

*Agricultural Policy for the
Twenty-First Century and the
Legacy of the Wallaces*

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Influences of the Wallaces on Iowa State University

- **Uncle Henry**
 - Seaman Knapp
 - Tama Jim Wilson
- **Henry C. (Harry)**
 - Student and faculty member
 - Secretary of Agriculture
- **Henry A.**
 - Student
 - Secretary of Agriculture
- **Wallaces' Farmer**

Changes in Last 30 Years

- **Hamilton County, Iowa**

- **Then**

- **4 crop, 5 year crop rotation**
 - **Calves, hogs, chickens**

- **Now**

- **2 crops, 2 year rotation**
 - **If animal agriculture, only one species**

Forces of Change

- **Technology Related Changes**
 - **Insecticide allows corn after corn**
 - **Larger machinery accommodate narrow calendar windows**
 - **Round-Up Ready[®] Soybeans**

Forces of Change

- **Policy changes also encourages specialization**
 - **Had sold off government stocks just prior to needing them in 1970s**
 - **Sec. of Ag. Earl Butz said we were in a “new era”**
 - **Governments of other countries geared-up production, too**

What Could Have Been

With adequate stocks and a different export view in the 70s

- **Commodity and land price increases in the 70s would have moderated**
- **And, consequently, the collapse in land prices in 80s could be avoided/lessened**
- **Would be less land in soybeans in Brazil**

What Did Happen

- **We were not in a “new era” for ag.**
 - Export demand dropped in 80s
 - Ag investments in other countries began to payoff
 - Both share and level of US exports dropped
- **Our collective response was denial**
 - Those are **OUR** exports and we must get them back
 - Assumed that this could be done by lowering prices

Policy Changes

- **Export Enhancement Program**
- **Push to lower commodity prices to be more “competitive”**
- **Living in fantasyland**
- **It’s virtually impossible for agriculture to become more prosperous by price-induced export expansion**

Low-Price Policy Has Continued Through Today

- **Since 1985 “policy makers” believed that in order to enable 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**
- **Now in a typical year government payments are \$20 billion**
- **In those years, government payments represent all the net income of many to most crop farms**

This Recent Policy Approach Has Accentuated...

- **The trend toward a narrow specialized agriculture**
- **The switch from independent operator to contractor**
- **The exit of independent livestock producers**
- **Expansion of farm size**
- **More off-farm work**
- **Becoming labor and space contractor**

Perception of Agriculture

- **Then**
 - Unique nature of ag markets
 - Place of ag in US development
- **Now**
 - No differences between agriculture and other industries
 - Government has no role
 - Analysis based on how agriculture “should behave” not on its actual behavior

Ag Policy Has Lost Its Way

- **Policy has been commandeered by non-farm interests**
- **Not sustainable because it costs too much**
- **Beneficiaries are:**
 - **Agribusinesses—more volume is good**
 - **Integrated livestock producers—low prices are good**
 - **Importers—low prices are good**

We Can Do Better

- **Should be good for farmers and consumers**
- **Farmers' revenue should come from the marketplace**
- **Could be formed in the mold of the ideas and ideals of the Wallaces**
 - **Ability to overproduce is chronic**
 - **Crop markets do not self-correct in a timely manner**

A More Farmer-Oriented Policy Vision

- **Bring back some of the traditional farm policy instruments pioneered by Henry A. Wallace**
- **Move toward dedicated energy crops**
- **Enlist multinational cooperation**

Traditional Instruments

- **Bring back reasonable price support levels**
- **Reactivate the use of non-recourse loans**
- **Reactivate “ever-normal granary”**
 - CCC reserve
 - Farmer Owned Reserve
- **These would establish a price band**

Traditional Instruments

- **Separate international humanitarian reserve**
- **Annual setaside program**
- **The capacity to produce must continue to exceed the demand**
- **But as any industry will tell you it is crazy to use all its productive capacity all the time**

Merge Ag and Energy Policy

- **More than ethanol and biodiesel**
- **Formerly 30-50% of land was dedicated to energy production**
 - **Feed and pasture for draft animals**
 - **Woodlots for home heating**
- **With advent of gas tractor extra acreage released to food production**

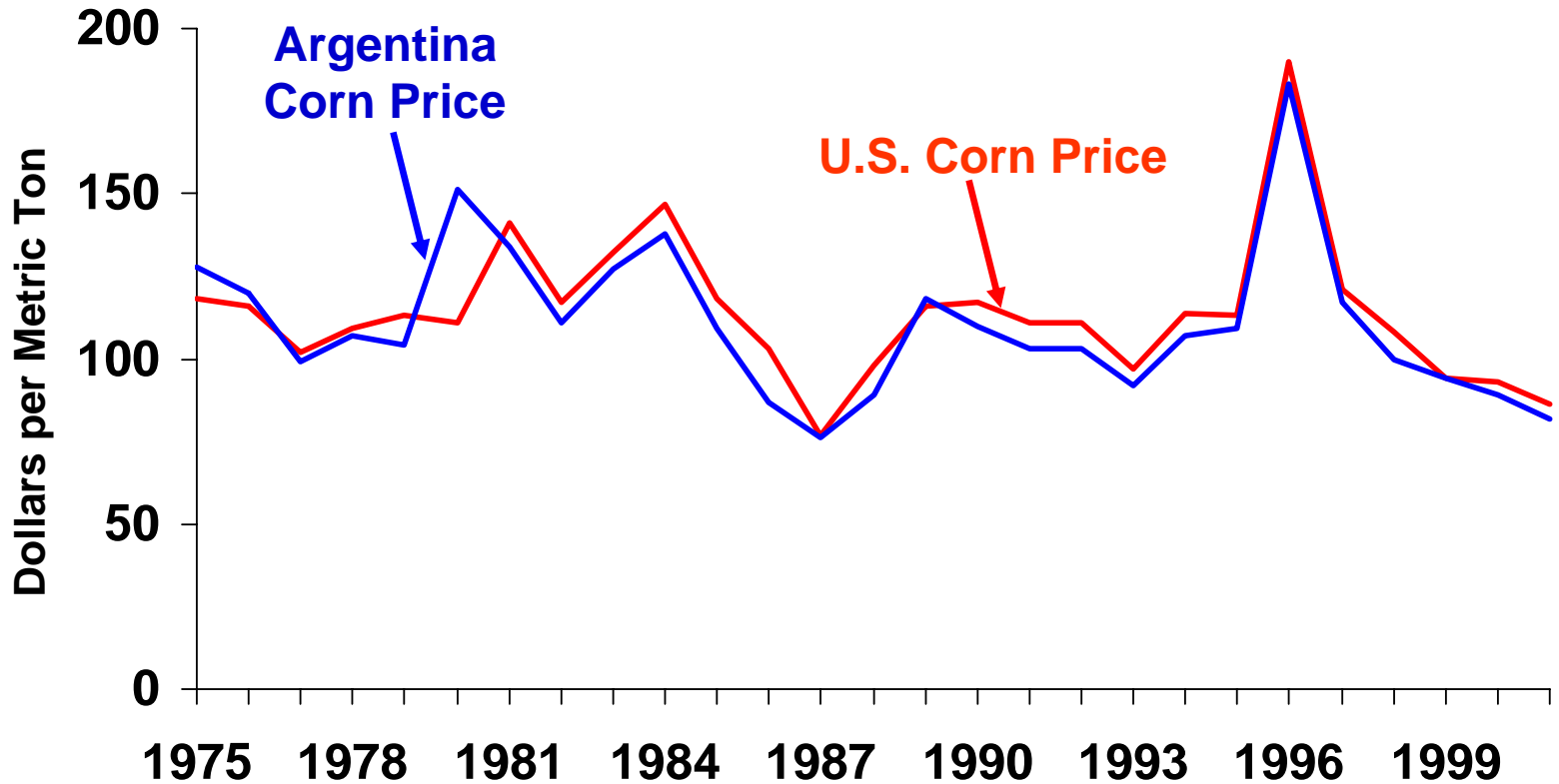
Merge Ag and Energy Policy

- **Biofuels recycle atmospheric, not fossil, carbon**
- **Look at crops not in food equation**
- **Switchgrass**
 - Perennial
 - Reduced inputs
 - Multi-year setaside
 - Burned in boilers for electricity
 - Converted to ethanol
 - Less costly than present ag programs

Multinational Cooperation

- **Henry A. Wallace was right and Earl Butz was wrong – excess capacity, not scarcity, is the future of agriculture**
- **Presently the US can still affect prices with supply management**

Corn Price: US and Argentina



Multinational Cooperation

- Henry A. Wallace was right and Earl Butz was wrong – excess capacity, not scarcity, is the future of agriculture
- Presently the US can still affect prices with supply management
- **Sometime in the future this will take multinational cooperation**

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

Conservation

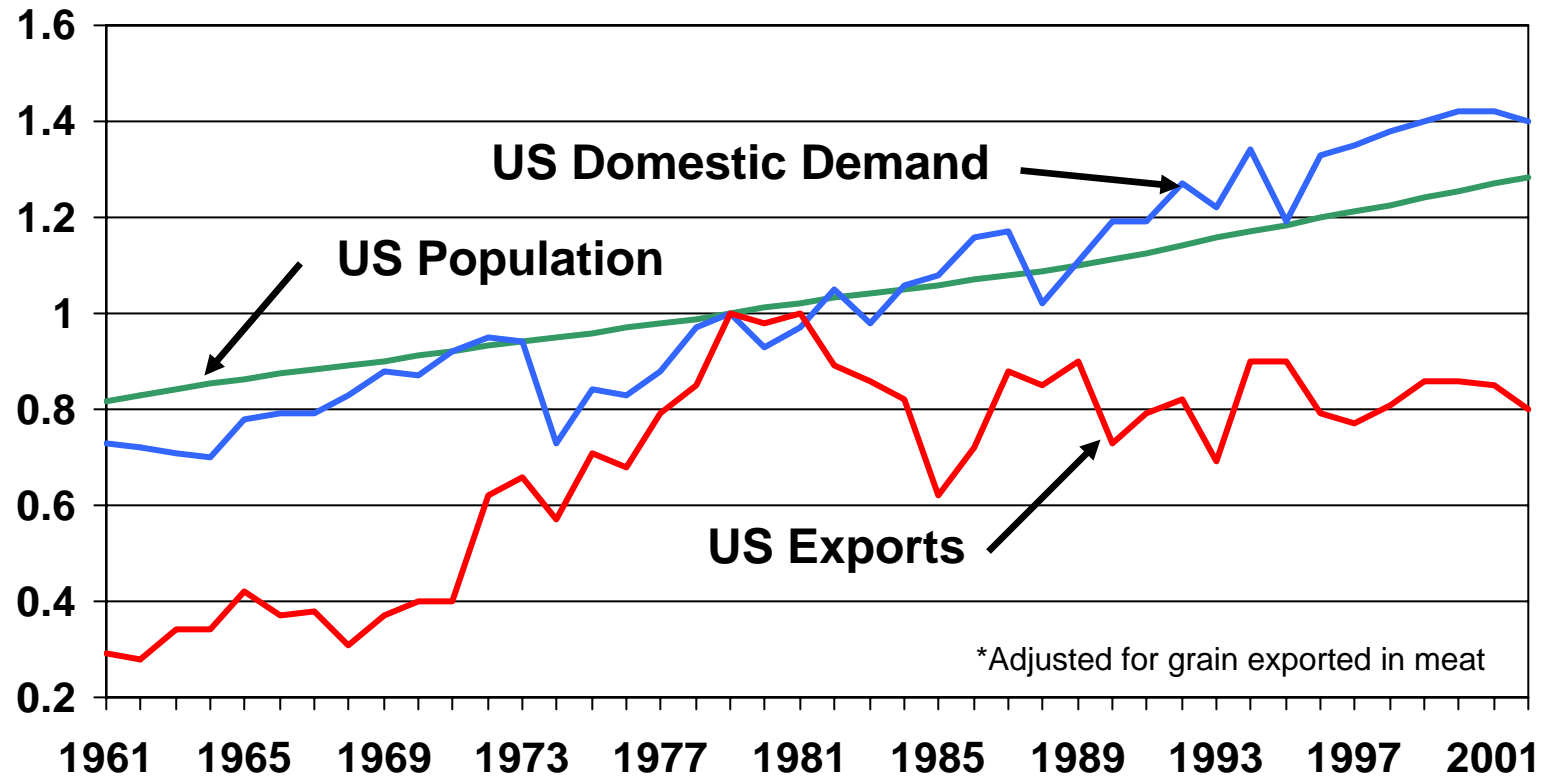
- **Full funding of programs like the Conservation Security Program**
- **Soil is a valuable resource**
- **Clean water is essential**
- **Farming as if people and place matter is not an optional exercise**

Everyone's a Critic

- **These are the failed policies of the past, you say**
 - **But elimination of price supports did not increase exports**

Exports Did Not Deliver

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

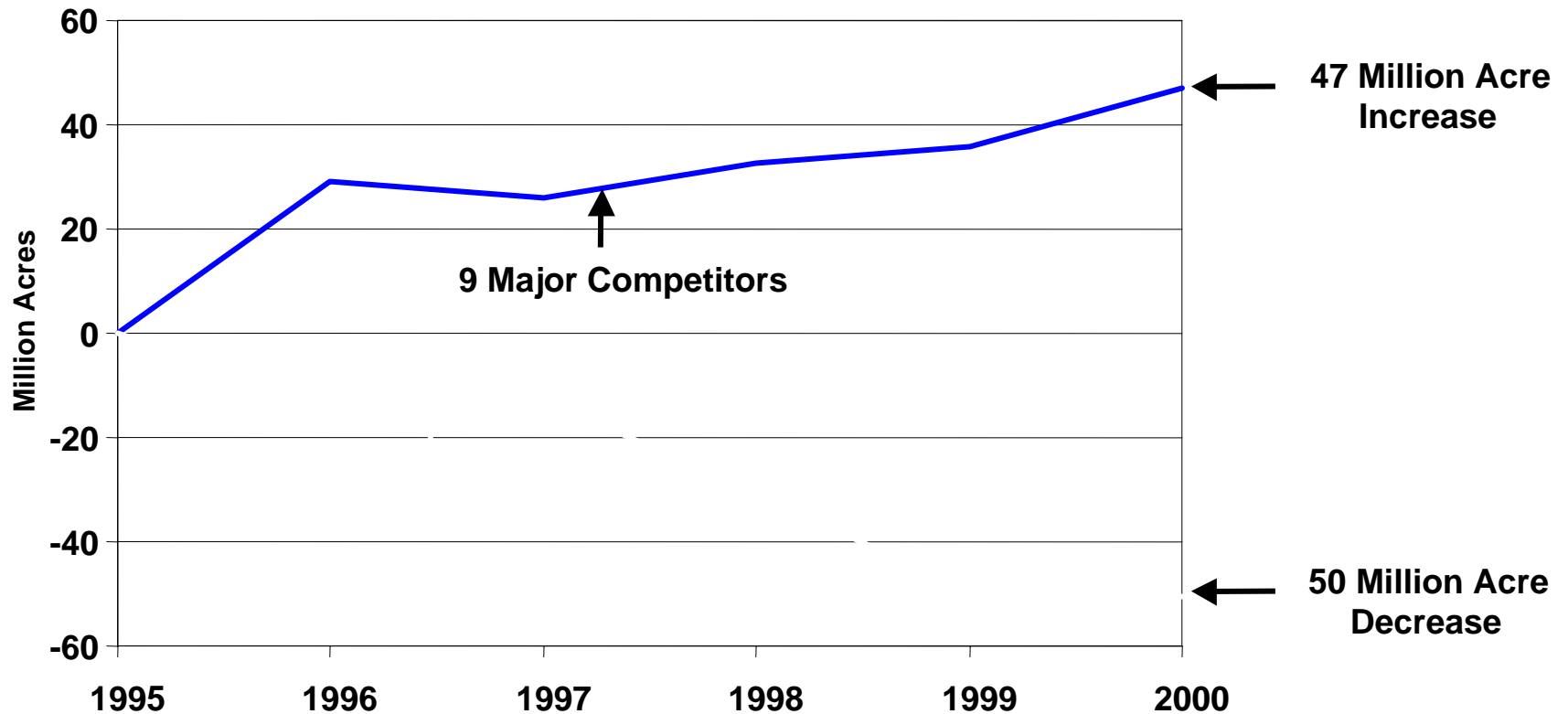


- Exports down to flat for last two decades
- Domestic demand increases steadily
- Since 1979, exports have NOT been the driving force in US crop markets

Everyone's a Critic

- **These are the failed policies of the past, you say**
 - But elimination of price supports did not increase exports
 - **If we don't plant it others will, you say**
 - Thus, if we do plant, others won't? Wanna buy a bridge?

Elimination of Setaside Did Not Reduce Acreage of Competitors



Everyone's a Critic

- **These are the failed policies of the past, you say**
 - But elimination of price supports did not increase exports
 - If we don't plant it others will, you say
 - Thus, if we do plant, others won't? Wanna buy a bridge?
 - **Other considerations swamp effect of US setasides**

Everyone's a Critic

- **These are the failed policies of the past, you say**
 - **Adverse effect on agribusiness input suppliers and output handlers**
 - **Do you think Dell keeps ordering parts just to keep their suppliers busy?**
 - **It would be better if farmers voluntarily controlled production**
 - **As Henry A. discovered, individual farmers have no incentive to reduce their total acreage planted to crops**

Everyone's a Critic

- **These are the failed policies of the past, you say**
 - **Stock programs are unnecessary...**
 - **Market will provide this function at a lower cost, we were told**
 - **Market has no incentive to hold a “socially optimal level” of stocks**
 - **Stock programs were too expensive...**
 - **Compared to what? The 96 Farm Bill?**

Everyone's a Critic

- **We can't cut production, you say.**
 - **We need to feed the hungry of the world.**
 - **Problem is not the lack of food but the lack of livelihood**
- **Multinational agreements will not work, you say**
 - **If surplus is the nature of agriculture then this may be the only way**

Everyone's a Critic

- **Do Not Mess With Markets—Because Economic Theory Says So**
 - This is the overarching criticism of free market economists
 - It is true that economic theory can be used to show “deadweight losses” from market interferences—ANY market interferences
 - So what about the gigantic, cumulative and continuing market interferences of publicly financed research, extension and other output enhancing activities (outward supply shifts) ?

Everyone's a Critic

- **Do Not Mess With Markets—Because Economic Theory Says So**
 - Free market economists should be just as irate about output expanding policies
 - that benefit consumers
 - as they are about commodity programs that benefit farmers
 - Low prices and commodity programs would be the least of our problems had output expanding policies were never been initiated
 - Consumers are the net beneficiaries of the two types of policies
 - Based on welfare theory, economists should demanding that farmers receive compensation

Food and Agriculture ARE Different

- **Why doesn't the invisible hand work?**
- **Food is a necessity for life**
 - Must be consumed on a regular basis
 - Cannot drop out of market until price falls
- **Surplus production is ALWAYS preferable to famine**
- **Food is a biological process dependent on uncertain things like rain, sunshine, and wind**

Food and Agriculture ARE Different

- **Taxpayer financed expansion of agricultural output**
 - Free or near free distribution of land
 - Yield increasing technologies
 - Cost decreasing technologies
 - Nationwide system of experiment stations, land grant universities and extension service

Food and Agriculture ARE Different

- **Productive capacity of agriculture determined by these public investments**
- **In other industries, the largest firms often decide how much to increase productive capacity**
- **Farmers must use latest technology**
- **Continued expansion of agriculture's productive capacity is a good thing**

Food and Agriculture ARE Different

- **Food demand expands little with income**
- **Quantity demanded changes little with price**
- **Aggregate crop output changes little with price**
 - **Farmers use all their productive capacity all of the time**
 - **Farmers cannot influence the price**

Food and Agriculture ARE Different

- **Other industries would throttle back production and/or decrease productive capacity**
- **Farmers go out of business but the LAND stays in production**
- **Chronic price and income problems...**
 - **Growth in output exceeds growth in demand**
 - **Price drops**
 - **But timely self-correction does not occur**

Concluding Remarks

- **The Wallaces of Iowa kept their eye on the ball**
 - **Promoted a thriving economic setting for agriculture as if people and place mattered**
 - **Considered a variety of policies**
 - **First step was accurate analysis of the problem**
 - **Rejected solutions that did not address the ongoing problems in agriculture**

Concluding Remarks

- **We have taken our eye off the ball**
 - **Allowed free markets to become our Holy Grail**
 - **Gone from adopting commodity programs because free markets didn't work**
 - **To saying commodity programs are the reason free markets don't work**

Concluding Remarks

- **It is time to bring back the pragmatism of the Wallaces**
 - **Create a vision for agriculture that is**
 - **Forward looking**
 - **Based on the reality of agricultural and food markets and the needs of human beings**
- **The current policy is not sustainable and is based on false premises**

Concluding Remarks

- **A vision of the future should include energy dedicated crops**
- **We will need to consider multinational supply management**
- **The litmus test:**
 - **Are the policies based on realistic premises?**

Remember This

- **Excess capacity is a good thing**
 - **We just don't need to use all of it all the time**
- **Managing production is the issue**
- **Demand is not price responsive**
- **Crop acreage reacts at glacial speed**

Remember This

- **Most countries view food and agriculture the way we see national defense**
- **Our export competitors are as adamant about keeping their export markets as we are**
- **These “rules of the game” define how agriculture responds**

Thank You

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