

Agricultural Policy Based on Realities

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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**

Need a Policy Vision

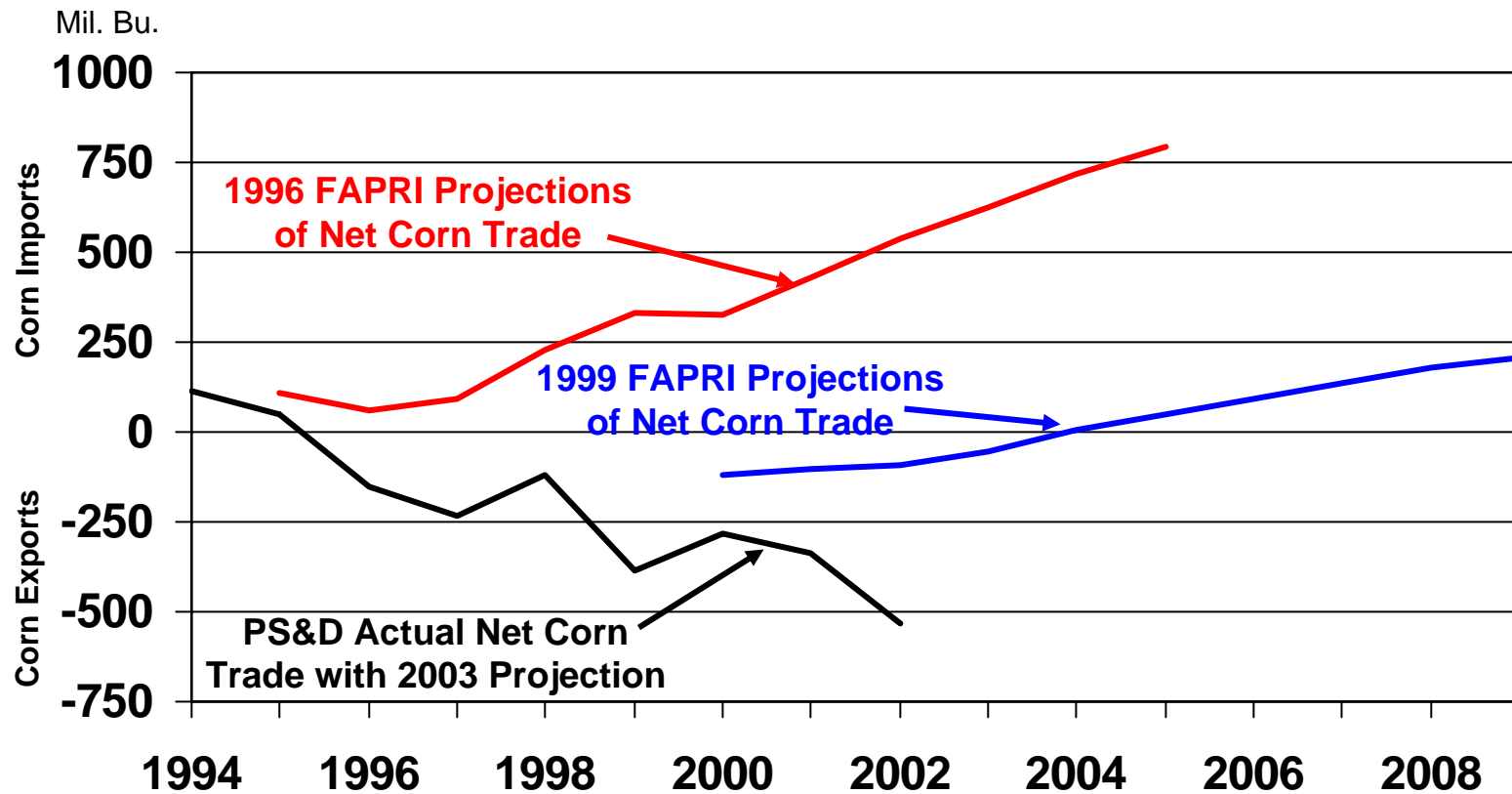
- Policy vision **MUST** be premised on the realities just discussed
- Seize the moment—may be one of those rare opportunities for fundamental change
- A possibility: Coalesce agricultural and energy interests to shape a Win, Win, Win Comprehensive Agricultural/Energy Policy

The Realities

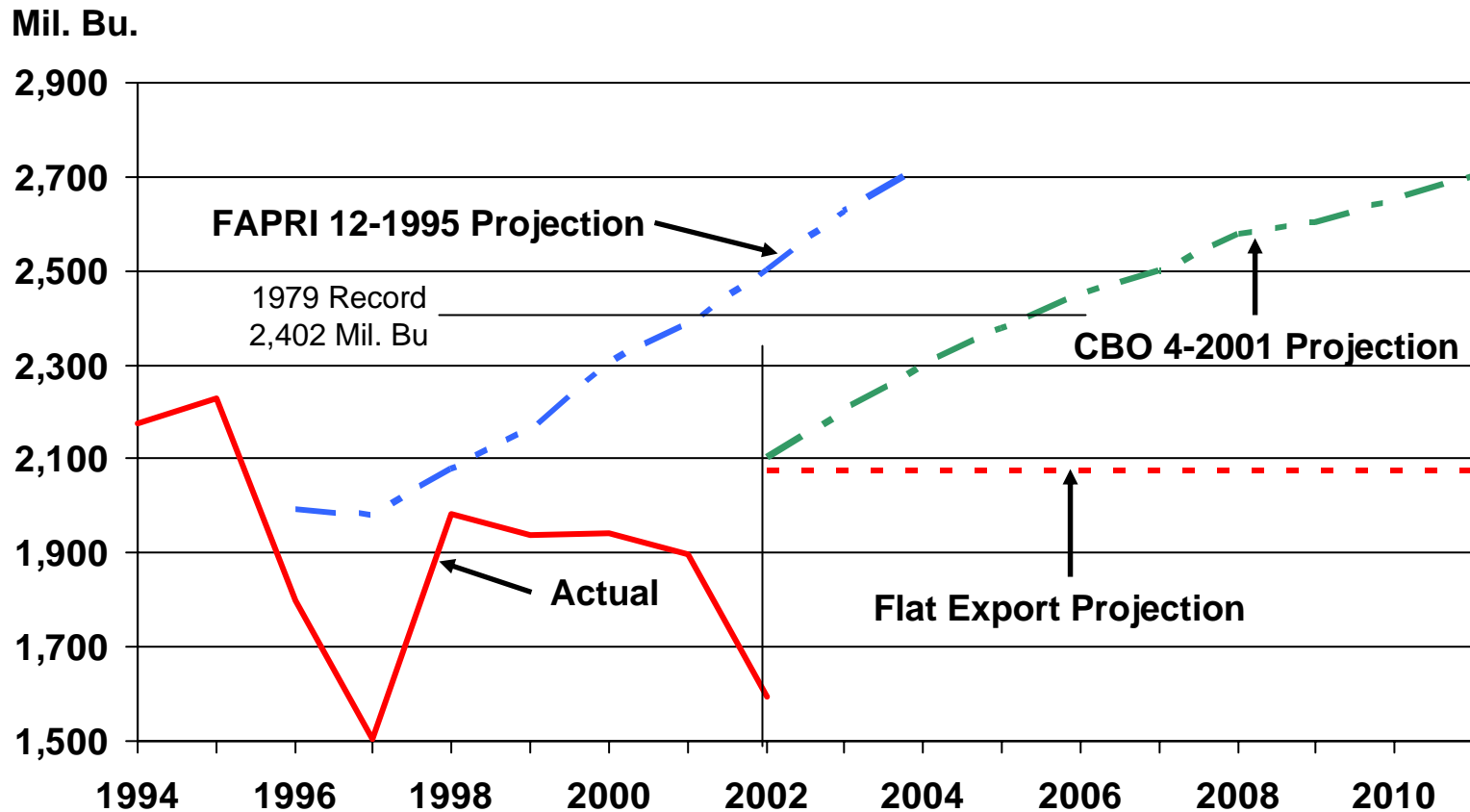
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China Net Corn Trade

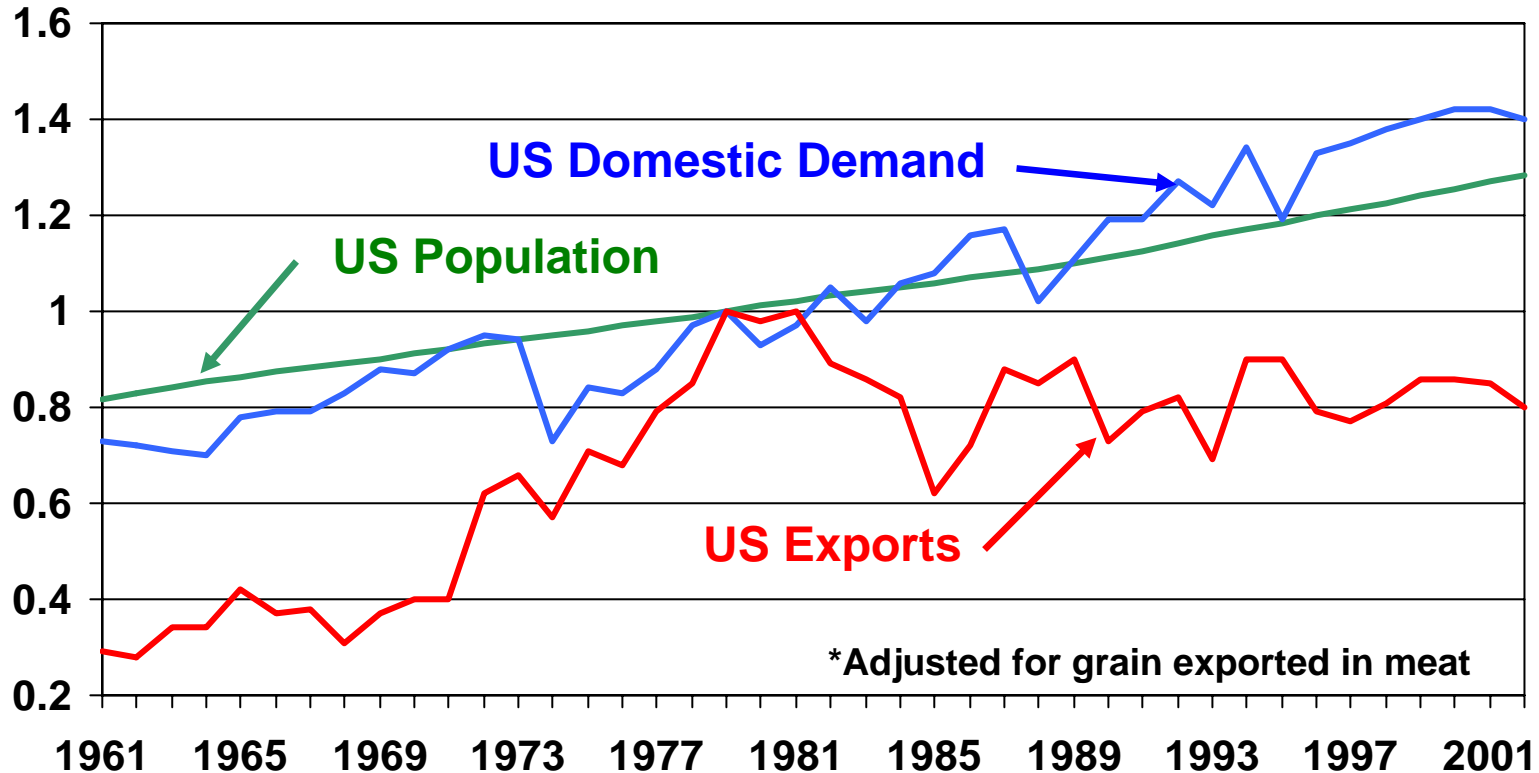
Comparison between 1996 and 1999 FAPRI projections and PS&D actual



Corn Baseline Projections U.S. Exports



Exports Did Not Deliver



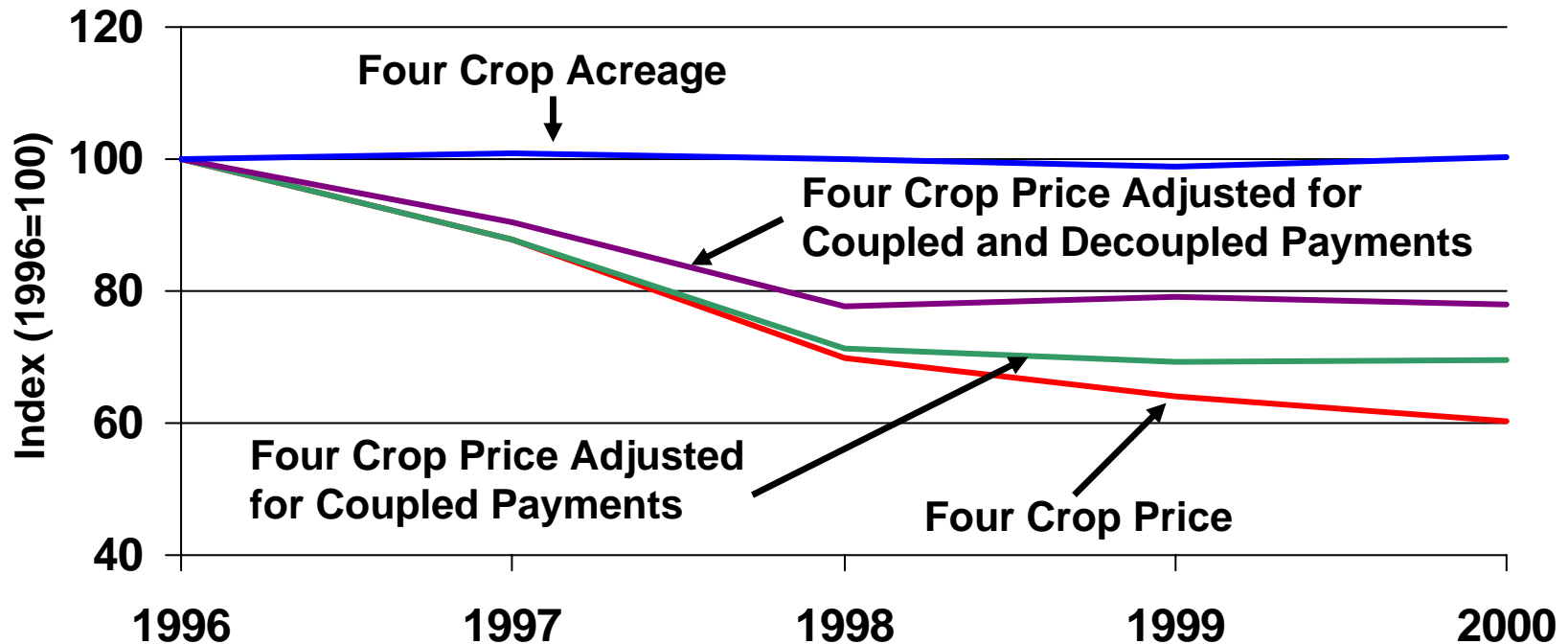
Index of US Population, US Demand for 8 Crops and US Exports* of 8 Crops
1979=1.0

- 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

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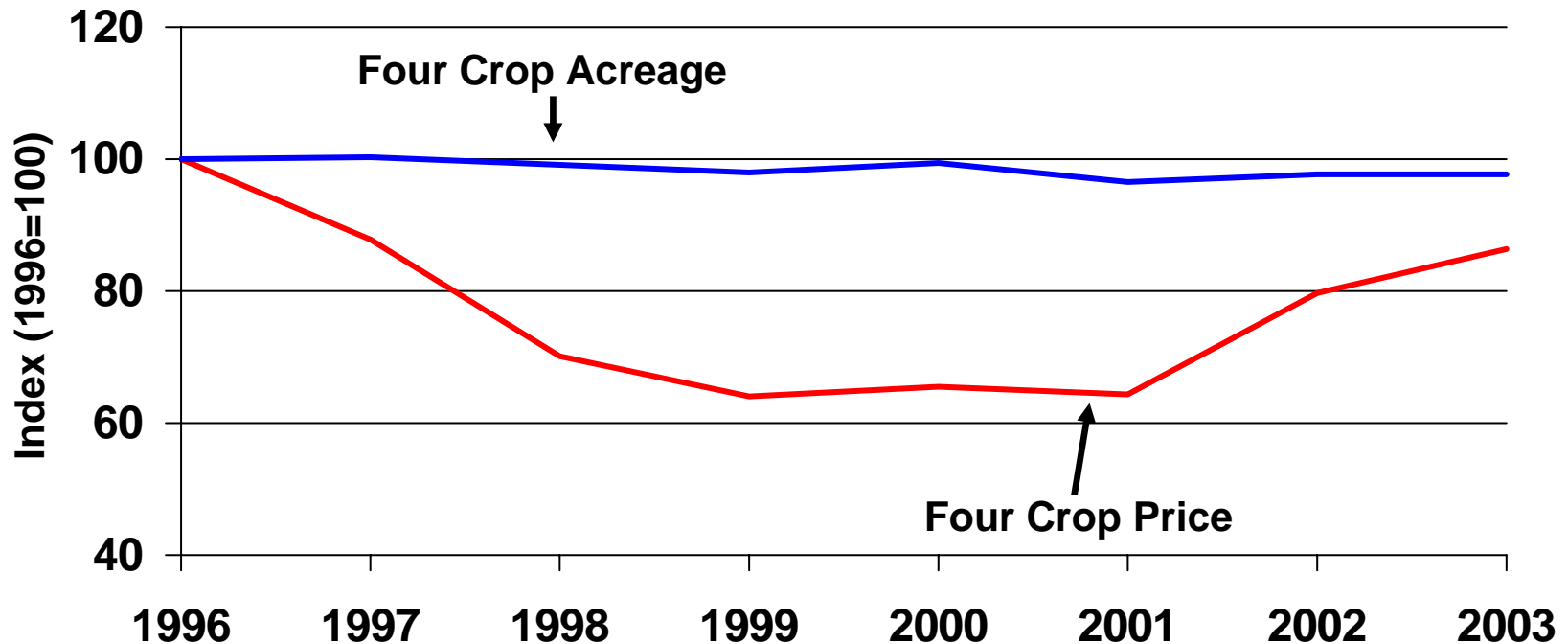
Acreage Response to Lower Prices?



Since 1996

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

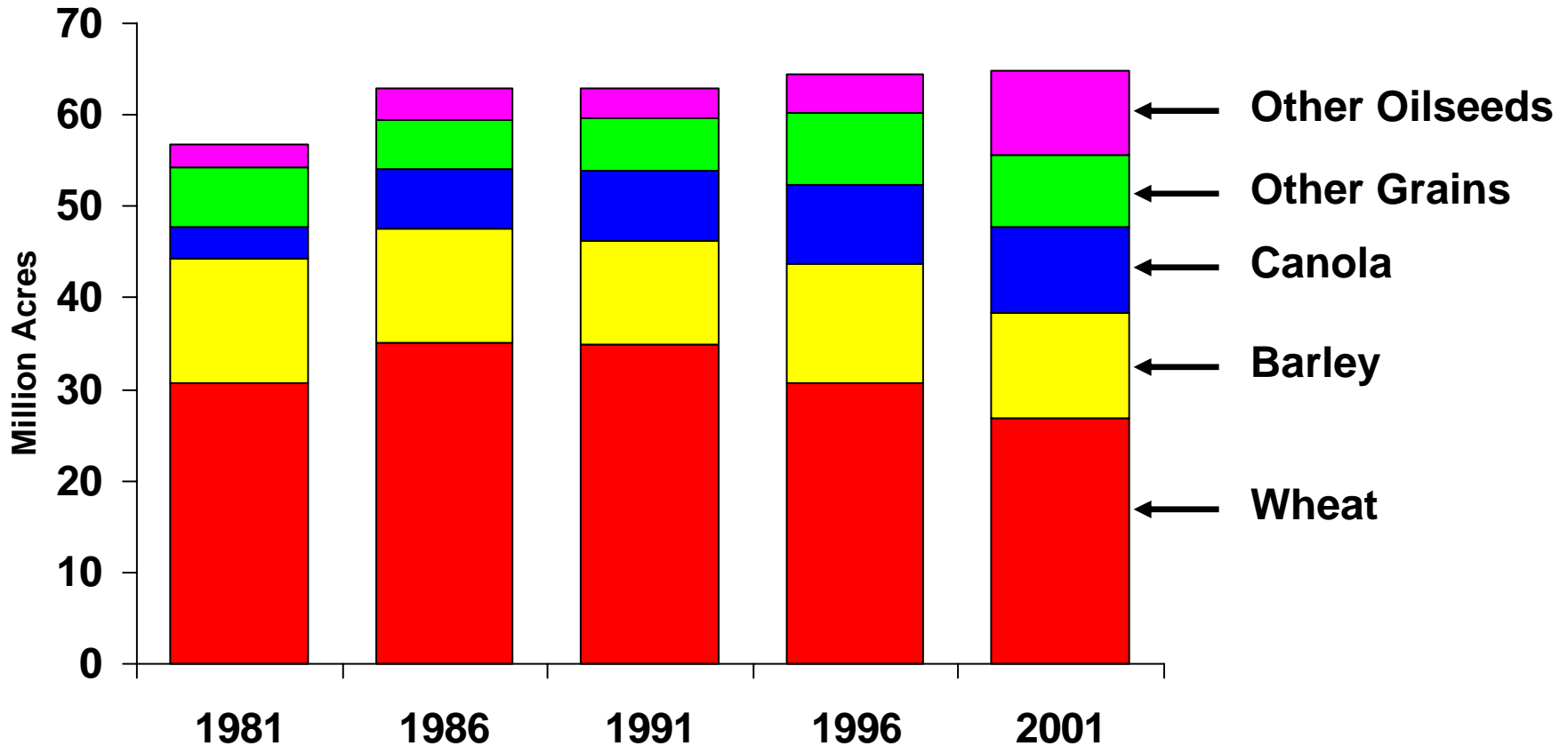
Acreage Response to Lower Prices?



Since 1996 "Freedom to Farm"

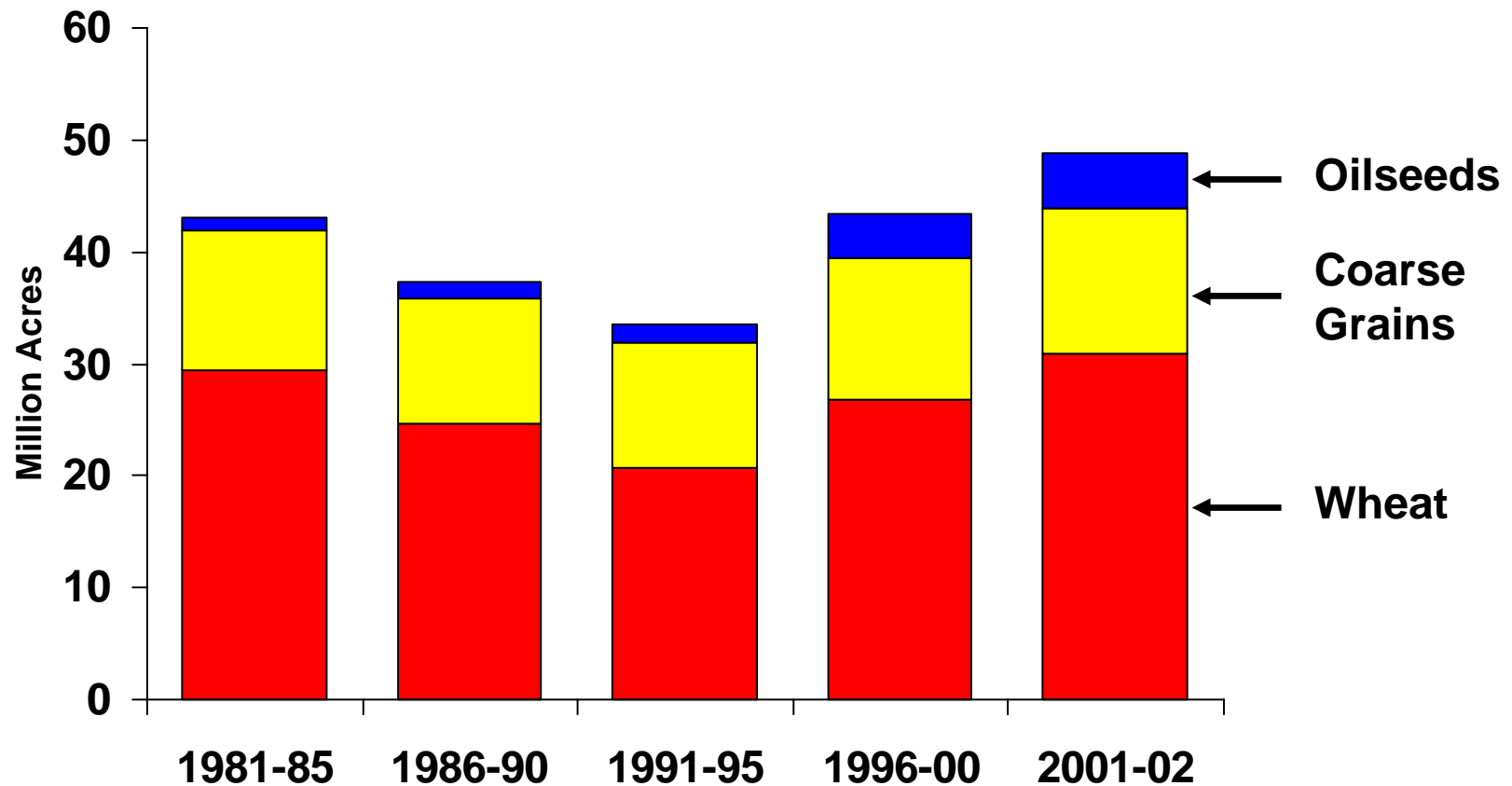
- *Aggregate US corn, wheat, soybean, and cotton acreage changed little despite a wide fluctuation in price*

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

Agriculture Has Chronic Price and Income Problems Because It Does Not Self-Correct Quickly

The Logic is Straight Forward

- **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

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- **Excess capacity is crop agriculture's future peppered with periods of production-shortfalls**

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
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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**)

Monsanto's Control of Crop Genetics

- **In 2004, Monsanto's technology accounts for:**
 - **85% of all U.S. soybean acreage**
 - **45% of all U.S. corn acreage**
 - **76% of all U.S. cotton acreage**
- **84% of all U.S. canola acreage was genetically modified**

Source: Center for Food Safety

Control of U.S. Grains and Oilseeds

- Cargill, ADM, and Zen-Noh export **81%** of U.S. **corn**
- ADM, Cargill, Bunge, and AGP control **80%** of the U.S. **soybean crush**
- Horizon (Cargill and CHS), ConAgra, Cargill, and Cereal Food Processors control **63%** of **flour milling** in the U.S.

Source: Mary Hendrickson

Control of Argentinean Exports in 2002

- Cargill, Toepfer, Bunge, and ADM export **63%** of **corn**
- ACA, Toepfer, Cargill and Prodsudam export **88%** of **grain sorghum**
- Toepfer, Cargill, Bunge, and Dreyfus export **62%** of **wheat**
- Cargill, Toepfer, ADM, and Bunge, export **62%** of **rice**

Source: Alejandro Dellachiesa

Control of U.S. Meat Production and Processing

- Tyson, Cargill, Swift, and National Beef Packing control **84%** of the **beef processing**
- Smithfield, Tyson, Swift, and Hormel control **84%** of the **pork processing**
- Smithfield, Premium Standard Farms, Seaboard, and Prestage Farms control **49%** of **pork production**
- Tyson, Pilgrim's Pride, Gold Kist, and Perdue control **84%** of **broiler production**

Source: Mary Hendrickson

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We Can't Go On Like This...

- **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

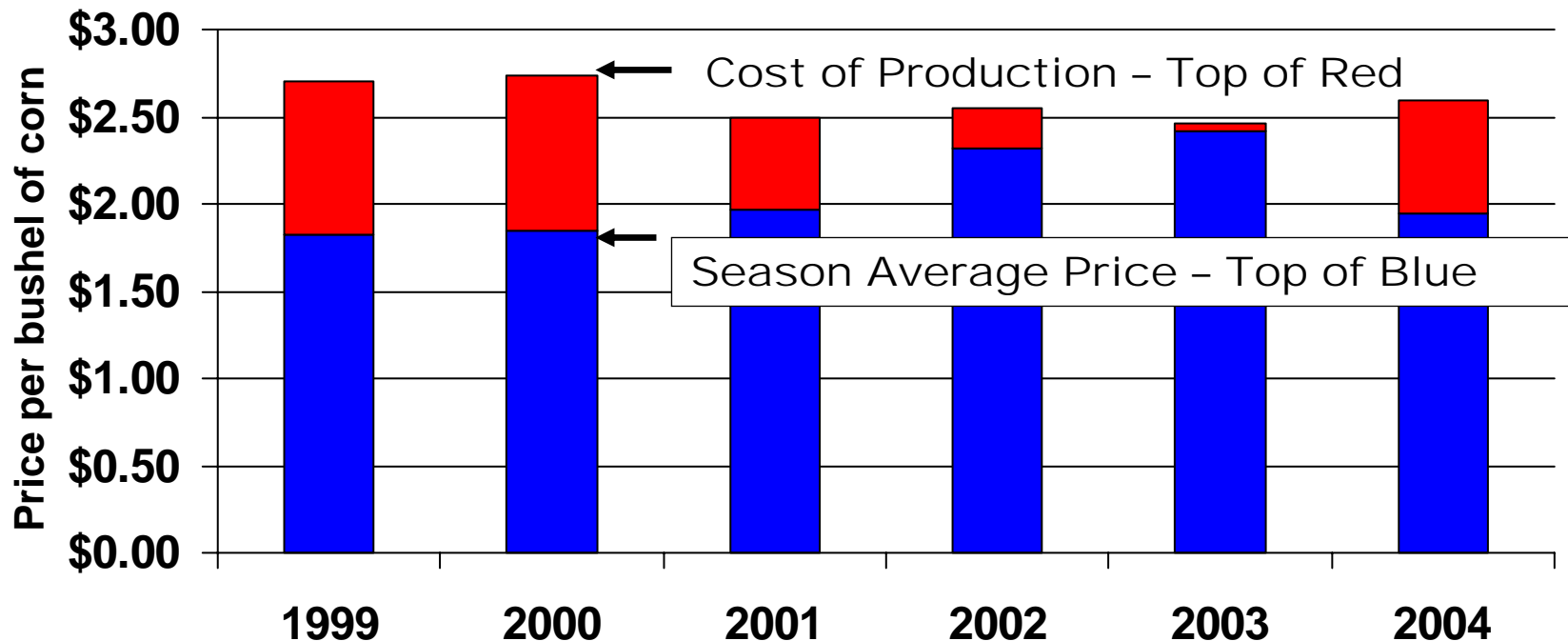
We Can't Go On Like This...

- **Continued WTO negotiations that further neuter ability to set domestic farm policy in this and other countries**
 - **What is good for General Motors (agribusiness)... syndrome**
 - **The whole WTO process shows a complete lack of understanding of the unique characteristics of food and agriculture**
 - **It is a clear case of not understanding that, as important as economics is, it can be trumped by food security and other social objectives in the case of food and agriculture**

The Question is: What Are We Going to Do About It?

- **One alternative is passively sit by, be co-opted, and let others commandeer the policy agenda**
 - That is exactly what producers have increasingly done since the mid-eighties!!!
 - Crop producers get subsidy-tarred while real subsidy beneficiaries (integrated livestock producers and other users, sellers of inputs and marketers of output) remain above the fray

U.S. Corn Cost of Production: Who Pays?



Who benefits from subsidies?

- With the season average price paid to farmers ranging from 4 cents to 89 cents a bushel below the cost of production, it is not the producer who is benefiting from farm payments.

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 - **Advocating unfettered free markets, promising export growth, or claiming a level playing field as farmers' magic bullet, etc., ain't workin.**
 - **And, given the realities of agriculture discussed so far, they hold little promise for the future.**

The Question is: What Are We Going to Do About It?

- **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
 - Work as hard to become independent as we have “worked” to become subservient in the past

The Question is: What Are We Going to Do About It?

- **Did I mention that there must be a mindset change?**
- **Everything should be on the table. Take nothing for granted.**
 - **Previous programs: DNA testing (seeing what happens when most of them are eliminated) have exonerated most of the “failed programs of the past”**
 - **In all cases, do not contradict or ignore any of “the realities” when developing policy**

The Question is: What Are We Going to Do About It?

- **Create a fresh, bold policy vision that catches people's imagination and is farmer-centered**
- **The challenge is yours—but as for me:**
 - 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**

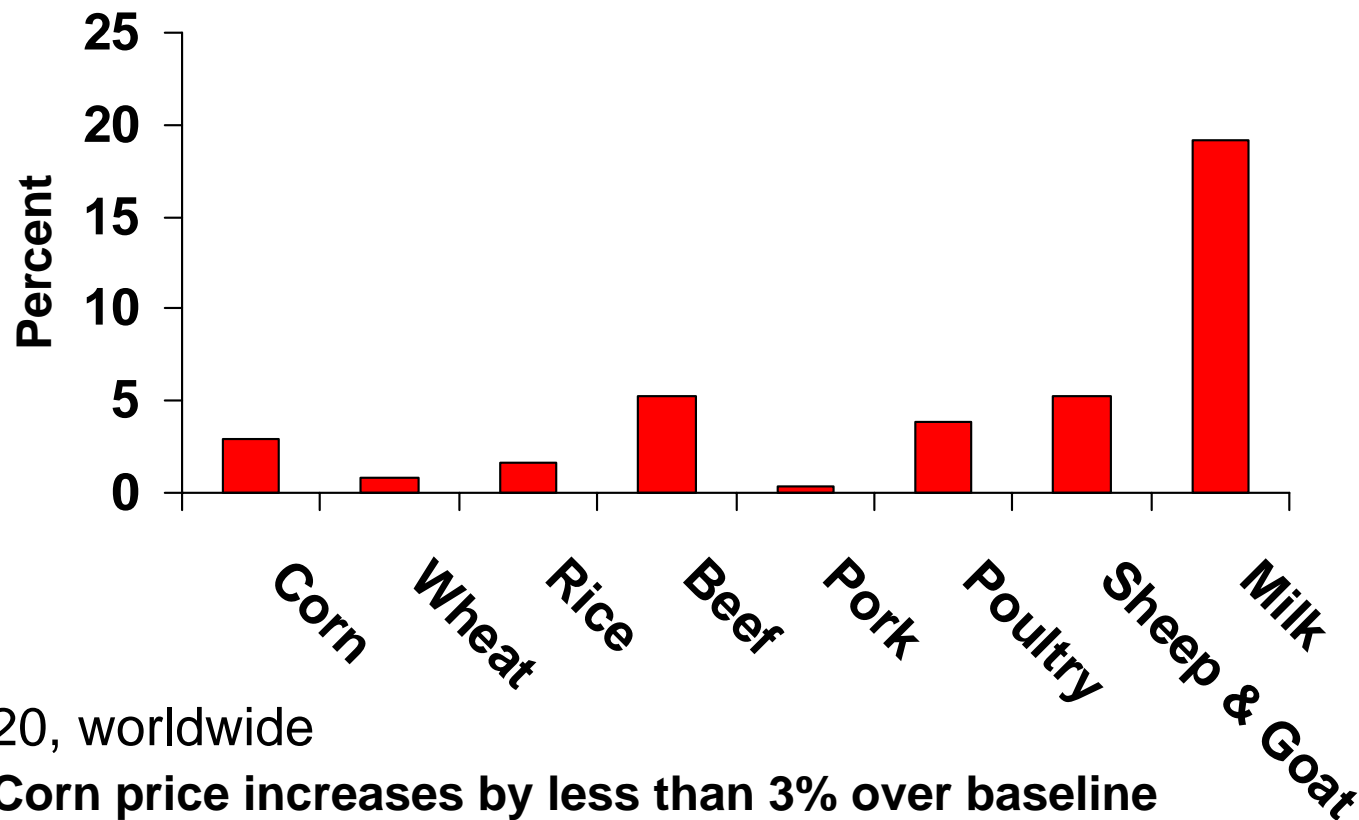
Other Possibilities

- **Stay the Course**
- **Intensify the Free Market Prescription**
- **Switch to green payments**
- **Bring back some traditional farm policy instruments**
- **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

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

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(just in case you missed them)

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The Vision Thing

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Thank You

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Weekly Policy Column

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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 one to limit payments to \$150,000-per-person on all crop based subsidies.

With 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 the agricultural community needs to grab the additional \$73.5 billion above the baseline that was made available in the 2001 budget resolution.



policy pennings

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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 granted a moment's consideration as \$40 billion was 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 from statements by Sen. Richard Lugar, the leadership of the Senate Ag Committee sees things quite differently. As a result the Senate committee leadership, while it is under pressure from commodity groups to adopt the House bill, does not think that the committee has to rush its work on the farm bill. They don't feel the necessity to rush because they don't think the financial issues will be any different five months from now than they will be four weeks from now.

They are continuing on the course they set before the Sept. 11 attacks on the World Trade Center and the Pentagon. From all accounts, the farm bill that the Senate is working on will have many provisions that look quite different from the House bill.

Intertwined in all of the discussion and action are a number of major questions that will have to be answered before a final version of the farm bill is approved.

- 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 payment limit like the \$150,000 proposal that was rejected by the House?
- How widely will the payments under the farm bill be distributed? Will they be concentrated in the heartland or will they see a larger portion of the money than in the past?
- Closely tied to the previous two questions is the role 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!