

# Agriculture Situation and Policy Possibilities

**Darryl E. Ray**

University of Tennessee  
Agricultural Policy Analysis Center

**Legislative Agricultural Chairs Summit**

Peabody Hotel – Memphis, Tennessee

**Saturday, January 29, 2005**

# 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?
  - What are the alternatives?
- **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?**
- **Record production**
  - Ending stocks are going to be huge
    - **Corn: highest relative to use since late 90s**
    - **Soybeans: highest relative to use since 1990**
- **Production vs Marketing**
  - Over 70 percent of corn crop already LDPed
  - Over 50 percent for soybeans
- **Farmers, bankers and government tax projectors:**
  - Should prepare for potential cash flow problems
  - Soybean prices are especially vulnerable (could start with a 3)

## 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:

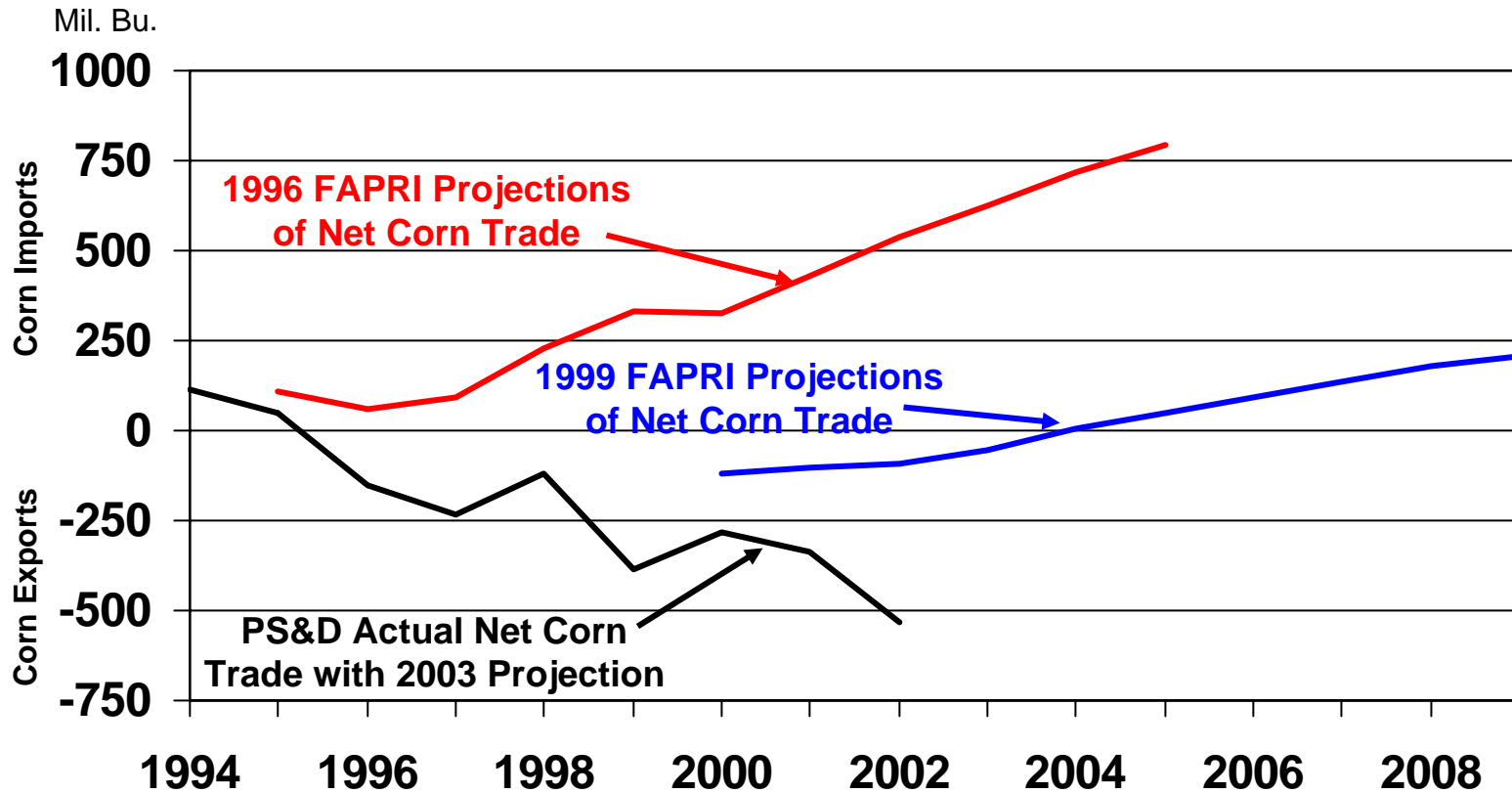
- **Floor price**
- **Supply management tools**
- **Price stabilization**

Over the years and especially since 1996:

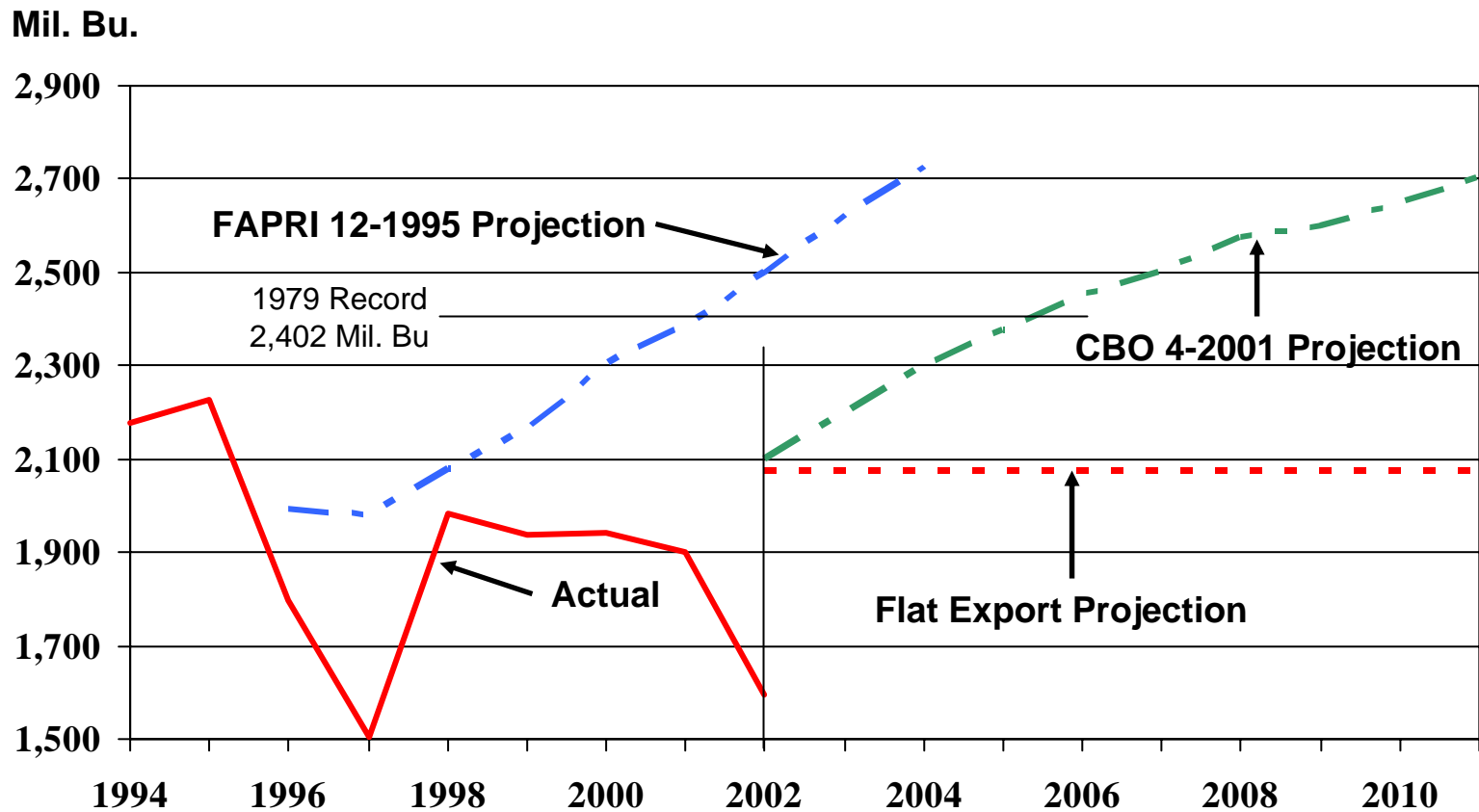
- **All three were eliminated because of expectations—expectations that:**
- Exports would drive agricultural growth and prosperity, besides that...
- ***If markets are allowed to be allowed to work agriculture will do just fine***

# China Net Corn Trade

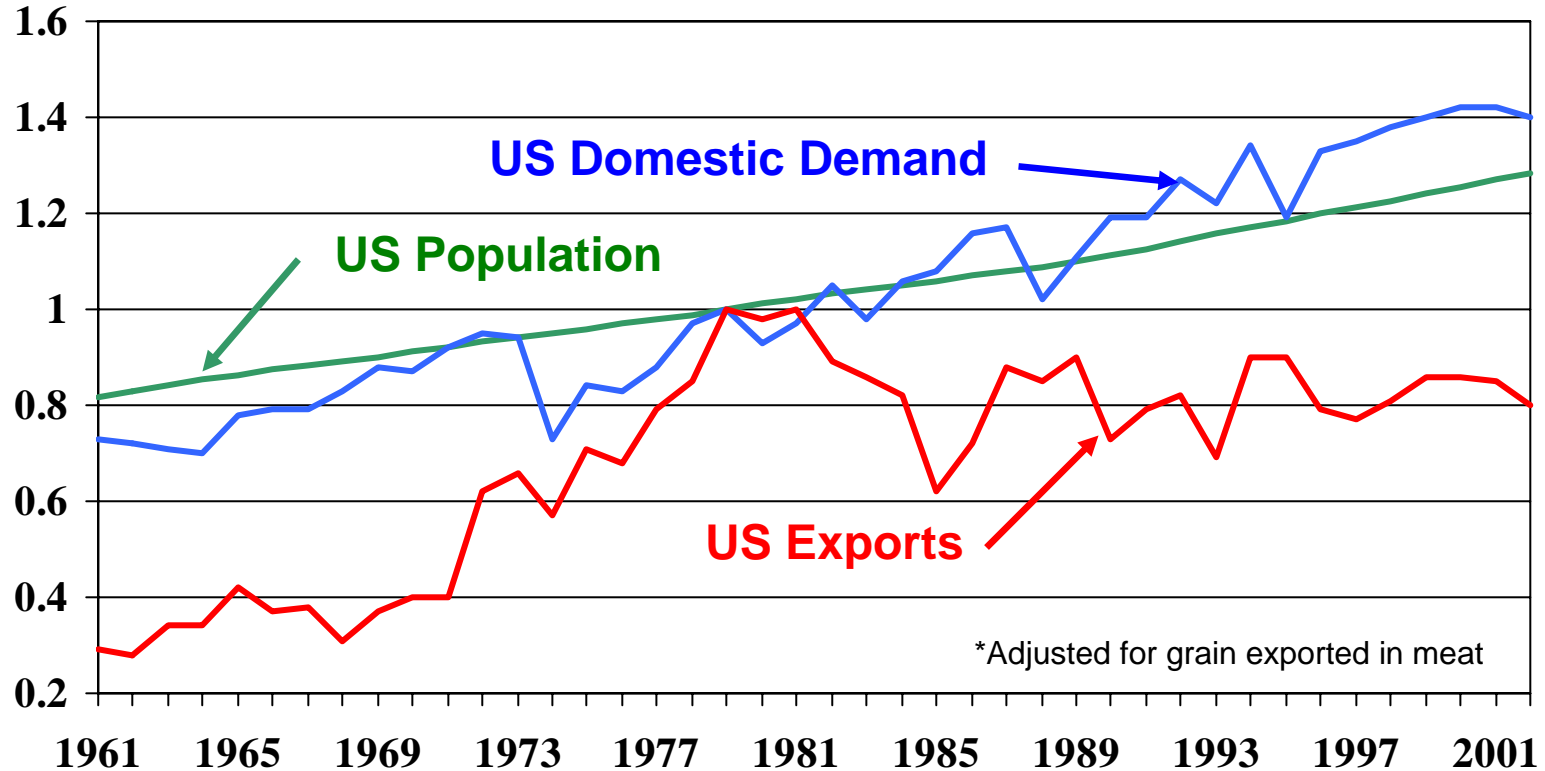
Comparison between 1996 and 1999 FAPRI projections and PS&D actual



# Corn Baseline Projections U.S. Exports



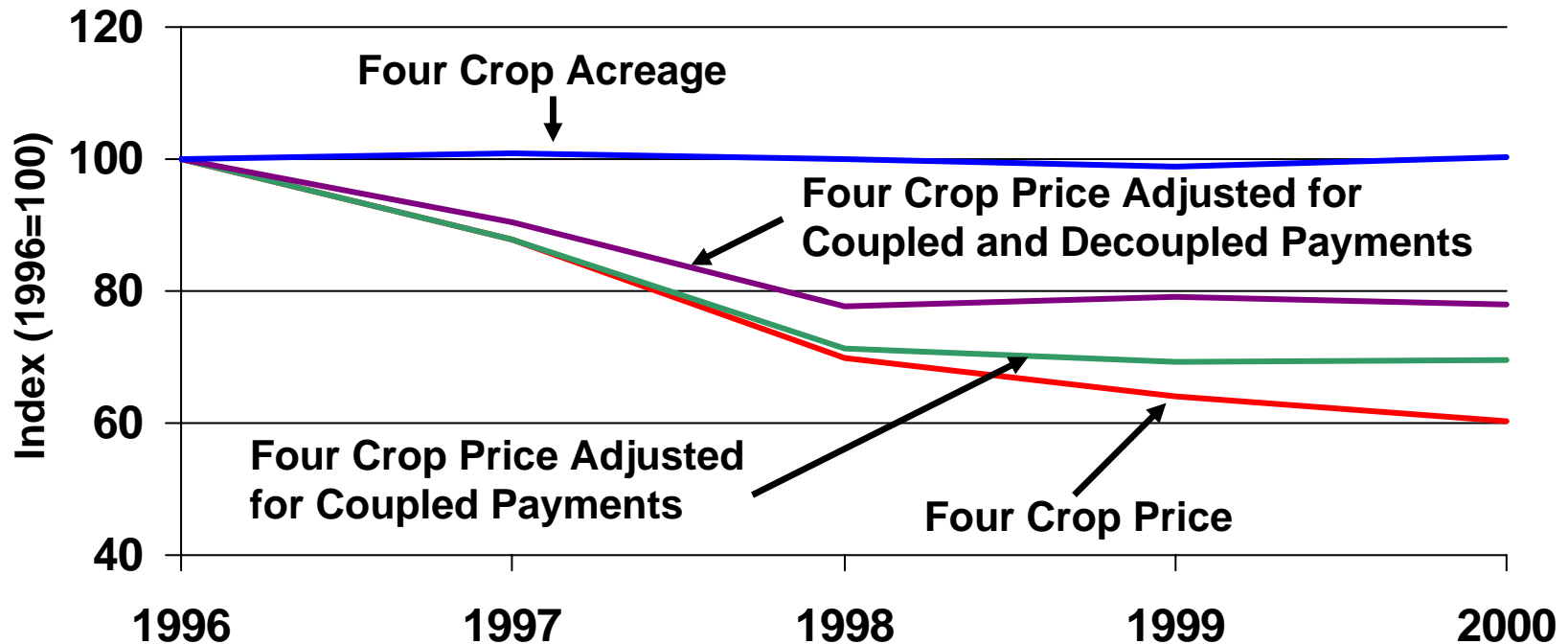
# Exports Did Not Deliver



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

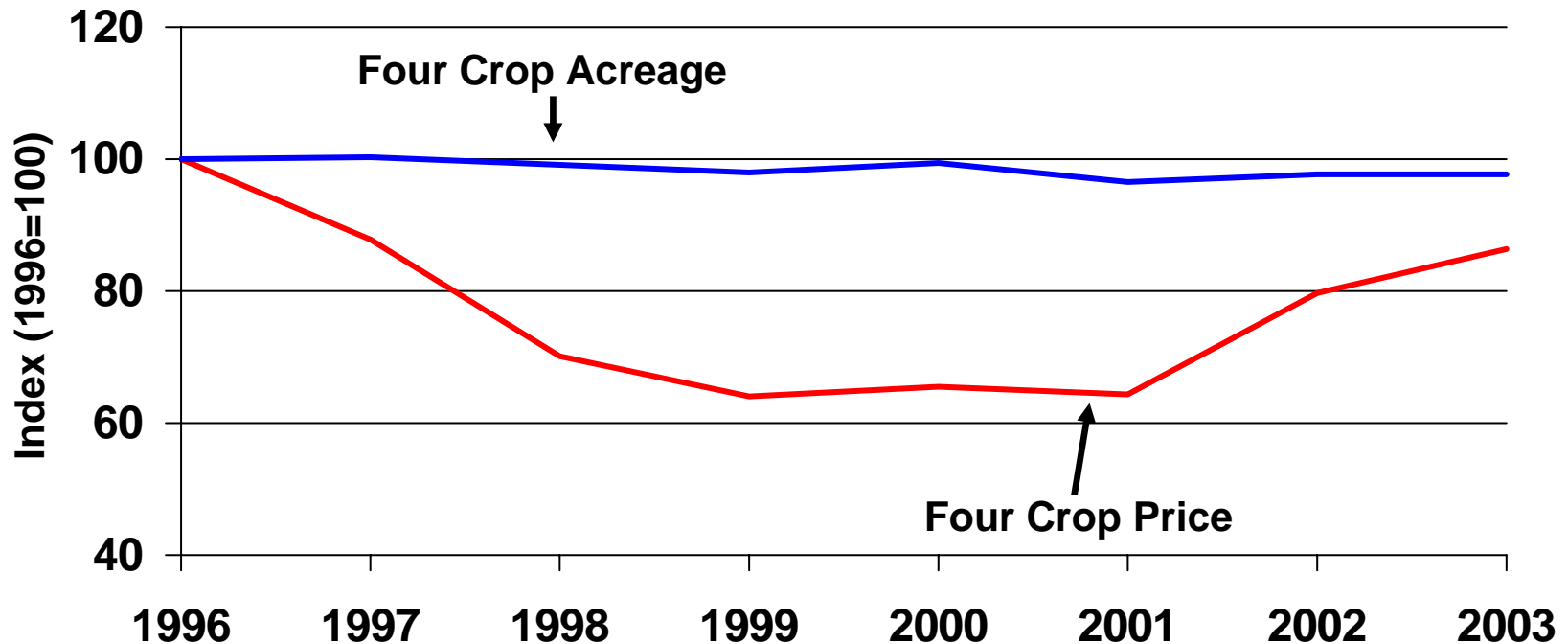
# Acreage Response to Lower Prices?



Since 1996

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

# 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*

# 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

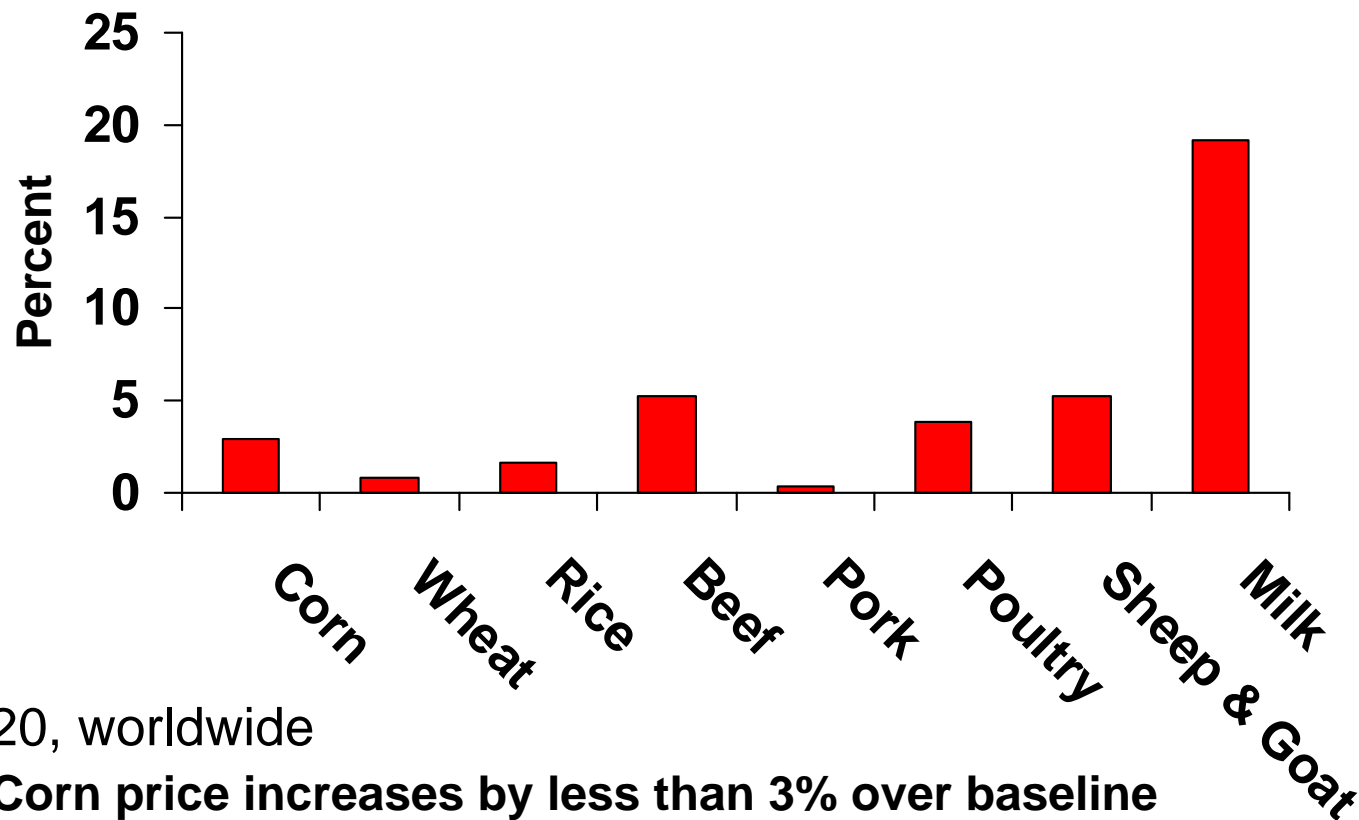
# Possible Directions

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

# 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

# Intensify Free Markets in Developed Countries

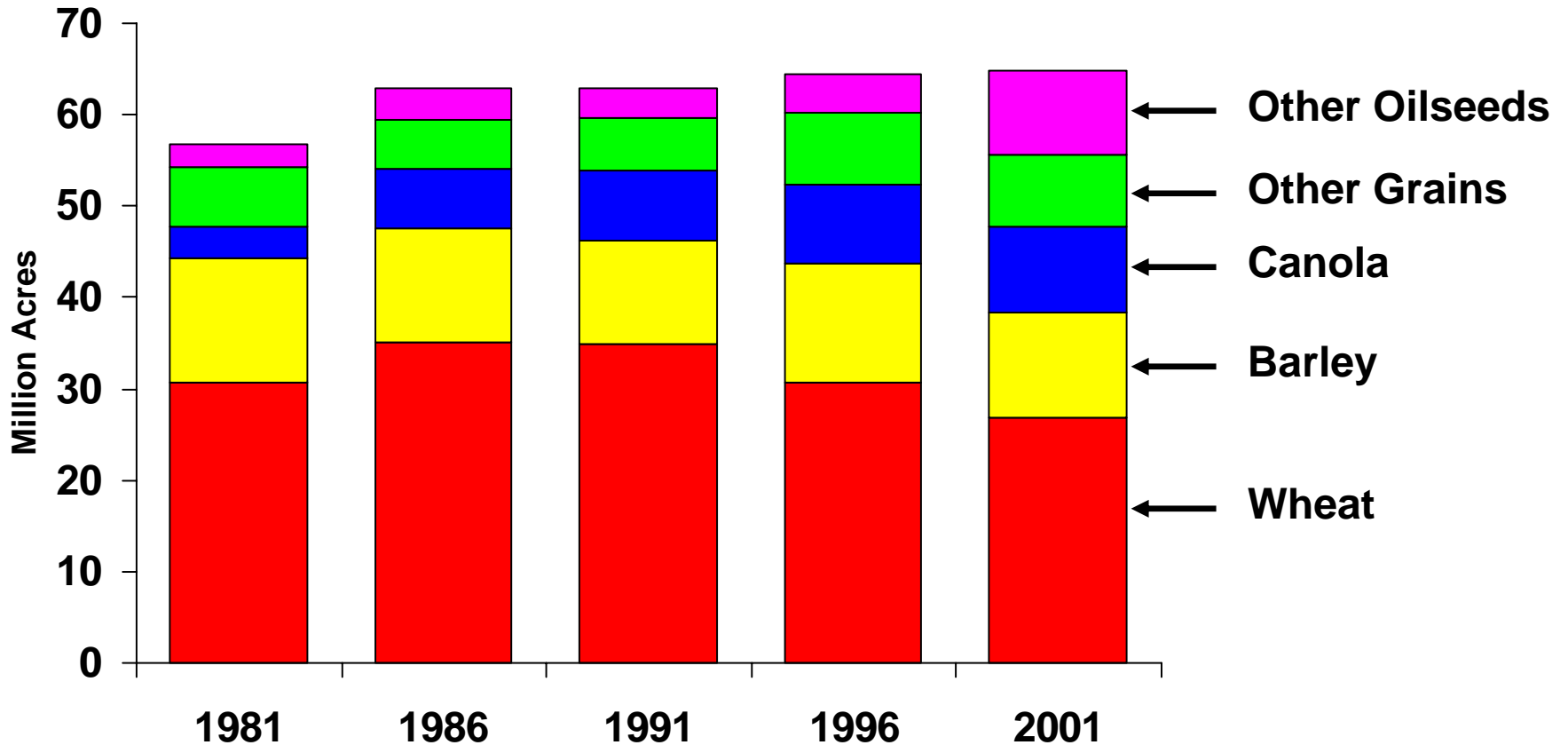


In 2020, worldwide

- 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

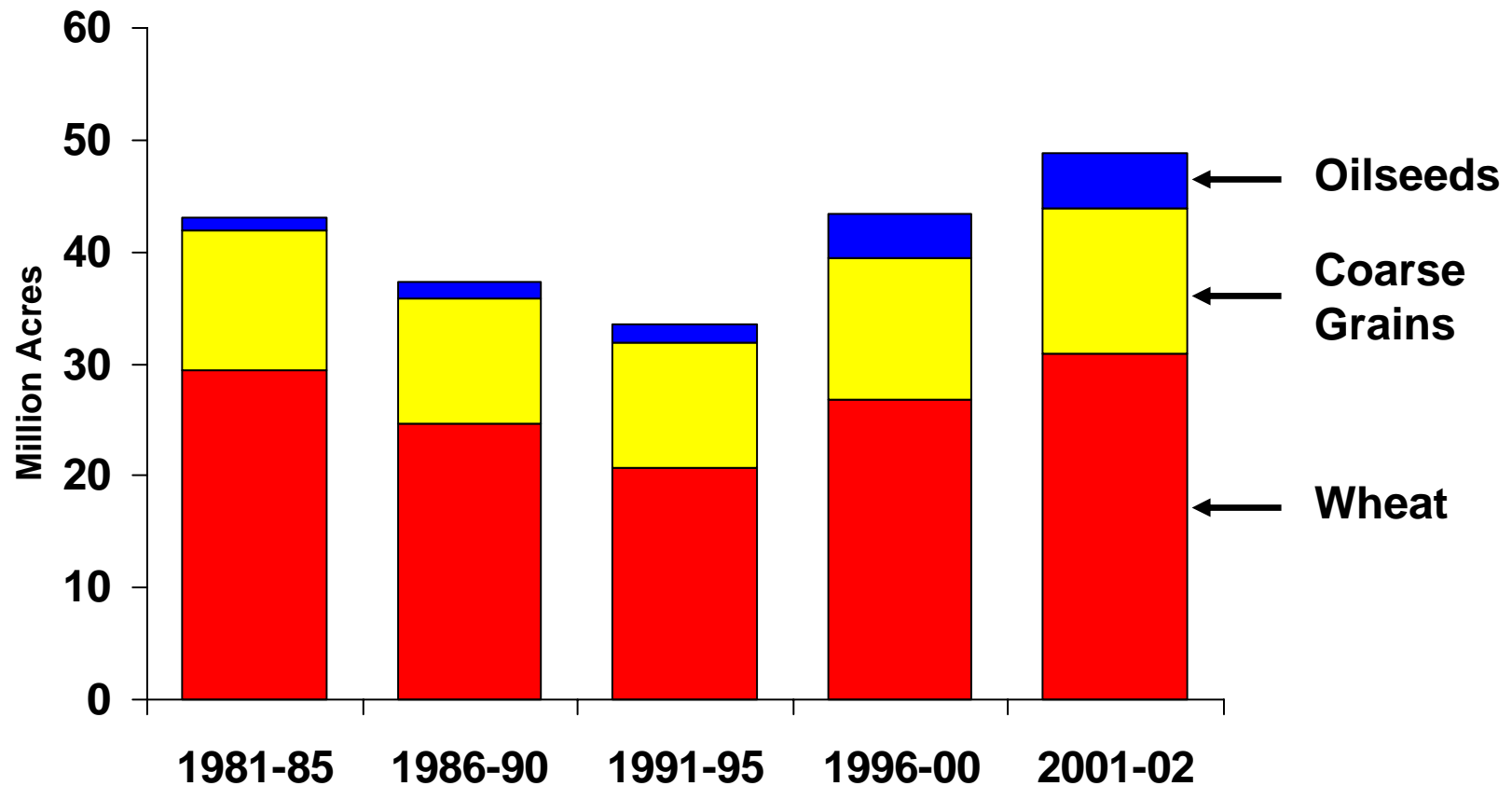
**IFPRI IMPACT**

# 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

# Switch to Green Payments

- **Decoupled and WTO proof**
- **Payments are payments** (to some extent)
- **Ignores the root causes of farm price and income problems**
- **Not sure that farmers believe that their problems are environmental and conservation problems**
- **Congress has cut conservation programs in recent years**

# 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 program

# More is Needed

- **Create a fresh, bold policy vision that catches people's imagination and is farmer-centered**
- **One possibility—**
  - **I think the time is right for a merging of agricultural and energy policy**
  - **Energy could/should be the next soybeans**
  - **Formerly 30-50 percent of land was dedicated to energy production (horse feed, wood fuel, etc.)**
  - **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**

# 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

# 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**

# 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 always the low-cost producer
  - U.S. crop agriculture may be net-disadvantaged by WTO and other trade agreements

# 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**

# Thank You

---

Agricultural Policy Analysis Center

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

[www.agpolicy.org](http://www.agpolicy.org)



# Weekly Policy Column

To receive an electronic version of our weekly ag policy column send an email to:

[dray@utk.edu](mailto:dray@utk.edu)

requesting to be added to APAC's Policy Pennings listserv

## Senate ag committee resists pressure to adopt House Farm Bill

needy children and spouses of victims of the Sept. 11 terrorist attacks. LMA President Patrick Goggins said. "All across America, in 43 states, our member businesses do

The House of Representatives adopted the Farm Security Act of 2001 on Friday, Oct. 5, by a vote of 291-120. The approval came after representatives rejected a flurry of amendments including the Boehler-Kind amendment to shift \$19 billion dollars from conservation programs to crop based subsidies. The adoption of this farm bill legislation by the House, attention shifts to the Senate Ag Committee. This committee is being pressured to use the House bill as its base document, making adjustments, if necessary. The pressure comes from those who believe that agricultural community needs to grab the additional \$73.5 billion above the baseline that was made available in the 2001 budget resolution.

Midwestern Farmer - November/December 19, 2001

However, the budget resolution says these additional monies would be available only if the budget projections did not require dipping into the Medicare or Social Security Trust Funds. By early September, the slowdown of the economy and the tax cut had significantly reduced the surplus to what some were projecting to be a razor thin margin. In the aftermath of the events of Sept. 11, the Medicare and Social Security "lock box" was not given a moment's consideration as \$40 billion was granted to New York for damage caused by the terrorist attacks and for fighting the war on terrorism. Congress then voted \$15 billion to bail out the airline industry. Billions more undoubtedly will be needed to execute the war against terrorism. And, the administration is talking about an additional economic stimulus package that could be as large as \$100 billion. Undoubtedly the lid of the lock box will be wide open when all is said and done. All of this spending leaves agriculture's additional \$73.5 billion in question. It would appear that the thinking in the House is that agriculture better make its claim as quickly as possible before the lock box is closed again or a cap is put on the deficit. Judging



### policy pennings

**DARYLL E. RAY**  
Agricultural Economist  
University of Tennessee

Contact Darryl E. Ray at the UT's Agricultural Policy Analysis Center by calling (865) 874-7407, faxing (865) 874-7298, or emailing dray@utk.edu. For more info, visit [www.agpolicy.org](http://www.agpolicy.org)

- Contact Darryl E. Ray at the UT's Agricultural Policy Analysis Center by calling (865) 874-7407, faxing (865) 874-7298, or emailing dray@utk.edu. For more info, visit [www.agpolicy.org](http://www.agpolicy.org)
- Will the budget for agriculture be the \$96.5 billion baseline or will it be \$170 billion, including the additional \$73.5 billion conditionally authorized in the budget resolution?
- Will Congress impose a \$150,000 payment limit like the House?
- How widely will the payments under the farm bill be distributed? Will they be concentrated in the heartland or will they be concentrated in the role conservation in the past?
- Closely tied to the previous two questions is the conservation will play in the farm bill. Will or will it be a green payment program that will encourage conservation in all regions of the country and on all sizes of farms?
- Yes, a House bill has been passed. But in mid-October, the leadership of the Senate has no interest in the wholesale adoption of the House's version of the farm bill. The Senate intends to have its say, thank you very much!