

Agriculture: Challenges of Today and Tomorrow

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Introduction

- **What is the deal with these farm prices?**
- **Commodity/farm policy**
 - **We have junked one traditional component of commodity policy**
 - **What did we expect and what did we get?**
- **Food and agriculture are different**
- **Trouble spots on the horizon**
- **Long-term farmer challenges**

Crop Prices

- **What happened to those \$7.80 soybean and \$3.20 corn and \$0.65 cotton prices?**
- **Prices for the CURRENT soybeans and corn might improve some, however**
 - Acreage estimates don't feel right to me
 - To much faith in “Rain makes grain”
 - It's been too cold in some parts
- **With current legislation and average weather:**
 - \$2 corn; \$3 wheat; and \$5 soybeans
 - Similar declines in livestock prices as cycles continue

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:

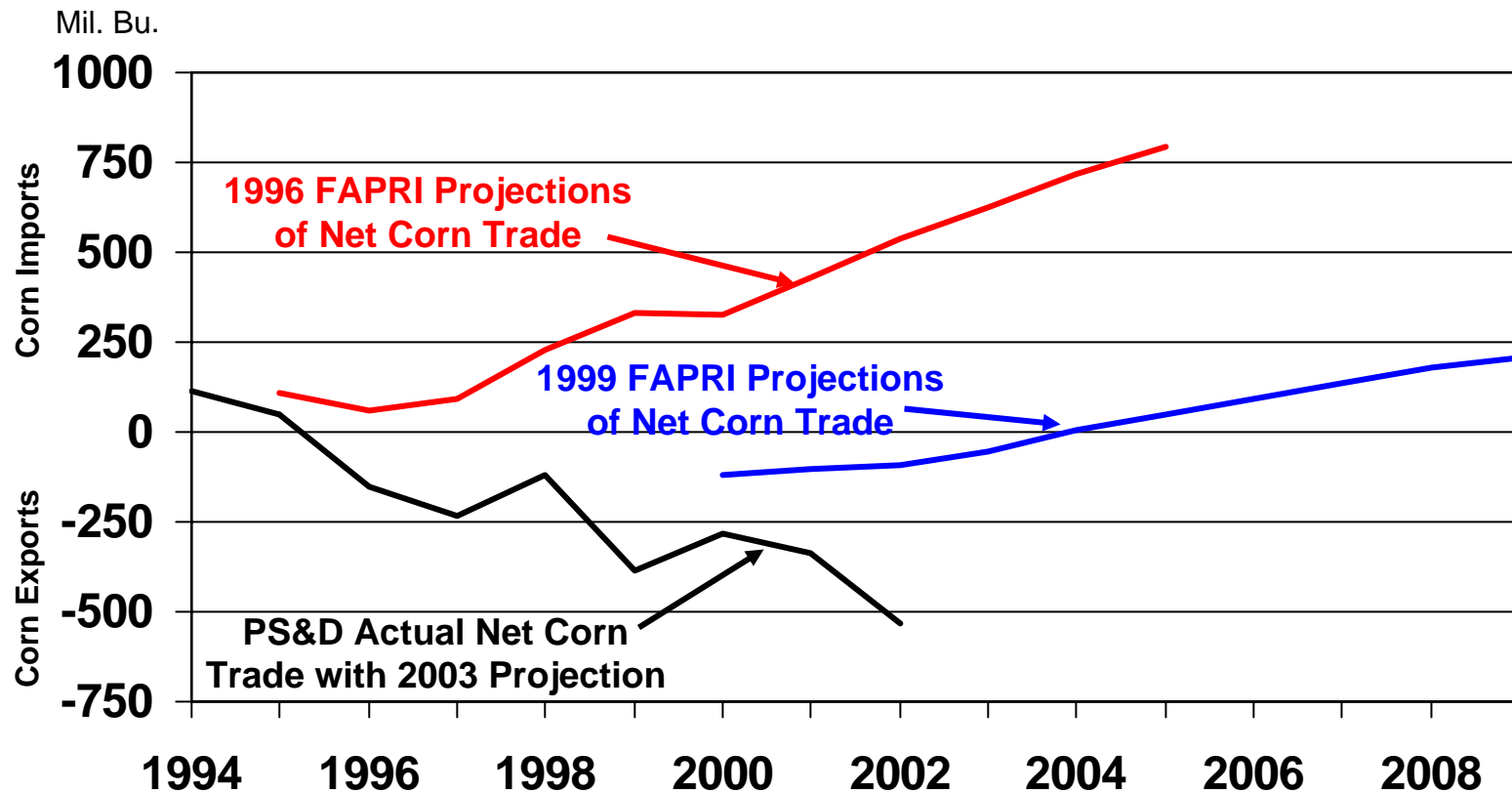
- **Floor price**
- **Supply management tools**
- **Price stabilization**

Over the years and especially since 1996:

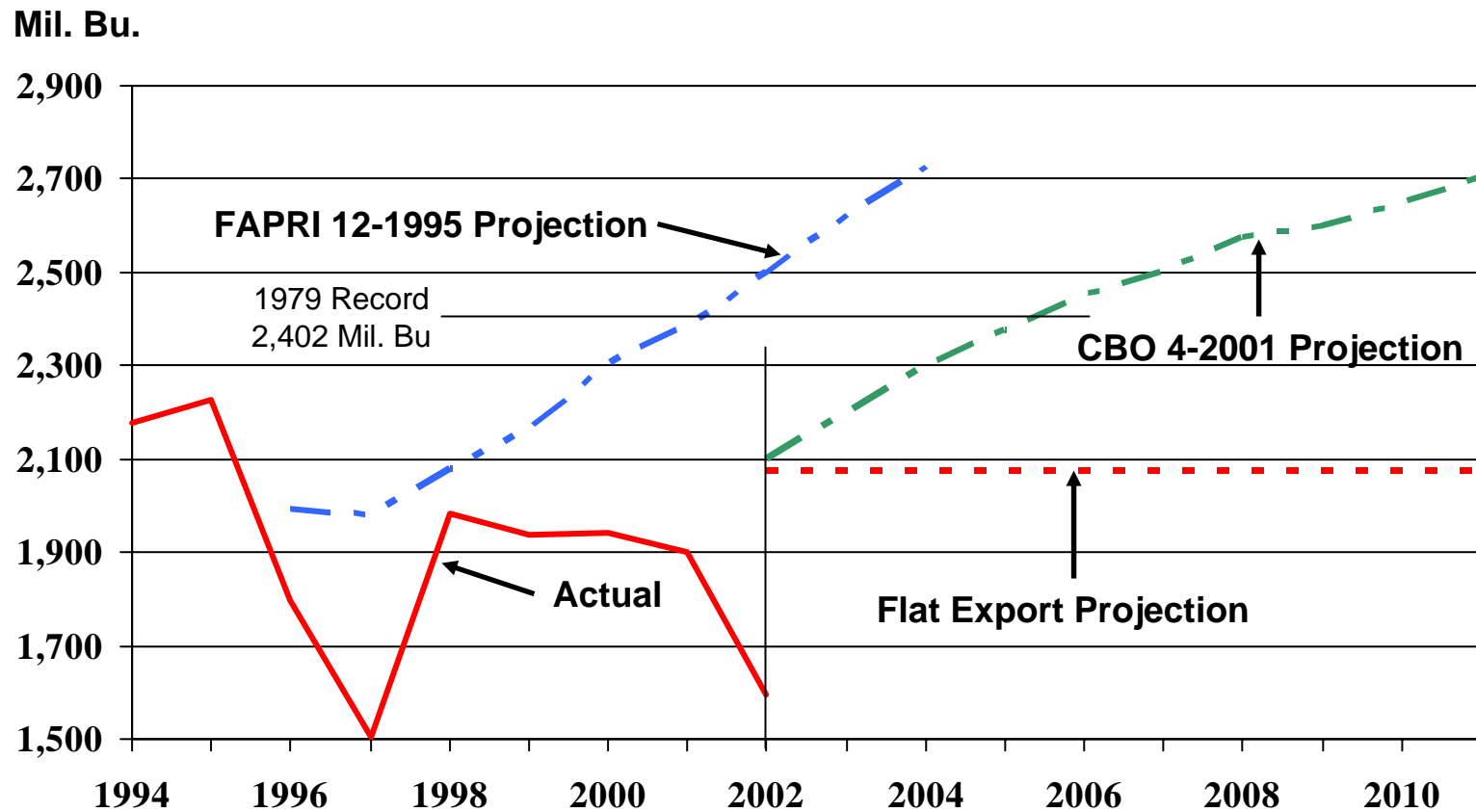
- **All three were eliminated because of expectations—expectations that:**
- Exports would drive agricultural growth and prosperity, besides that...
- ***If markets are allowed to be allowed to work agriculture will do just fine***

China Net Corn Trade

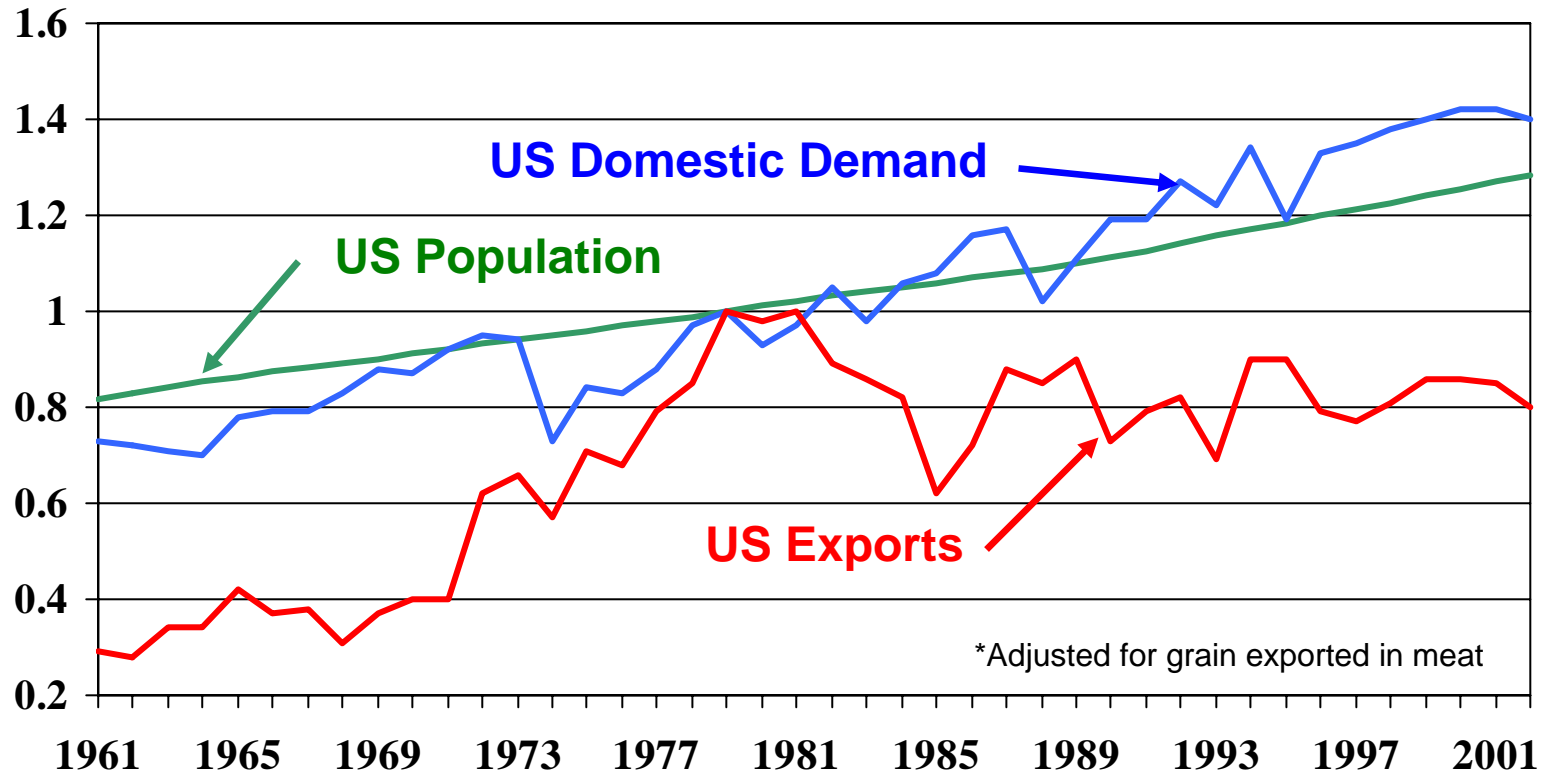
Comparison between 1996 and 1999 FAPRI projections and PS&D actual



Corn Baseline Projections U.S. Exports



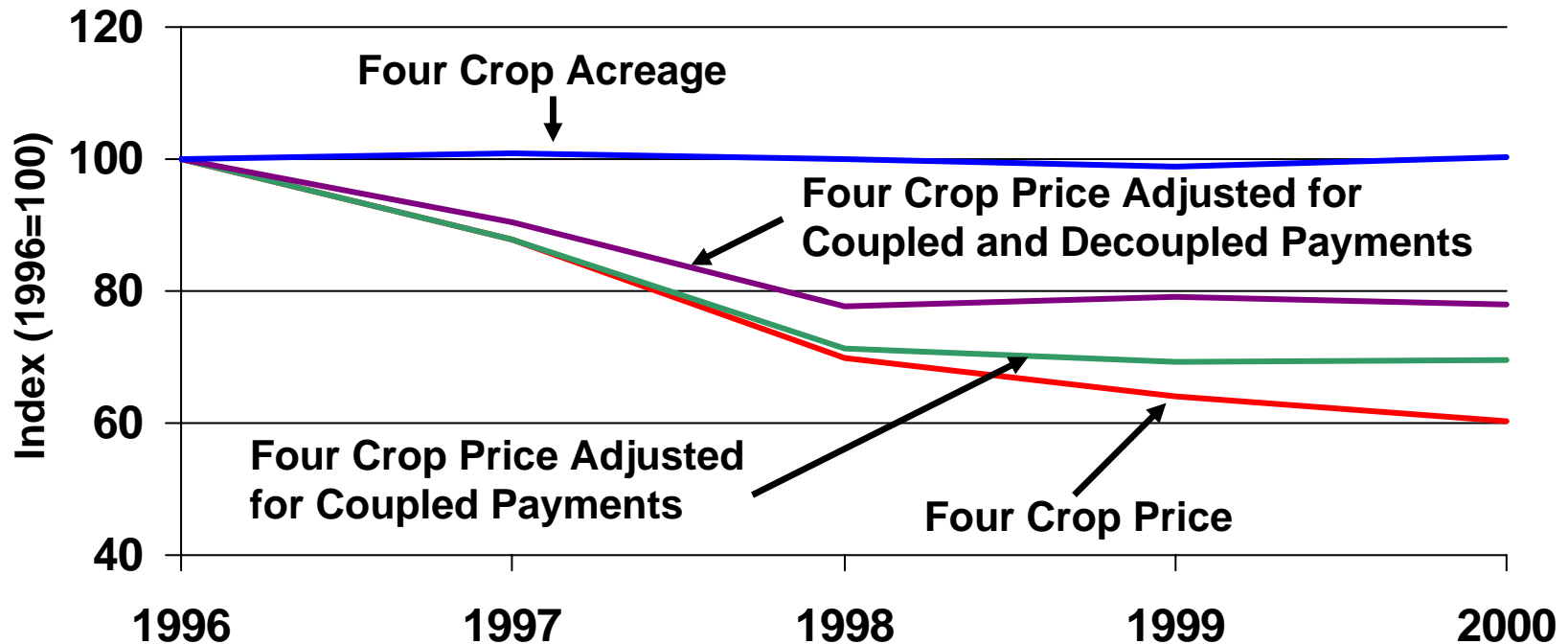
Exports Did Not Deliver



Index of US Population, US Demand for 8 Crops and US Exports* of 8 Crops 1979=1.00

- **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**

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%*

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

Policy Premises

- **U.S. and world output will continue to outpace demand**
- **Aggregate crop agriculture does not self-correct on its own (assuming otherwise is denying the obvious)**
- **Our export competitors are as committed to producing for international markets as we are**
- **Our import customers view food as a national security issue and abhor increased dependence**

Possible Directions

- **Stay the Course**
- **Intensify the Free Market Prescription**
- **Bring back some traditional farm policy instruments**
- **Move toward dedicated energy crops**
- **Enlist multinational cooperation**

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

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

Touchstones

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

Touchstones

- **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**

On the Horizon

- **GAO report on farm program payments**
- **WTO ruling in Brazil-U.S. cotton case**
- **Federal budget deficit**
- **Increased cost of production due to energy prices**
- **Increased interest rates on the horizon**
- **Tobacco buyout? Then what?**

Long-Term Farmer Challenges

- **Low prices due to overcapacity from increased foreign production of grains, oilseeds, cotton, hogs, etc.**
- **Maintaining farm program expenditures**
- **Recognizing that:**
 - Can't export our troubles away
 - The U.S is not the low-cost producer
 - U.S. crop agriculture may be net-disadvantaged by WTO and other trade agreements

Thank You

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