

# Farm Legislation: Why Does It Exist?

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**21<sup>st</sup> Century Farm Policy: Challenges and Opportunities**  
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# *Lost Our Policy Bearings*

- **Without a clue and highly impressionable**
  - **When it comes to farm policy, we do not seem to have a clear idea about much of anything including:**
    - **what the “problem” is or**
    - **what objectives are to be achieved**
  - **So we are willing to believe anything!**

# We Seem Willing to Believe that:

- **Staple crops are not sufficiently important to have emergency reserves (oil is sufficiently important)**
- **Less than full use of farm productive capacity is inefficient (SOP in other sectors—currently at 77% of capacity)**
- **Farmers can extract billions of dollars for commodity programs—so they do**
- **Hence, commodity programs are a waste**
  - do away with them or
  - pay out the money on some other basis

# *Why Chronic Problems In Ag?*

- **Technology expands output faster than population and exports expand demand**
  - Much of this technology has been paid for by US taxpayers
- **The growth in supply now is being fueled by**
  - increased acreages in Brazil, etc.
  - technological advance worldwide

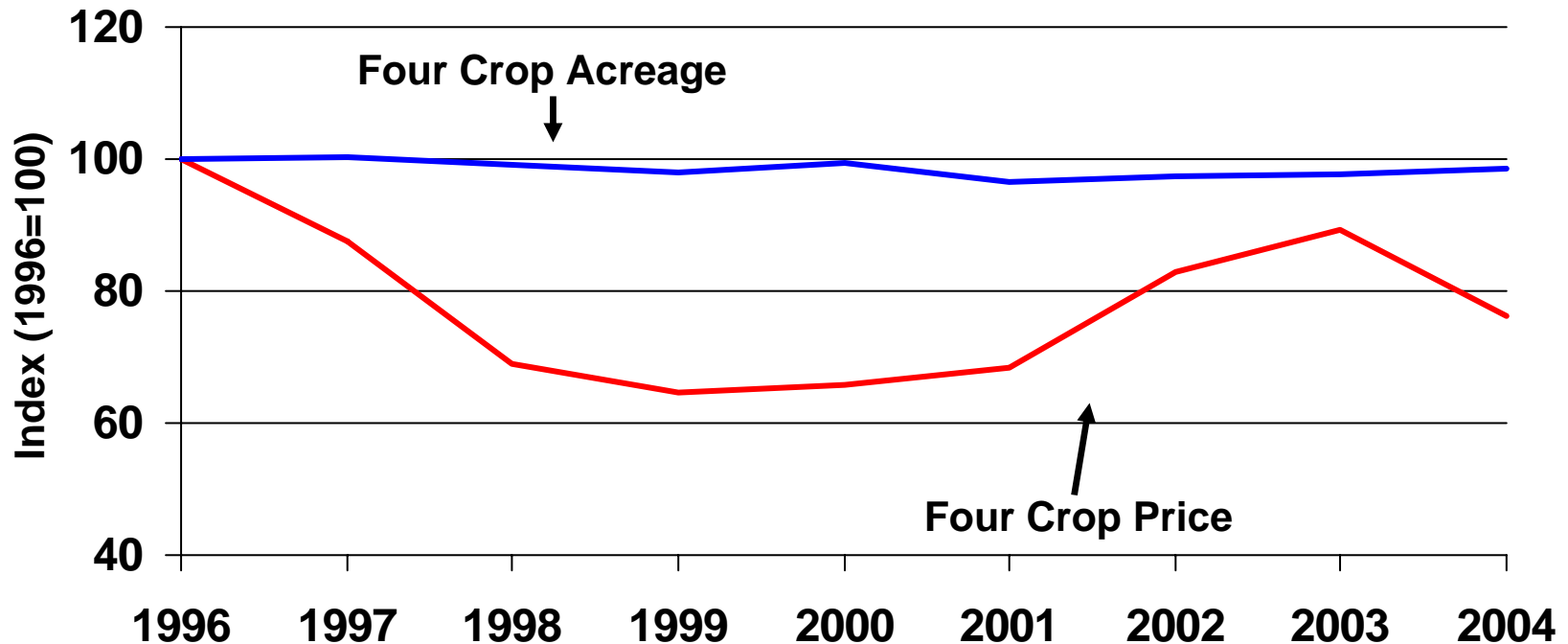
# *Why Chronic Problems In Ag?*

- **In agriculture 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

# What Was That Again?

- **Supply and demand characteristics of aggregate agriculture cause chronic price and income problems**
  - On average supply grows faster than demand
  - Agriculture cannot right itself when capsized by low prices

# 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*

# *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**

# *Policy-Option Premise Check*

- **Export Markets/Global Trade**

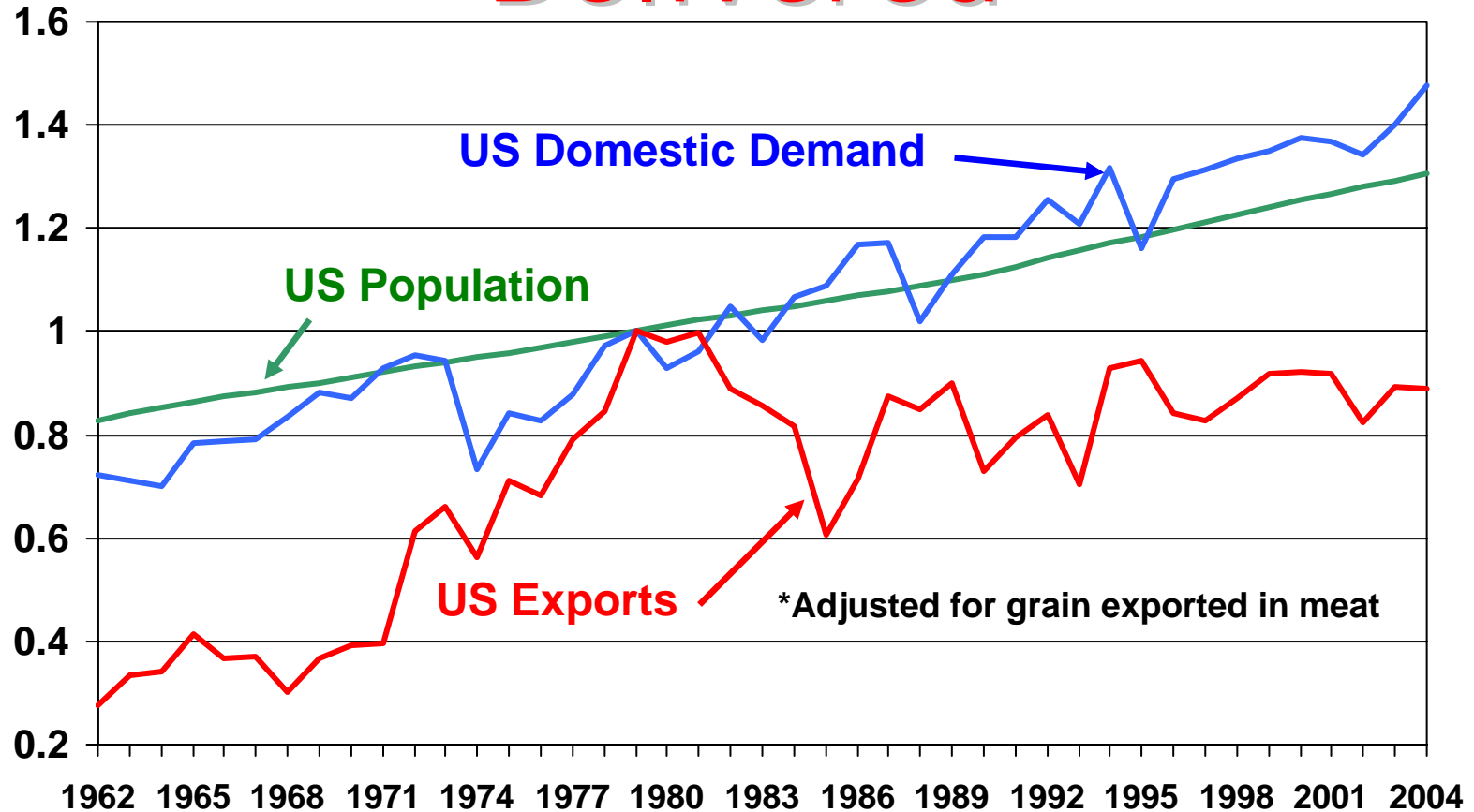
- Mechanism:

- **eliminate all price floors**
    - **use the bully-pulpit to generate high- export expectations**
    - **extend trade liberalization**

- Apparent Premises:

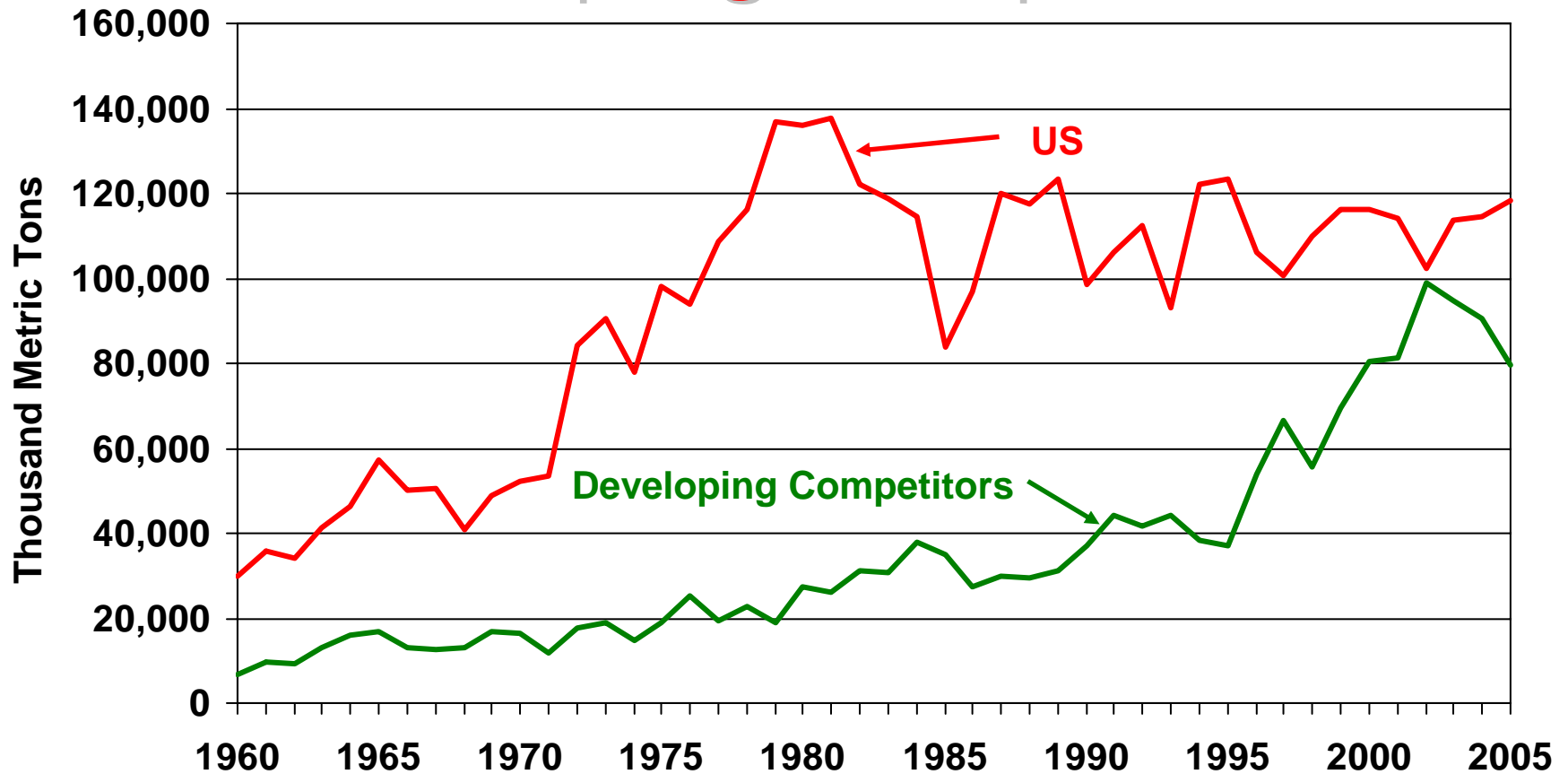
- **Export markets are very price responsive**
    - **Competing exporters will reduce production in the face of low prices**
    - **Importing countries prefer to import rather than produce it themselves**
    - **The US will be a major beneficiary of trade liberalization**

# Exports Have Not Delivered



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

# 15 Crop Exports for US and Developing Competitors



**Developing competitors: Argentina, Brazil, China, India, Pakistan, Thailand, Vietnam**

15 Crops: Wheat, Corn, Rice, Sorghum, Oats, Rye, Barley, Millet, Soybeans, Peanuts, Cottonseed, Rapeseed, Sunflower, Copra, and Palm Kernel

# *Policy-Option Premise Check*

- **Insurance/Farm Saving Accounts**

- Mechanism: **Government subsidies to commercial insurers or provides tax breaks for farmer savings accounts**
- Apparent Premises:
  - **Low prices are a random event and seldom occur in a string of years**
  - **Growth in supply and demand are equal**
- Possible Implications:
  - **Income protection ratchets down during extended periods of low market returns.**
  - **Land prices would go down or supplemental payments from Congress would skyrocket**

# *Policy-Option Premise Check*

- **Conservation/Environmental/Rural Development**

- Mechanism: **Shift commodity payments to various kinds of conservation, environmental or rural development activities**
- Apparent Premises:
  - **Commodity programs address no problem**
  - **Better to have a broader group of farmers receive the money to achieve important (read real) objectives**
  - **Payments in one form are as good as another**
- Implications
  - **Does not address the long-standing market characteristics of aggregate crop agriculture**
  - **Could win a Farm Bill battle but lose the credibility war**

# From My Perspective...

- **Farm Bill needs to address:**
  - **Unique characteristics of crop agriculture that result in chronic price/income problems**
  - **Variation in production due to weather and disease**
  - **Trade issues like dumping**
  - **Environmental and conservation issues**
  - **Rural development beyond agriculture**

# From My Perspective...

- **The 2007 Farm Bill needs to include provisions for:**
  - **Buffer stocks to provide a reserve supply of grains and seeds in the case of a severe production shortfall**
  - **In most recent years we did not have adequate supplies to meet the needs of consumers in the case of a production shortfall of 30% or more**

# From My Perspective...

- **The 2007 Farm Bill needs to include provisions for:**
  - Supply Management **to manage acreage utilization in the same way that other industries manage their capacity**
  - Stocks program **to ensure orderly marketing process**
  - **Both these provide a means of dealing with supply and demand inelasticity**

# From My Perspective...

- **The 2007 Farm Bill needs to include provisions for:**
  - Bioenergy production **to manage acreage utilization without heavy dependence on idling acreage**
  - **Keep the land in production so that we don't pay farmers not to farm**
  - **Provide a needed energy source not unlike the horsepower of times past**

# From My Perspective...

- **Long term solutions to chronic price and income problems need to include:**
  - **International supply management to manage supply on a global scale**
  - **At the present US supply management can benefit farmers everywhere in the world**
  - **As countries like Brazil and other developing export competitors continue to increase their capacity they will need to be a part of an effective supply management program**

# Thank You

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