

Policy and the Structure of Agriculture and Rural Communities

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Agricultural Policy Summit
Scheman Center, Iowa State University
Ames, Iowa
July 7, 2005

Policy Influences on Structure

- **Commodity policy**
 - Two watershed events
 - Longer-term effects
- **Also influenced by broader farm policy and general economic-social policy**
- **The interaction of these three policies has driven much of the change in farm numbers, size, and operator tenure**

Commodity Policy: Two Recent Watershed Events

- **First (event set) began 35 years ago**
 - **Sell-off of government grain stocks in the late 60s**
 - **Doubling to quadrupling of prices due to constellation of events in the early 70s**
 - **Secretary of Agriculture Butz's call for farmers to plant fencerow to fencerow**
 - **Export demand prediction: *INSATIABLE***

Commodity Policy: Two Recent Watershed Events

- **Consequences of first event**
 - **Farmers geared up for the expected export explosion**
 - **Five year rotation replaced with corn-soybean two year rotation**
 - **Many farmers converted barns to machine sheds, tore out fences and psychologically divorced themselves from a livestock-oriented, diversified agriculture**

Commodity Policy: Two Recent Watershed Events

- **Consequences of first event**
 - When the export boom fizzled, farmers had painted themselves into a corner
 - 1985 Farm Bill and other legislation tried to get exports back on a “70s trend” but failed
 - Direction of farm policy changed to one of pushing down price to be “competitive”

Commodity Policy: Two Recent Watershed Events

- **The second event set was the 1996 FB**
 - **Eliminated annual crop-specific set-asides and bases**
 - **Rendered price support instruments ineffective**
 - **Crop farmers receive much of their net income from government payments due to low prices and low market revenue**

Effects of 1996 FB

- **Made integrated livestock production more profitable**
 - Pay below wholesale prices for corn and soybean meal
- **Even with no need to protect bases, crop farmers are not in a position to diversify with livestock and five year crop rotations**
 - Farms not livestock friendly anymore—no buildings or fences
 - Do not want to go back to hassles of livestock production
 - Many cash crop farmers have never had livestock

Effects of 1996 FB

- **Without the livestock alternative, expanding income by “growing” farm operations only possible by**
 - **Adding to acreages farmed**
 - **Lowering per unit costs by spreading fixed costs over more acres**
 - **Become a labor and space contractor**

Broader Farm Policy Influences

- **Distribution of public lands**
 - Low-cost or free land
 - Support for public education
- **Land Grant triad Technology Development and Transfer**
 - Lower per unit cost of production farmer-by-farmer
 - But increase production and lower prices when all apply new technology
 - Net income squeeze
 - Encourage consolidation of farms

Broader Farm Policy Influences

- **Credit**

- Can help keep farmers on farms
- Can facilitate technology cycle

- **Commodity programs**

- Provide price and income stability required by farmers and their bankers to allow most aggressive to expand and convince others to pursue more profitable endeavors

General Economic/Social Policies

- **Infrastructure development**
 - **Transportation**
 - Railroads
 - Farm to market roads
 - Interstate highway system
 - **Electricity, telephone, radio, television, satellite and cable**
- **Low-price energy policy**
 - **Lowers price of using machinery and manufacturing agricultural pesticides, fertilizer**

Together these influences

- **Foster economies of size**
- **Cause substitution of machines and chemicals for labor**
- **Favor specialization**
- **Move economic activity from local town to county seat to any geographic location; further facilitating economies of size**
- **Accelerate the integration of livestock operations**
- **Net result: fewer and larger farm operations**

Thank You

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