

Current and Alternative Farm Policy Approaches

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*Indiana Farmers Union Annual Meeting
Columbus, Indiana
Saturday, February 7, 2004*

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**

Internationally...

We 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

The current international consensus for food/agricultural policy:

- **Fails to provide adequate and stable market returns for farmers worldwide**
- **Favors concentration and benefits multinational agribusinesses**
- **Does not allow for distinctive national policies**
- **Increased public cost**
- **Still: Fails to help feed the hungry**

Policy at a Crossroads

With the decreased rate of improvement in social measures worldwide and the collapse in farm prices:

- **The international policy trio of de-regulation, trade liberalization and privatization is ineffective, contentious and uncooperative**
- **Alternative: Desperately need to identify elements of a stable, sustainable and cooperative world policy for food and agriculture**

*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:

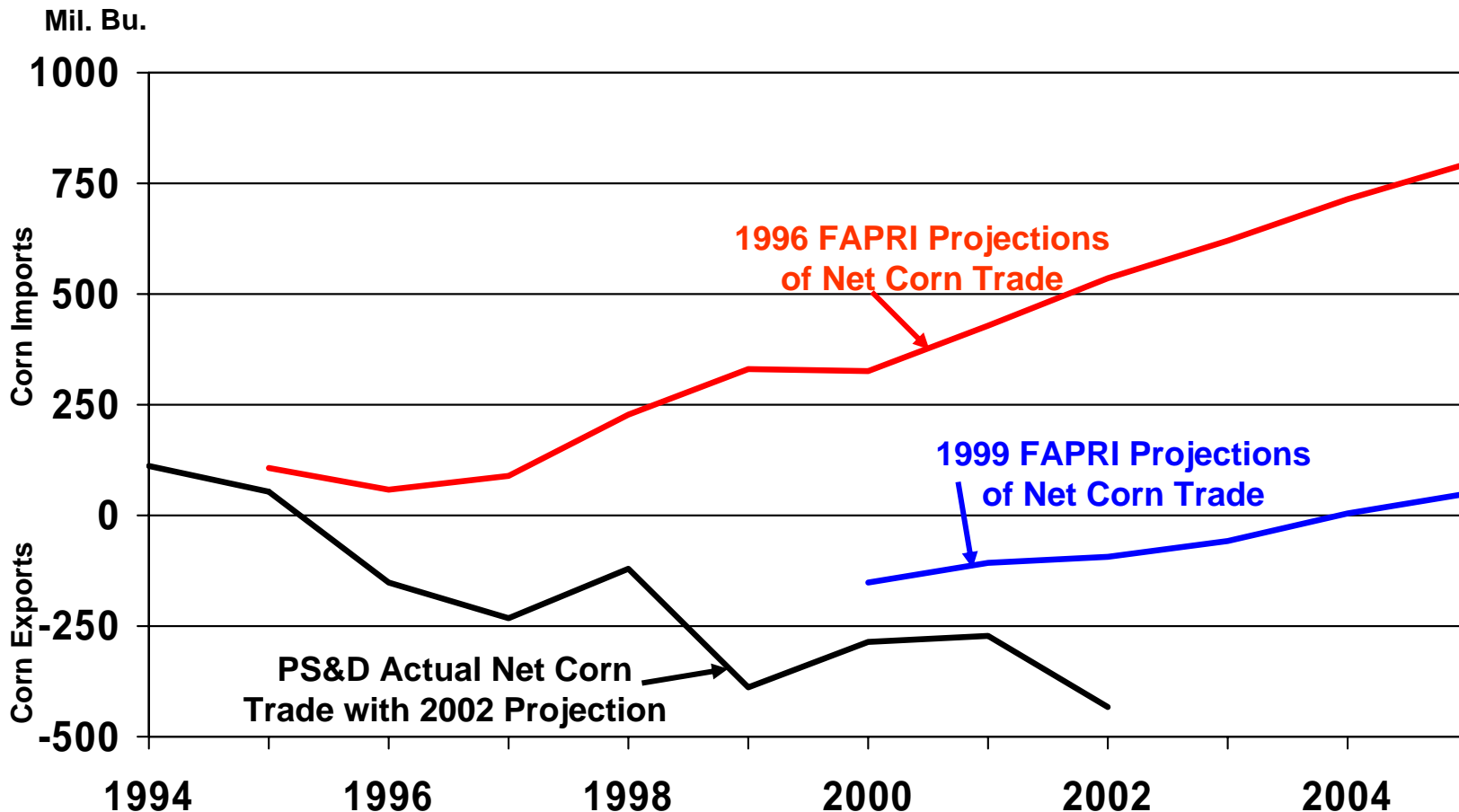
- All three were eliminated because of expectations—expectations that:
- *Exports would drive agricultural growth and prosperity*
- *If markets are allowed to be allowed to work agriculture will do just fine*

Expectations vs. Experience

Expectation: Rapid growth in China imports, especially corn

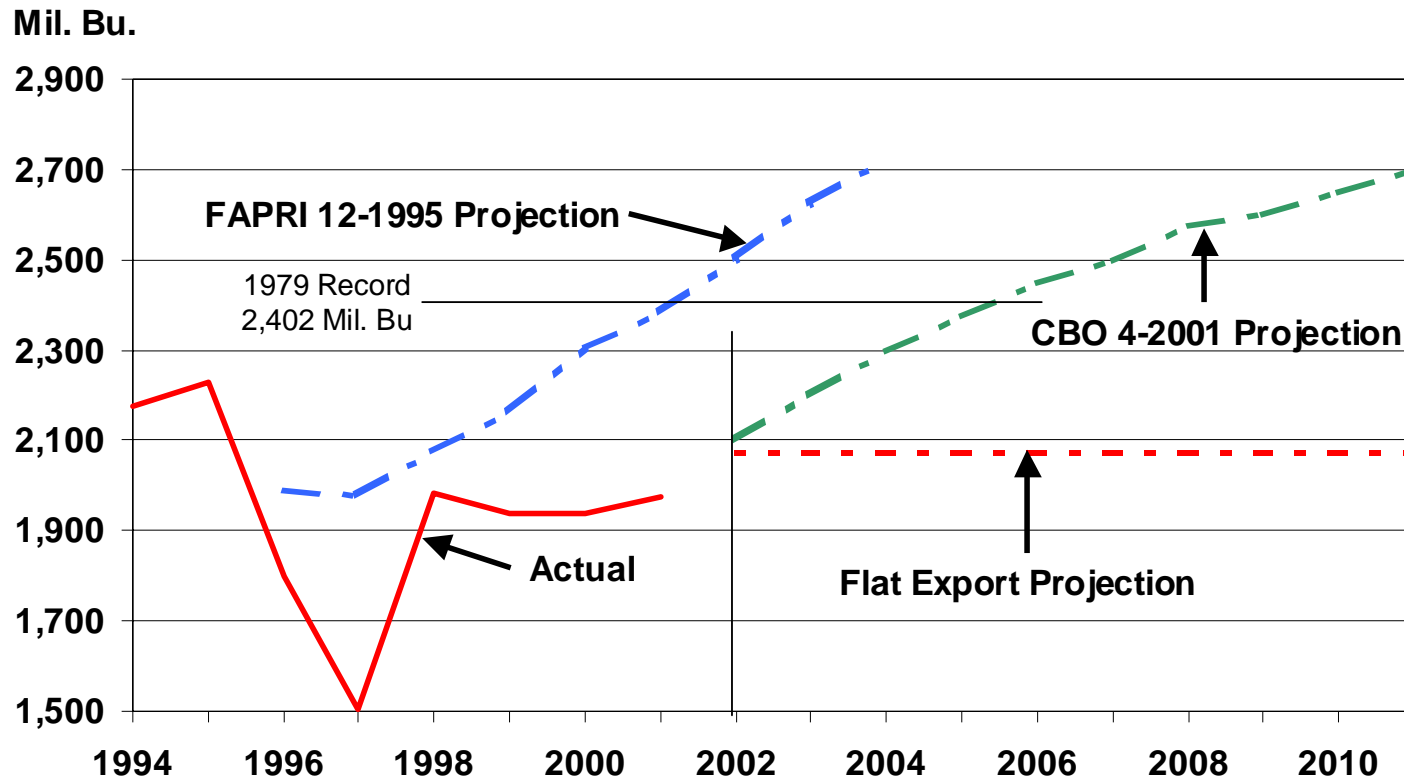
China Net Corn Trade

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



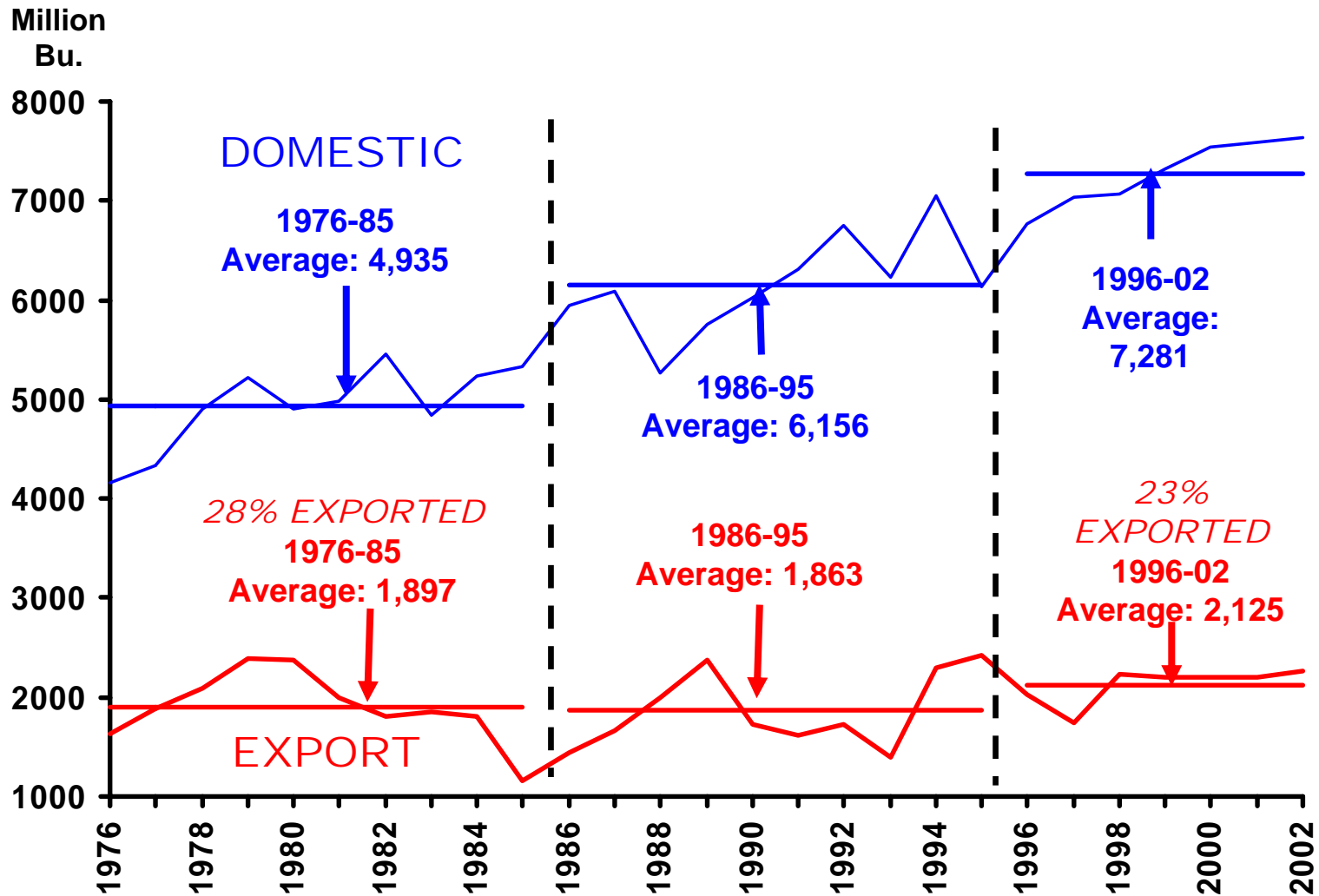
U.S. Corn Exports

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



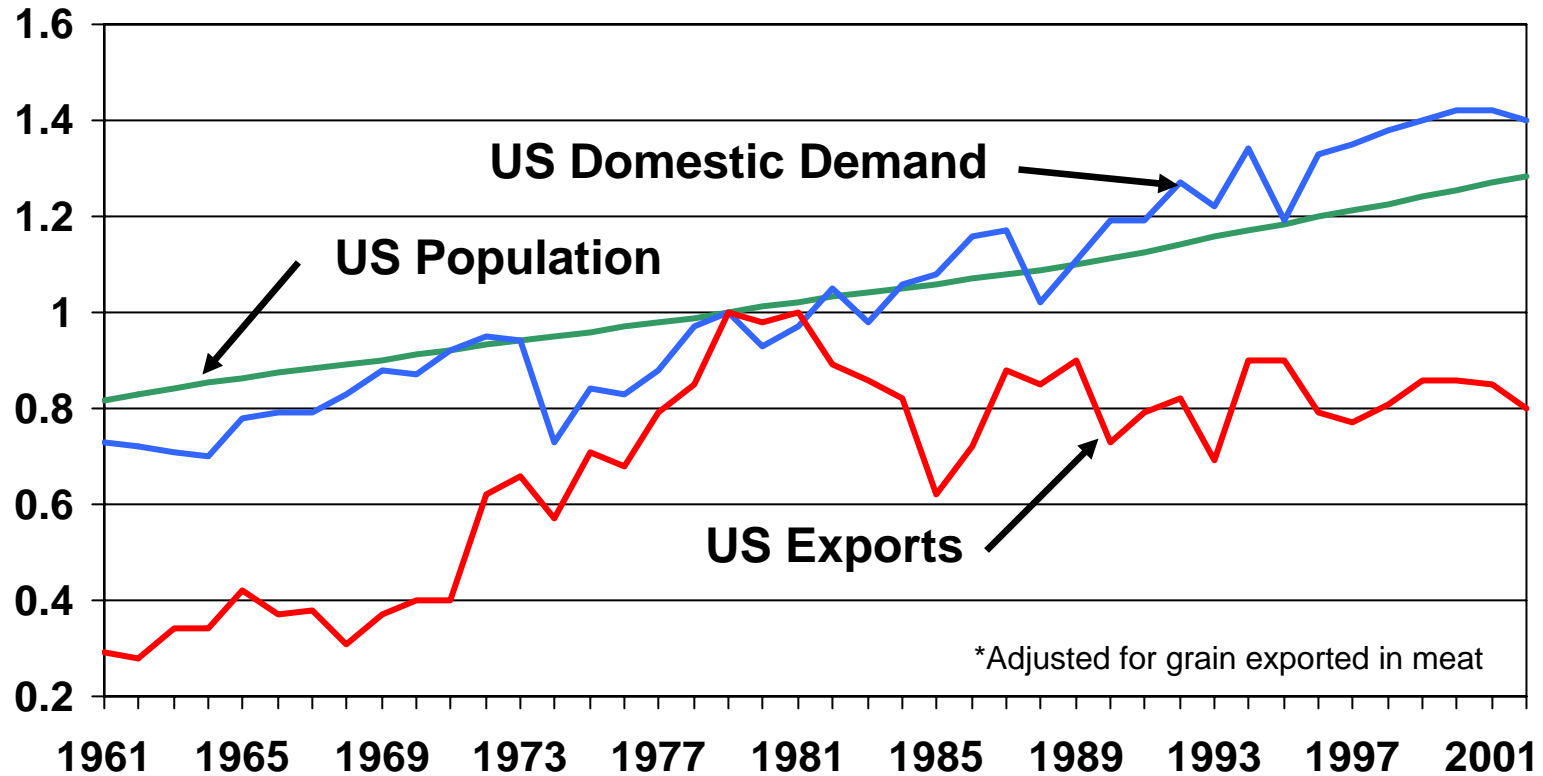
U.S. Net Domestic and Net Export Demand

Adjusted for corn fed to import and export beef, pork, and broilers



Exports Did Not Deliver

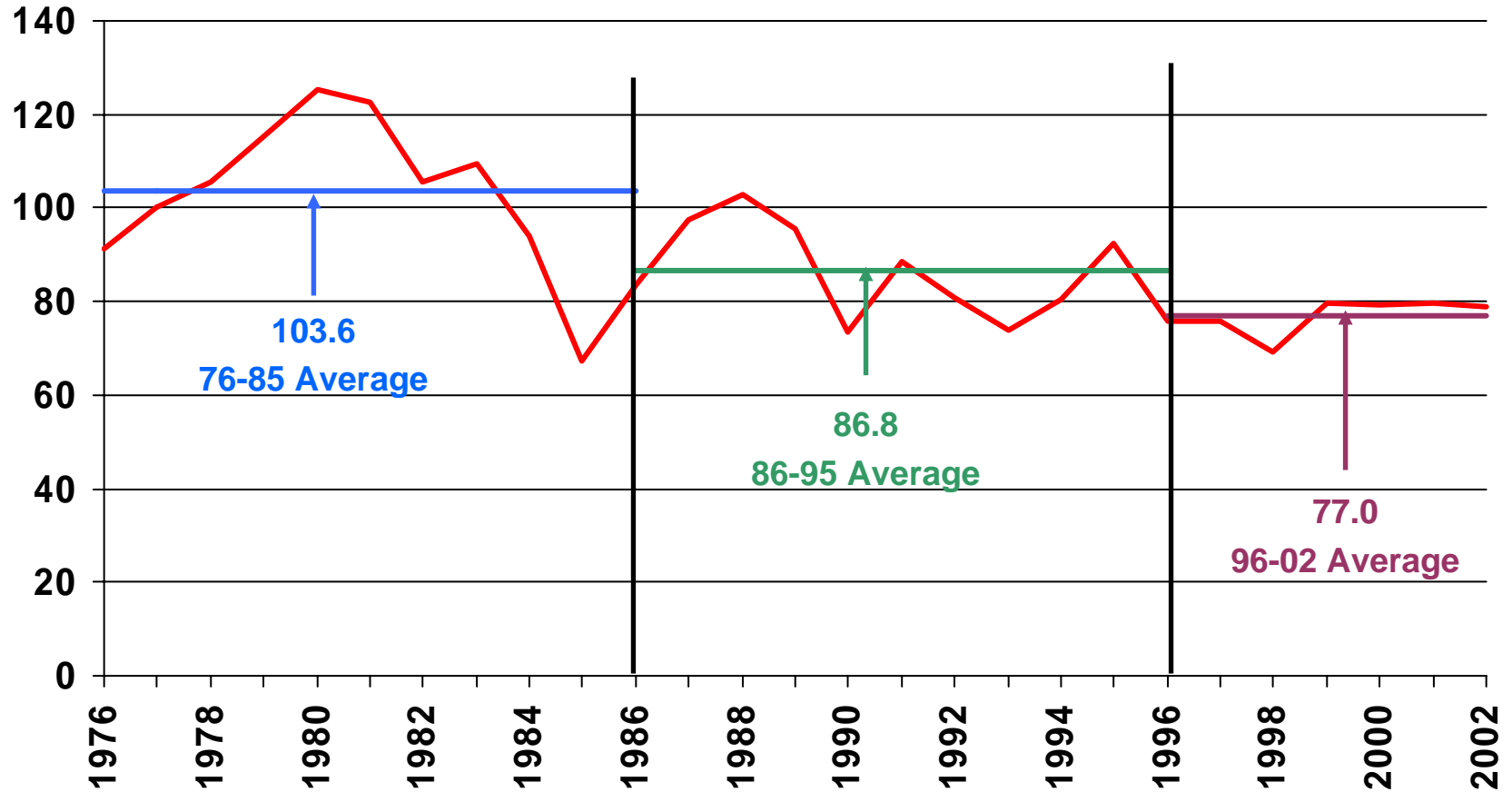
Index of US Population, US Demand* for 8 Crops and US Exports* of 8 Crops 1979=100



- 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

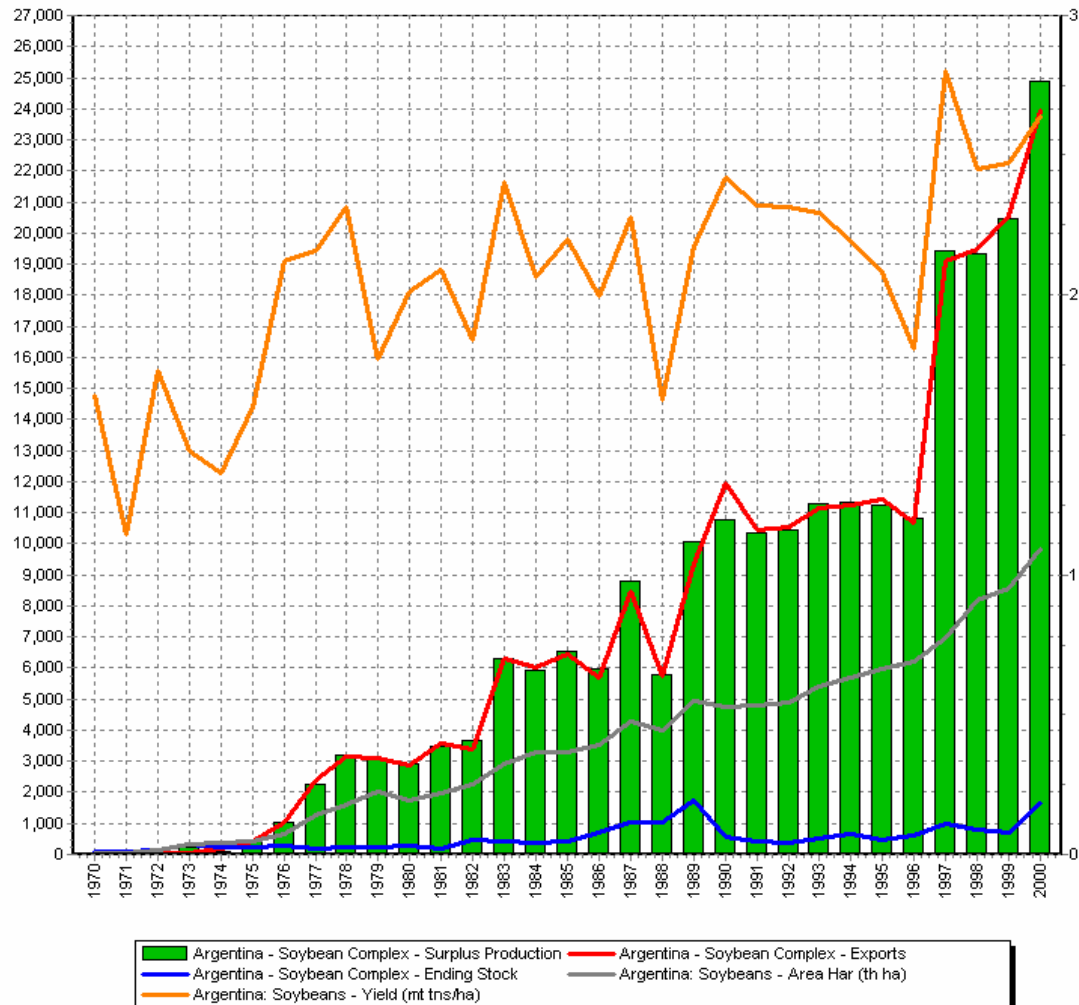
Million
Acres



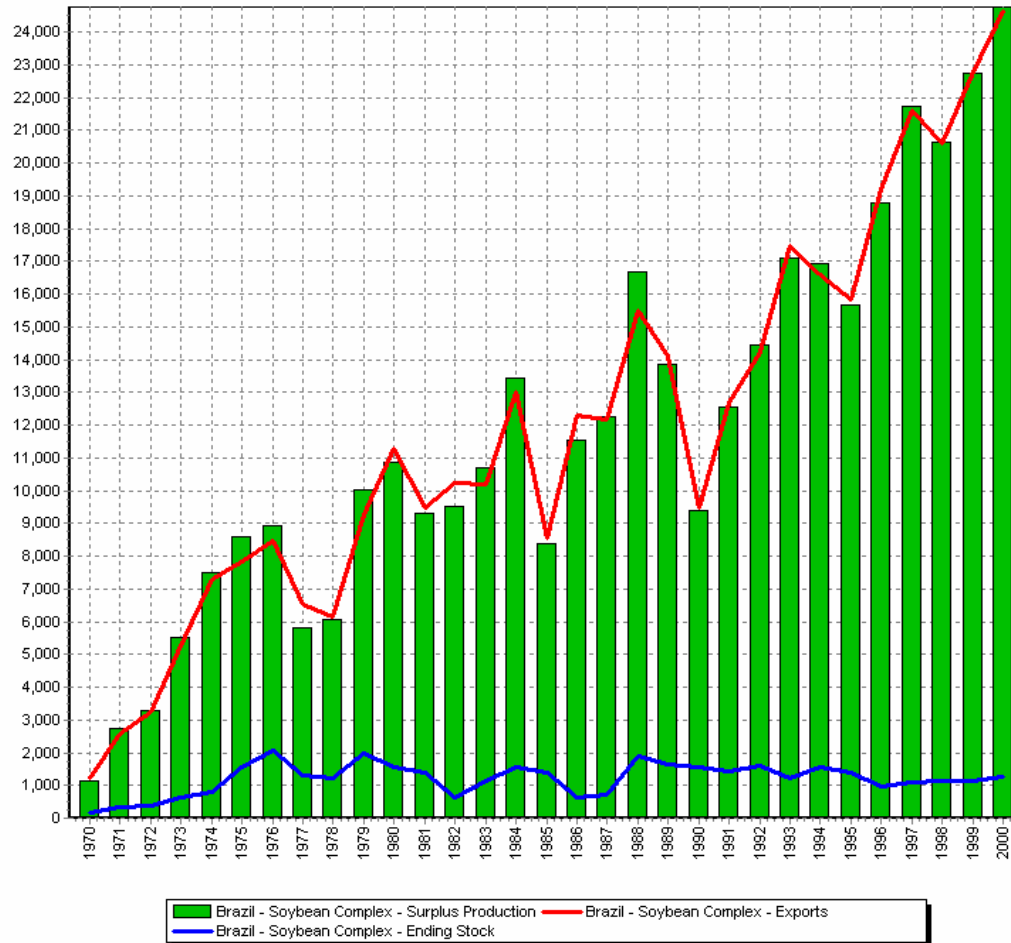
Expectations vs. Experience

Expectation: Export competitors will reduce production in response to lower prices

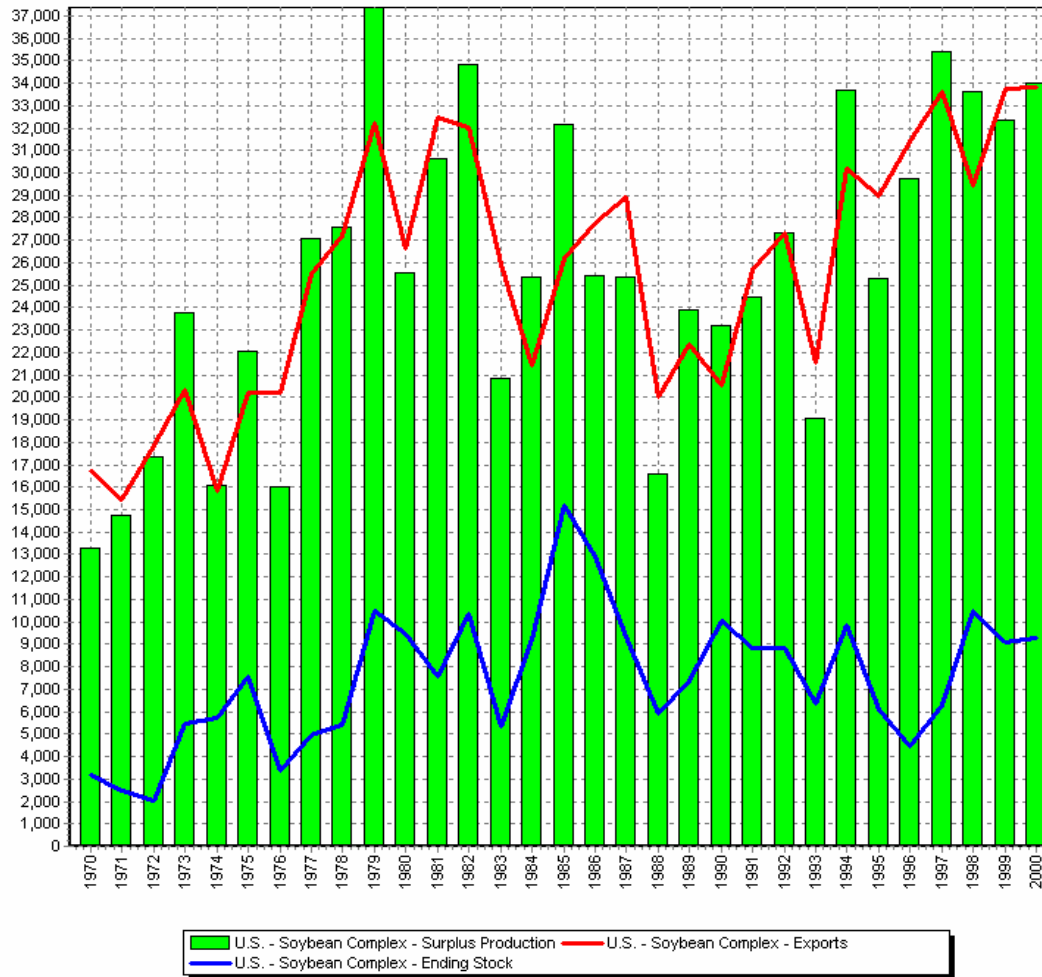
Argentine Soybean Complex Exports and Surplus Production



Brazilian Soybean Complex Exports and Surplus Production



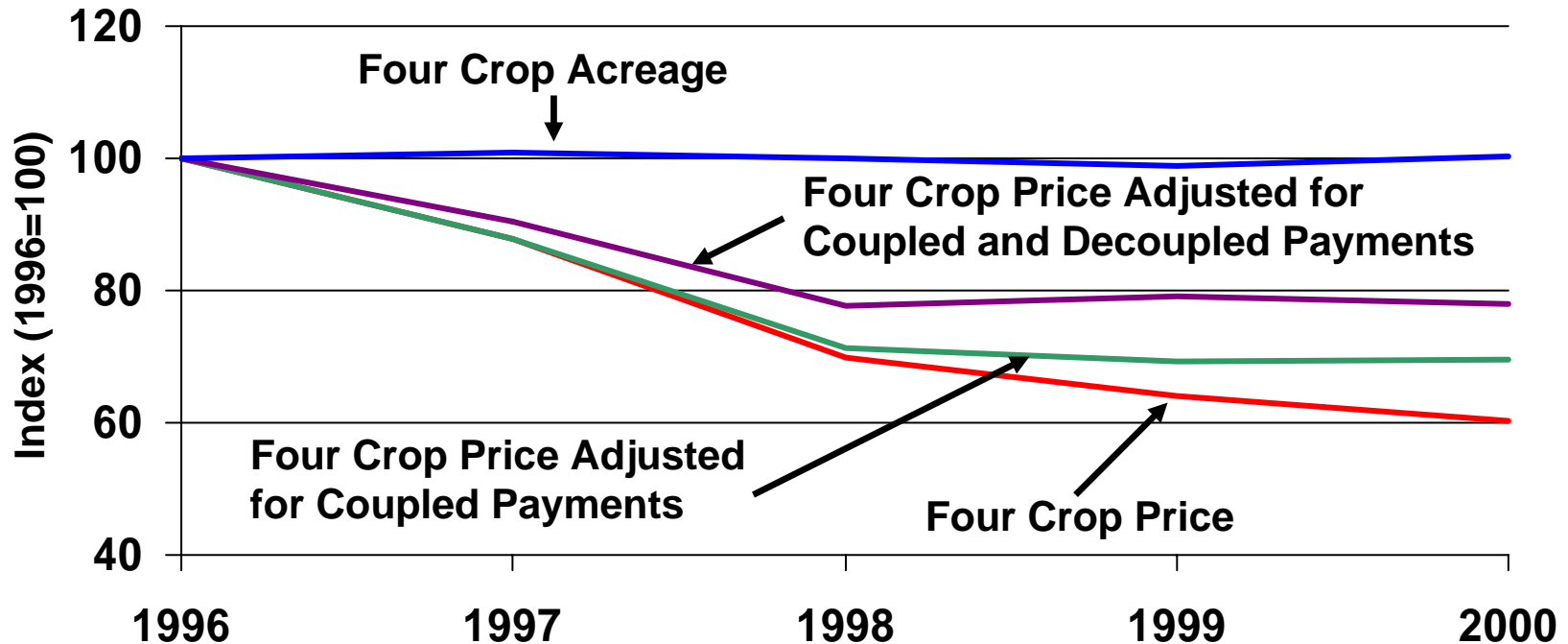
U.S. Soybean Complex Exports and Surplus Production



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**

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%

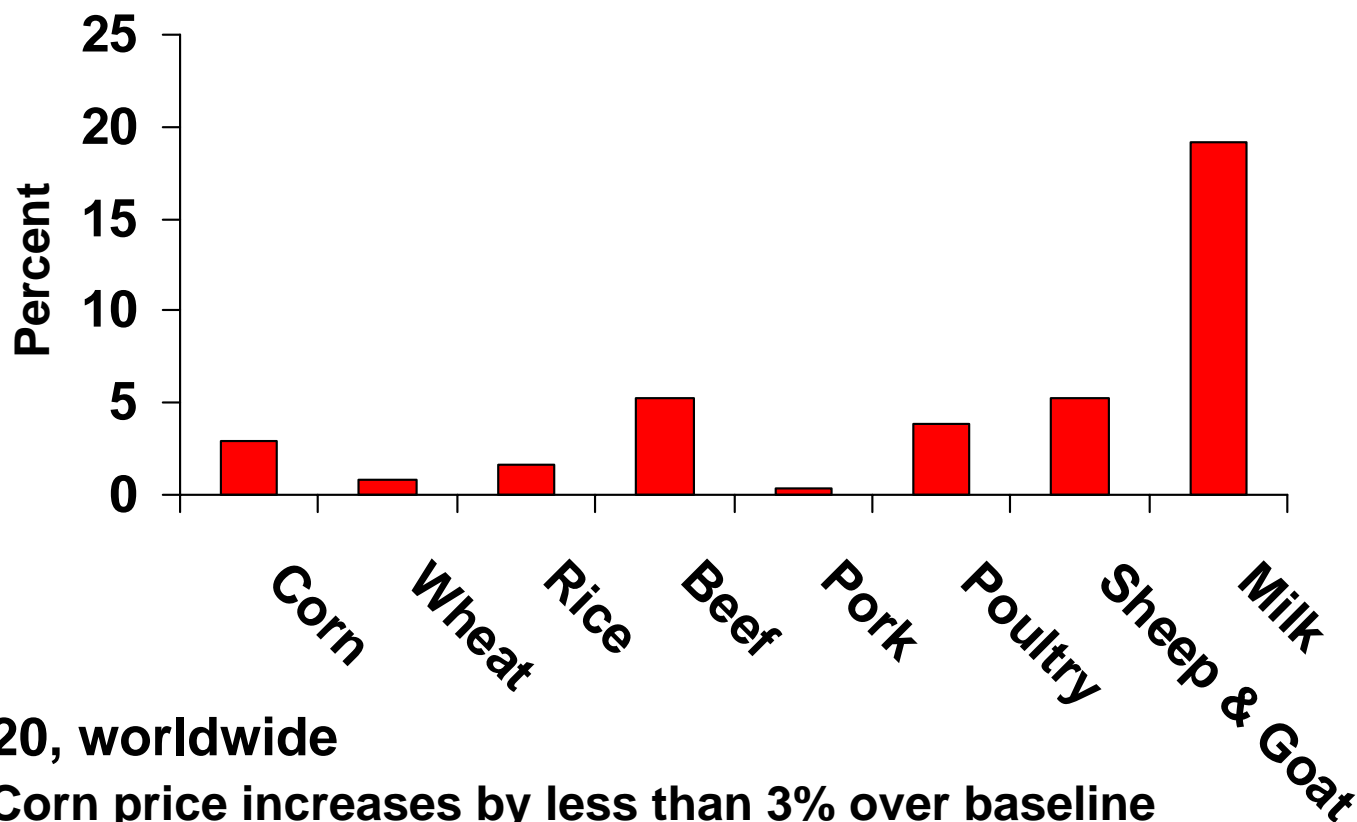
Problems with Continuing Current Agricultural Policy

- **Prices projected to remain below the cost of production**
- **Continued benefits to livestock, importers and agribusinesses**
- **Continued “dumping”**
- **Large government payments in the US**
- **Depressed crop prices worldwide**

Other Approaches

- *Intensify the Free Trade/Free Market Agenda*
- *The National Farmers Union Alternative*
 - *More Managed Approach*
 - *Movement toward International Cooperation Rather than Competition*

Intensify Free Trade/Eliminate Subsidies in Developed Countries

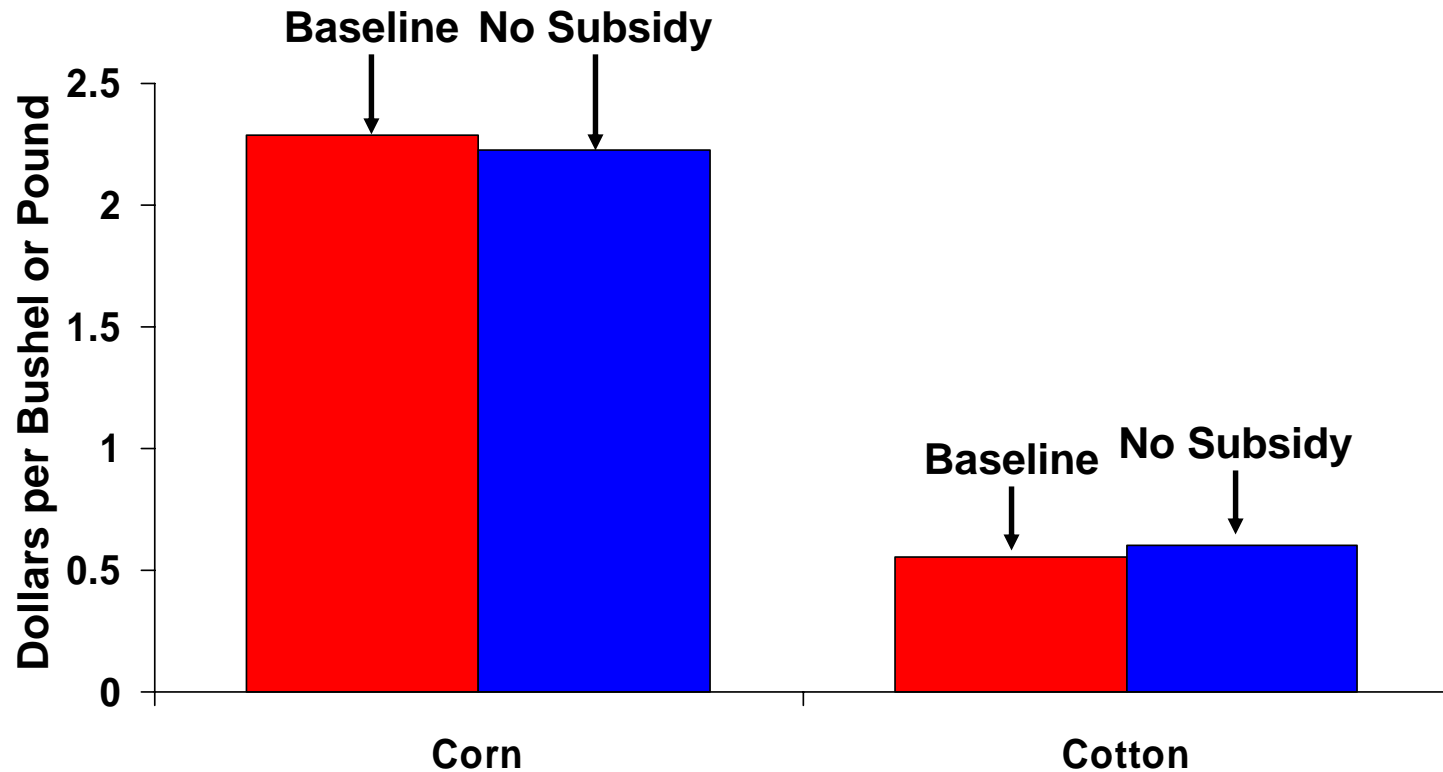


In 2020, worldwide

- **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**

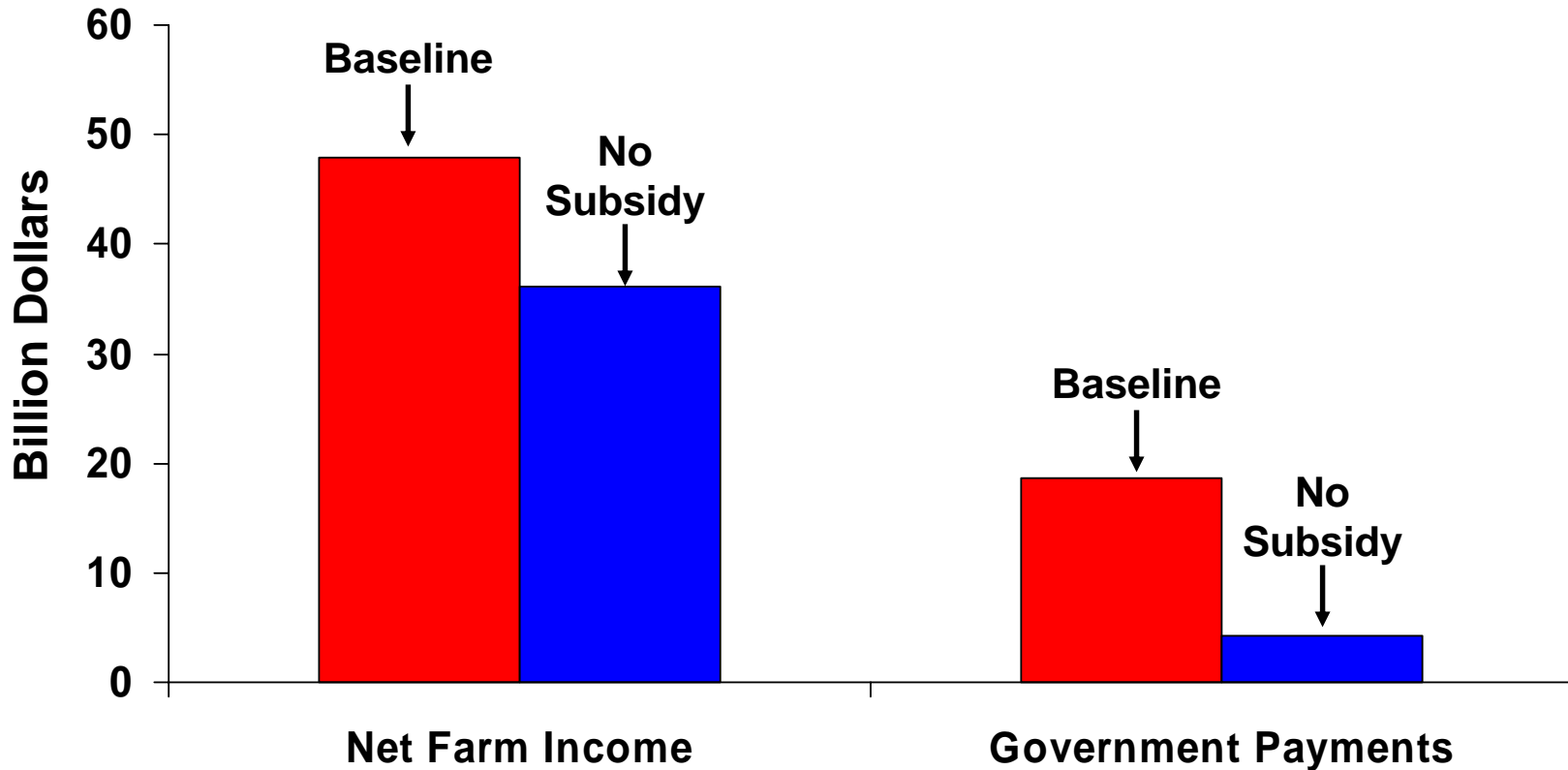
IFPRI IMPACT

No US Subsidies: US Price Impacts, 2011



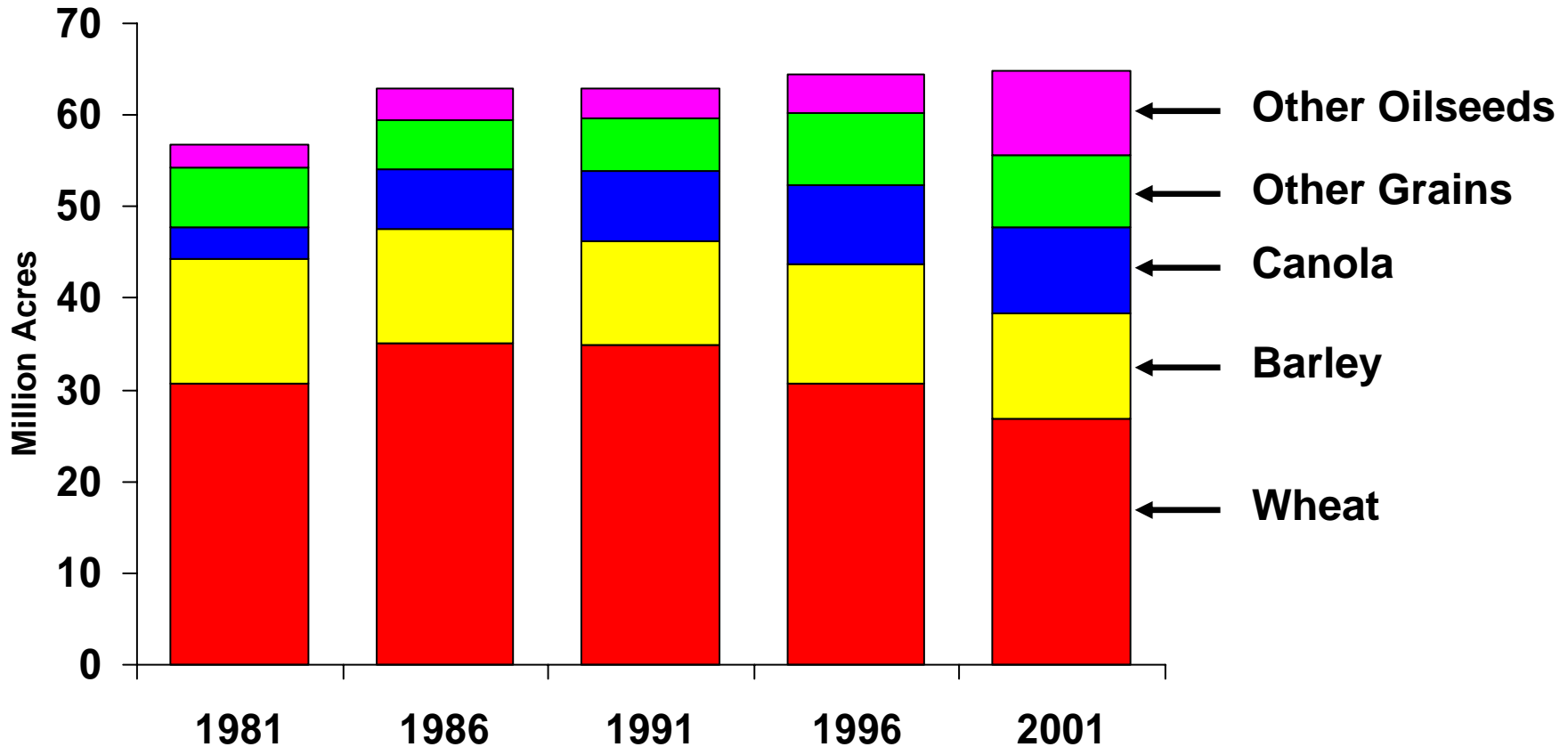
Corn prices decline slightly, while cotton prices edge upward

No US Subsidies: US Farm Income Impacts, 2011



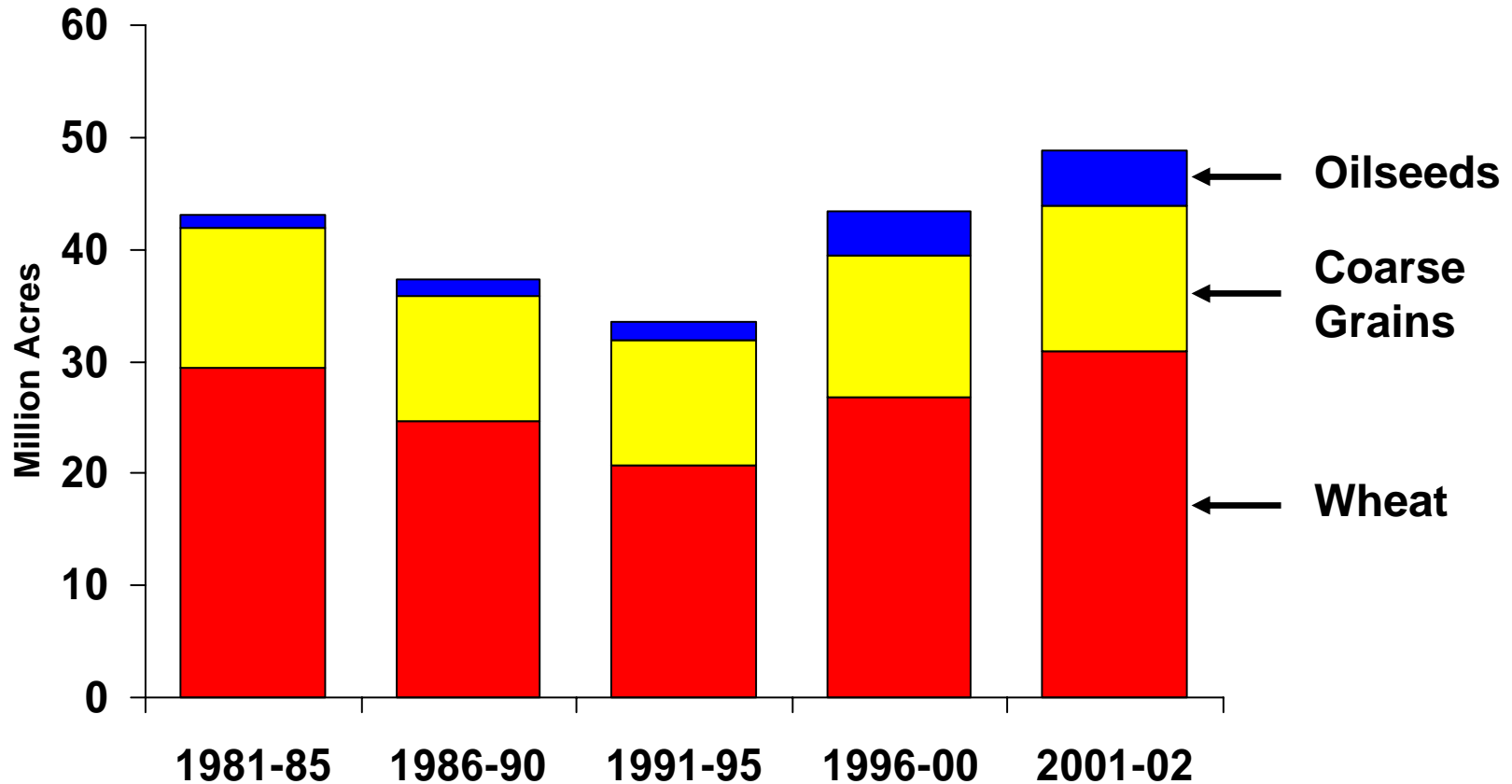
- Net Farm income drops by \$12 billion or 25% in 2011
- Government payments drop by \$14 billion or 77% in 2011

Canada: Farmland Planted



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

Australia: Farmland Planted

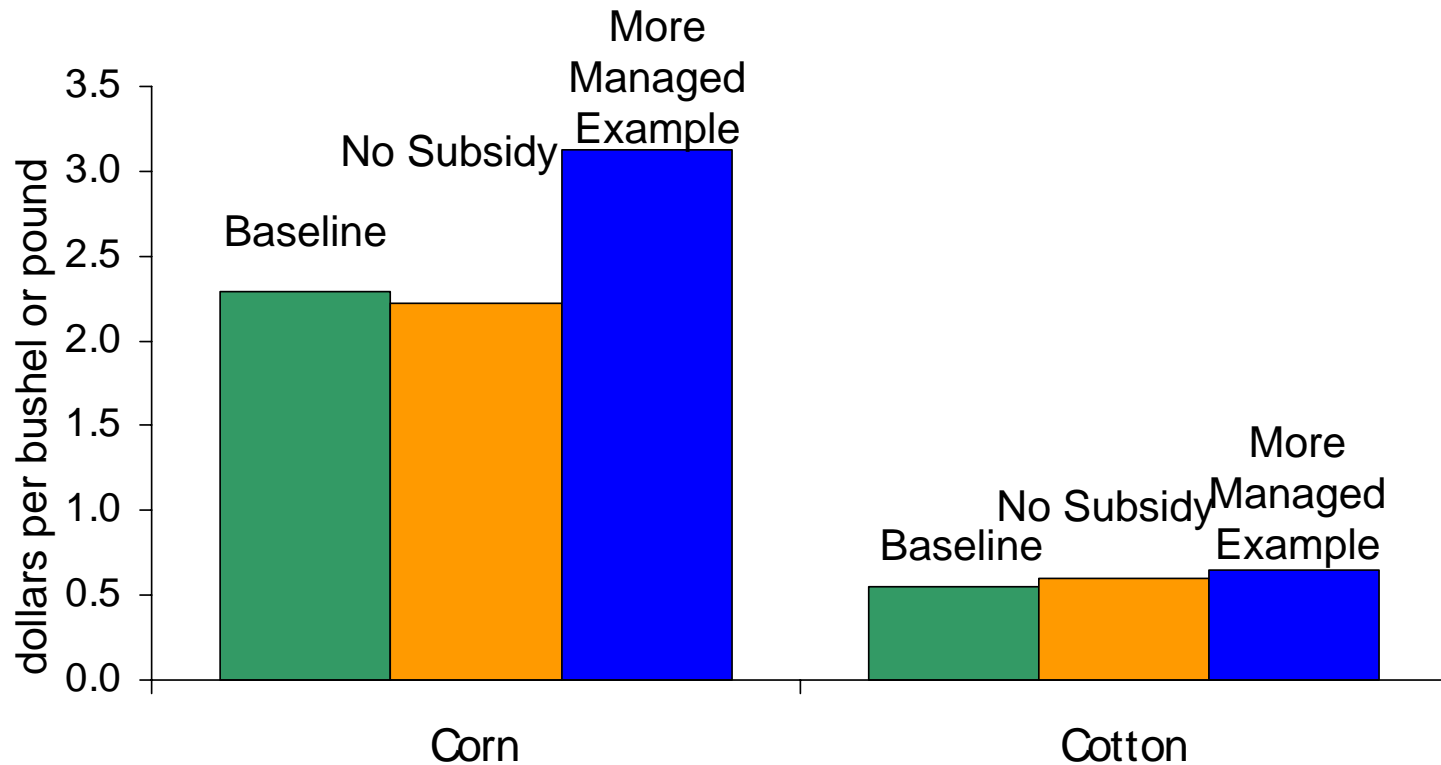


- Australia dramatically reduced wool subsidies in 1991
- Acreage shifted from pasture to crops
- All the while, prices declined

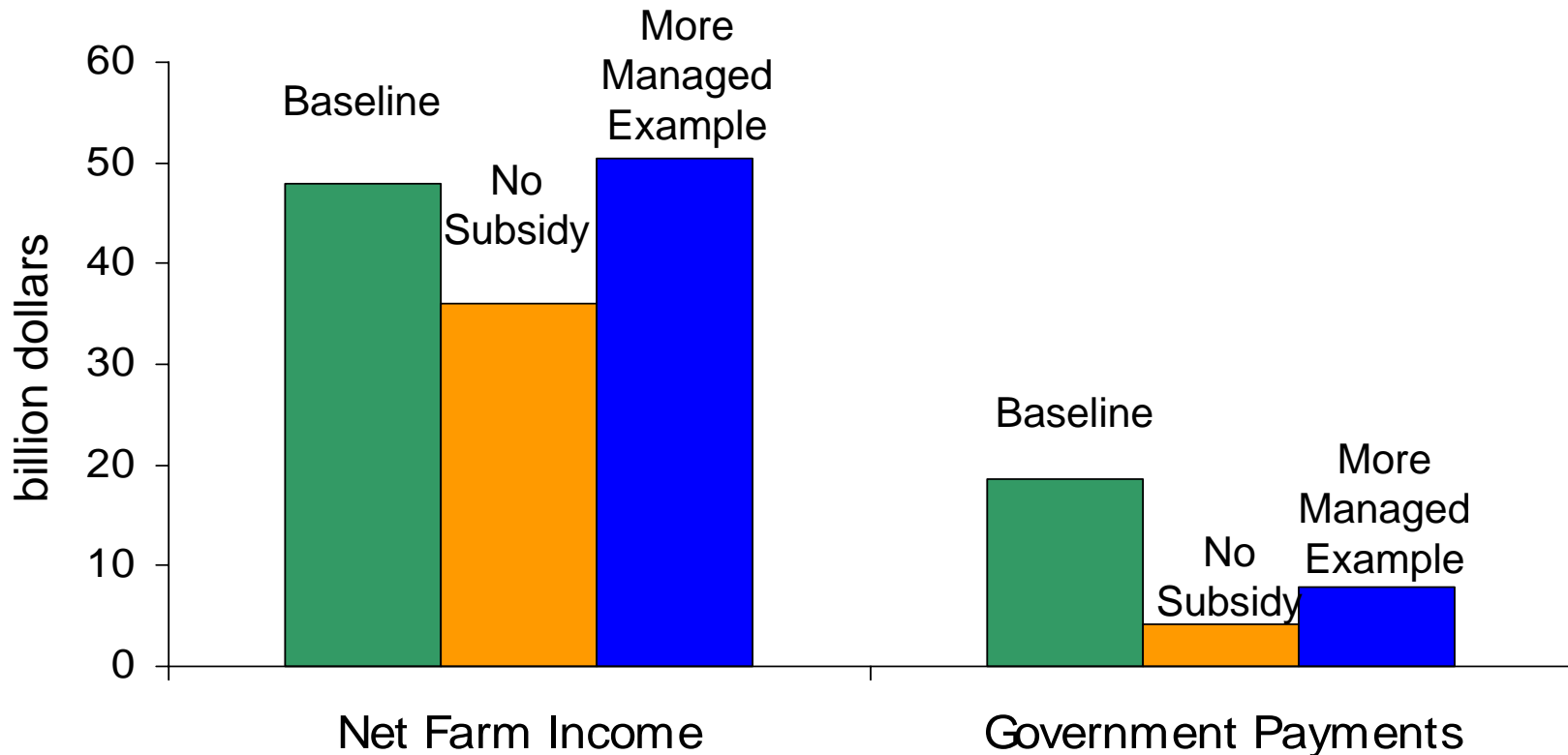
An Empirical US Policy Example of a More Managed Approach

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

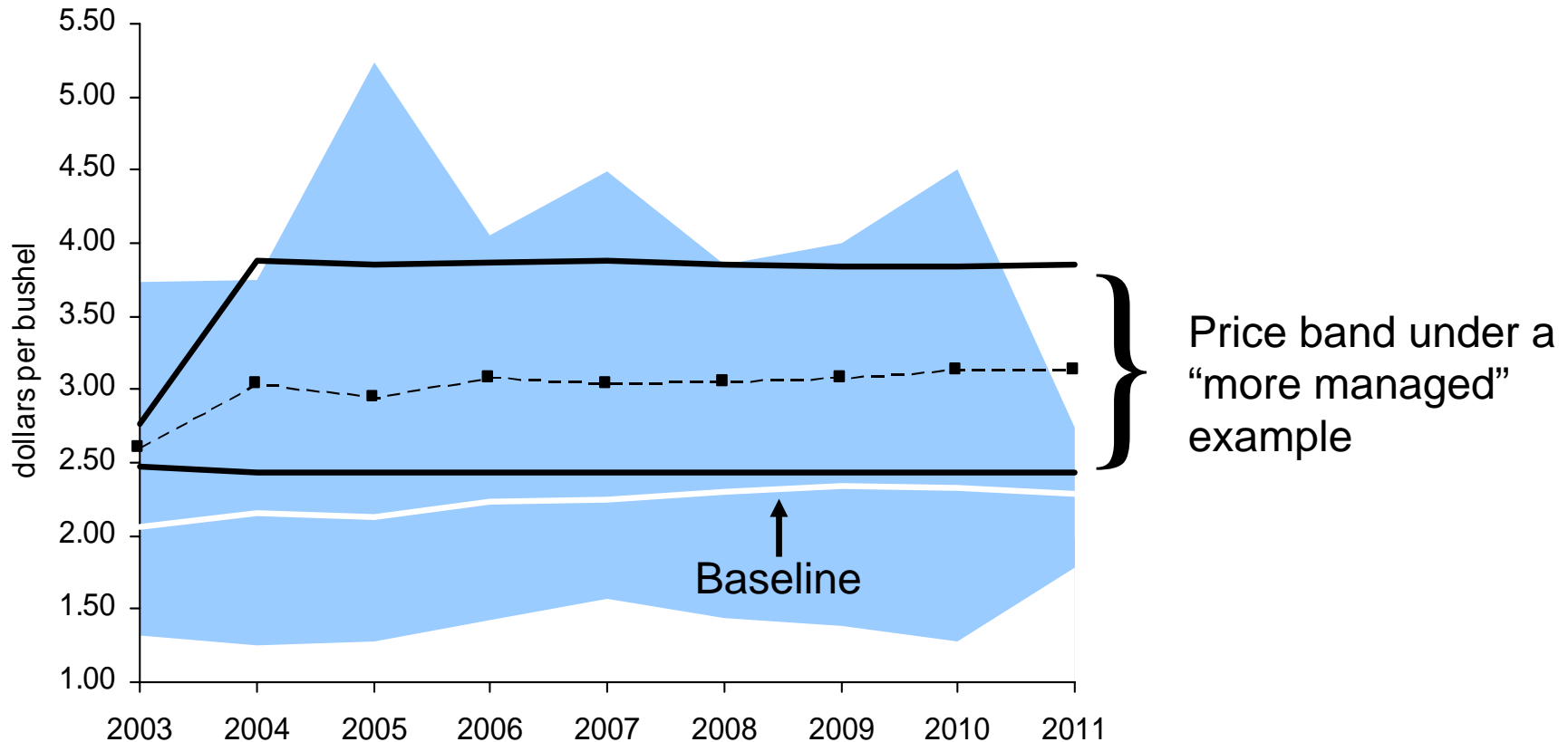
A More Managed Example: US Price Impacts, 2011



A More Managed Example: US Farm Income Impacts, 2011

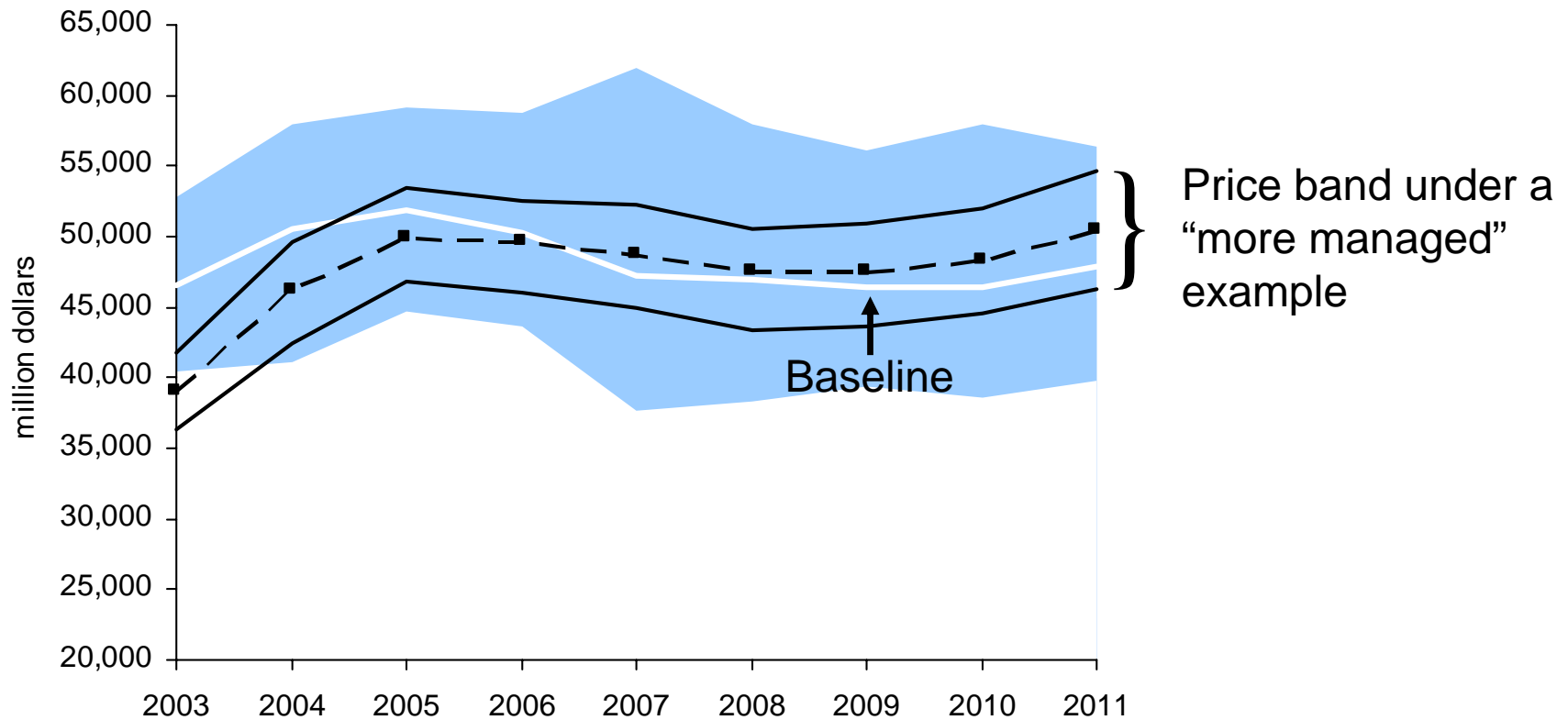


A More Managed Example: US Corn Price Variability



- **Higher and more stable corn prices**

A More Managed Example: US Net Farm Income Variability



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

The NFU's Overarching Framework for Farm Policy

- **Improve economic sustainability for producers**
- **Recognize the need for cooperative solutions**
- **Preserve the autonomy of each country to determine its food and agricultural policies**
- **Address Food Security and global hunger issues**

Include an International Humanitarian Relief Reserve

- **Reserve should be available to meet food EMERGENCIES**
- **Release should be based on need NOT price or desire to clear storage**
- **Distinct from stock management programs to stabilize price**
- **Distribution should be in manner that does not penalize local producers**

Need a Global Commitment to Balance Supply and Demand

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

Why Do We Need a New Food/Farm Policy?

- **Farmers must join together to stop the race to the bottom in commodity prices**
- **Structure of agricultural marketplace pits farmers against one another**
- **Government cost of policies**
- **800 million people lack adequate nutrition**

Advantages the NFU Farm Policy Approach

- **Balance supply and demand to ensure profitable producer returns**
- **Establish conditions less conducive to market concentration**
- **Reflect national priorities including social objectives and sovereignty—Reduce intervention costs**
- **Reduce/eliminate global hunger**
- **Guarantee food security for all**
- **Eliminate dumping and trade distortions**
- **Enable cooperative management of excess capacity**

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