

US Farm Policy Can't Go On Like This Can it?

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Why So Much Talk About Agricultural Policy?

- **Accusations of US dumping**
- **US commodity prices plummeted**
- **Lower US prices triggered low prices in international ag commodity markets**
- **Countries in the South unable to neutralize impacts of low prices**

Low Crop Price Losers and Winners

- **Hurt all crop farmers: US and worldwide**
- **Users of agricultural commodities benefited by not paying full cost of production:**
 - **Large livestock producers**
 - **Agribusinesses: input and machinery, processors, marketing and retailers**
 - **Importers**
 - **Consumers, if marketing system transmits lower prices**

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*

The Realities

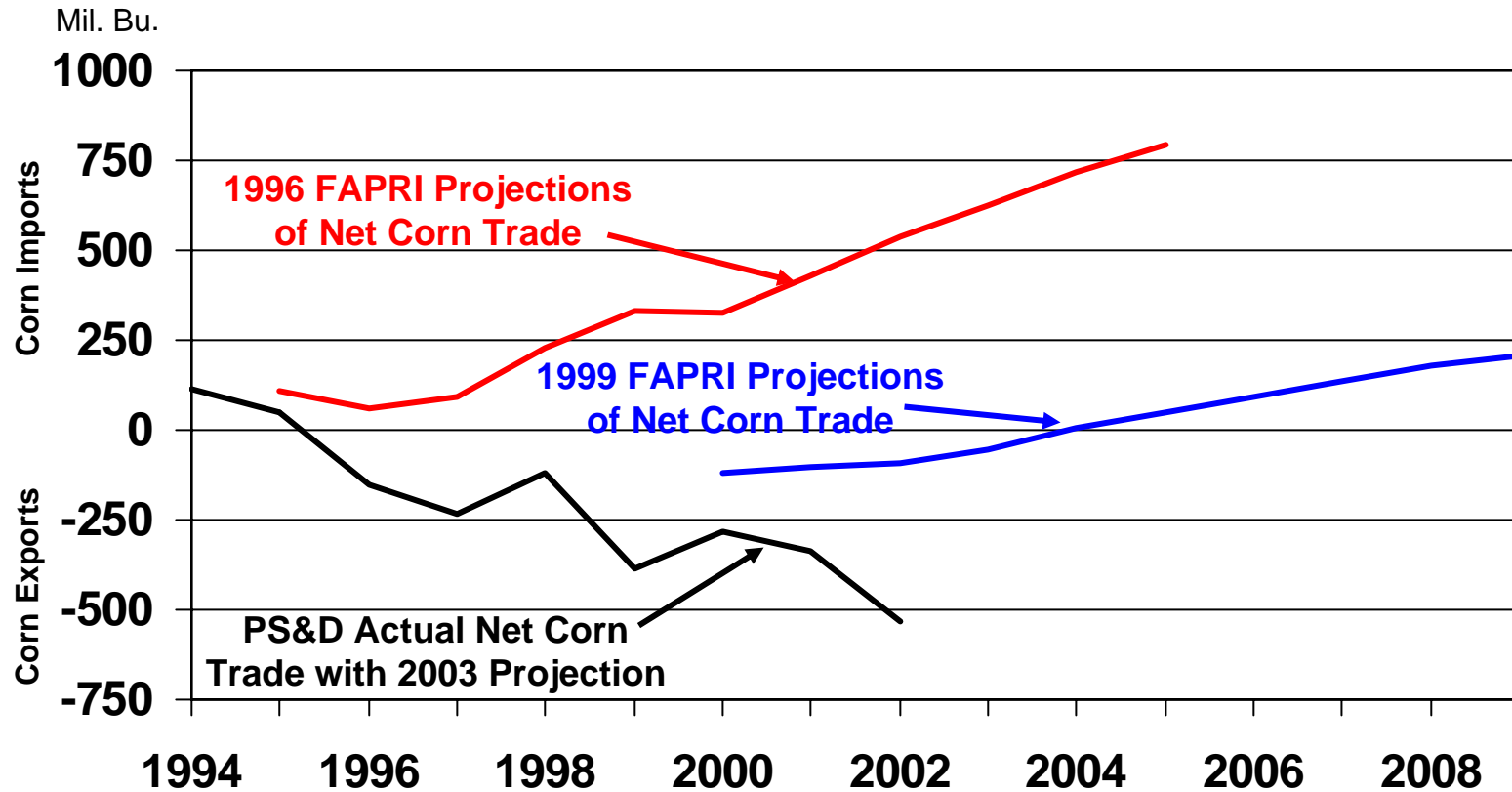
- **Crop exports did not deliver—will not deliver**
- **For crop agriculture, timely free- market self-correction is a fantasy**
- **Excess capacity is crop agriculture's future peppered with periods of production-shortfalls**
- **Carrying water for agribusinesses typically works against farmers' best interests**
- **Current farm programs are not sustainable**

The Realities

- **Crop exports did not deliver—will not deliver**

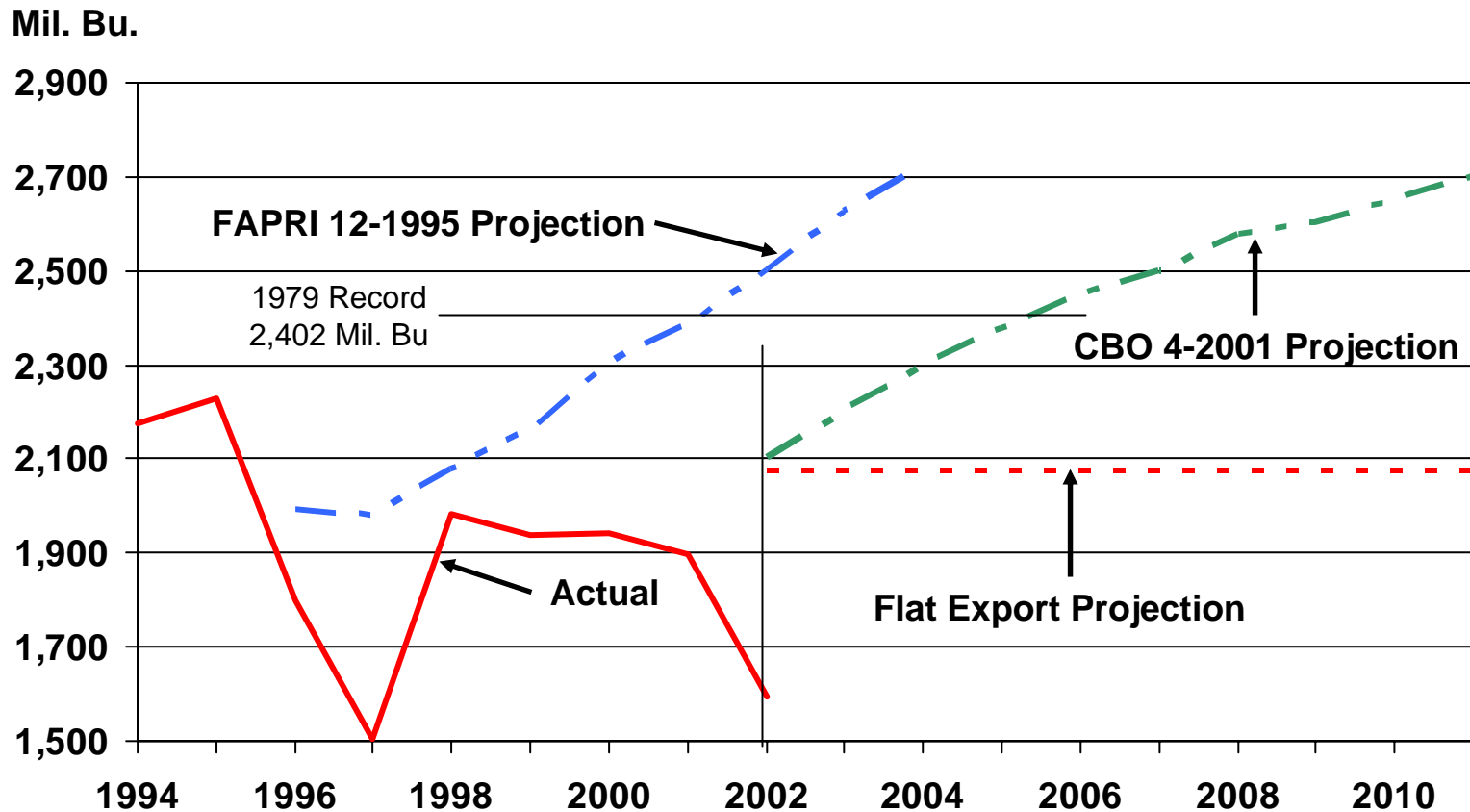
China Net Corn Trade

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

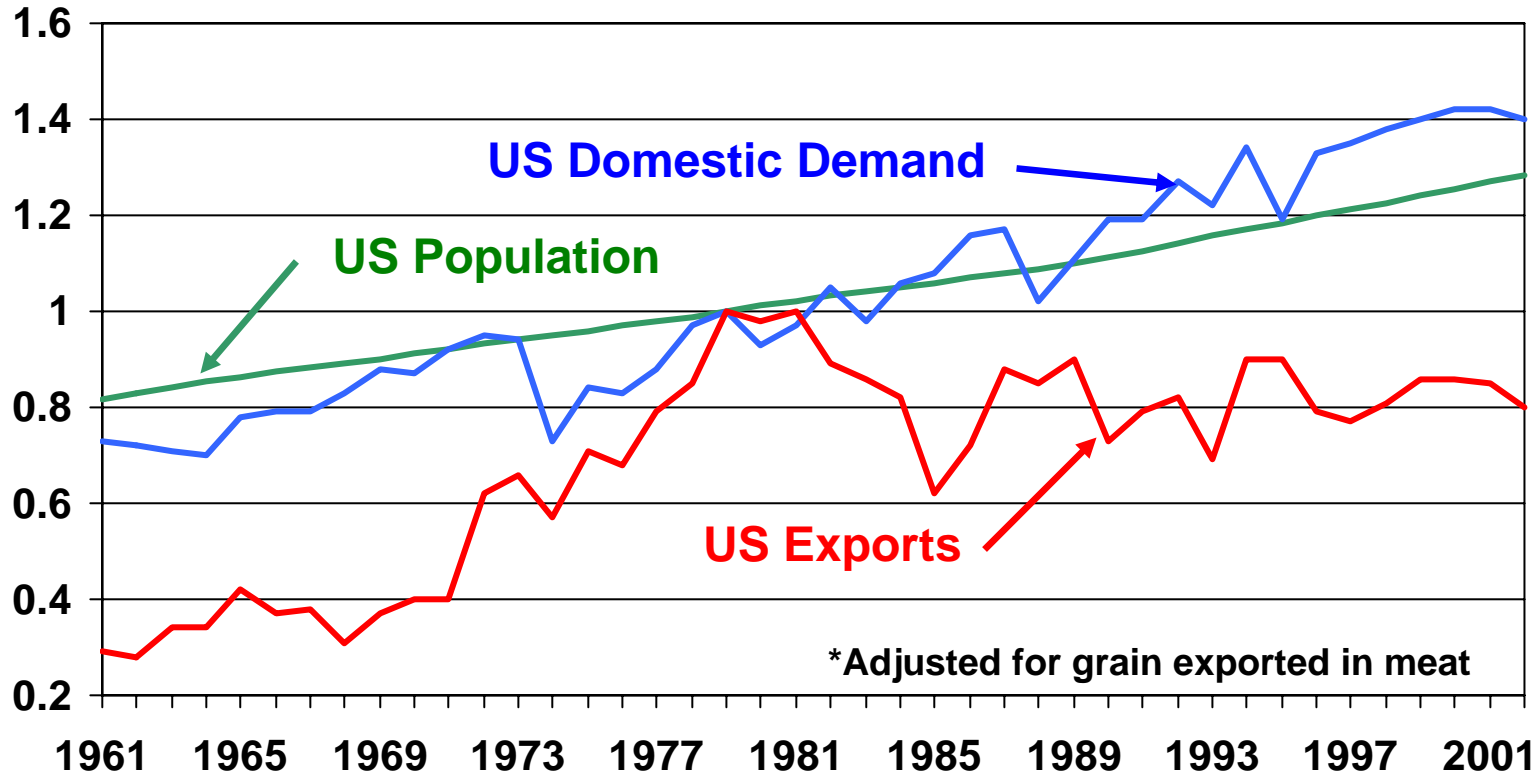


Corn Baseline Projections

U.S. Exports



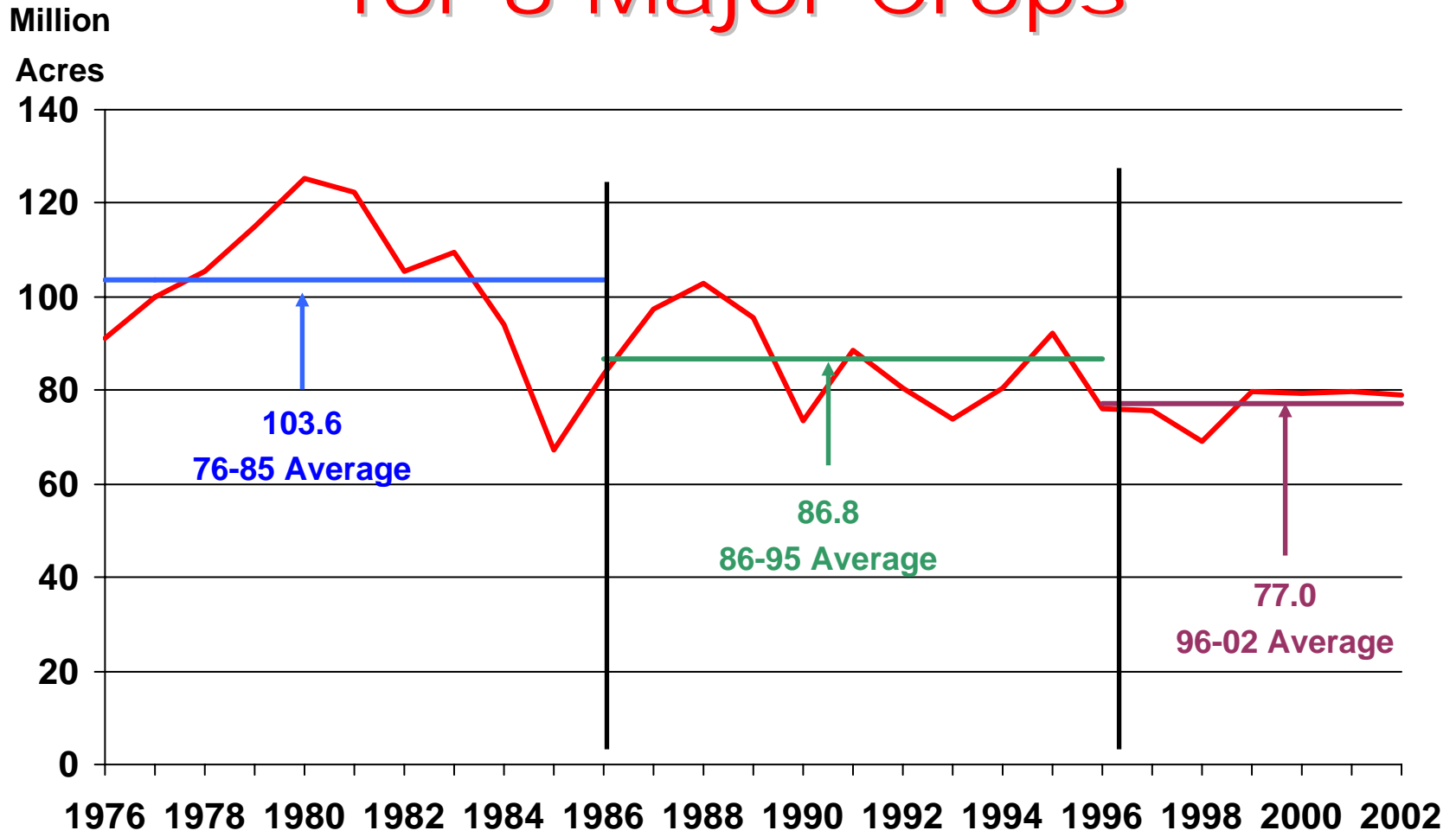
Exports Did Not Deliver



Index of US Population, US Demand for 8 Crops and US Exports* of 8 Crops
1979=1.0

- 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



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

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

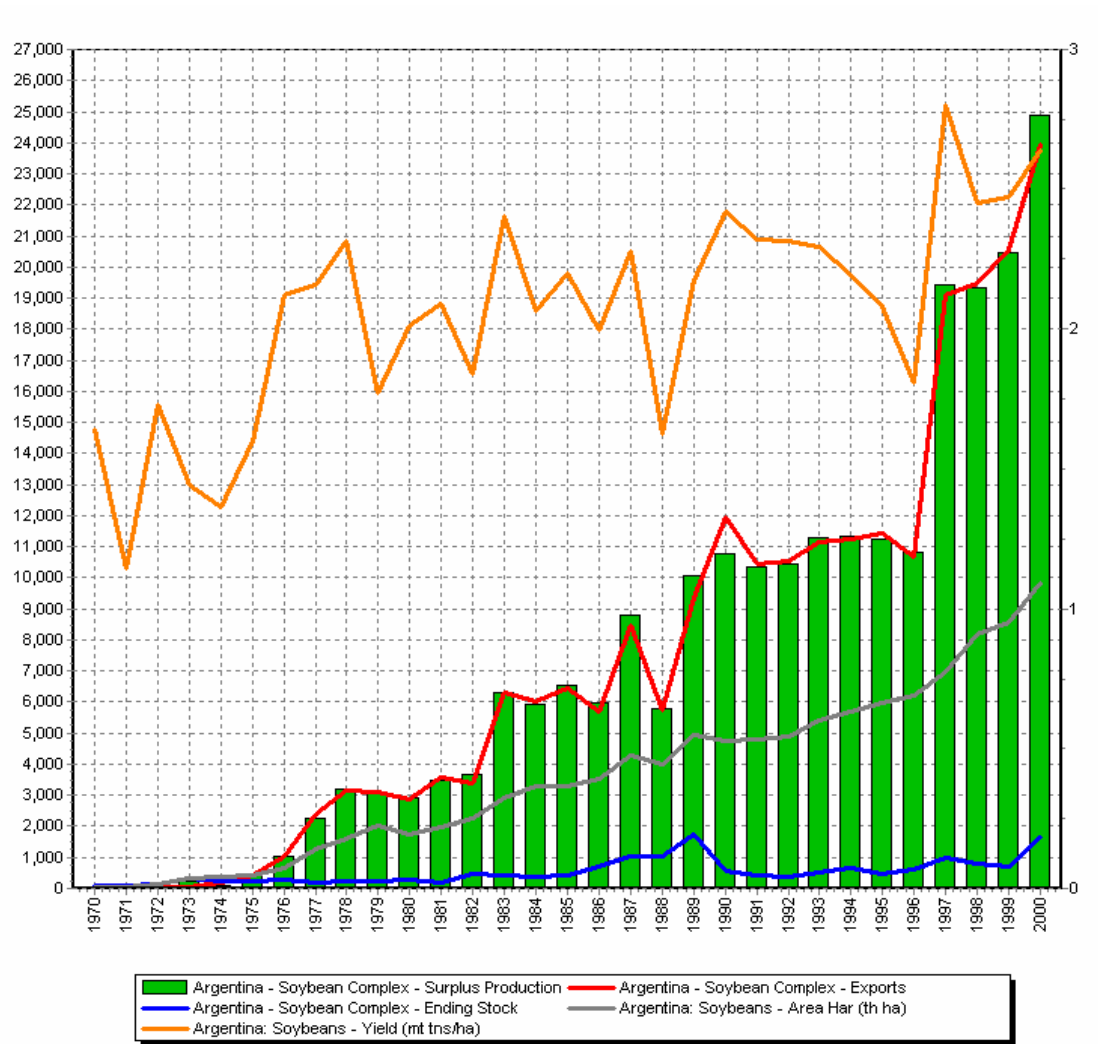
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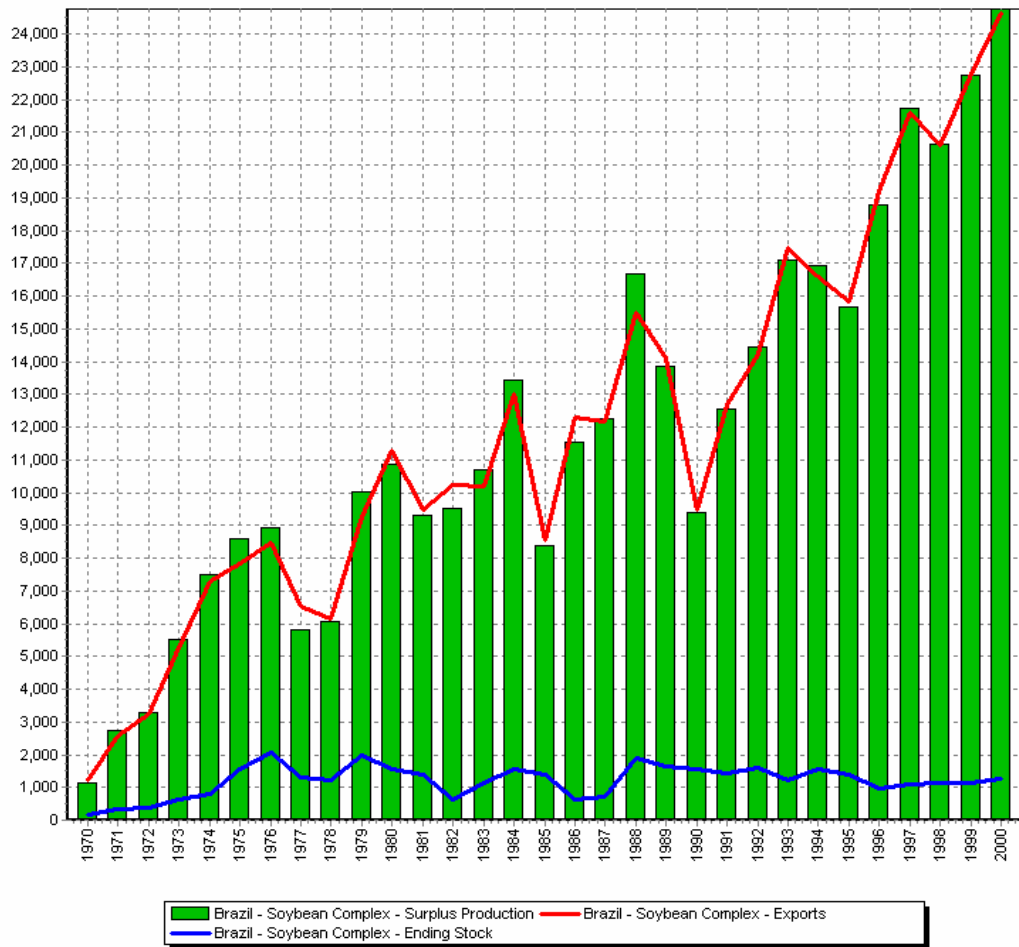
Expectations vs. Experience

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

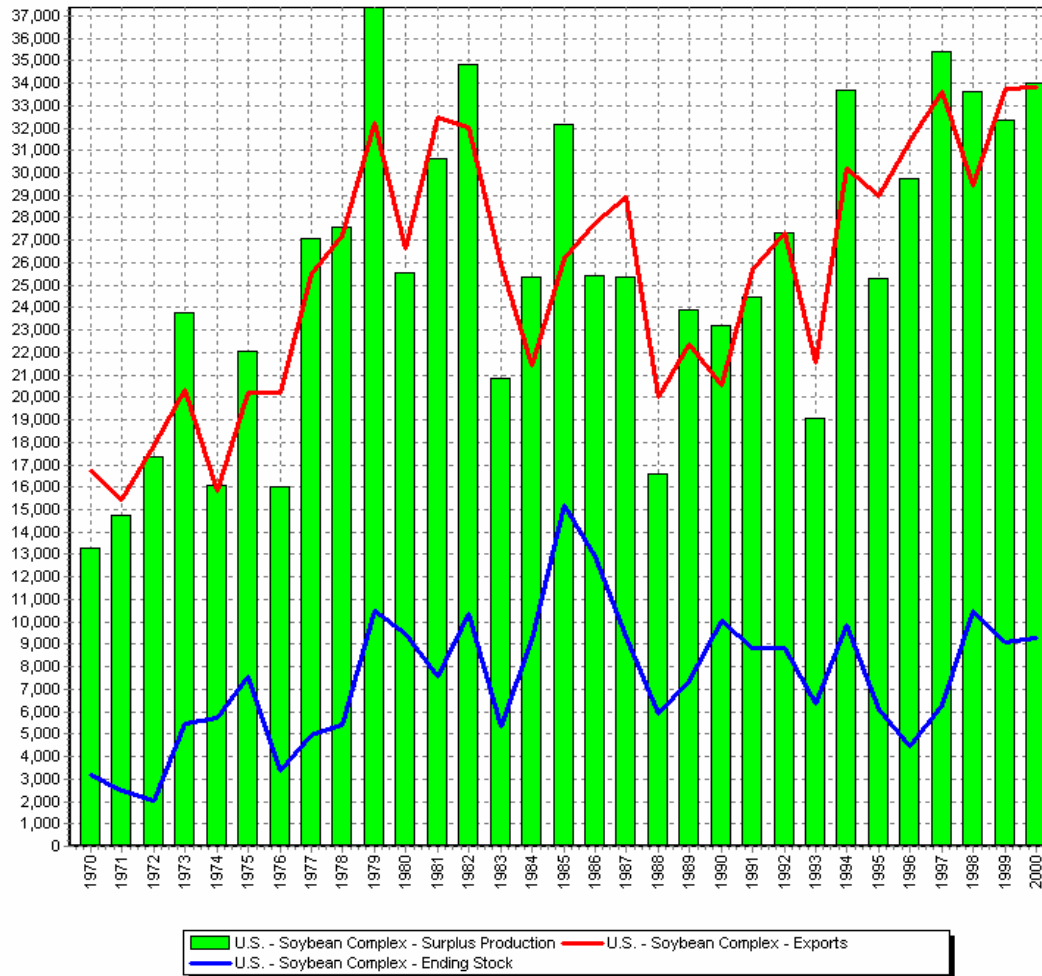
Argentine Soybean Complex Exportable Surplus and Exports



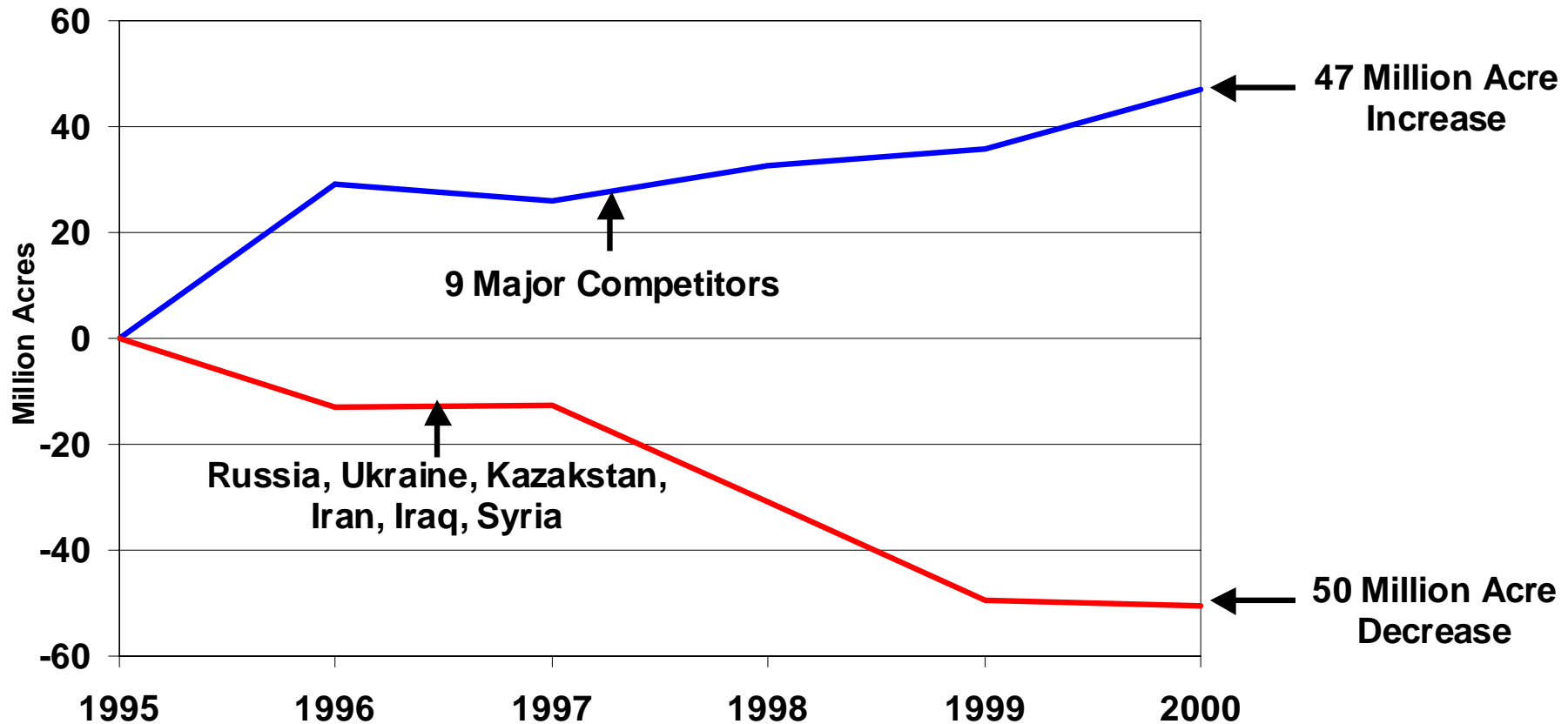
Brazilian Soybean Complex Exportable Surplus and Exports



U.S. Soybean Complex Exportable Surplus and Exports



Change in Foreign Crop Acreage



Expectations vs. Experience

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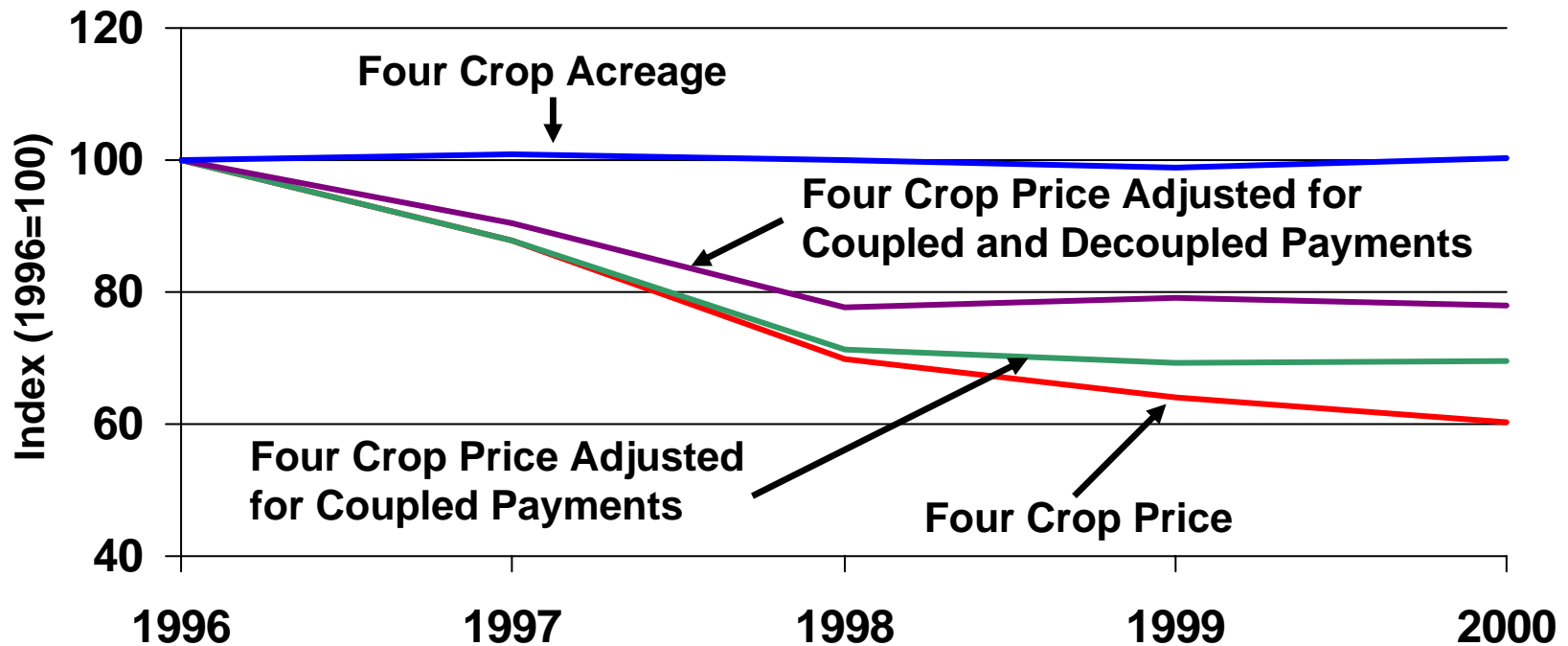
Experience:

- **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

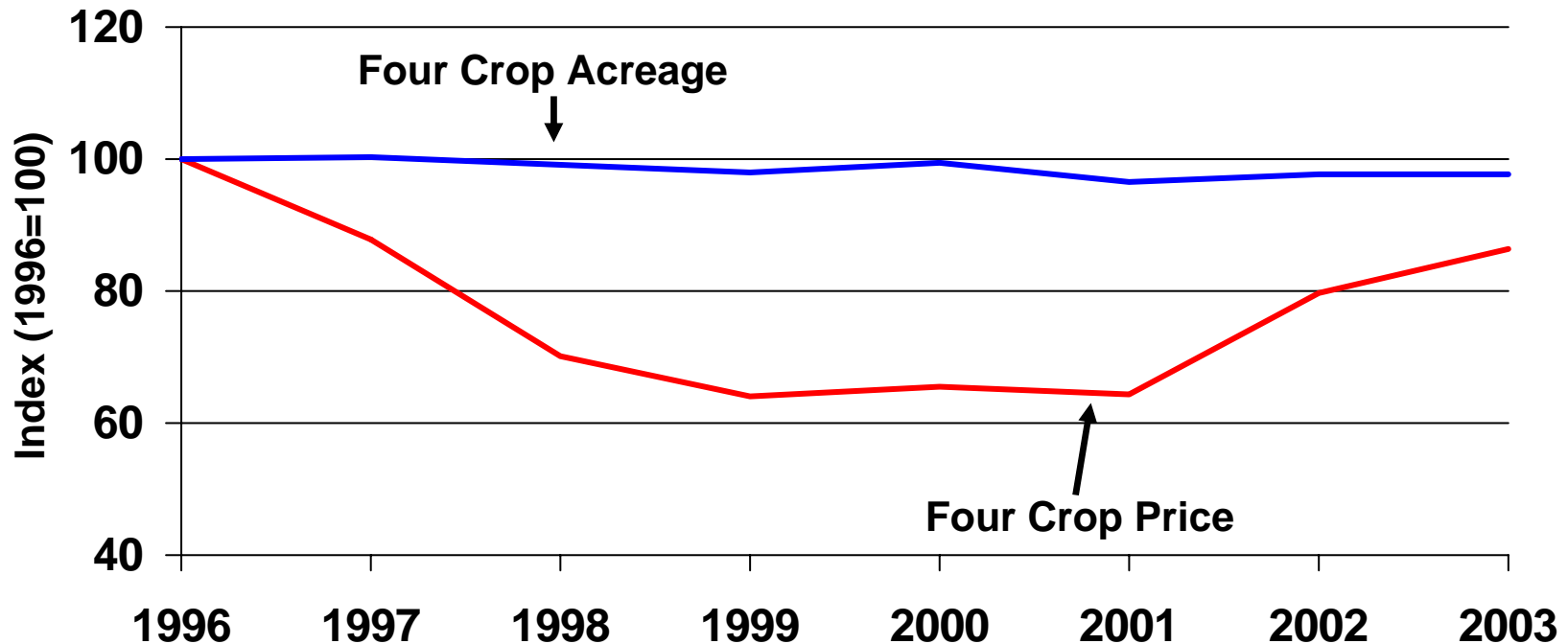
Acreage Response to Lower Prices?



Since 1996

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

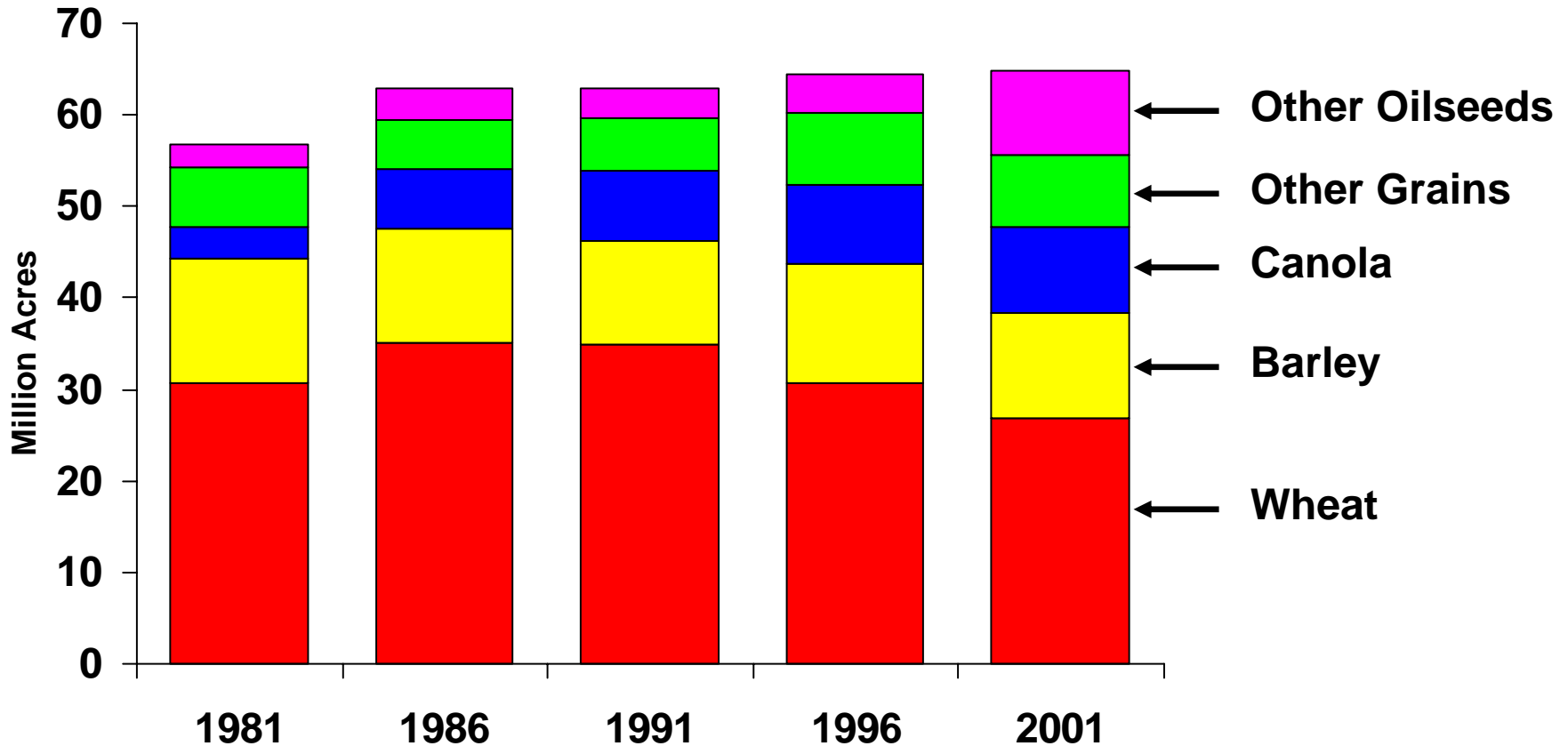
Acreage Response to Lower Prices?



Since 1996 "Freedom to Farm"

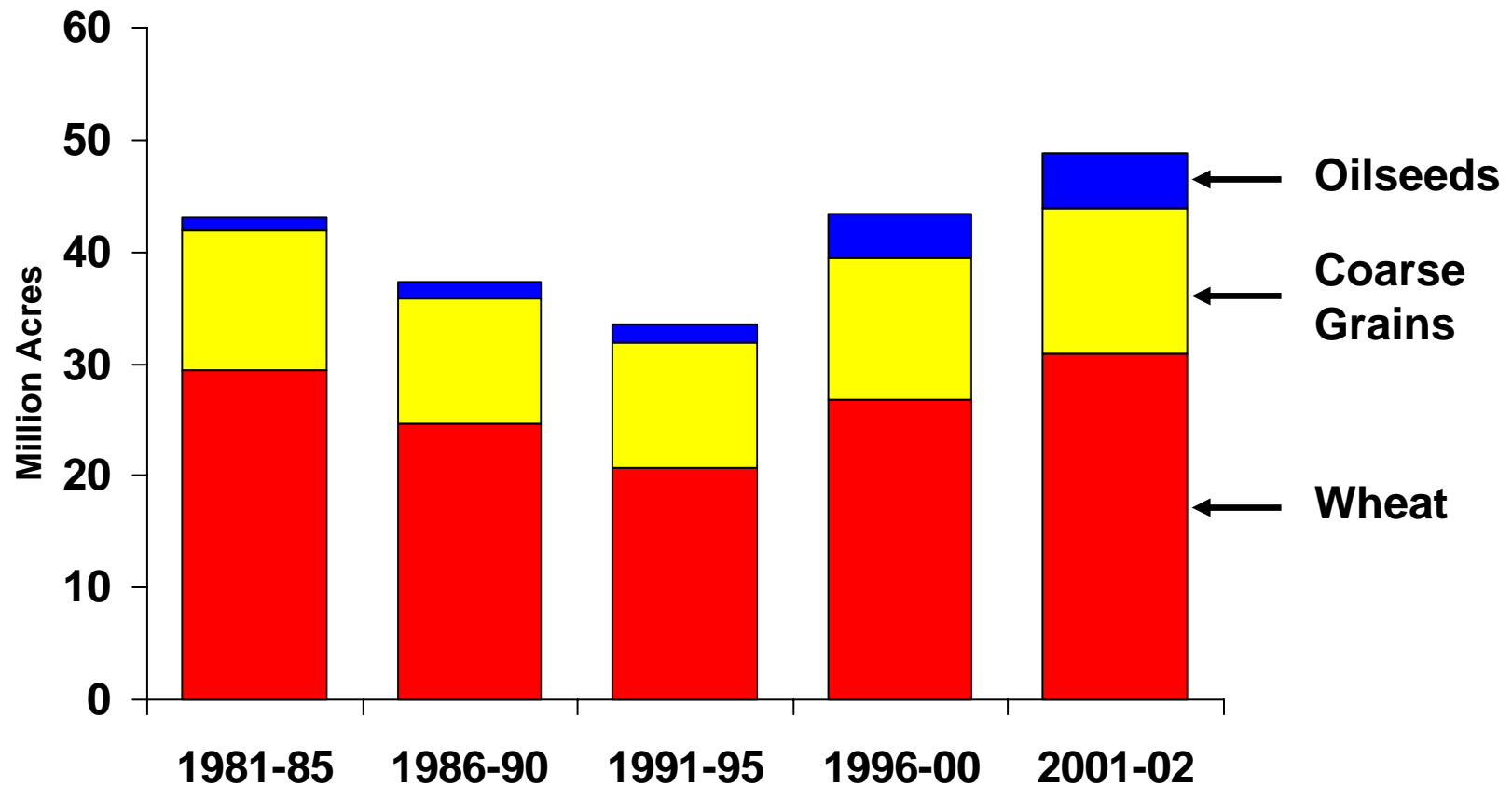
- *Aggregate US corn, wheat, soybean, and cotton acreage changed little despite a wide fluctuation in price*

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

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

The Realities

- Crop exports did not deliver—will not deliver
- For crop agriculture, timely free- market self-correction is a fantasy
- **Excess capacity is crop agriculture's future peppered with periods of production-shortfalls**

Worldwide Excess Capacity Will Be The Long-run Problem

- **Dramatic yield increases in other countries**
 - Cargill, Monsanto, John Deere, etc., etc., etc.
- **Acreage once in production will be brought back in**
 - Russia, Ukraine and others
- **New Acreage**
 - Brazil
 - China

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What Agribusinesses Want

- Volume (**paid flat per bushel rate**)
- Low Prices (**low cost of ingredients**)
- Price instability (**superior information systems provide profit opportunities**)
- Reduced regulation of production and marketing practices (**seller-to and buyer-from beware**)
- More market power over competitors and their customers/suppliers (**Want everyone at a competitive disadvantage**)

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- **Current farm programs are not sustainable**

We Can't Go On Like This...

- **The current farm programs are too expensive**
 - **Budget boogy man**
 - \$422 billion current-year deficit—\$2.29 trillion over 10 years (with tax-rates expiring as scheduled; likely twice that otherwise)
 - Cuts in Farm Programs almost certain
- **GAO report is likely to curtail Payment-Limitation-“Winking”**
- **WTO ruling may put LDPs and Counter-Cyclical Payments in jeopardy**
 - Removes ability to compensate for low prices even less than in 1996 FB

We Can't Go On Like This...

- **Continued WTO negotiations that further neuter ability to set domestic farm policy in this and other countries**
 - **What is good for General Motors (agribusiness)... syndrome**
 - **The whole WTO process shows a complete lack of understanding of the unique characteristics of food and agriculture**
 - **It is a clear case of not understanding that, as important as economics is, it can be trumped by food security and other social objectives in the case of food and agriculture**

The Question is: What Are We Going to Do About It?

- **One alternative is passively sit by, be co-opted, and let others commandeer the policy agenda**
 - That is exactly what producers have increasingly done since the mid-eighties!!!
 - Crop producers get subsidy-tarred while real subsidy beneficiaries (integrated livestock producers and other users, sellers of inputs and marketers of output) remain above the fray
 - Advocating unfettered free markets, promising export growth, or claiming a level playing field as farmers' magic bullet, etc., ain't workin.
 - And, given the realities of agriculture discussed so far, they hold little promise for the future.

The Question is: What Are We Going to Do About It?

- **Must be a mindset change**
 - Producers and farm and commodity organizations must refuse to carry water
 - Must design policies based on “the realities” not hope or wishful thinking
 - Must be willing to energetically embrace other groups that genuinely share identical or complementary objectives
 - Work as hard to become independent as we have “worked” to become subservient in the past

The Question is: What Are We Going to Do About It?

- **Did I mention that there must be a mindset change?**
- **Everything should be on the table. Take nothing for granted.**
 - **Previous programs: DNA testing (seeing what happens when most of them are eliminated) have exonerated most of the “failed programs of the past”**
 - **In all cases, do not contradict or ignore any of “the realities” when developing policy**

The Question is: What Are We Going to Do About It?

- **Create a fresh, bold policy vision that catches people's imagination and is farmer-centered**
- **The challenge is yours—but as for me:**
 - I think the time is right for a merging of agricultural and energy policy
 - Energy could/should be the next soybeans
 - Formerly 30-50 percent of land was dedicated to energy production (horse feed, wood fuel, etc.)
 - More than ethanol and biodiesel

Merge Ag and Energy Policy

- **Biofuels recycle atmospheric, not fossil, carbon**
- **Look at crops not in food equation & NOT internationally traded**
- **Switchgrass (as an illustrative example only)**
 - **Perennial**
 - **Reduced inputs**
 - **Multi-year setaside**
 - **Burned in boilers for electricity**
 - **Converted to ethanol**
 - **Less costly than present ag programs**

The Realities

(just in case you missed them)

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Thank You

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Senate ag committee resists pressure to adopt House Farm Bill

needy children and spouses of victims of the Sept. 11 terrorist attacks. LMA President Patrick Goggins said. "All across America, in 43 states, our member businesses do

The House of Representatives adopted the Farm Security Act of 2001 on Friday, Oct. 5, by a vote of 291-120. The approval came after representatives rejected a flurry of amendments including the Boehler-Kind amendment to shift \$19 billion dollars from conservation programs to crop based subsidies. The adoption of this farm bill legislation by the House, attention shifts to the Senate Ag Committee. This committee is being pressured to use the House bill as its base document, making adjustments, if necessary. The pressure comes from those who believe that agricultural community needs to grab the additional \$73.5 billion above the baseline that was made available in the 2001 budget resolution.

However, the budget resolution says these additional monies would be available only if the budget projections did not require dipping into the Medicare or Social Security Trust Funds. By early September, the slowdown of the economy and the tax cut had significantly reduced the surplus to what some were projecting to be a razor thin margin. In the aftermath of the events of Sept. 11, the Medicare and Social Security "lock box" was not given a moment's consideration as \$40 billion was granted to New York for damage caused by the terrorist attacks and for fighting the war on terrorism. Congress then voted \$15 billion to bail out the airline industry. Billions more undoubtedly will be needed to execute the war against terrorism. And, the administration is talking about an additional economic stimulus package that could be as large as \$100 billion. Undoubtedly the lid of the lock box will be wide open when all is said and done. All of this spending leaves agriculture's additional \$73.5 billion in question. It would appear that the thinking in the House is that agriculture better make its claim as quickly as possible before the lock box is closed again or a cap is put on the deficit. Judging



policy pennings

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- Will the budget for agriculture be the \$96.5 billion baseline or will it be \$170 billion, including the additional \$73.5 billion conditionally authorized in the budget resolution?
- Will Congress impose a \$150,000 payment limit like the House?
- How widely will the payments under the farm bill be distributed? Will they be concentrated in the heartland or will they be concentrated in the role conservation will play in the farm bill. Will or will it be a green payment program that will encourage conservation in all regions of the country and on all sizes of farms?
- Closely tied to the previous two questions is the conservation will play in the farm bill. Will it be a green payment program that will encourage conservation in all regions of the country and on all sizes of farms?

Intertwined in all of the discussion and action are a number of major questions that will have to be answered before a final version of the farm bill is approved. But in mid-October, the leadership of the Senate has no interest in the wholesale adoption of the House's version of the farm bill. The Senate intends to have its say, thank you very much!

"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