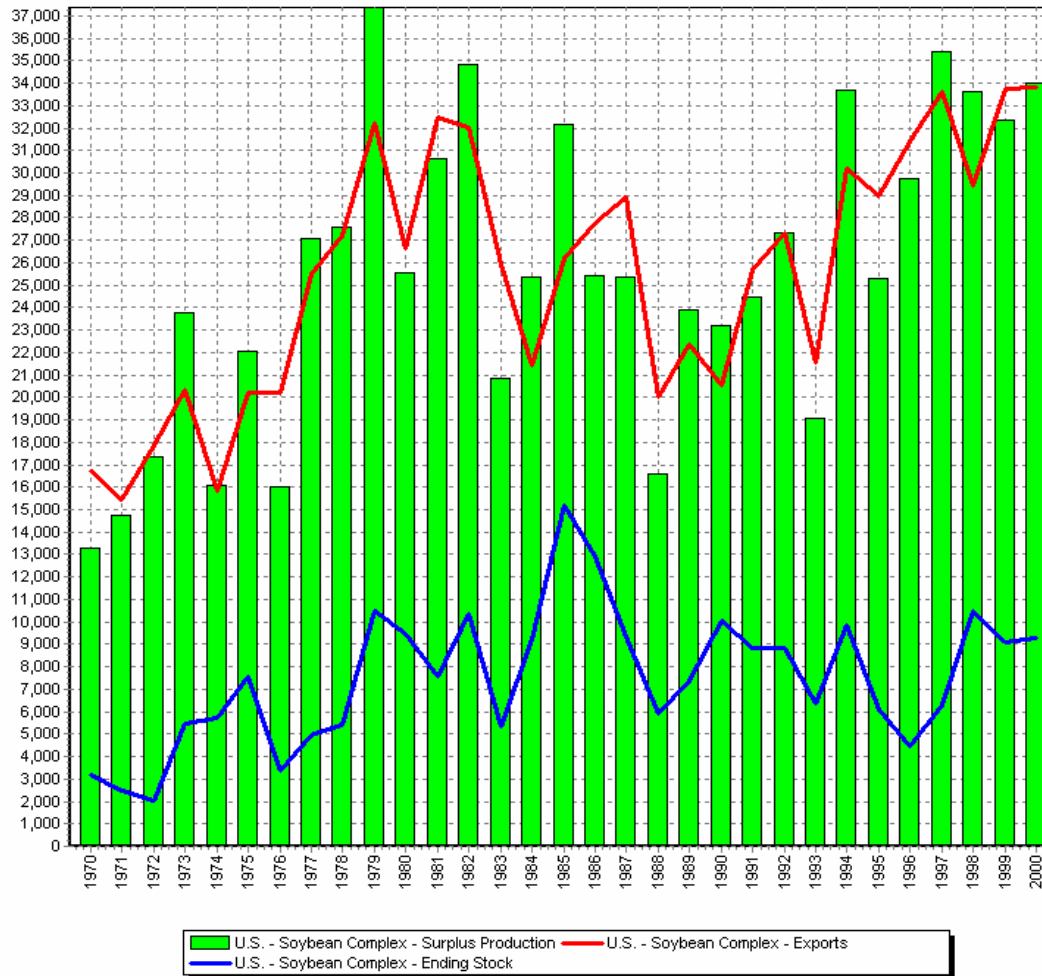
Argentine Soybean Complex Exportable Surplus and Exports



Brazilian Soybean Complex Exportable Surplus and Exports



U.S. Soybean Complex Exportable Surplus and Exports



Expectations vs. Experience

Expectation: With no acreage set-asides and use of direct payments in US, competitors would not be under the US price support umbrella—would reduce production as needed

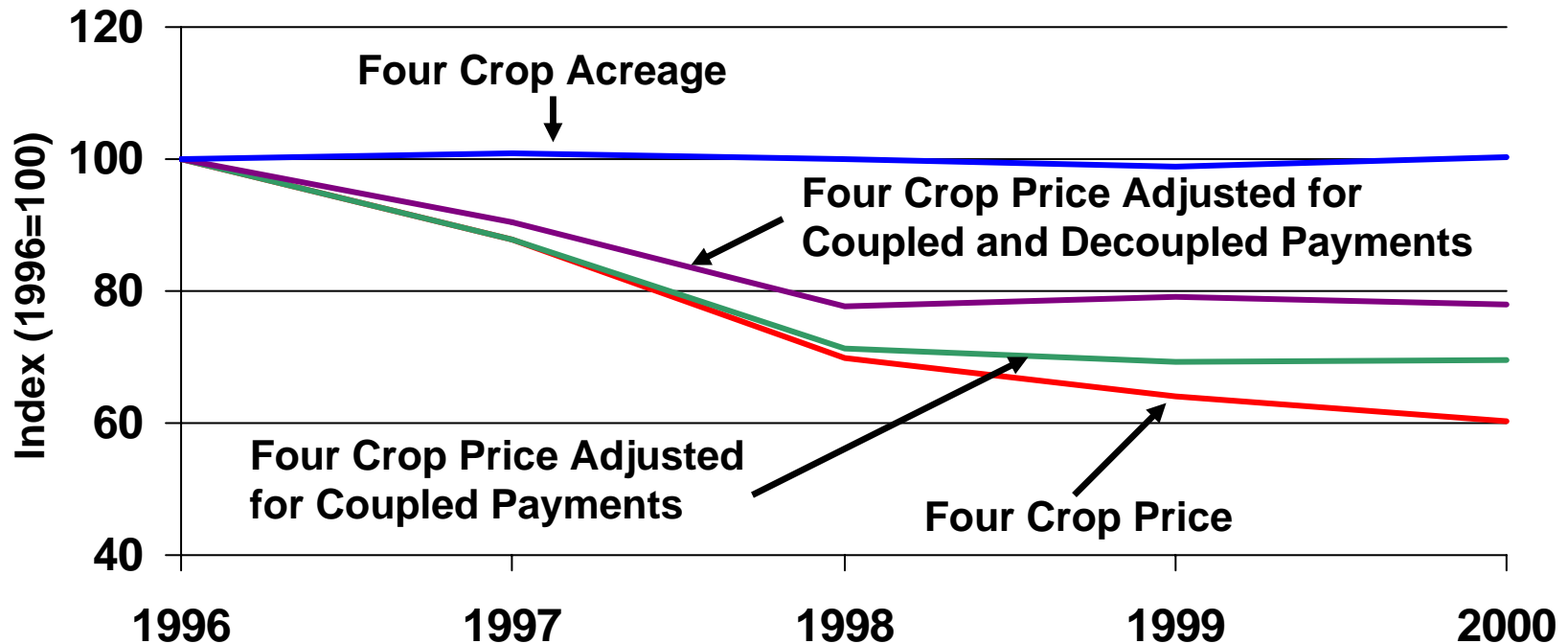
Experience:

- Export competitors export all production above domestic demand
- Eliminating set-asides and lower commodity prices did not cause competitors to reduce acreage

Expectations vs. Experience

Expectation: With planting flexibility & decoupled payments US farmers would plant for the market – reduce production when needed

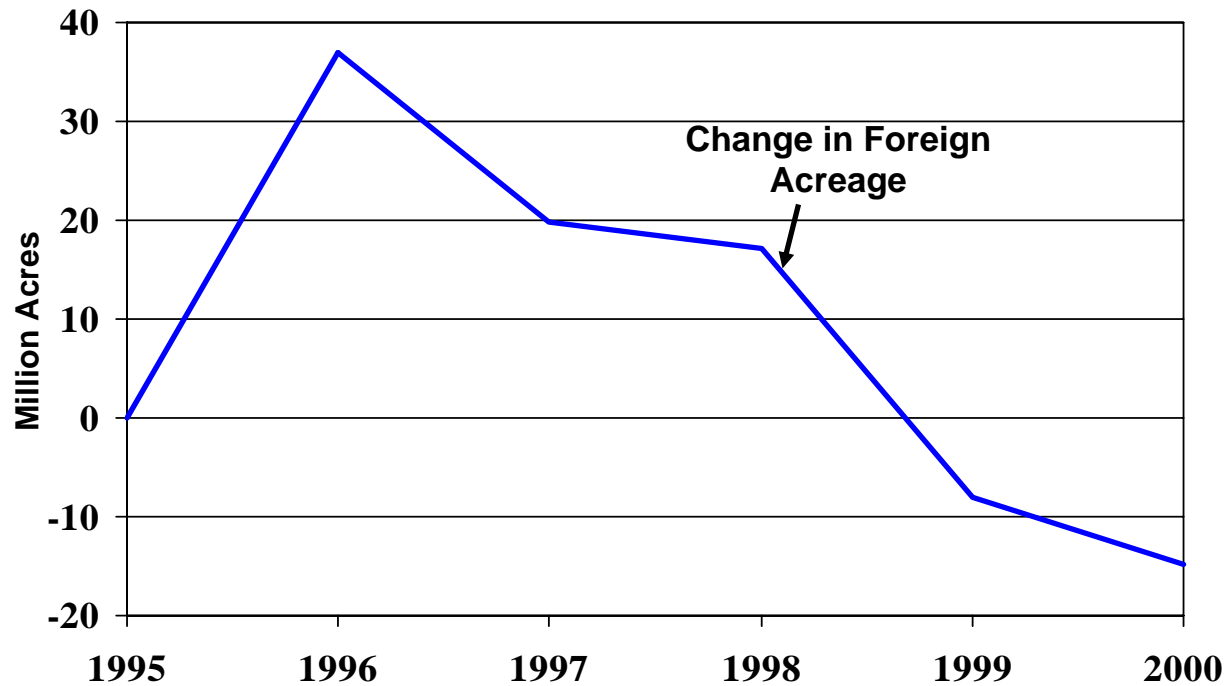
Acreage Response to Lower Prices?



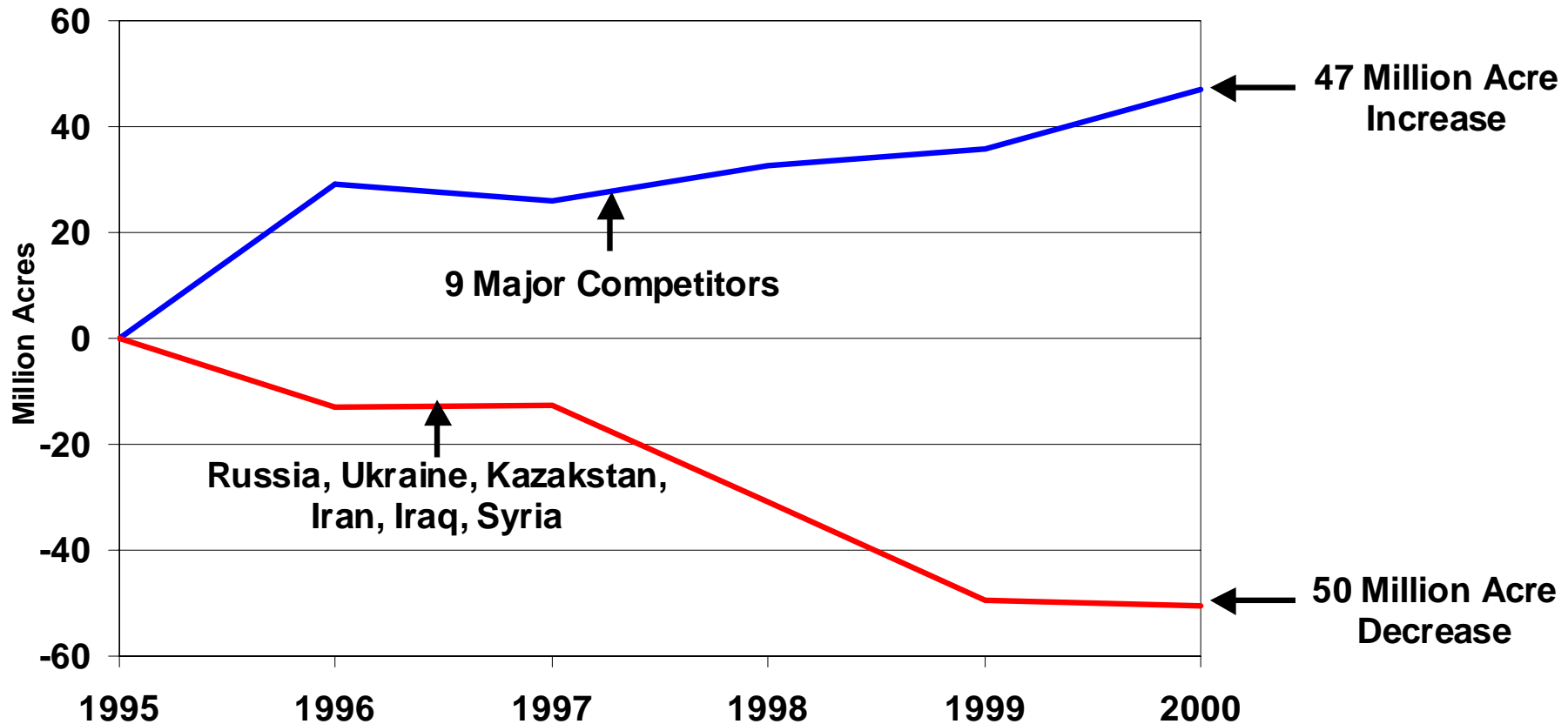
Since 1996

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

Foreign Crop Acreage



Change in Foreign Crop Acreage of Selected Countries



Expectations vs. Experience

Expectation: With planting flexibility & decoupled payments US farmers would plant for the market – reduce production when needed

Experience:

- Farmers change the mix of crops but use all their acreage
- Farmers have every incentive to produce full out
- Land remains in production even if the current farmer goes bankrupt

Why Does Agriculture Have Chronic Price and Income Problems?

- **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

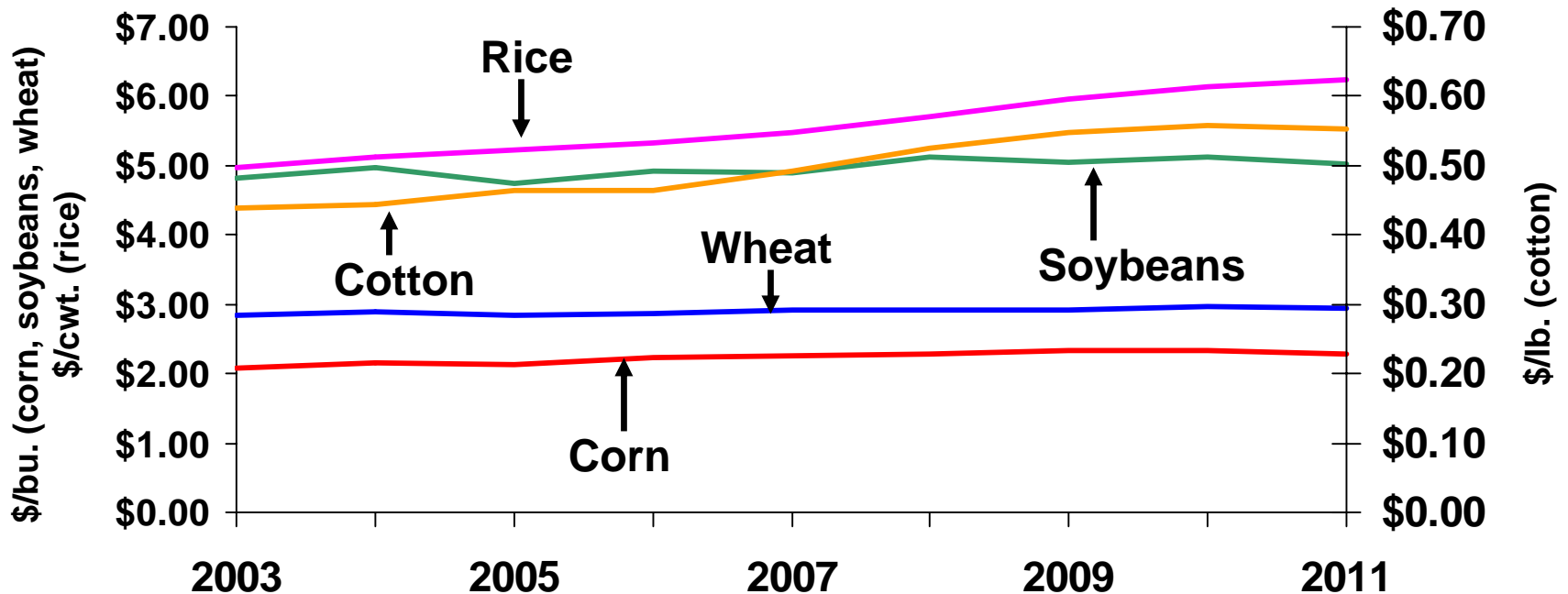
Possible Directions

- **Stay the Course**
- **Intensify the Free Market Prescription**
 - Eliminate trade barriers and government distortions in developed countries only
 - Producers and consumers would be expected to properly adjust to market signals
- **A More Managed Prescription**
 - Recognizes unique characteristics of agriculture
 - Recognize farmers' actual behavior

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

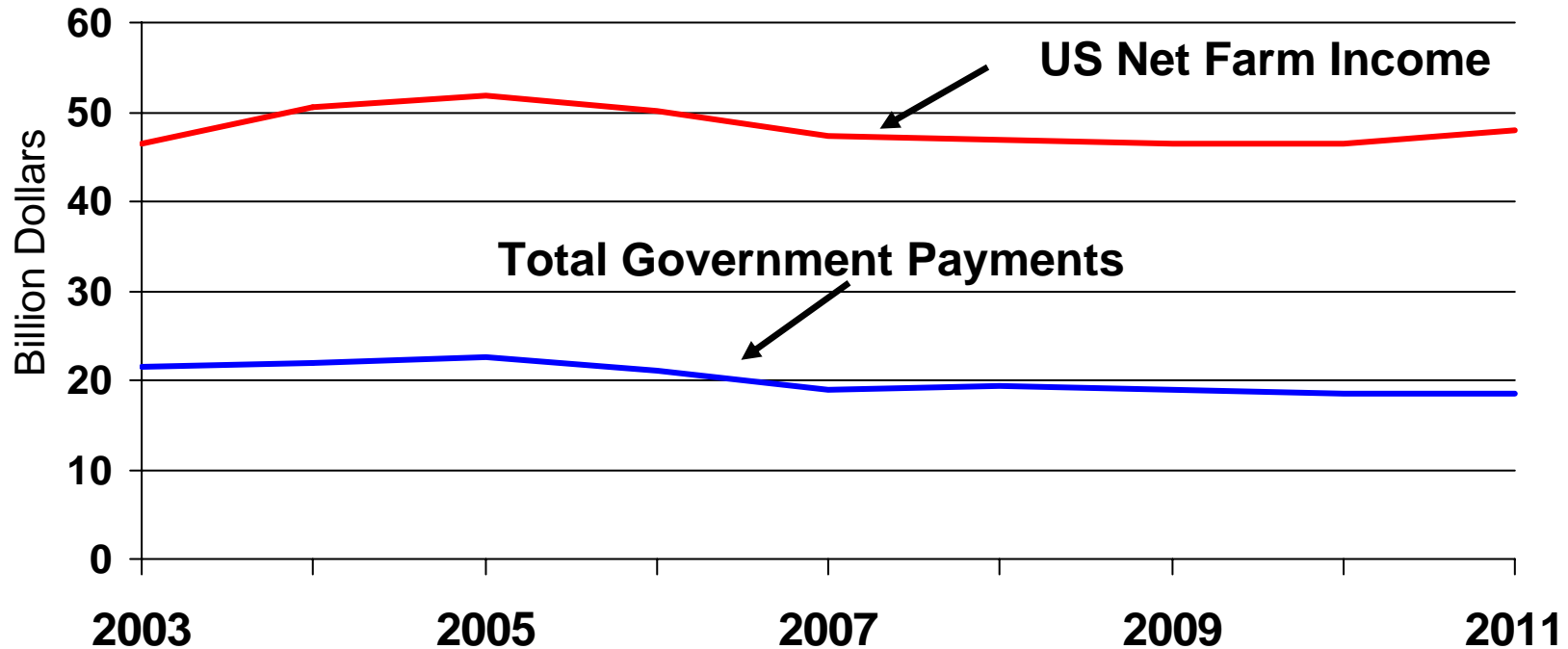


Projected US Prices of Five Major Crops Under Current Farm Policy

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

FAPRI

Stay the Course

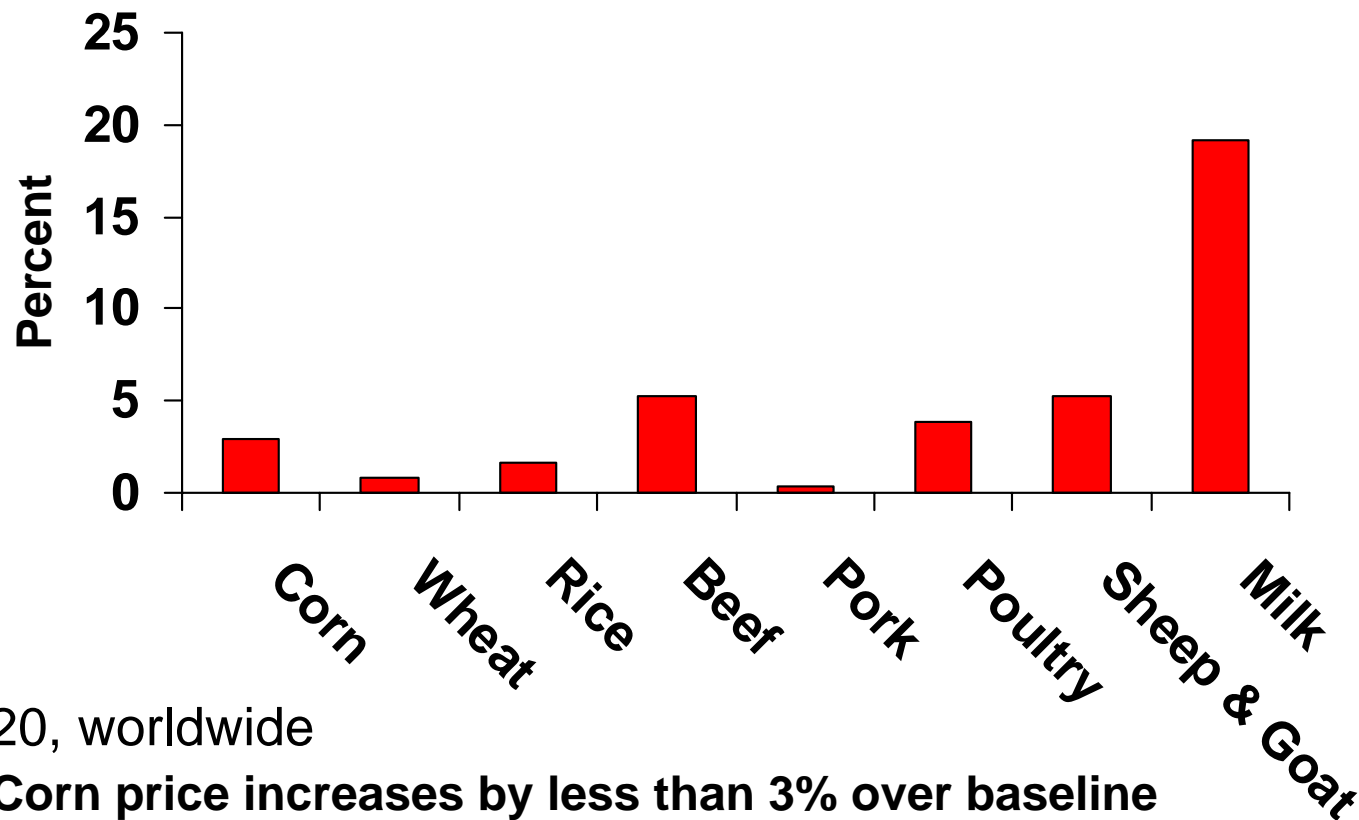


Projected US Net Farm Income and Government Payments

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

FAPRI

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

A More “Managed”

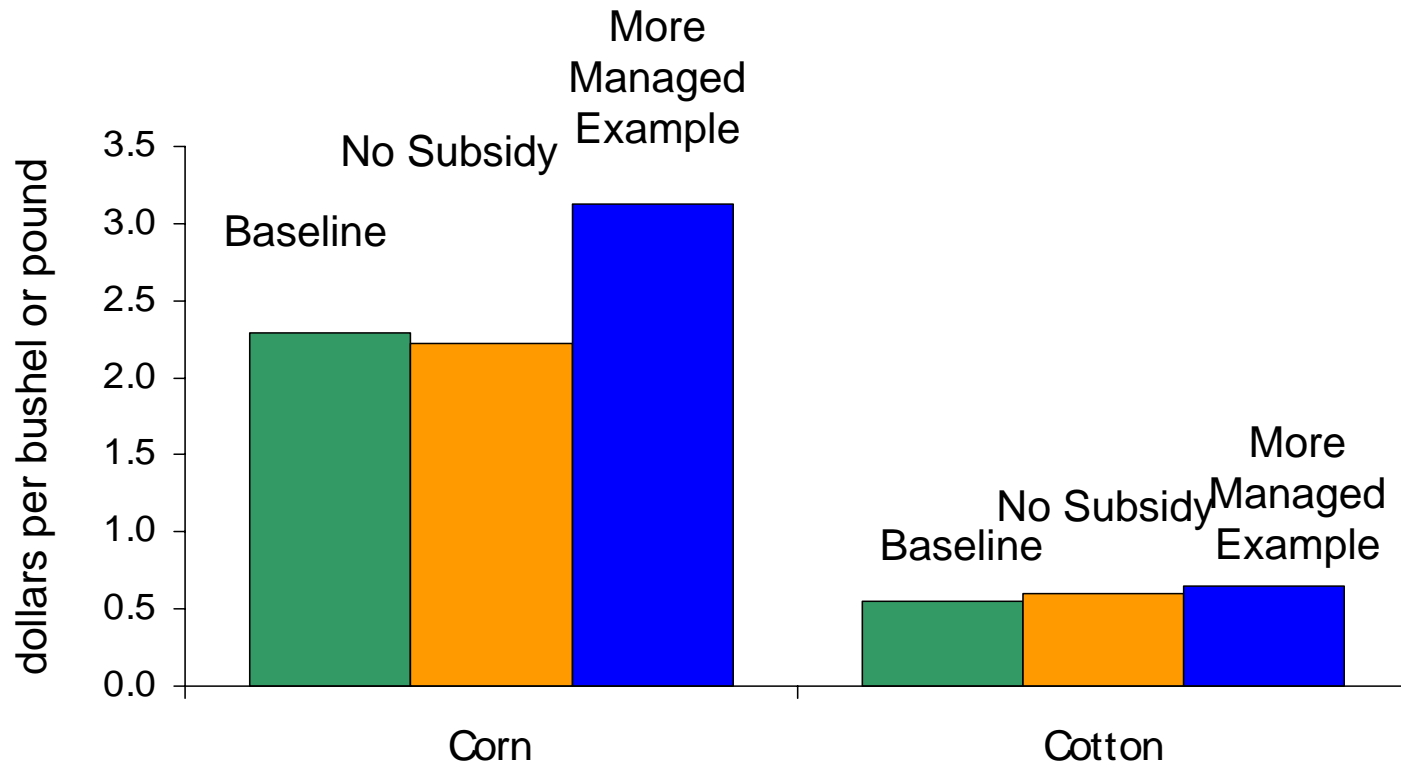
Alternative means of managing crop production could be considered

- Adding to existing CRP acreage
- Creating a shorter-term CRP-like program
- Reinstating:
 - Annual Set-asides
 - Inventory/price support programs
- Energy crops – Could be a win-win-win

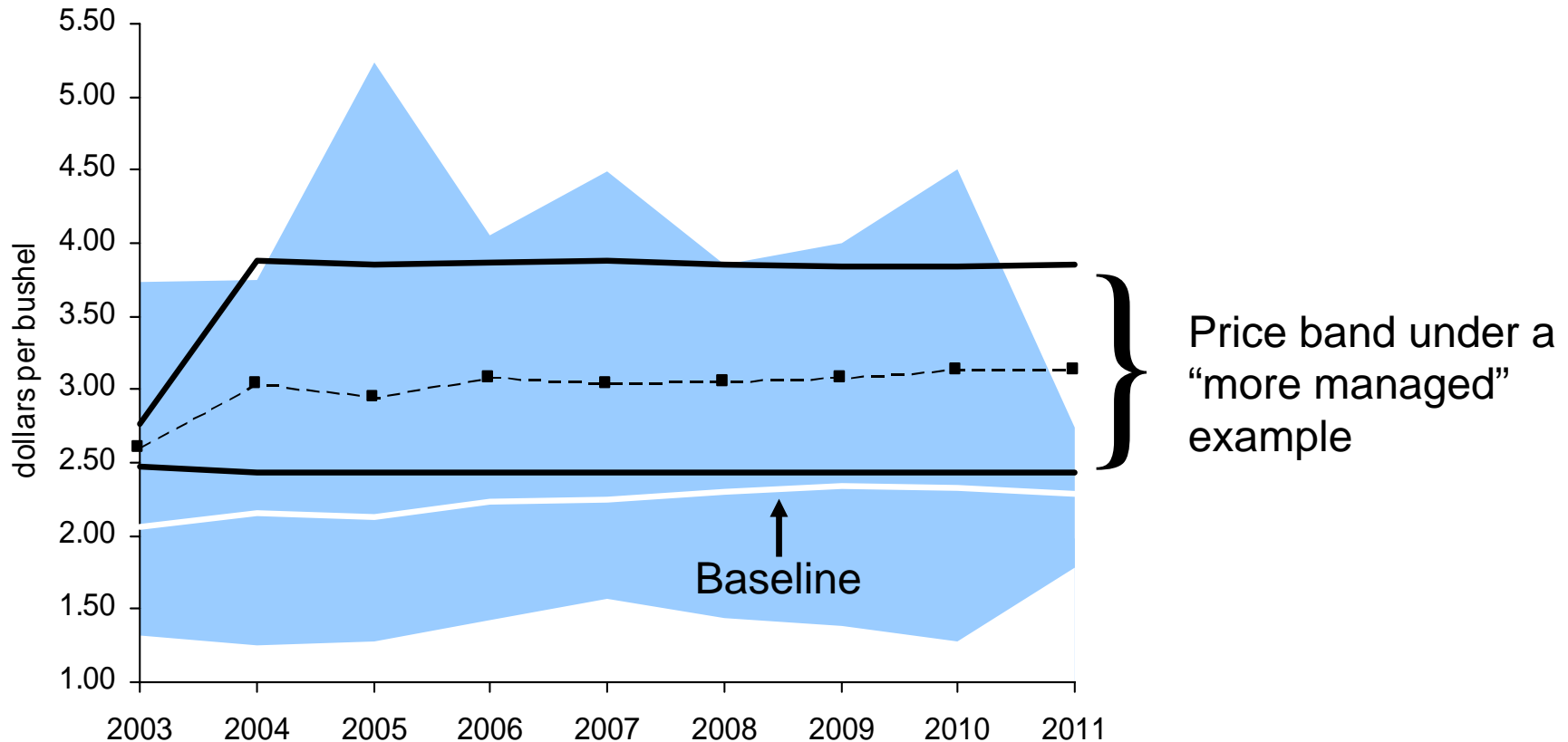
A “More Managed” Example

- **Elimination of government payments**
- **Stock management**
- **Set-aside / short-term land retirement program**
- **Price support mechanism**

A More Managed Example: US Price Impacts, 2011

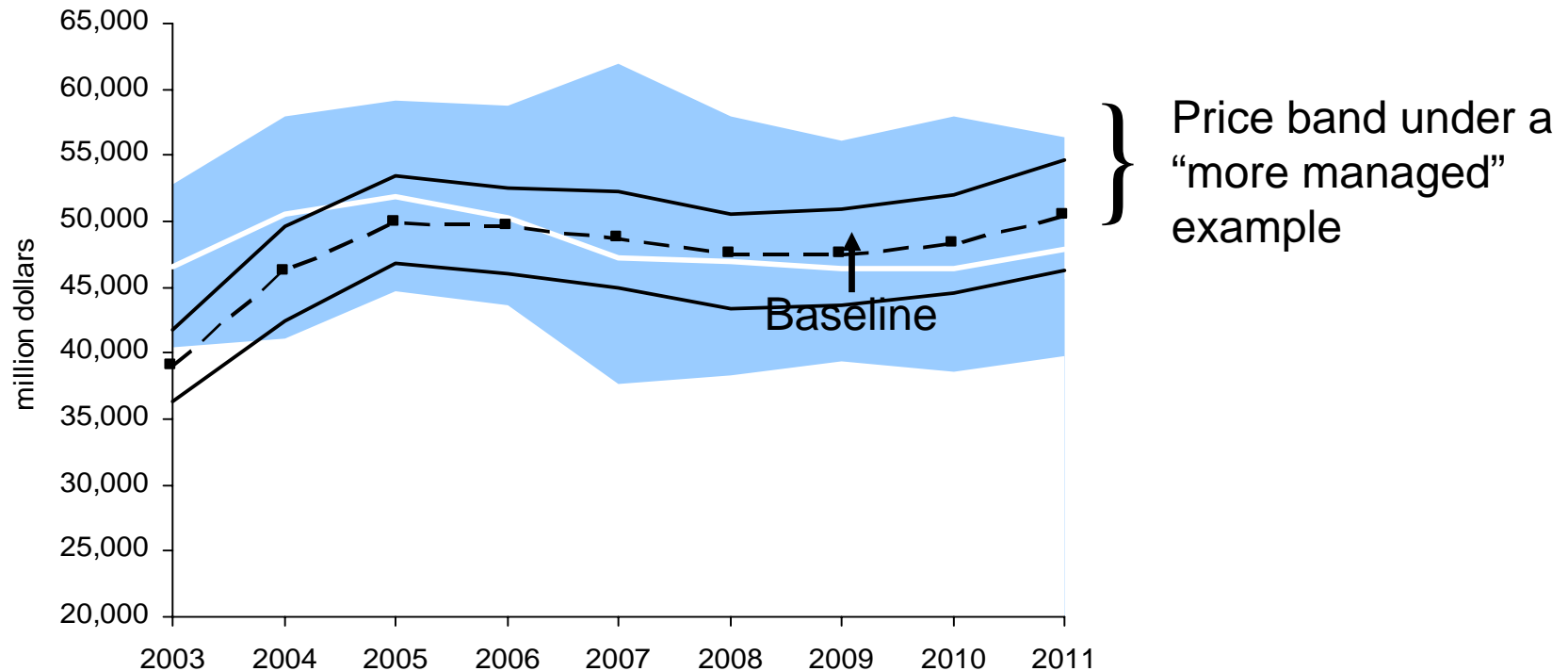


A More Managed Example: US Corn Price Variability



- Higher and more stable corn prices

A More Managed Example: US Net Farm Income Variability



- Slightly higher and reduced variability in net farm income

Grain, Grain Everywhere

We May Need to Balance Supply and Demand Globally in the Future

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

Touchstones

- **U.S. and world output will continue to outpace demand**
- **Exports are not going to be the driving force of US crop agriculture**
- **Our export competitors are as committed to producing for international markets as we are**
- **Our import customers view food as a national security issue and abhor increased dependence**
- **Neither the quantity demanded nor the supplied of total crop agriculture is affected very much when prices decline**
- **Above all, we must view food and agriculture markets as they are—not as we might wish them to be**

Weekly Policy Column

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Comparative Advantage Theory vs. Realities of the Real World

“China attaches great importance to agricultural development and increasing the income of farmers.”

“It is inconceivable that a country of 1.3 billion people will rely on others to feed themselves,”

Zhou Ming Chen, Chairman of the China National Cereals Oils and Foodstuffs Import and Export Corp.

Washington D.C.

February 17, 2004

"Faced with the choice of changing one's mind and proving one doesn't need to do so, ... we get busy on the proof."

John Kenneth Galbraith