



Rethinking US Agricultural Policy:

Changing Course to
Secure Farmer
Livelihoods Worldwide

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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**
- **Integrated livestock, processors, importers primarily benefit from low crop prices**
- **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.**

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.

*Historically—there have been **Two** Major Components of Farm\Commodity Policy*

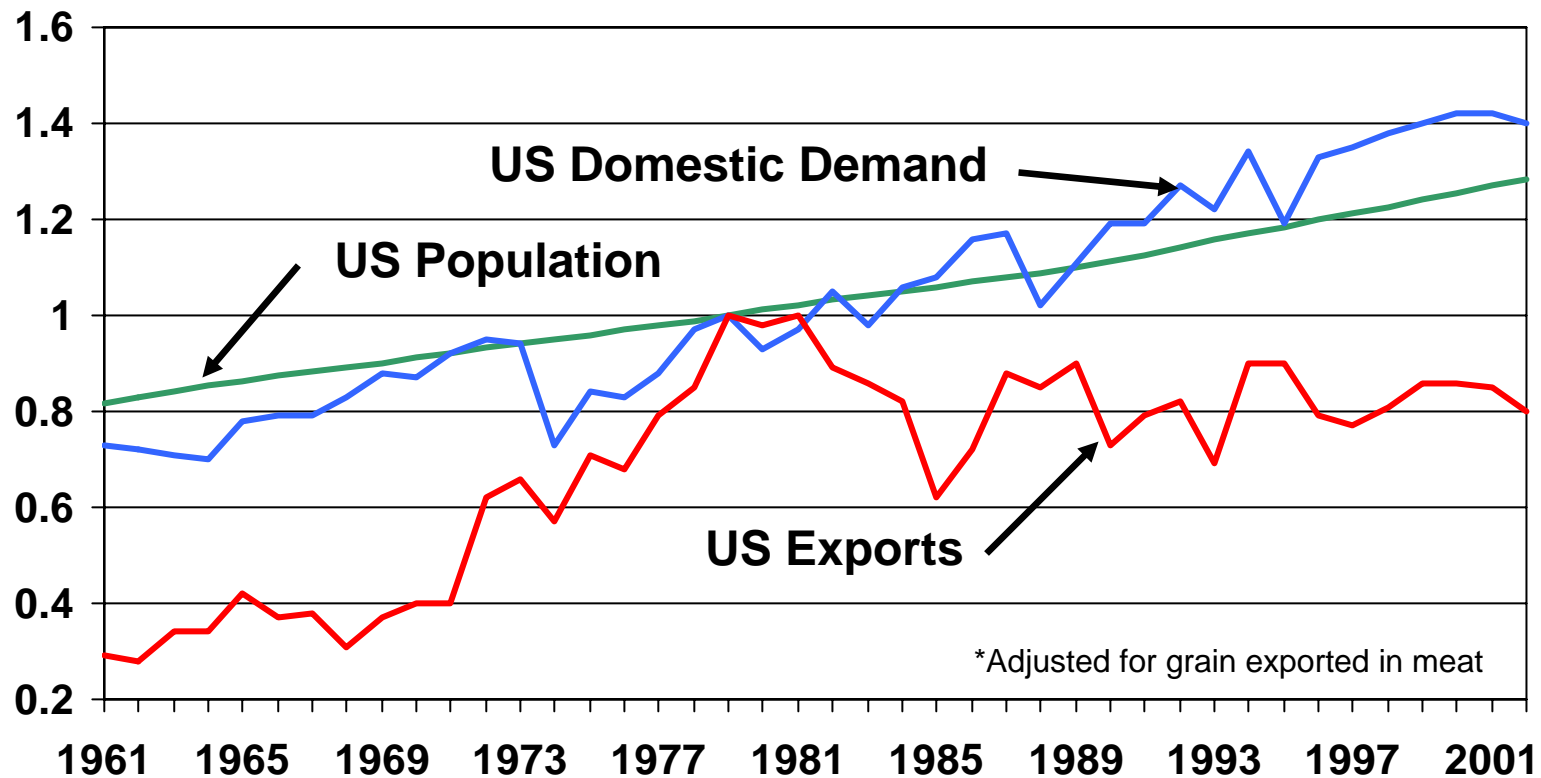
- **Policy of Plenty:** Ongoing public support to expand agricultural productive capacity through research, extension and other means
- **Policy to Manage Plenty:** Mechanisms to manage productive capacity and to compensate farmers for consumers' accrued benefits of productivity gains

Critical Changes in U.S. Policy

- **Since 1985 “policy makers” believed that to allow exports to drive agricultural growth, markets should be allowed to work**
- **This view culminated in the 1996 FAIR Act:**
 - **Elimination of supply control instrument: set aside program**
 - **Replaced “price floors” with government payments**

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

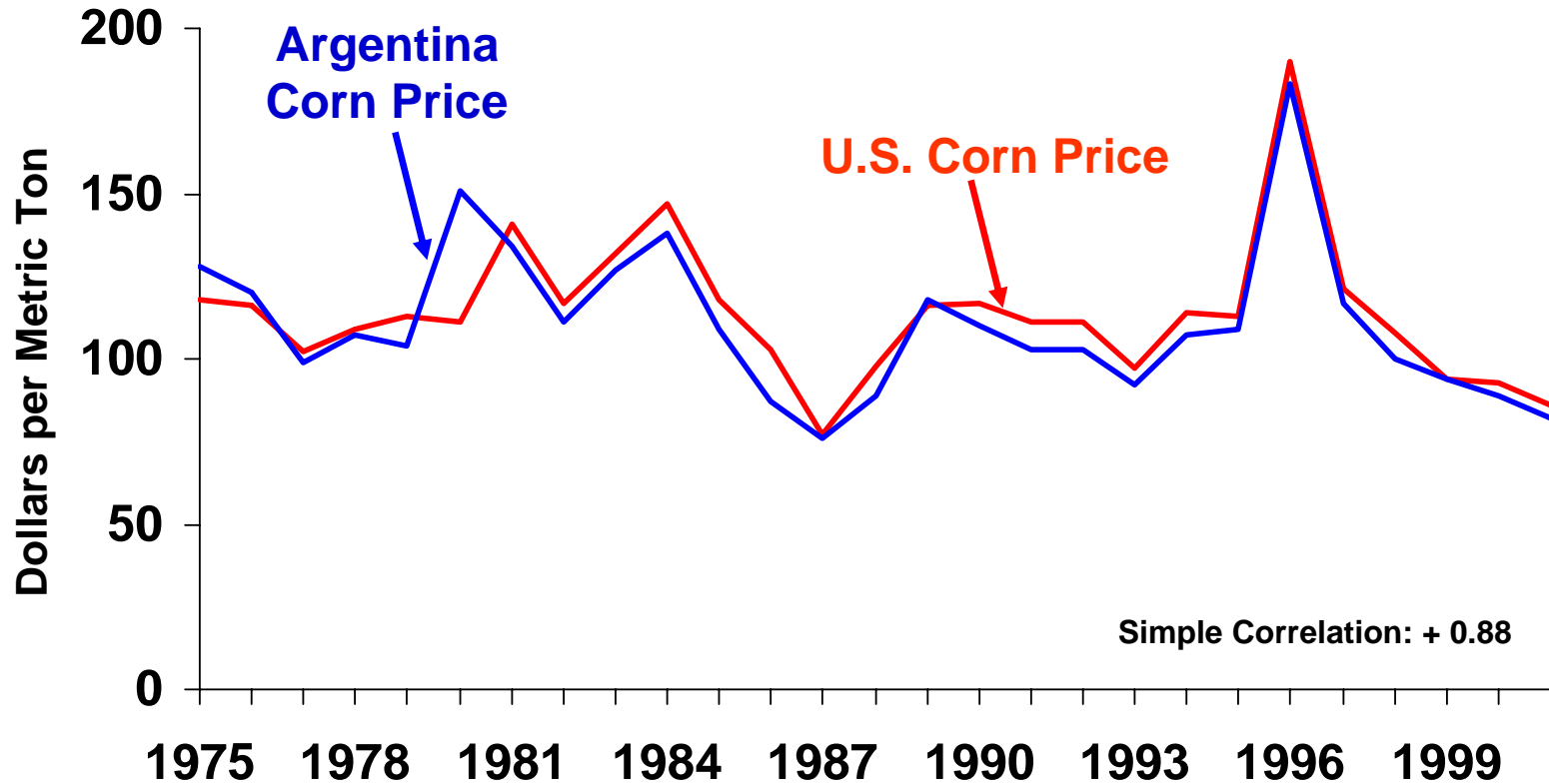
Nature of Crop Markets

- **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**

Impacts of Low Prices on Farmers in Developing Countries

- **No protection mechanisms:**
 - **Pressure to deregulate economy**
 - **Eliminated tariffs in compliance with trade agreements**
 - **Unable to provide payments to farmers**
- **Mexico: corn price halved and tortilla prices doubled**
- **Haiti: from self-sufficient to malnourished**
- **Africa and SE Asia in downward spiral**

Corn Price: US and Argentina



US and Argentine prices move together

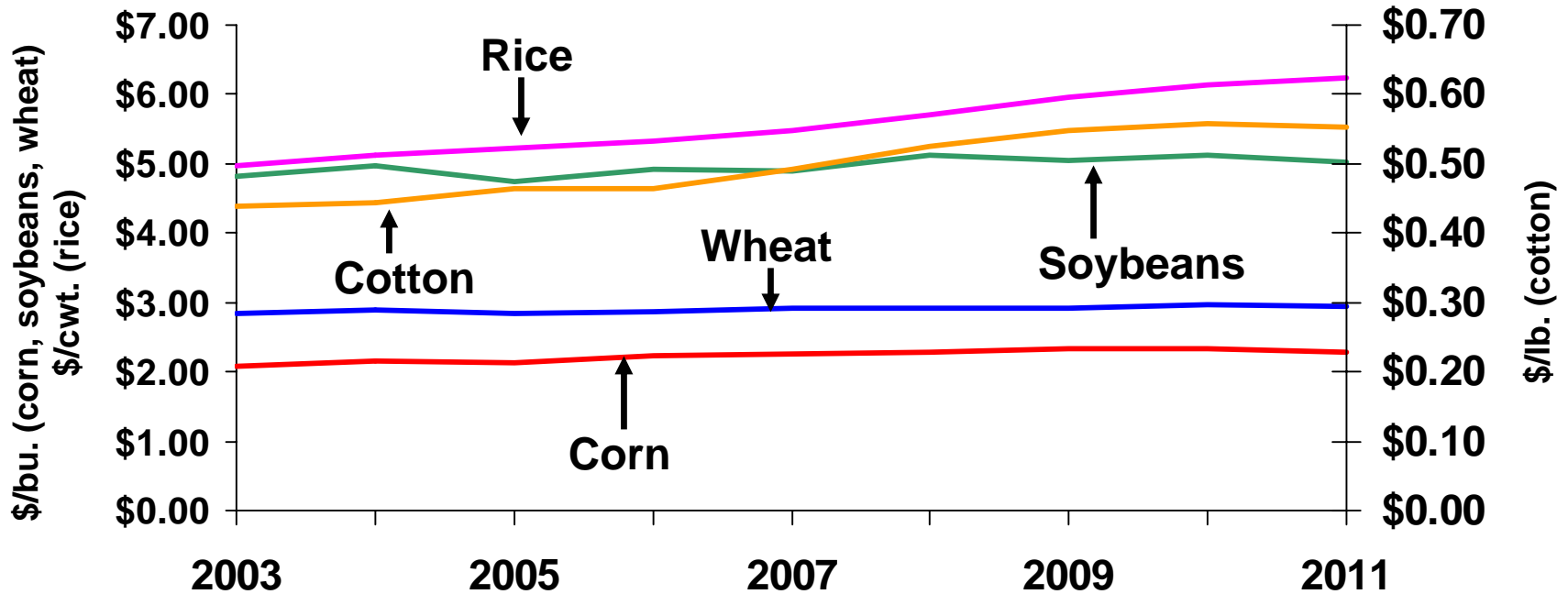
Possible Directions

- *Stay the Course*
- *Intensify the Free Market Prescription*
- *A More Managed Prescription*

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

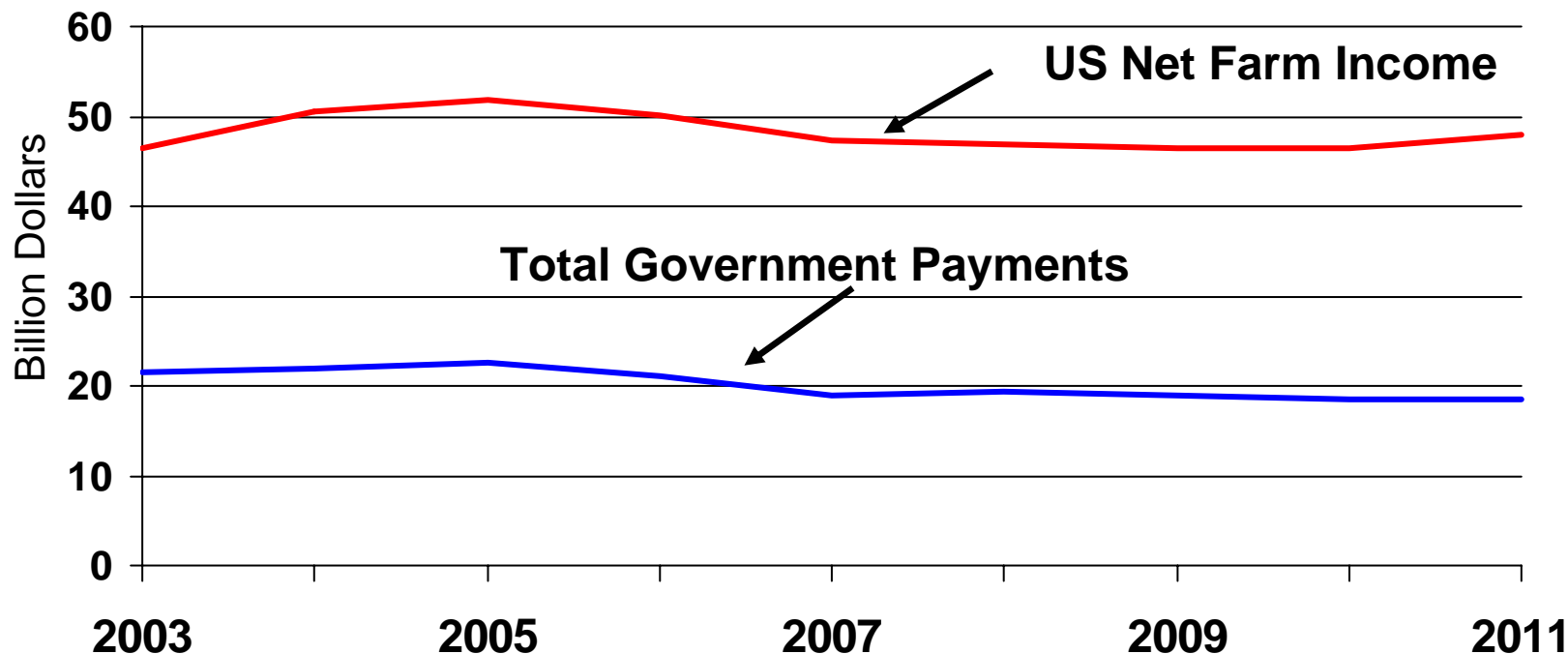


Projected US Prices of Five Major Crops Under Current Farm Policy

- 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

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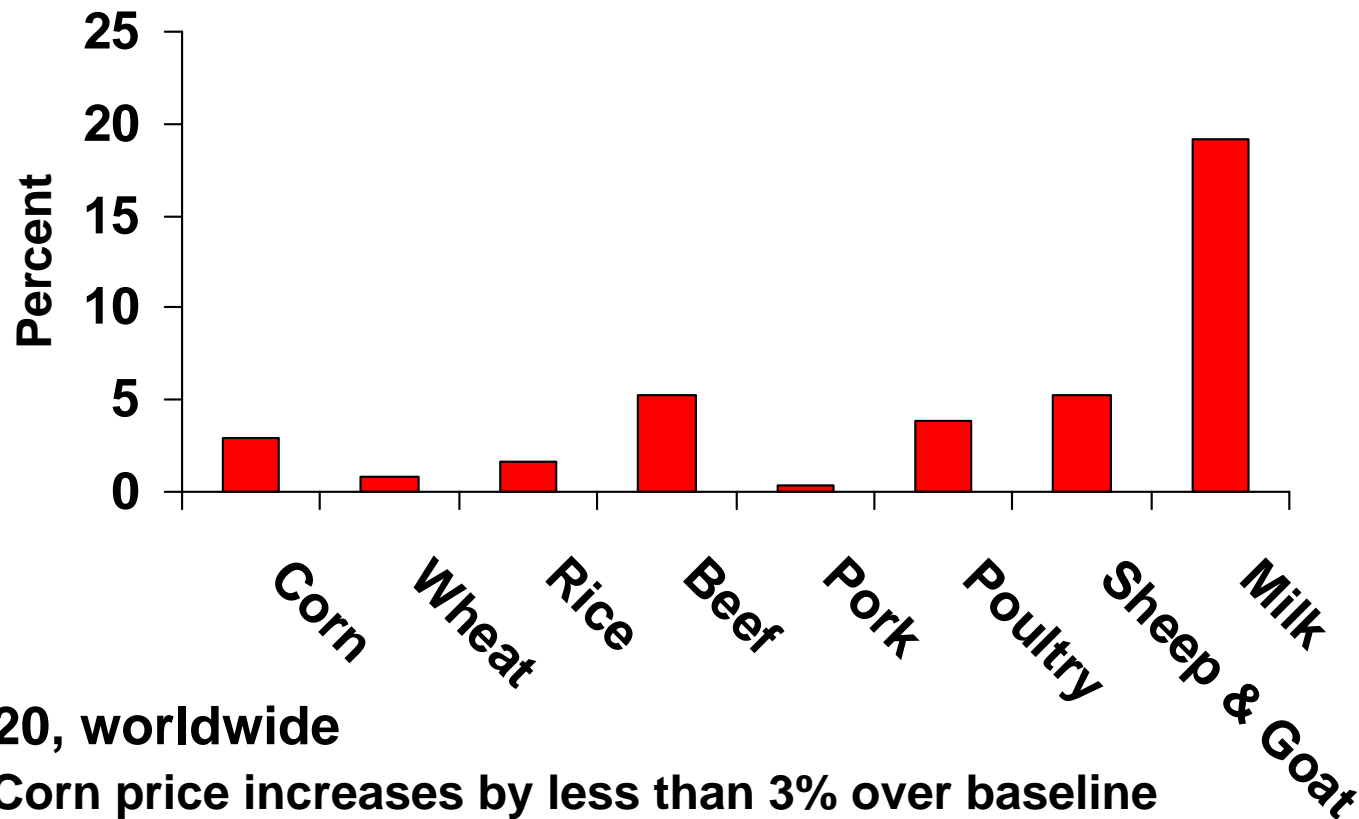
Conflicting Views: How to Fix Broken Policy

- *Free Market Solution*
 - Eliminate trade barriers and government distortions
 - And all will be fine if producers and consumers properly adjust to market signals (aaah hah)
- *Farmer Oriented Solution*
 - Recognizes unique characteristics of agriculture
 - Policy should recognize farmers' actual behavior

What If We Did Get Rid of Subsidies

- **Worldwide price impacts**
- **US price impacts**
- **Supporting evidence from other countries:**
 - **Canada**
 - **Australia**
 - **Mexico**

Intensify Free Markets in Developed Countries

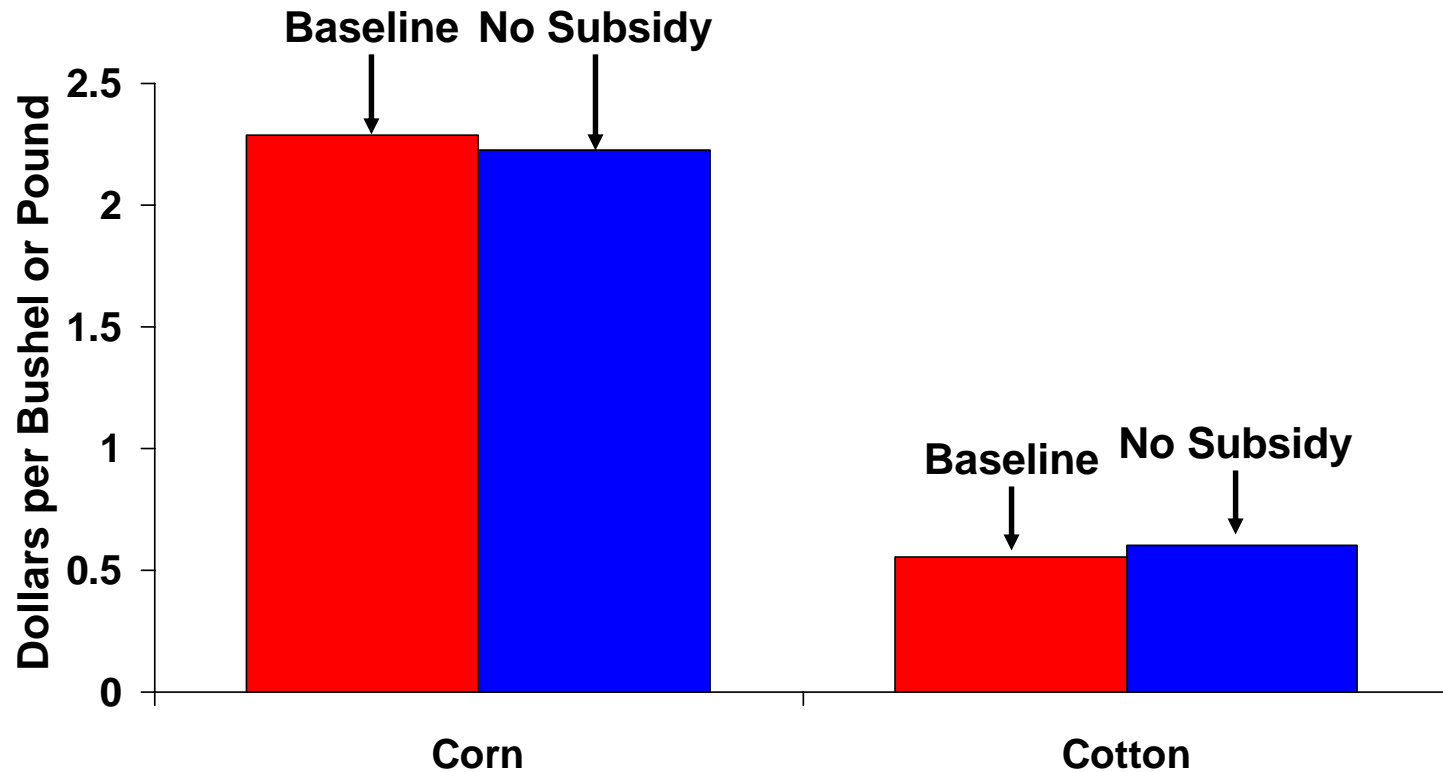


In 2020, worldwide

- **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**

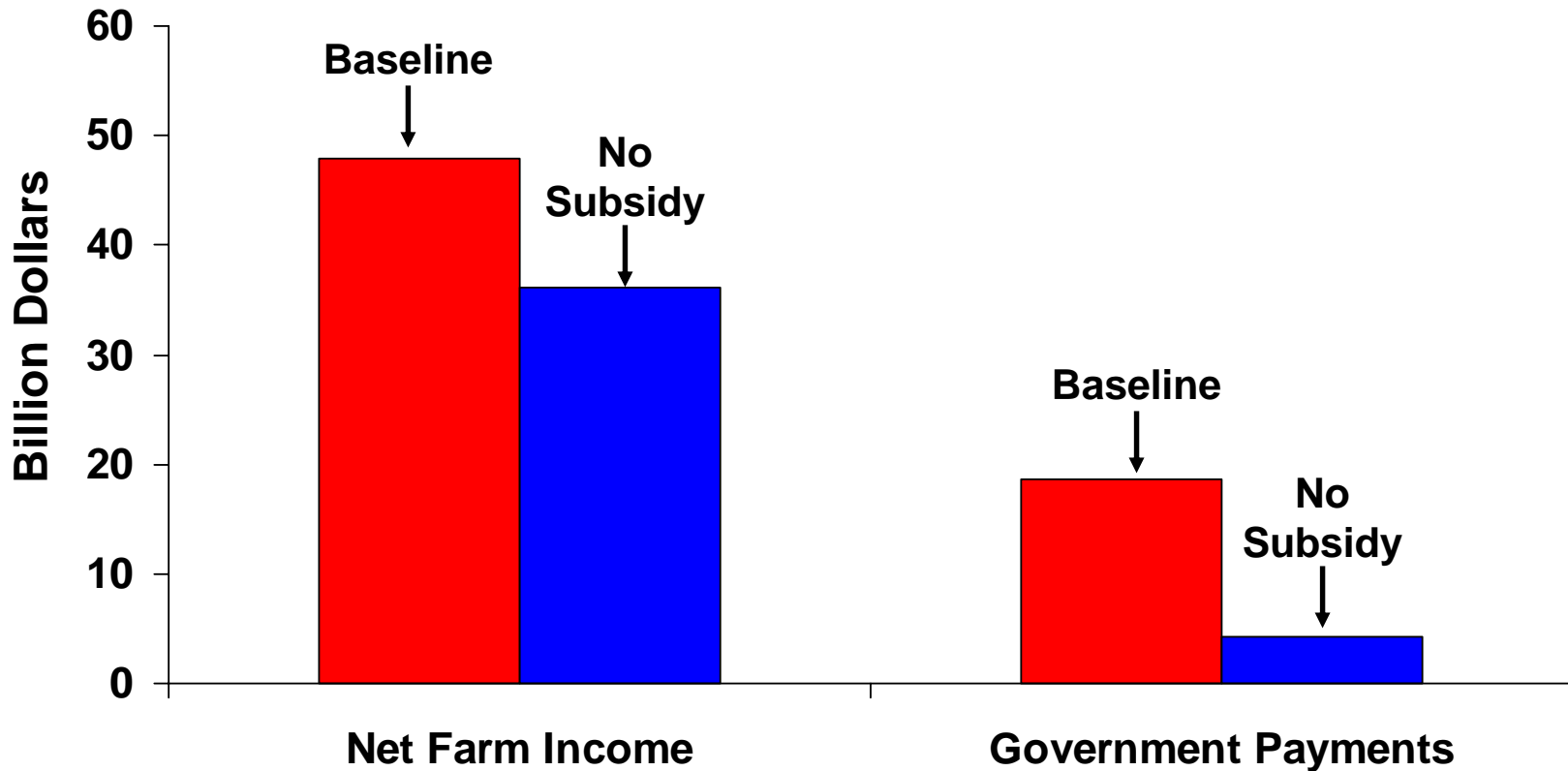
IFPRI IMPACT

No US Subsidies: US Price Impacts, 2011



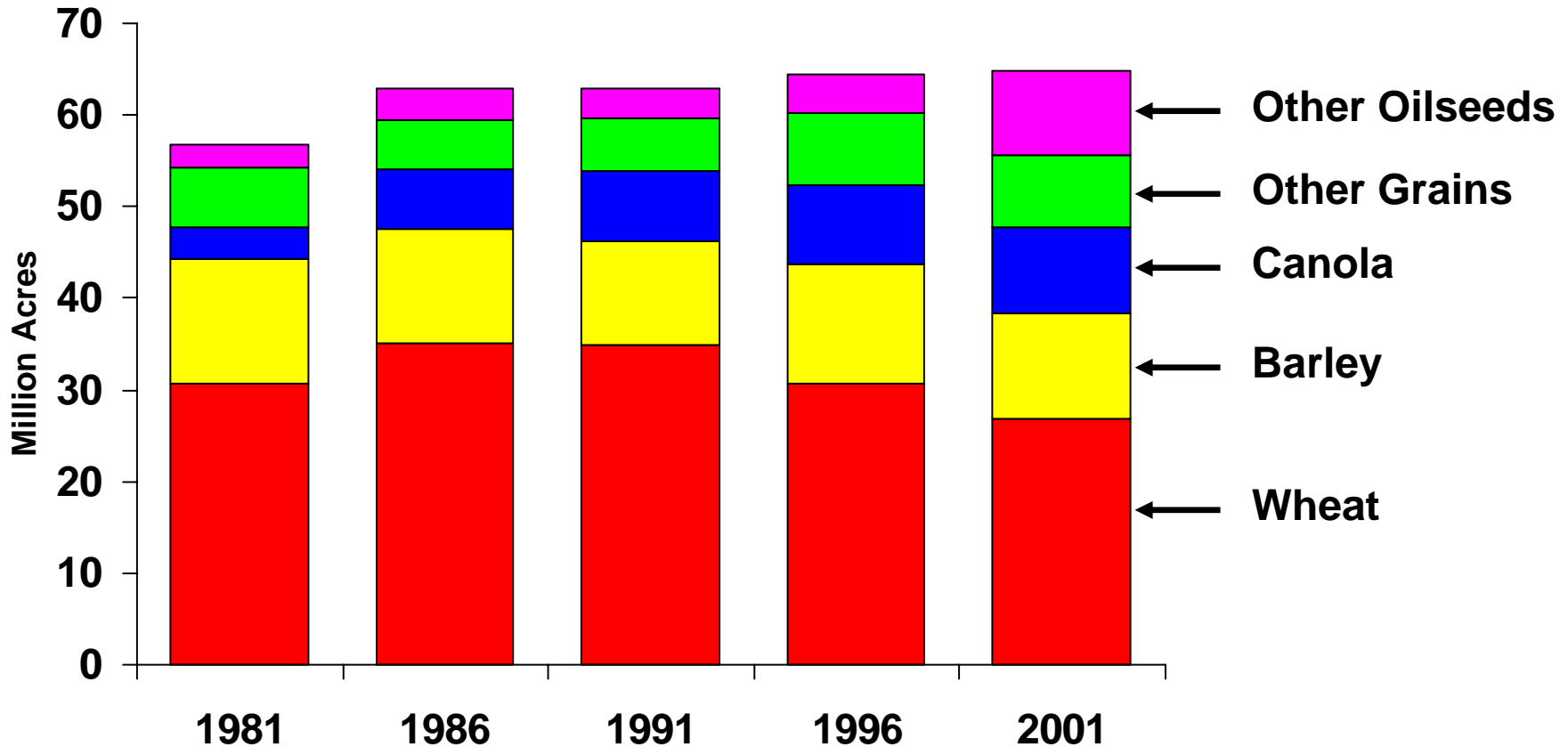
Corn prices decline slightly, while cotton prices edge upward

No US Subsidies: US Farm Income Impacts, 2011



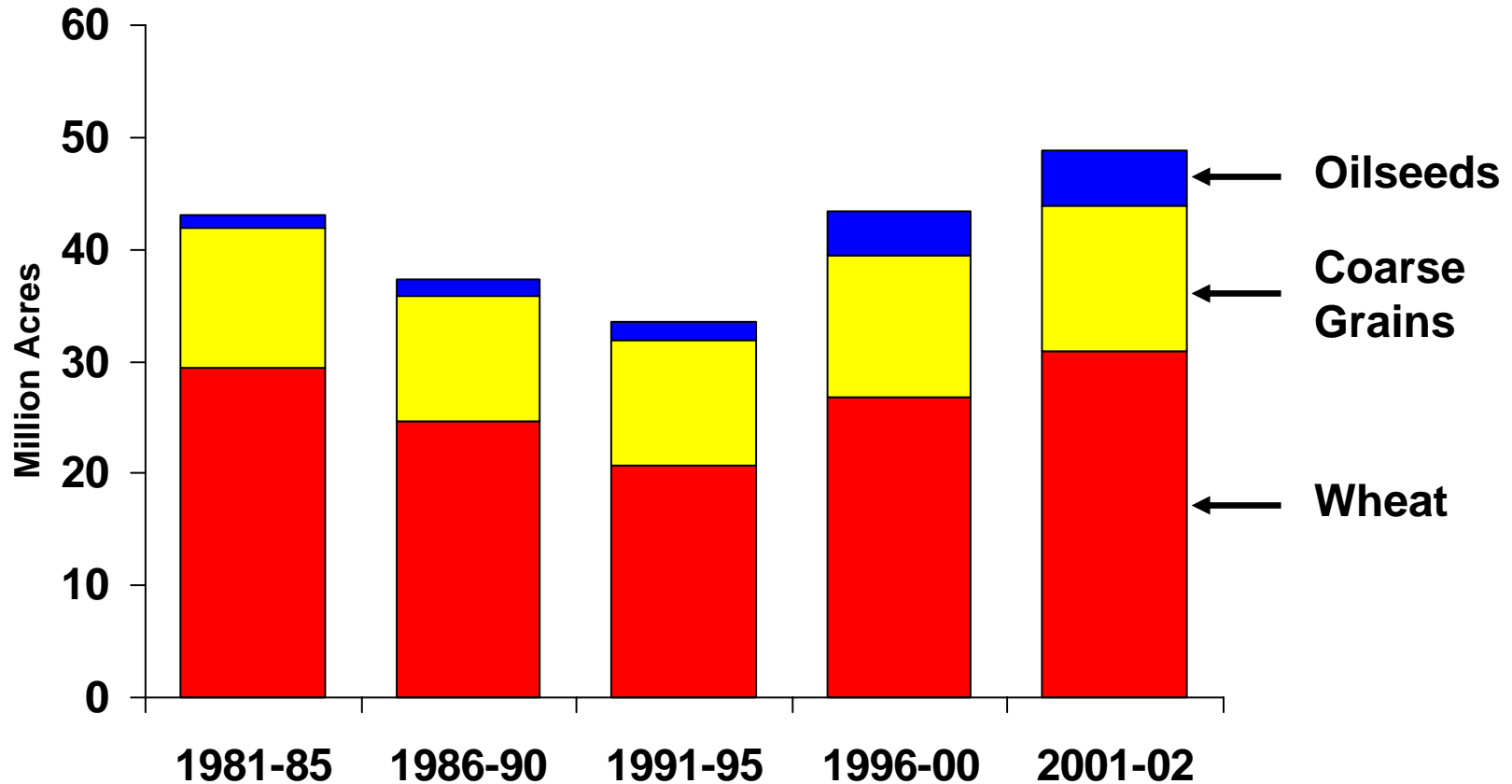
- Net Farm income drops by \$12 billion or 25% in 2011
- Government payments drop by \$14 billion or 77% in 2011

Canada: Farmland Planted



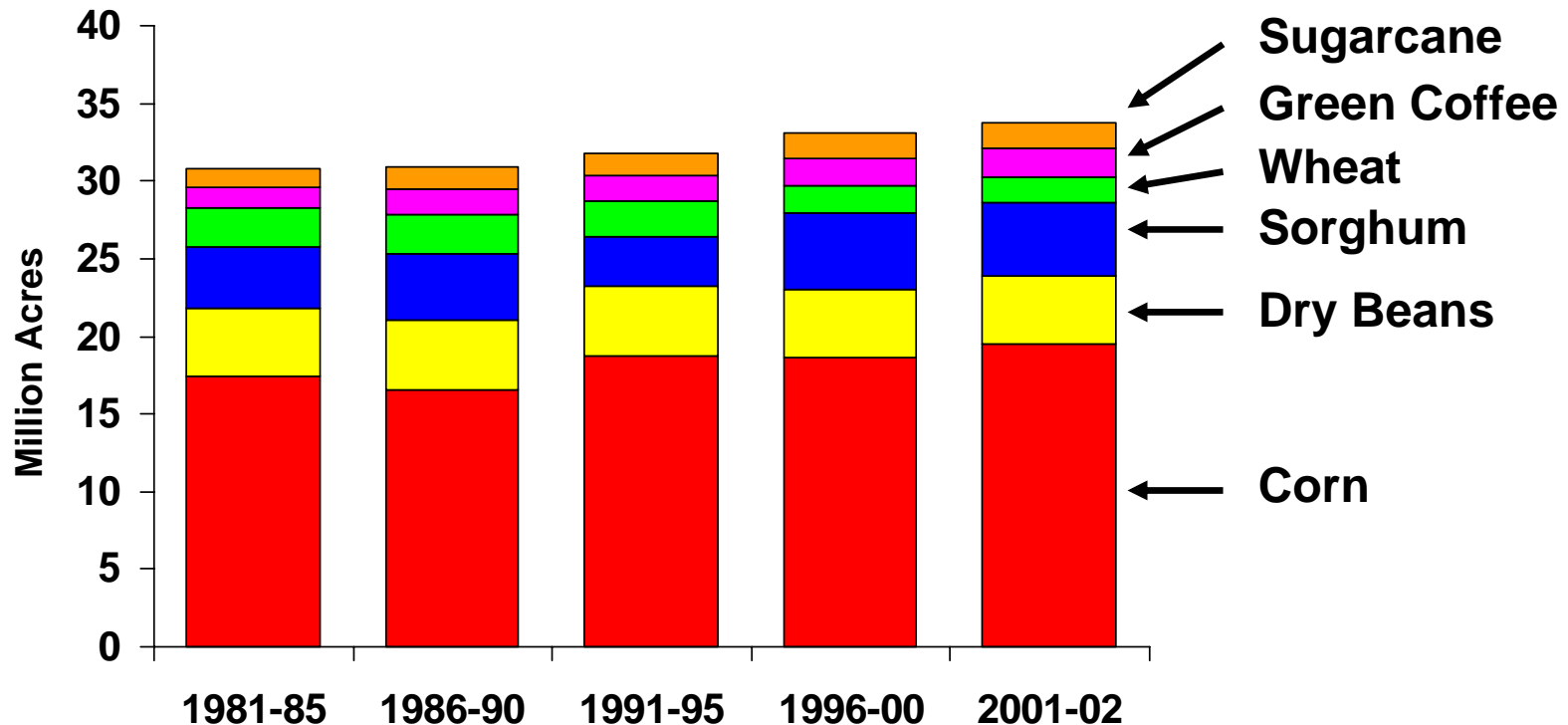
- Canada reduced subsidies in 1990s
- Eliminated grain transportation subsidies in 1995
- Crop mix changed, total acreage remained flat

Australia: Farmland Planted



- Australia dramatically reduced wool subsidies in 1991
- Acreage shifted from pasture to crops
- All the while, prices declined

Mexico: Farmland Planted



- Mexico eliminated or reduced supports in the 1990s
- Phased out import quotas under NAFTA
- Increased acreage of above selected major crops
- Total crop acreage also increases – 256 million acres in 1991, 265 million acres in 2001

A More “Managed”

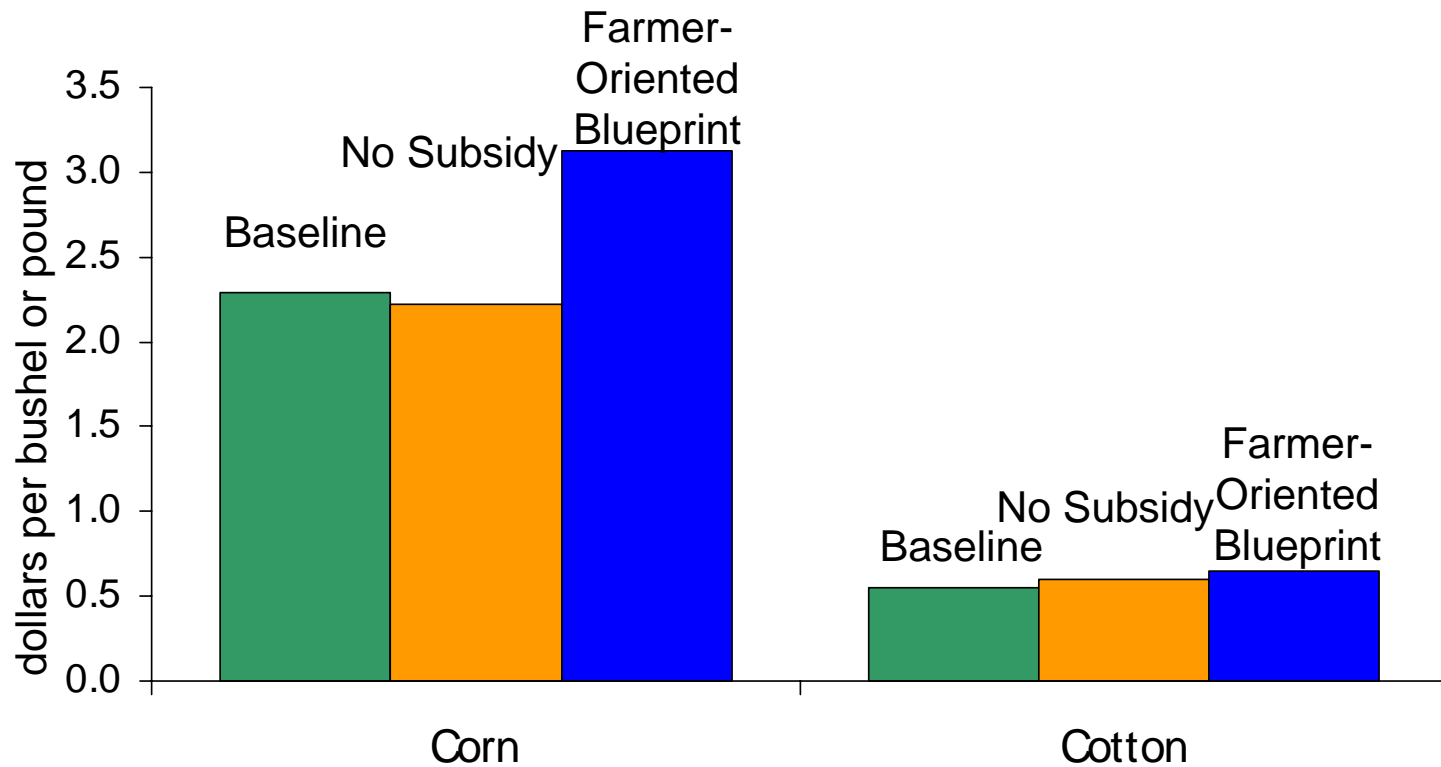
Alternative means of managing crop production could be considered

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

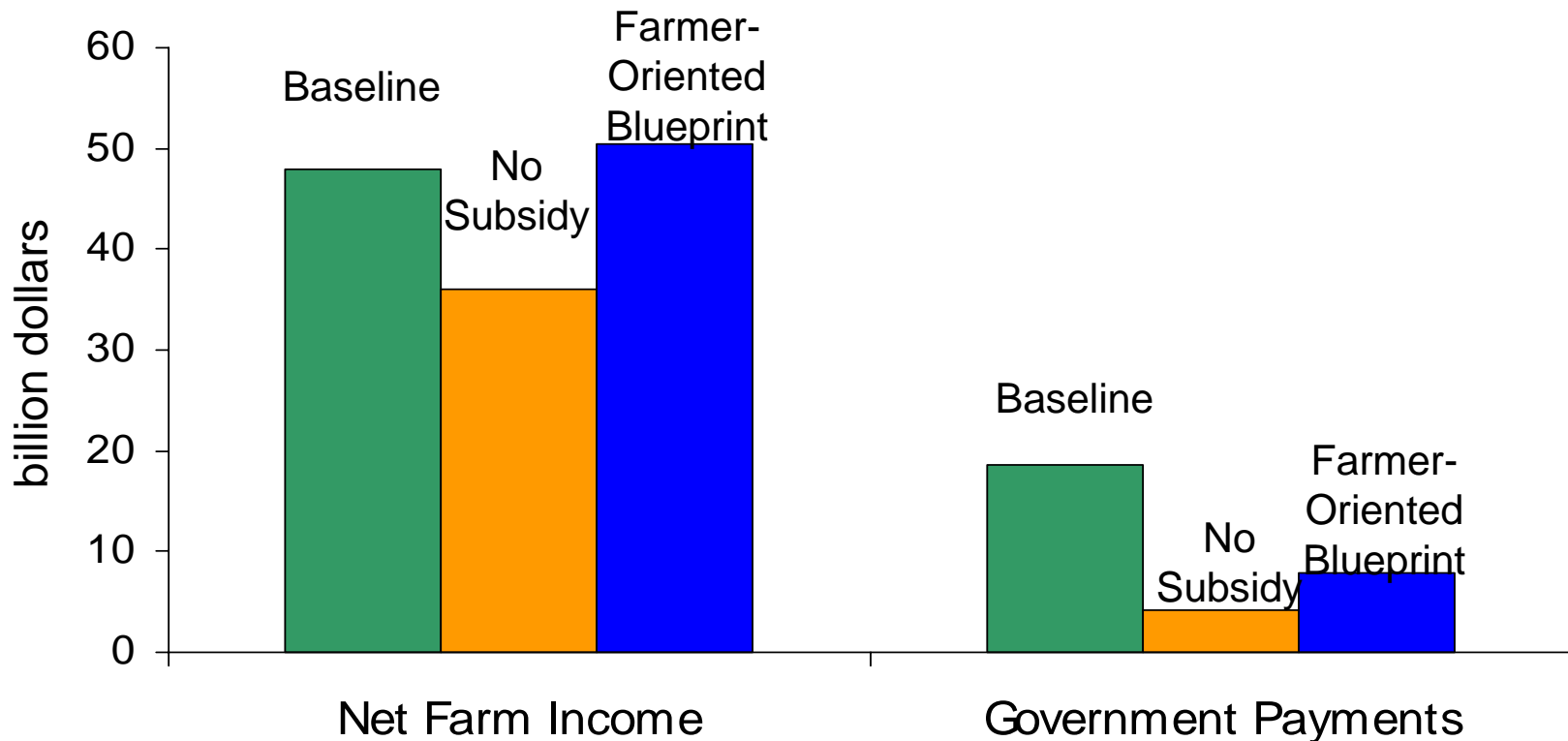
Farmer-Oriented Policy Blueprint Example

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

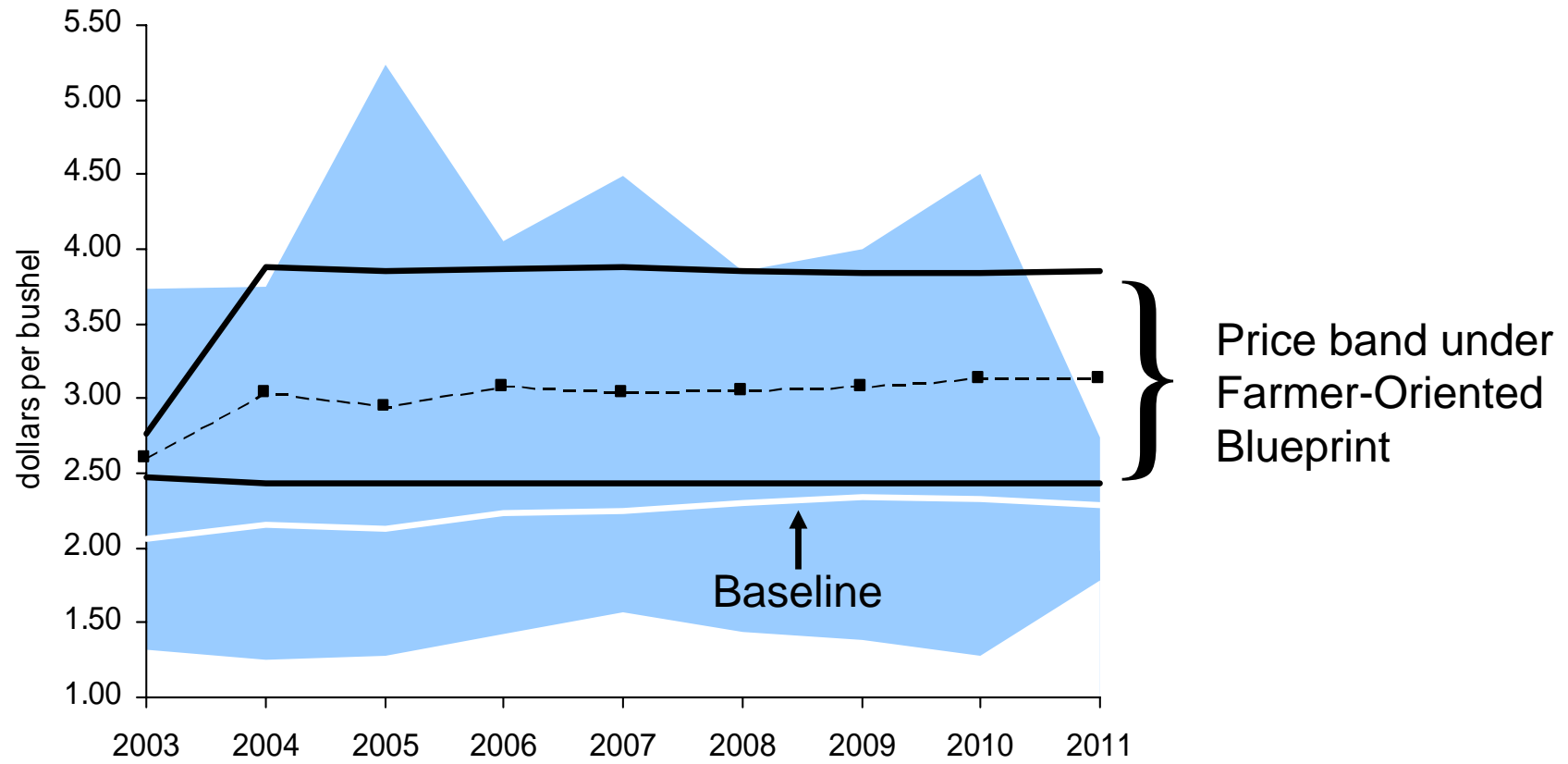
Farmer-Oriented Blueprint: US Price Impacts, 2011



Farmer-Oriented Blueprint: US Farm Income Impacts, 2011

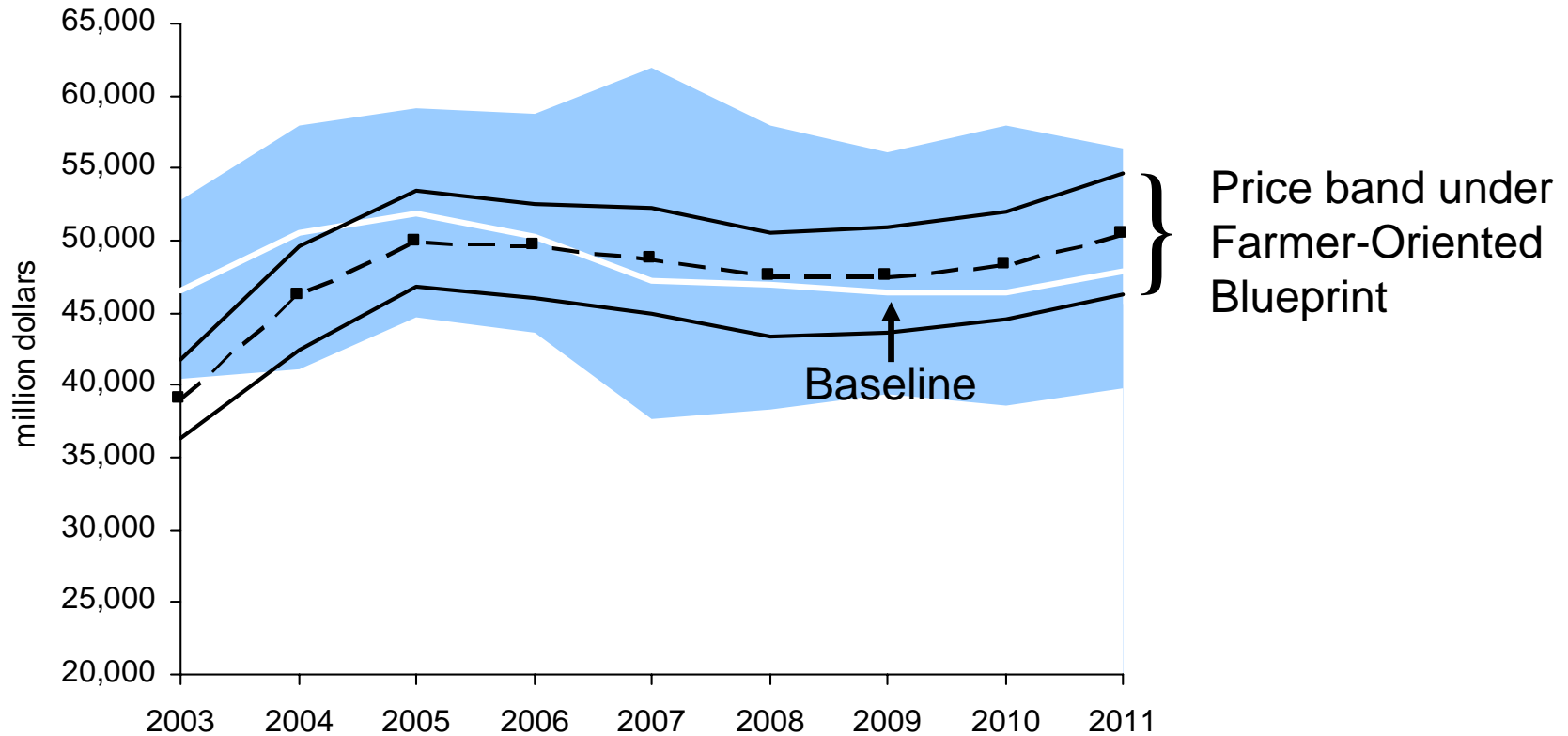


Farmer-Oriented Blueprint: US Corn Price Variability



- **Higher and more stable corn prices**

Farmer-Oriented Blueprint: US Net Farm Income Variability



- **Slightly higher and reduced variability in net farm income**

This was Only A Blueprint Example

- **Alternative means of managing crop production should be considered:**
 - **Adding to existing CRP acreage**
 - **Creating a shorter-term CRP-like program**
 - **Energy crops – could be a win-win-win**

Conclusions

- **Low price policies benefit agribusinesses, integrated livestock producers, import customers**
- **US is exporting poverty because it no longer manages supply**
- **US farmers would produce nearly the same quantity of aggregate crop output over a wide range of subsidies**
- **Trade liberalization, by itself, is not a solution**
- **A farmer-oriented policy is possible**
- **Changing US policy alone is not enough, international cooperation is needed**

Final Point

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**

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