

Policy Perspectives

Daryll E. Ray and Harwood D. Schaffer

University of Tennessee
Agricultural Policy Analysis Center

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Problems, Problems, Problems

- **US commodity prices plummeted**
- **Lower US prices triggered low prices in international ag commodity markets**
- **Accusations of US dumping**
- **Countries in the South unable to neutralize impacts of low prices**
- **Most US farmers not directly covered**

Losers and Winners of Low-Price Farm Policy

- **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**

Winds of Change

- **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

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

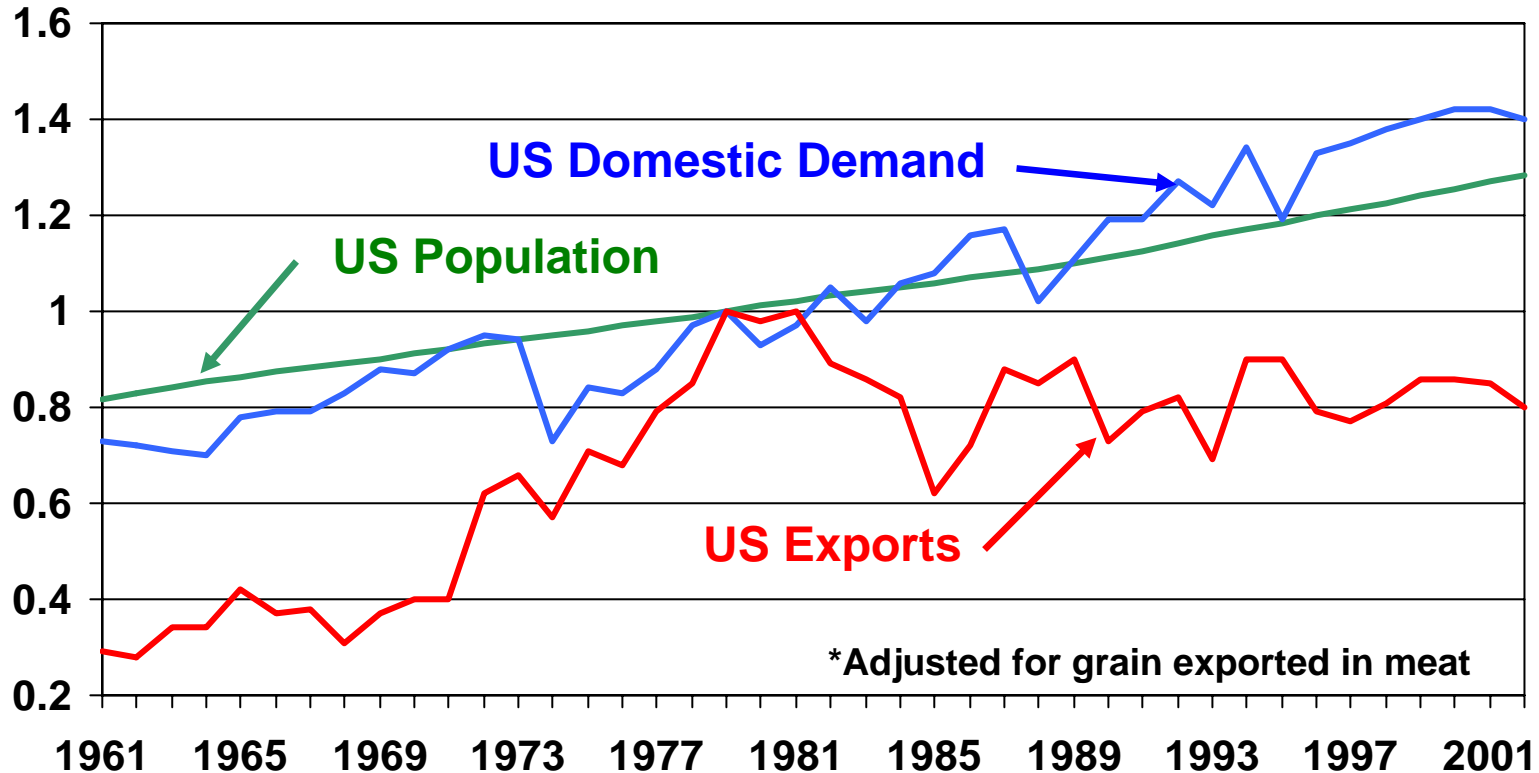
In the past farm policies included:

- 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*

Exports Did Not Deliver



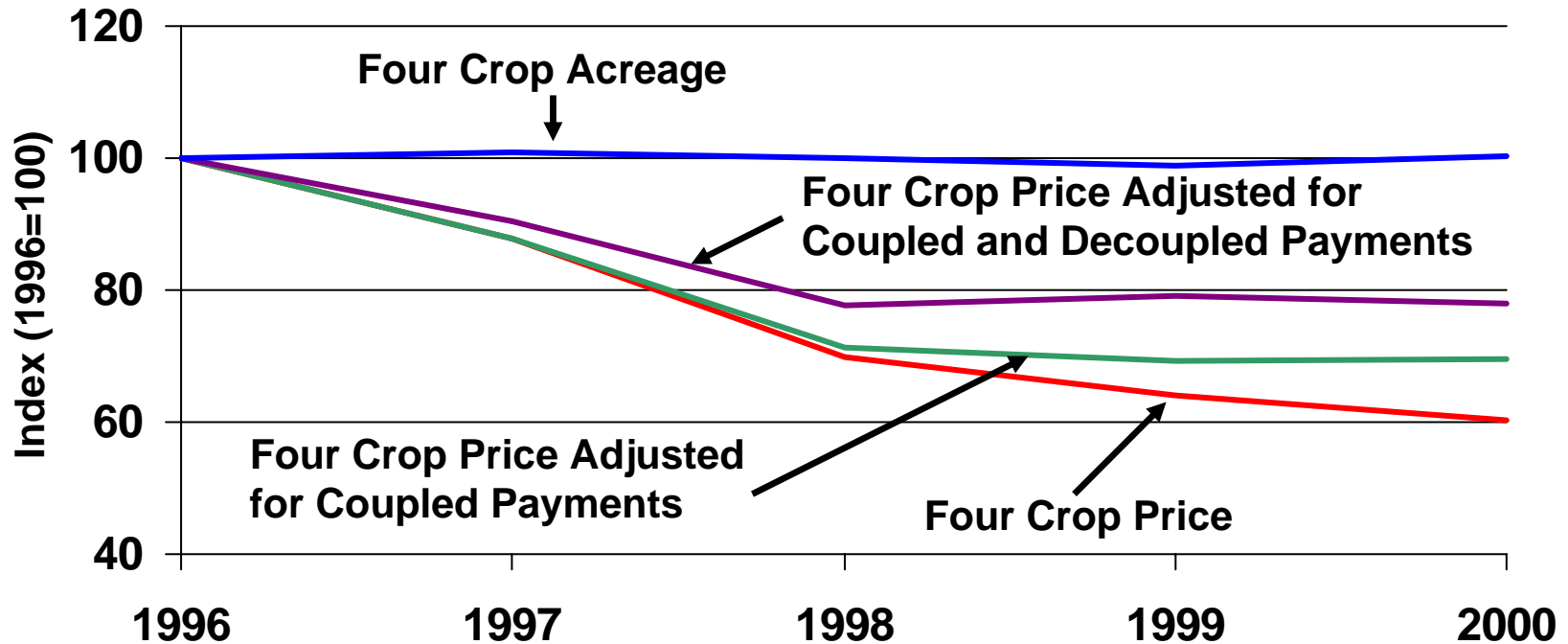
Index of US Population, US Demand for 8 Crops and US Exports* of 8 Crops
1979=1.0

- 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

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

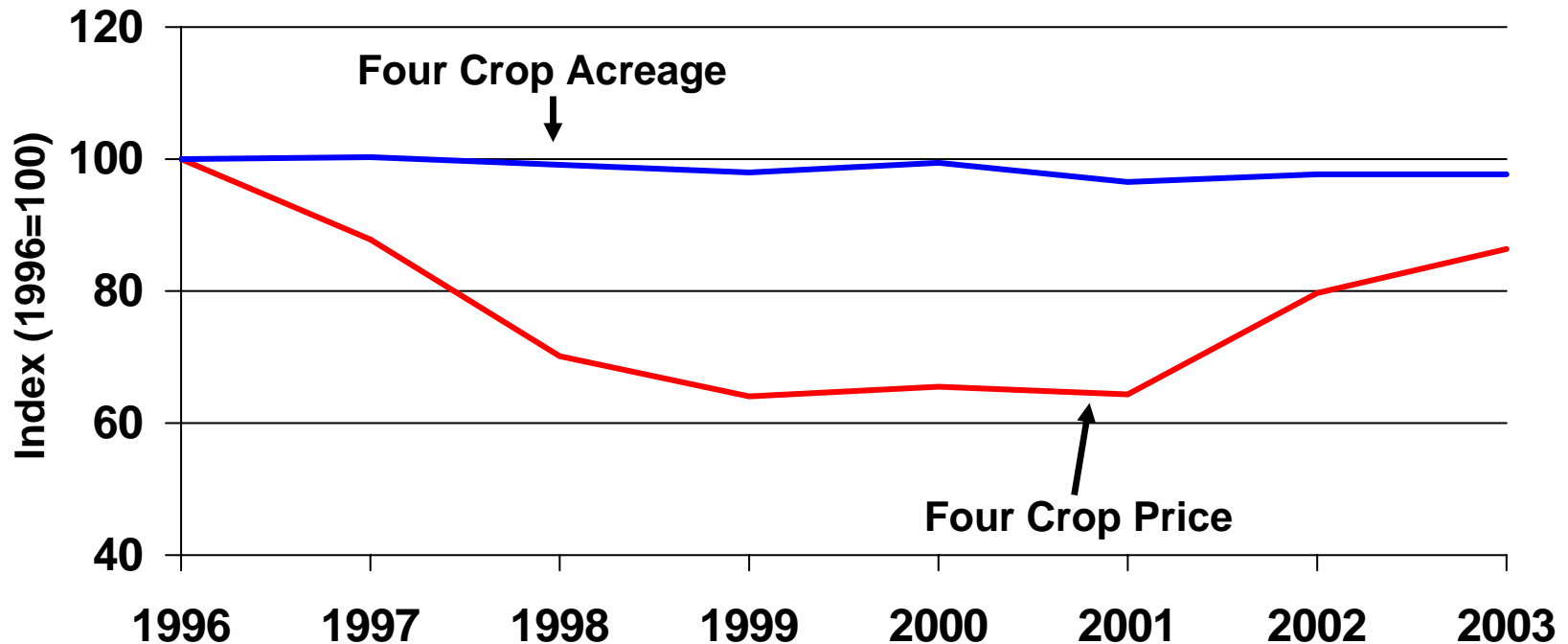
Acreage Response to Lower Prices?



Since 1996

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

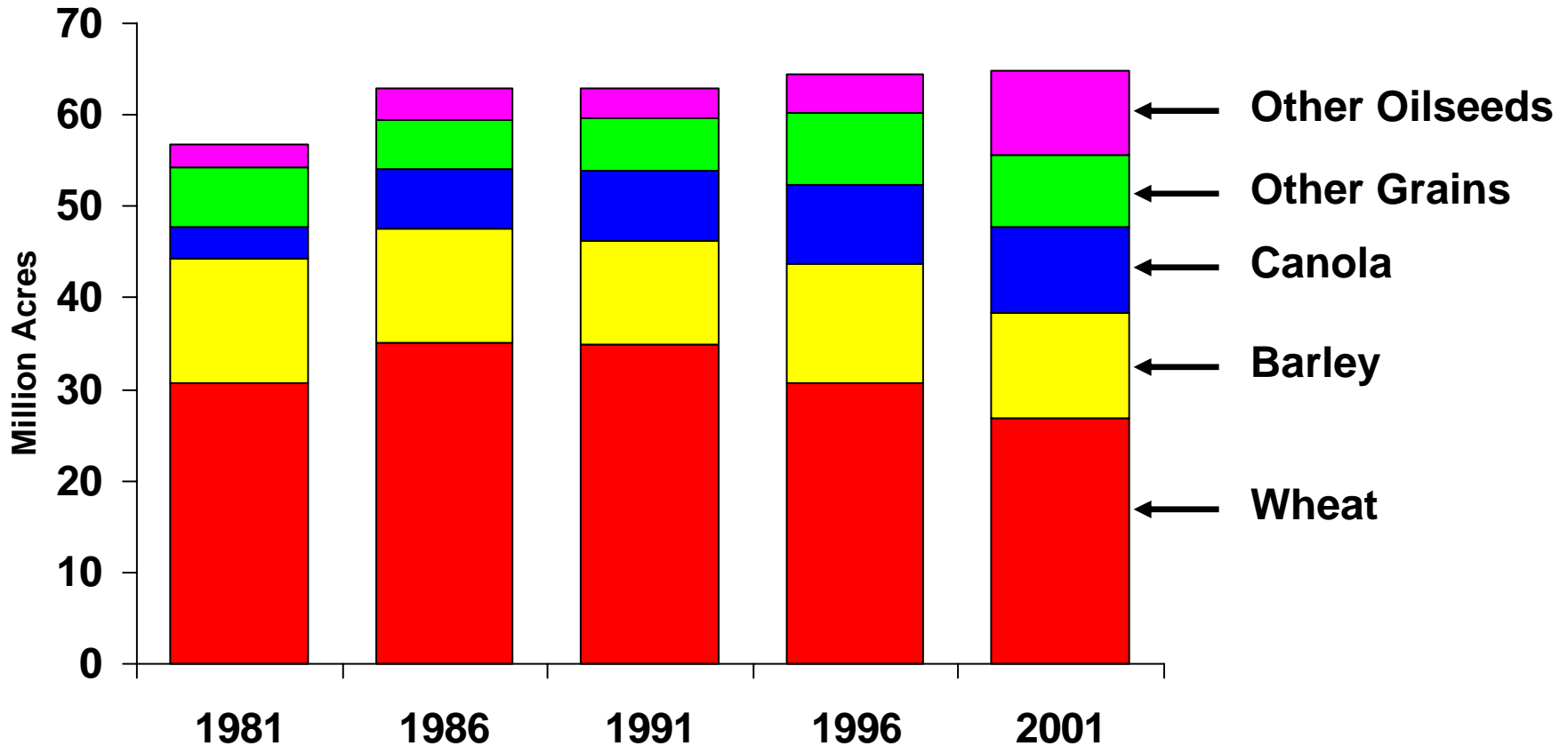
Acreage Response to Lower Prices?



Since 1996 "Freedom to Farm"

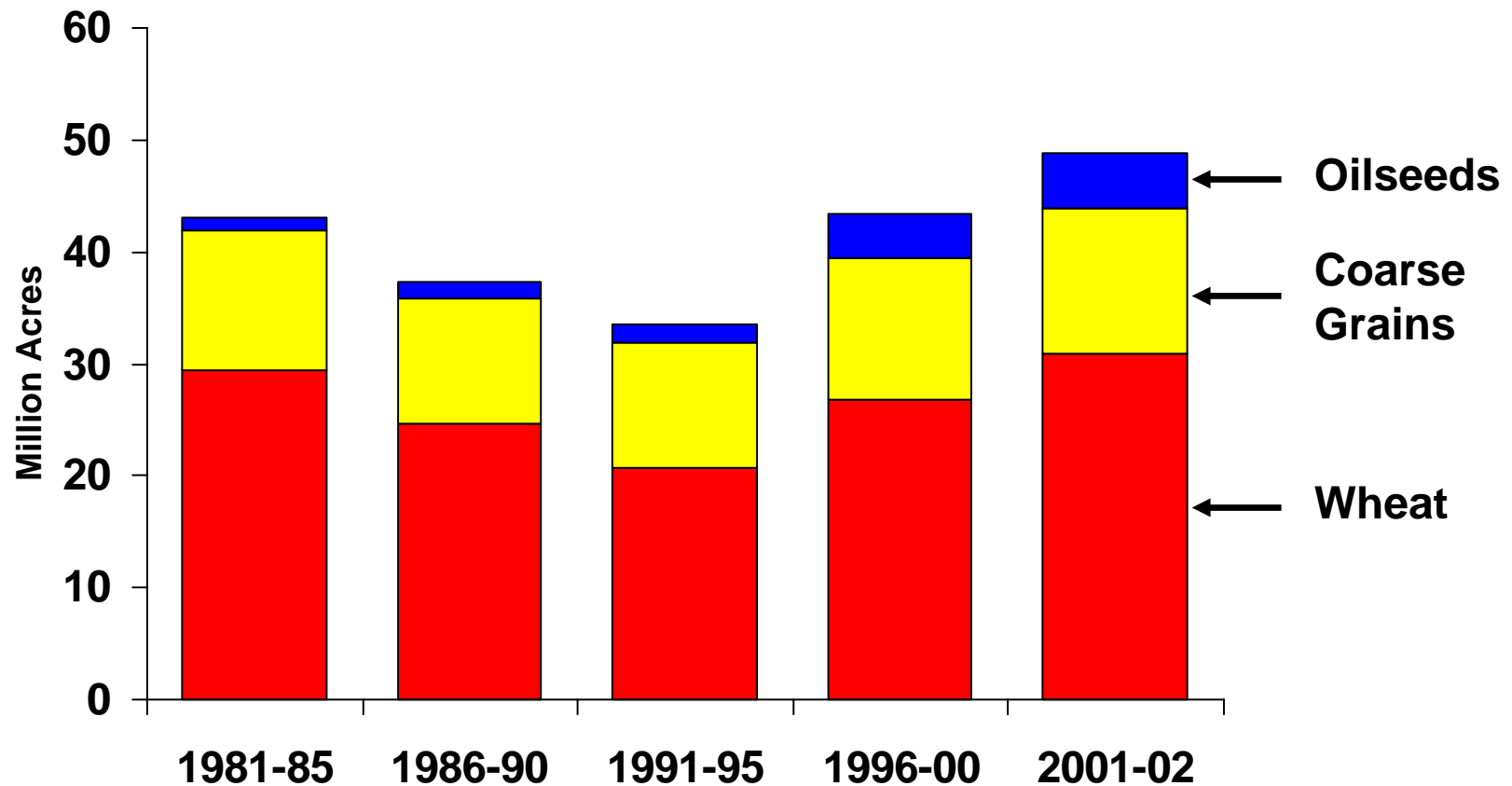
- *Aggregate US corn, wheat, soybean, and cotton acreage changed little despite a wide fluctuation in price*

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

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**

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**)

Can We Change the Direction of Farm Policy?

- **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
 - Agricultural interests must shrug-off the tendency to be subservient to agribusiness

Begin by Recognizing Groups of Farms

- **Large commercial farms** (Produce most of output)
 - **Gross over \$250,000 annually** (For general reference only; operationally need several criteria for each group)
- **Small to medium size farms** (Produce little output)
 - **Gross \$100,000 or less annually**
- **Farms in the middle** (Many are full-time, family-sized farms)
 - **Gross \$100,000 to \$250,000**

Need Policy to Meet the Needs of Each of These

Three Agricultures; Three Policy Sets

- **Commercial agriculture**
 - Yes, it is necessary
 - Policies to address historical price problems
- **Civic agriculture**
 - Policies to address CSAs, Farmer Markets, etc
- **Farms in the middle**
 - Policies to facilitate multi-farm markets and allegiances

US Is Oligopoly Price Leader for Many Crops

- **When US removed the floor, farmers around the world suffered**
- **Solution to price problems is not to eliminate government intervention**
- **Solution is to reinstate a floor that provides a price basis for farmers around the world**

Commercial Agriculture

- **Acreage reduction program**
 - **Manage productive capacity**
- **Non-recourse loan rate to set price floor**
- **Storage program to maintain price range**
- **Humanitarian Food Reserve**

But More Is Needed

- **Create a fresh, bold policy vision that catches people's imagination and is farmer-centered**
- **I think the time is right for a merging of agricultural and energy policy**
- **Energy could/should be the next soybeans**
- **A way to absorb excess capacity in place of set-aside**
- **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**

Civic Agriculture: A Description

- **Locally based production**
- **Direct sales**
- **Farmers' Markets**
- **Community Supported Agriculture (CSAs)**
- **Composed of small to medium sized producers often near population centers**

Public Policy needs of Civic Agriculture

- **Direct more research and extension attention toward needs of these producers**
- **Access to markets**
- **Distribution networks tailored to small producers**
- **Financial support for developing and maintaining farmer markets, CSA**

Farming in the Middle: A Description

- **Typical size \$100,000 - \$250,000**
- **Utilize management skills**
- **Supply markers too small for integrators and too large for single producer**
- **Products like meat produced without sub-therapeutic use of antibiotics**

Farming in the Middle: Some Examples

- **Goat production for Islamic market**
- **Laura's Lean Beef**
- **Organic Valley Family of Farms**
- **Antibiotic free beef for hospitals**

Farming in the Middle: Public Policies

- Publicly funded research and extension targeted to needs of this group of producers
- Development of clearing houses for information and services
- Federally sanctioned entities that may be needed
- Cochrane would give financial support of \$20,000 annually

Thank You

Agricultural Policy Analysis Center

The University of Tennessee
310 Morgan Hall
2621 Morgan Circle
Knoxville, TN 37996-4519

www.agpolicy.org

