



# U.S. Agricultural Policy Perspective:

## Alternatives to Address the Farm Income Problem

“European Agricultural Subsidies:  
A New Approach”

Friedrich Naumann Foundation  
Policy Conference

Washington, DC  
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*Dr. Kelly Tiller*

# Agriculture: In A Policy-Caused Crisis

- Commodity prices plummeted in U.S.
- Lower U.S. prices triggered low prices in international ag commodity markets
- Lower U.S. prices triggered increasing subsidies
- Accusations of U.S. dumping
- Developing countries unable to neutralize impacts of low prices

# Historical Policy Components

- ***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

# Managing Plenty and the Role of Farm Policy

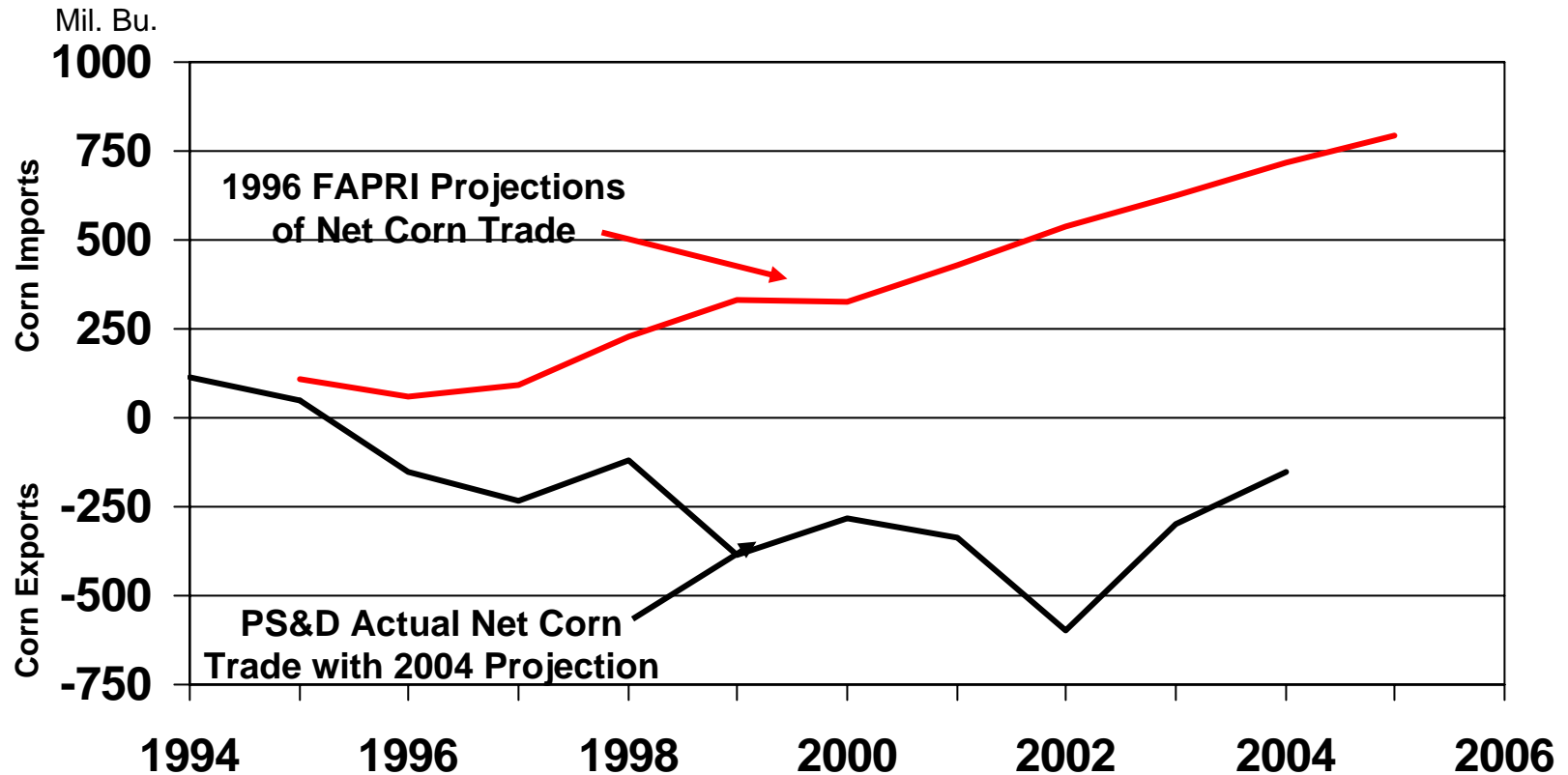
- In the past, farm policies included
  - Floor price
  - Supply management tools
  - Price stabilization
- Recent policy trends (especially since 1996)
  - Eliminated all three – because of expectations
  - Set prices free to fall well below cost of production
  - Provided revenue supplements to compensate when prices are low

# The Realities

- Crop exports did not deliver – will not deliver

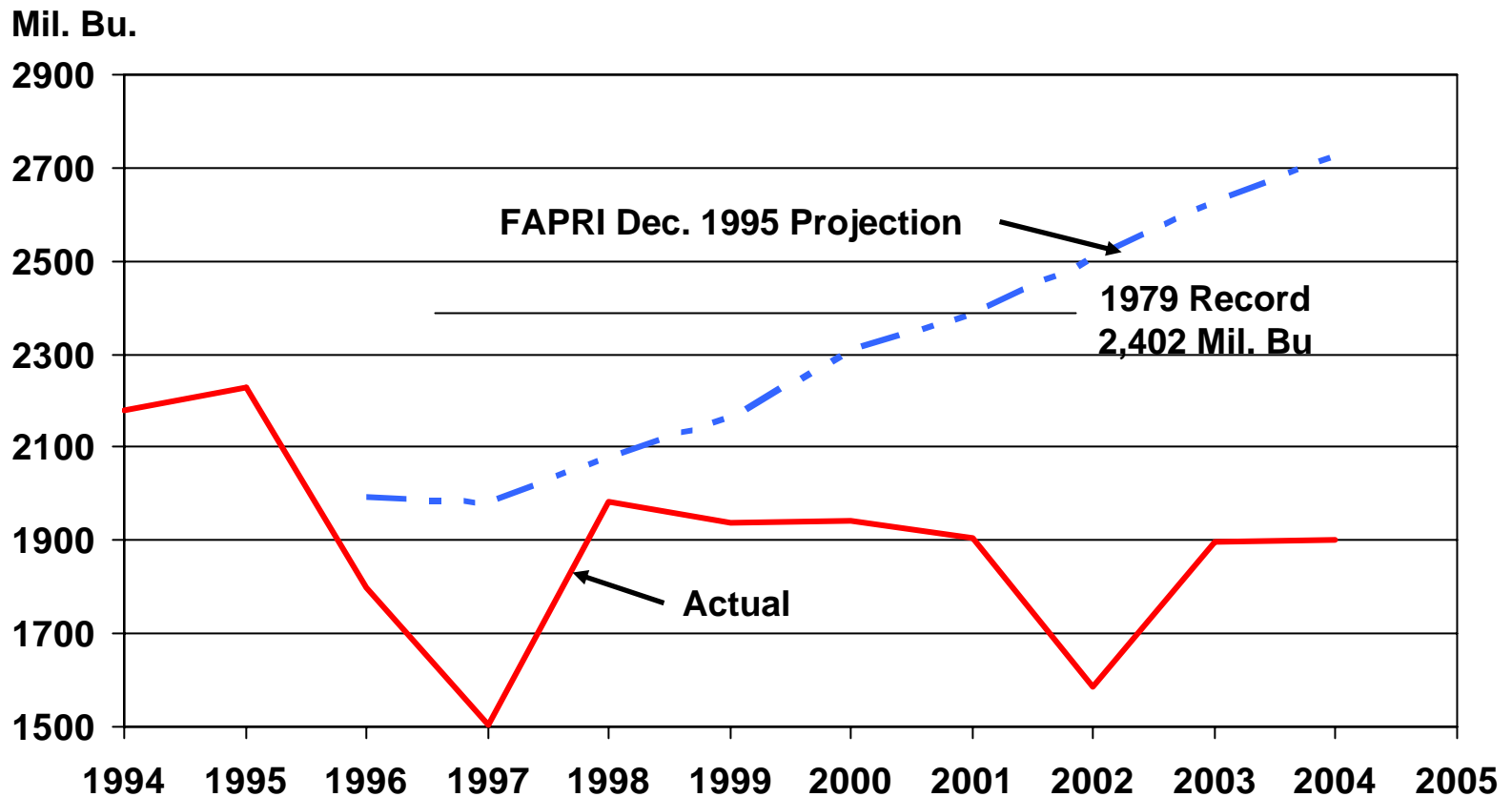
# China Net Corn Trade

Comparison between 1996 FAPRI projections and PS&D actual



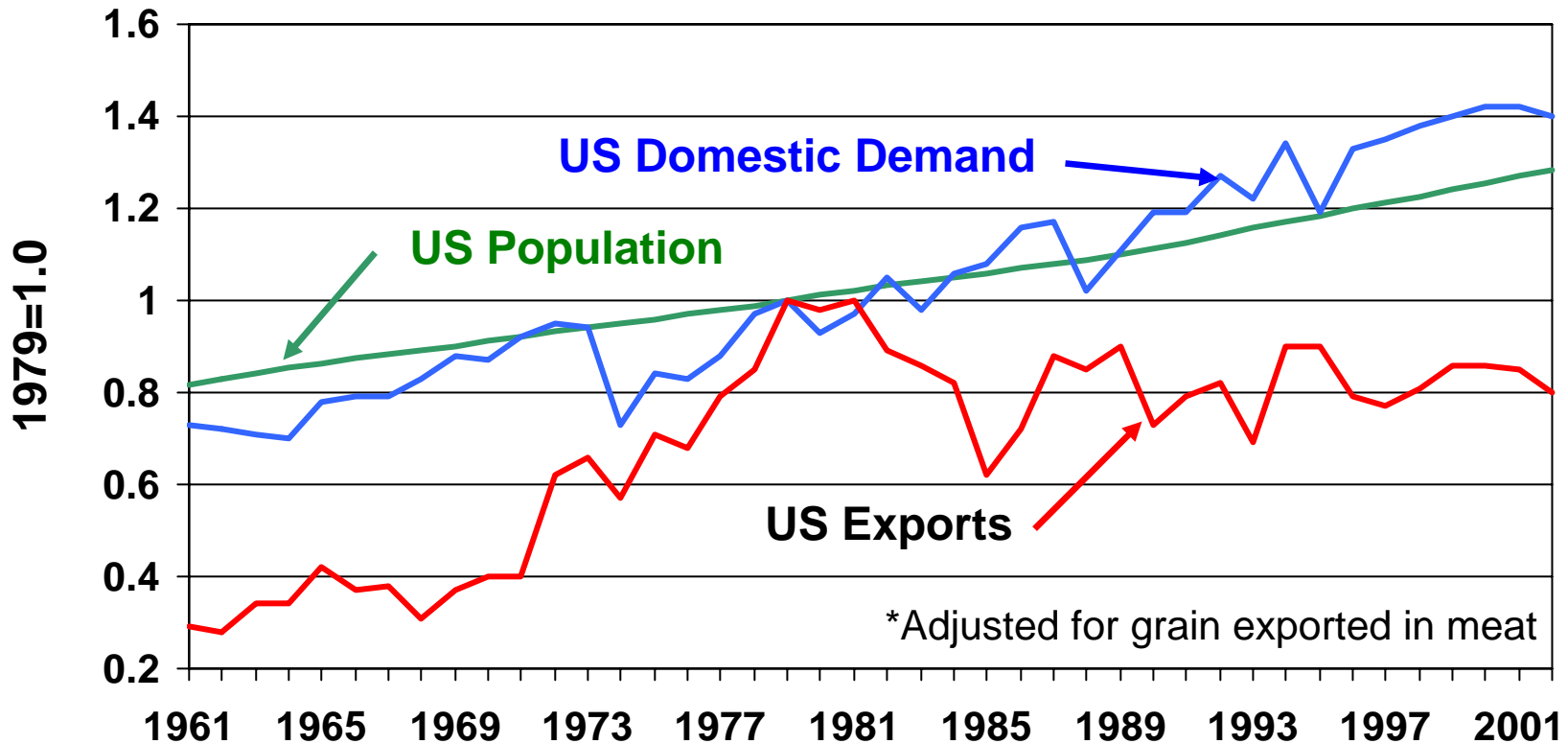
# Corn Baseline Projections

U.S. Exports: A comparison of 1995 FAPRI projections and PS&D actual



# Exports Did Not Deliver

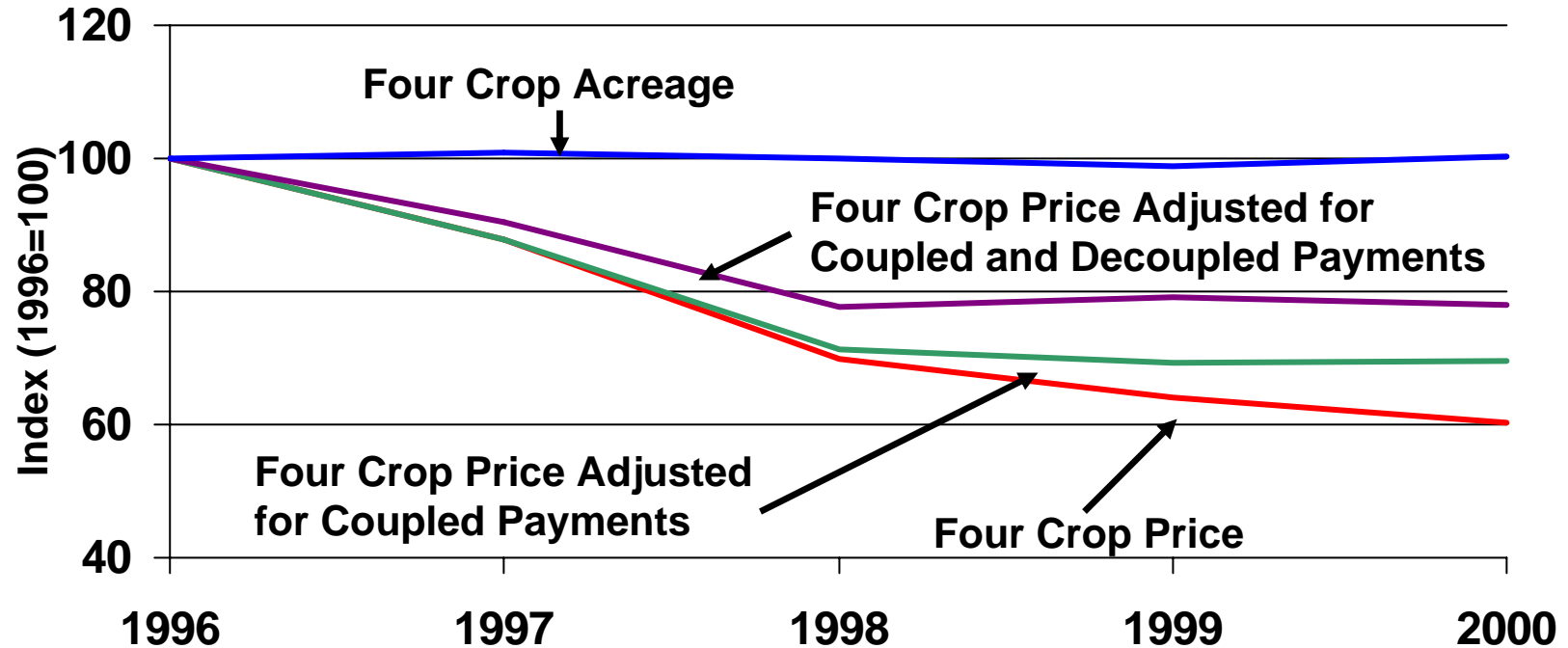
Index of U.S. population, 8-crop U.S. demand, and 8-crop U.S. exports\*



# The Realities

- Crop exports did not deliver – will not deliver
- For crop agriculture, timely free-market self-correction does not occur

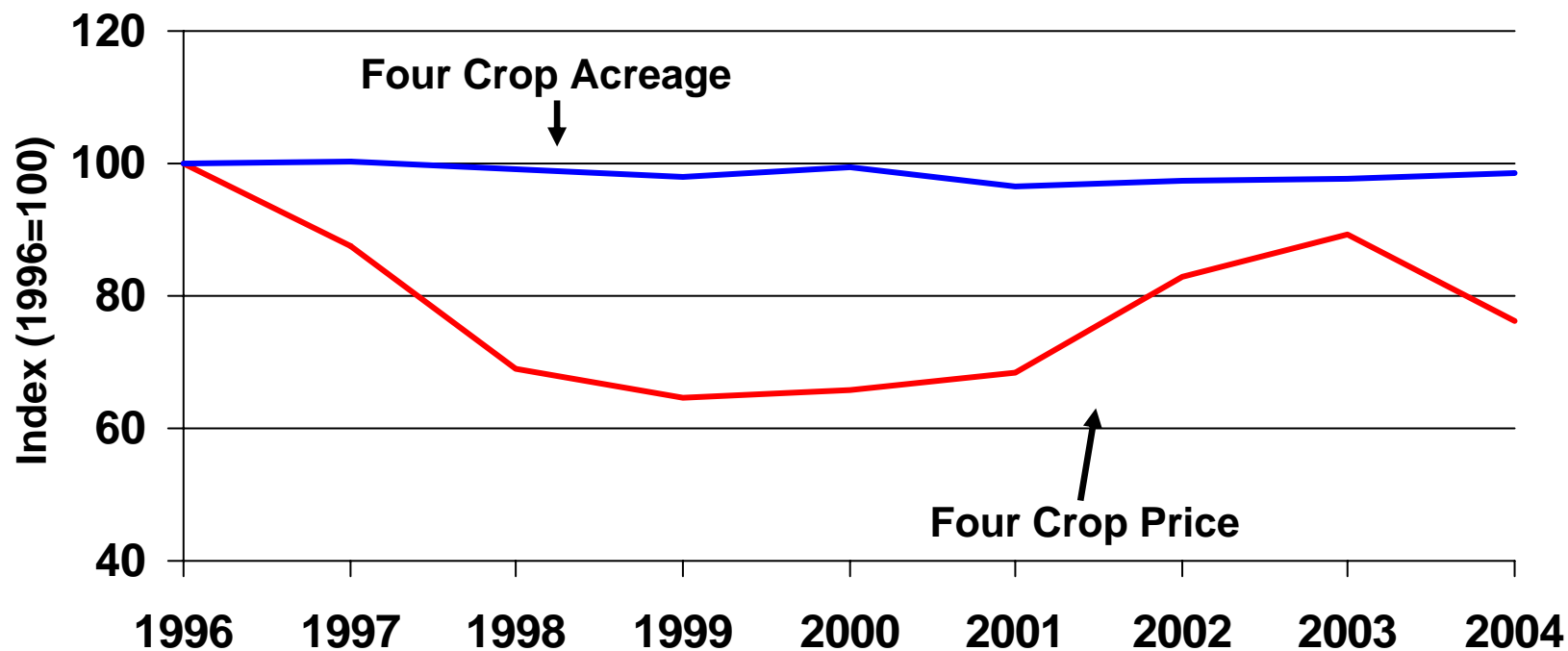
# Acreage Response to Lower Prices



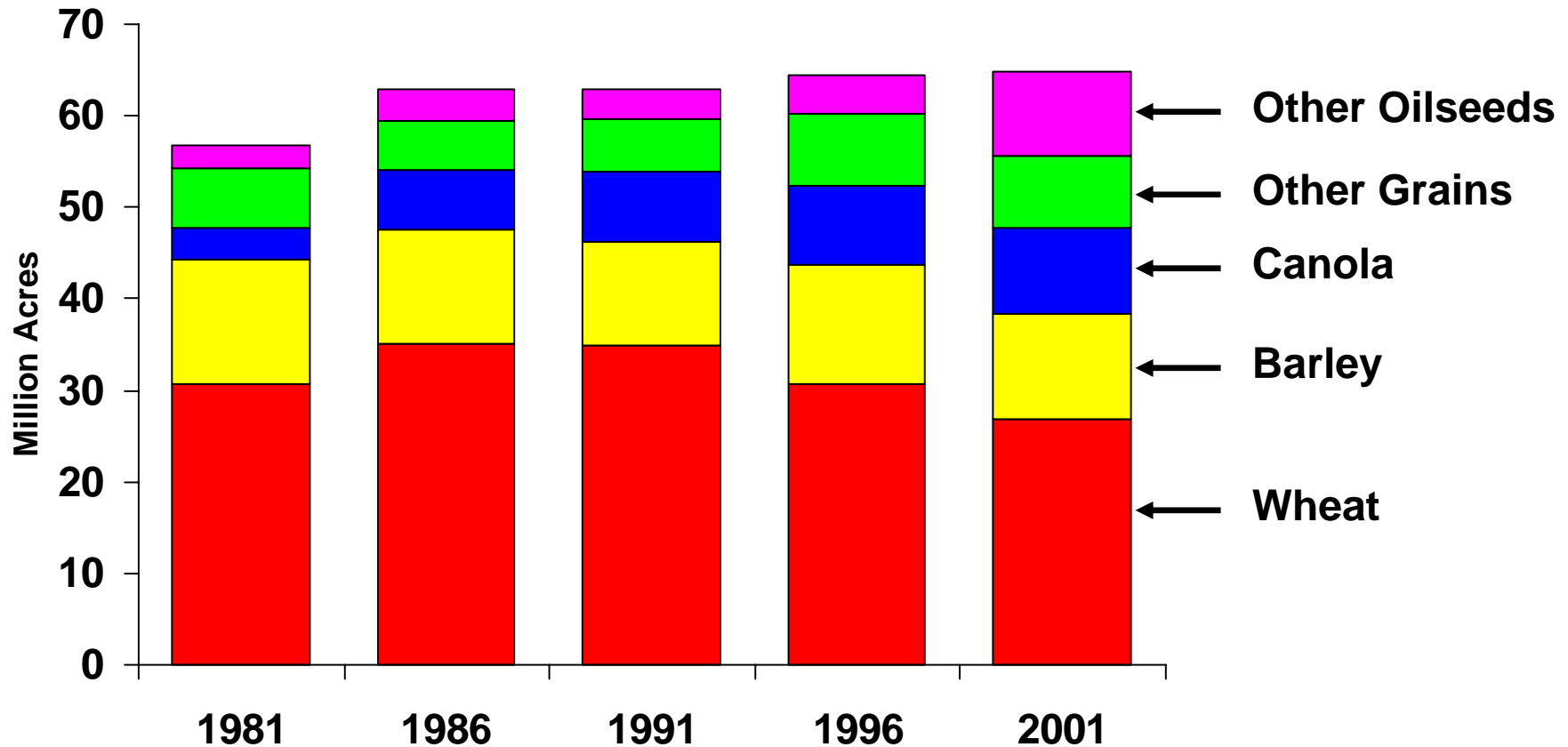
## Since 1996

- 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

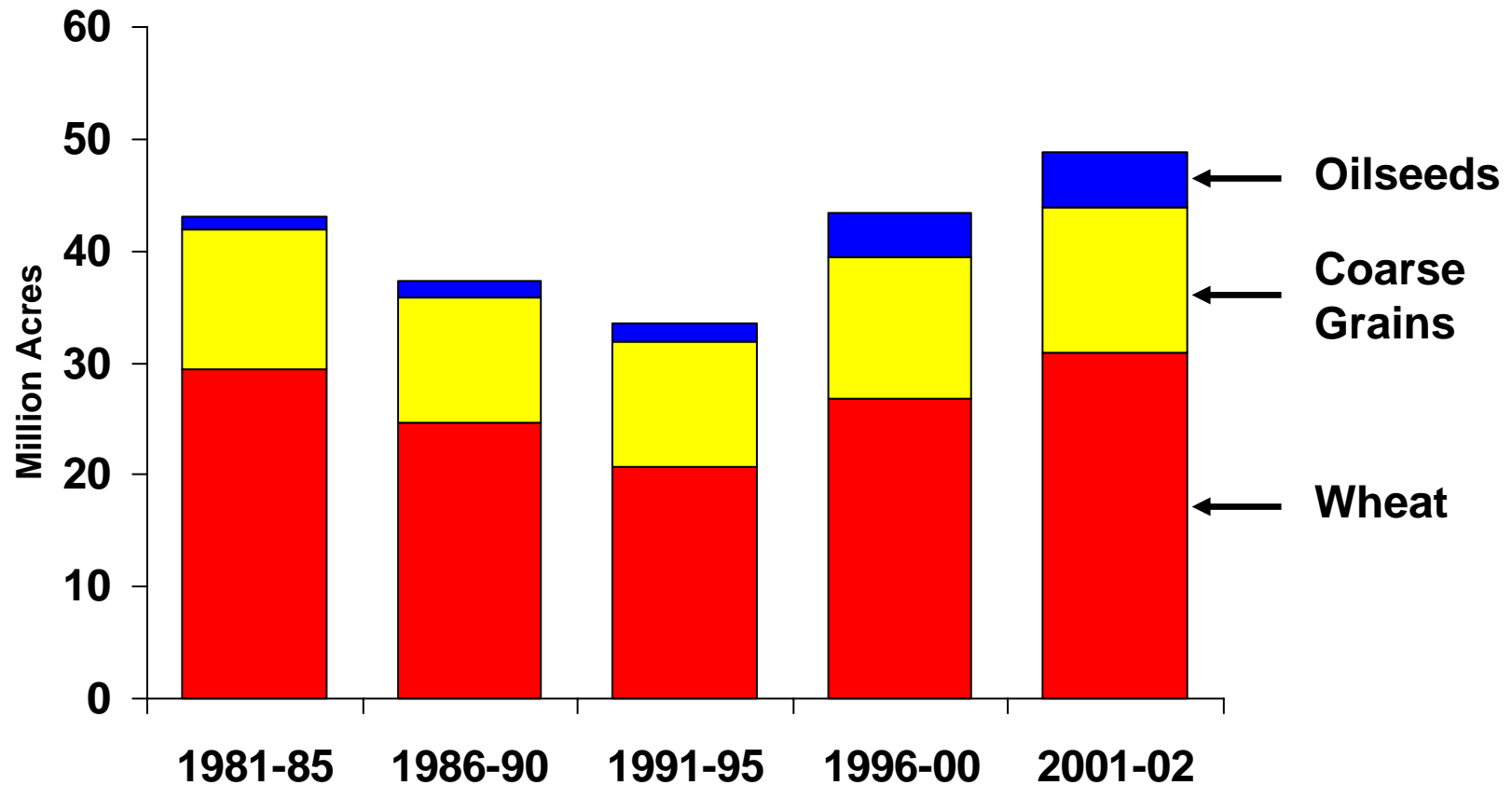


# Canada: Farmland Planted



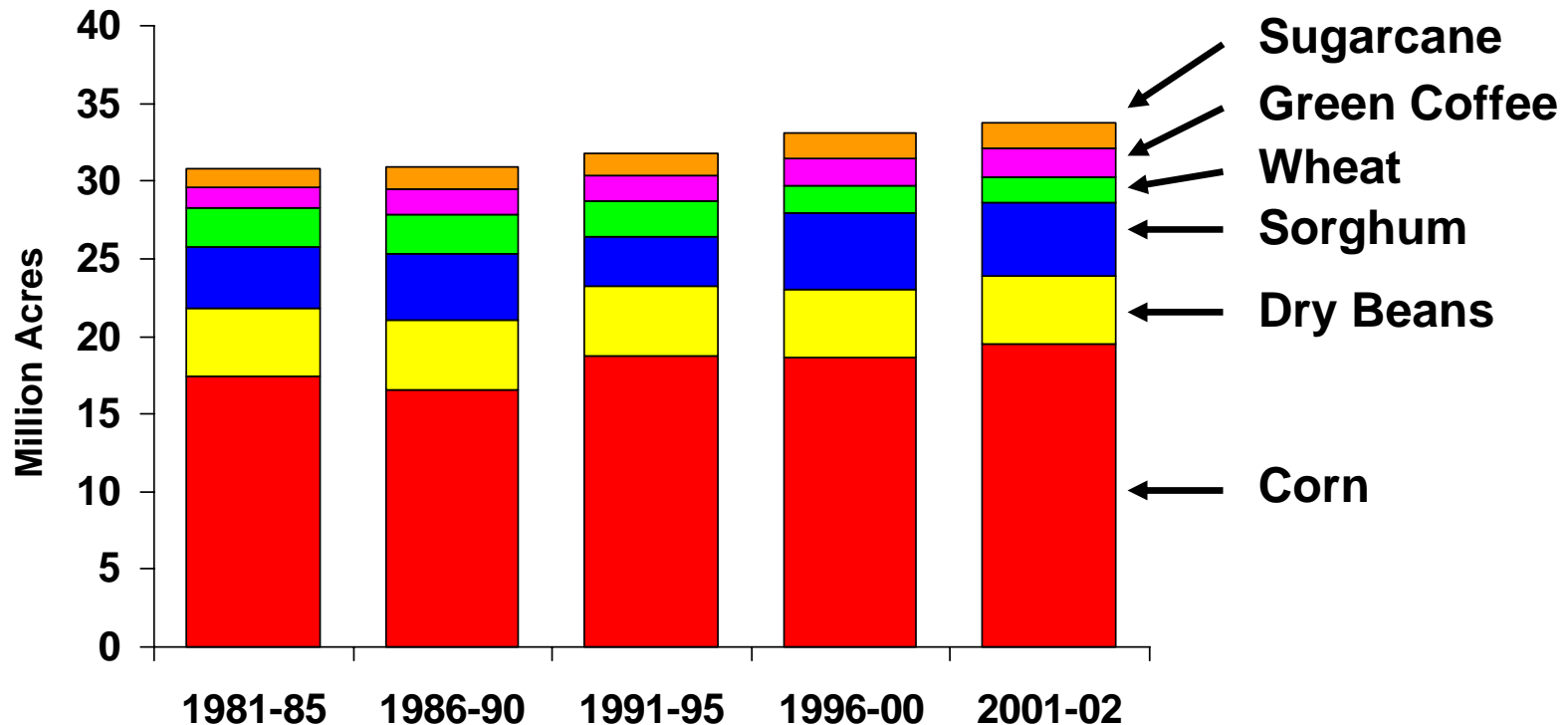
- Canada reduced subsidies in 1990s
- Eliminated grain transportation subsidies in 1995
- Crop mix changed, total acreage remained flat

# Australia: Farmland Planted



- Australia dramatically reduced wool subsidies in 1991
- Acreage shifted from pasture to crops
- All the while, prices declined

# Mexico: Farmland Planted



- Mexico eliminated or reduced supports in the 1990s
- Phased out import quotas under NAFTA
- Increased acreage of above selected major crops
- Total crop acreage also increases – 256 million acres in 1991, 265 million acres in 2001

# Nature of Crop Markets

- 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

# The Realities

- Crop exports did not deliver – will not deliver
- For crop agriculture, timely free-market self-correction does not occur
- Generally, worldwide excess capacity for crop agriculture

# Worldwide Excess Capacity

- Periods of short-term production shortfalls will always exist, but ...
- Dramatic yield increases in other countries
  - Multinational agribusiness firms (Cargill, Monsanto, John Deere, etc.)
- Acreage once in production will be brought back in
  - Russia, Ukraine, others
- New acreage will be brought online
  - Brazil, China

# The Realities

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- Generally, worldwide excess capacity for crop agriculture
- Agribusiness interests often at odds with farmers' best interests

# What Agribusinesses Want

- Volume
- Low prices
- Price instability
  - Superior information systems provide profit opportunities
- Reduced regulation of production and marketing practices, more protection
  - Seller-to and buyer-from beware
- More market power over competitors and their customers/suppliers
  - Want everyone at a competitive disadvantage

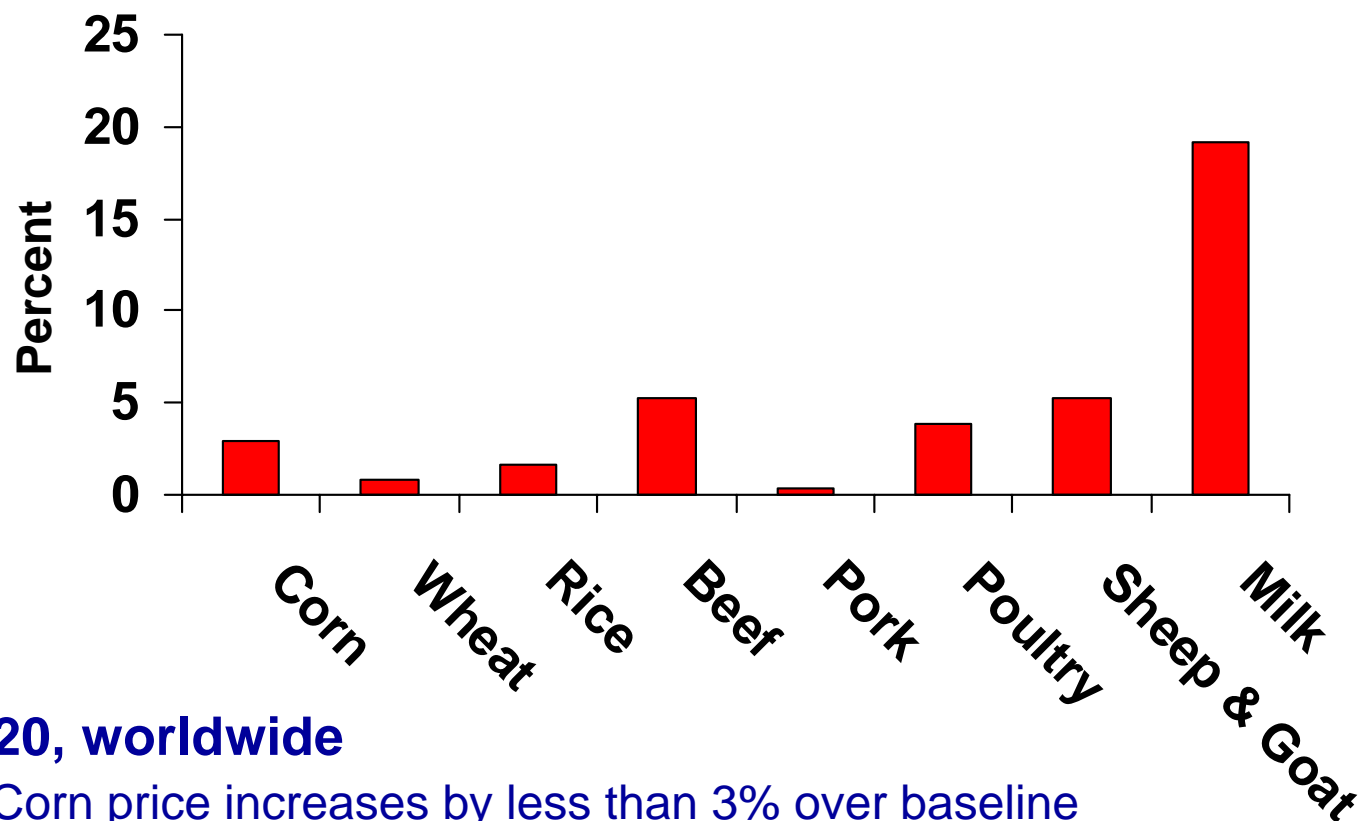
# The Realities

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- **Current farm programs are not sustainable**

# Possible Policy Directions

- Stay the course not an option
- Intensify the free-market prescription
- Switch to green payments
- Buyout of all commodity programs
- Return to crop “management” programs
- More coordination of energy and farm policy
- Multinational cooperation to control supply

# 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

# Switch to Green Payments

- Decoupled and WTO friendly
- Spread payments over larger number of commodities and farms
- Payments are payments
  - To some extent
- Ignores the root causes of farm price and income problems

# Buyout Realities

- Politically feasible?
- Very expensive, budgets are tight
- How long will it REALLY take for adjustments (contraction) in productive capacity?
- Given history, why would “bailouts” NOT be expected?

# U.S. Buyout Lessons

- No public dollars for tobacco buyout
  - Industry willing to pay
- A **WHOLE LOT** of money
  - \$10.1 billion for about 300,000 tobacco farmers
  - 5.5 times the previous year's value of tobacco production
- Peanuts transitioned to program crop status and new subsidy benefits
- Small scale, regional crops

# A More “Managed” Approach

- Alternative means of managing crop production could be considered
  - Adding to existing CRP acreage
  - Creating a shorter-term CRP-like program
  - Restructured version of historical programs
    - Annual acreage set-asides
    - Food reserves
    - Inventory/price support programs

# Merge Ag and Energy Policy

- Biofuels recycle atmospheric, not fossil, carbon
- Look at crops not in food equation and not exportable
  - Reduces supply, increases price for traditional crops
- One example: switchgrass
  - Perennial, reduced inputs, multi-year set-aside, burned in boilers for electricity, converted to ethanol
  - Could be less costly than present ag programs
- Potential benefits for rural communities

# Multinational Cooperation

- Excess capacity persistent in global ag sector
- Presently, the U.S. can still affect prices with supply management
- Sometime in the future, this would require multinational cooperation

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# www.agpolicy.org

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