

# An Economic Analysis of the 2002 Farm Bill

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# 1996/2002 Farm Bills

- **1996 Farm Bill**

- Eliminated annual crop-specific set-asides and bases
- Eliminated the previous government payment program which tied payments to individual crops
- Instituted payments based on production history but unrelated to current-year crop acreages/yields
- **Which allowed complete planting flexibility**
- Replaced price supports with payments to make up the “deficiency” when market prices fall below previous price support levels
- **Which means no floor (or ceiling) on crop prices**

# 1996/2002 Farm Bills

- **2002 Farm Bill (Commodity portion)**
  - Retained the central features of the 1996 Farm Bill
  - “Institutionalized” the emergency payments paid during the tenure of the 1996 FB
  - By instituting countercyclical payments

# 1996/2002 Farm Bills

- **What are the typical-year results?**
  - Large cash infusions prop up crop agriculture, related agribusinesses, and land owners
  - Crop farmers see a lot to like
    - Can grow as much as they can of whatever they want
    - During low-price years, losses in market receipts are largely protected
    - During high-price years, get payments anyway

# 1996/2002 Farm Bill

- **What are the typical-year results?**
  - Crop prices are well below the cost of production
  - Livestock integrators have an advantage over diversified farms with subsidized feed
  - Farmers worldwide suffer from low prices
  - Attract criticism for dumping
  - Trade dispute lawsuits put pressure on shape of 2007 Farm Bill
  - Likely too rich for taxpayers' blood in the future
  - Does not address agriculture's basic problem

# Previous Farm Policy

- **Using policy tools from earlier farm bills would result in a \$10 billion a year program**
  - **Prices would be higher than present**
  - **More farm income would come from the marketplace rather than government**
  - **Integrators would have to pay cost of producing grain and oilseeds**
  - **Farmers worldwide would see higher prices**
  - **Reduce level in international criticism**
  - **Could better address the Ag's real problem**

# Why Do We Have Commodity Programs?

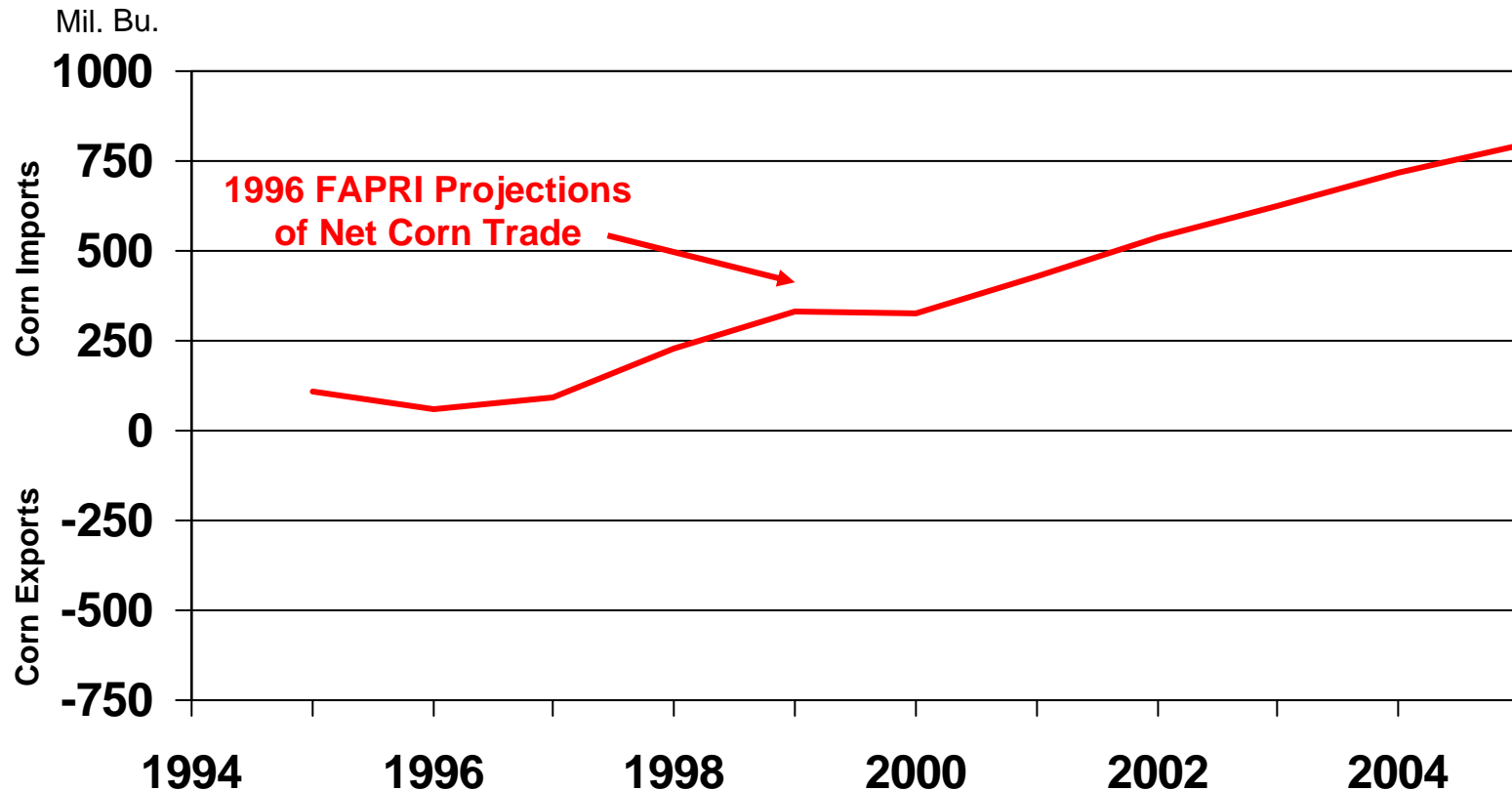
- **Farmers have the power to extract money from Congress—so they do**
- **Supply and demand characteristics of aggregate agriculture cause chronic price and income problems**
  - **Uneven growth in supply and demand**
  - **Agriculture cannot right itself when capsized by low prices**

# From My Perspective...

- **Crop exports did not deliver—probably will not deliver**

# China Net Corn Trade

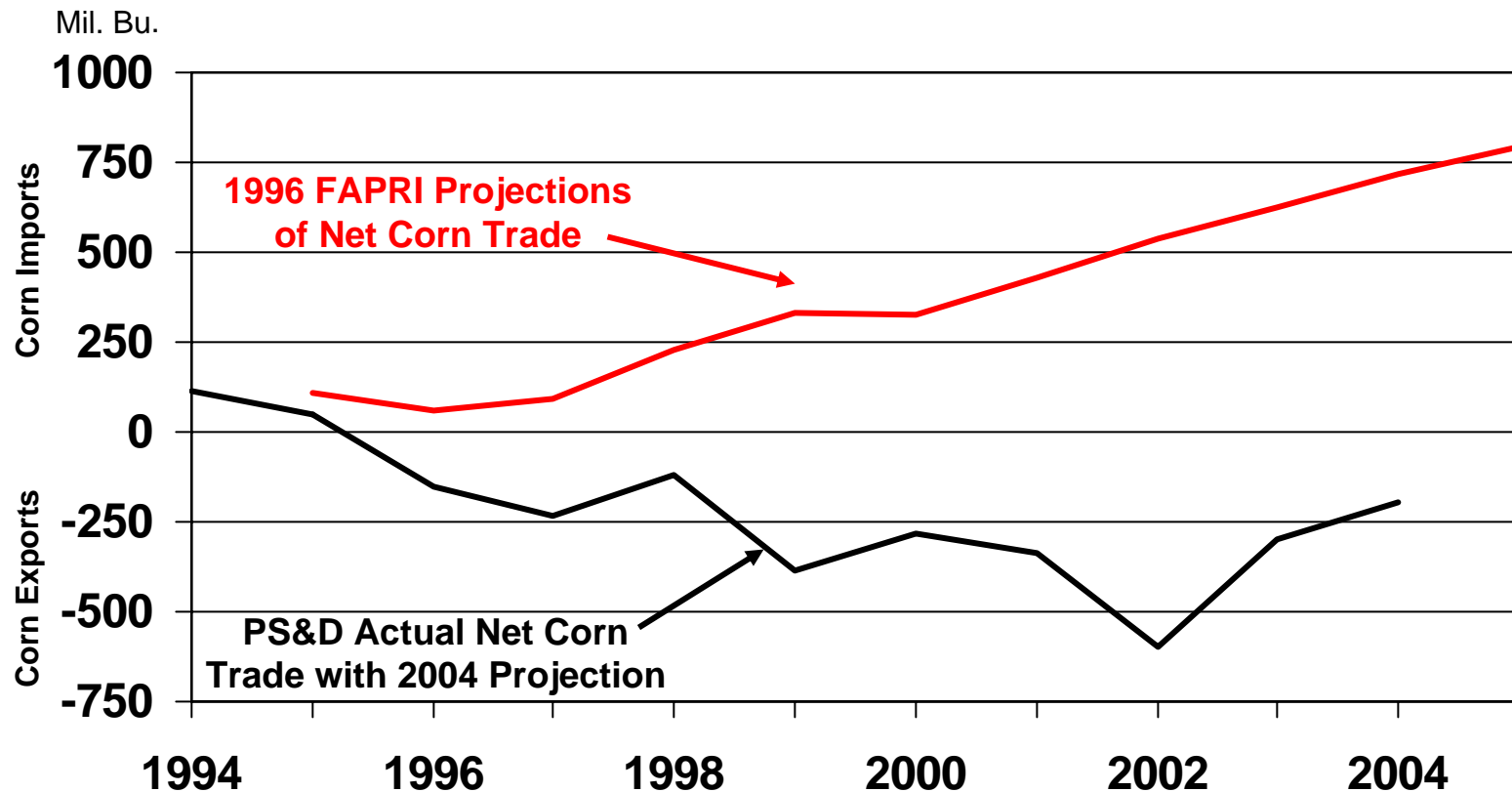
## What We Expected in 1996:



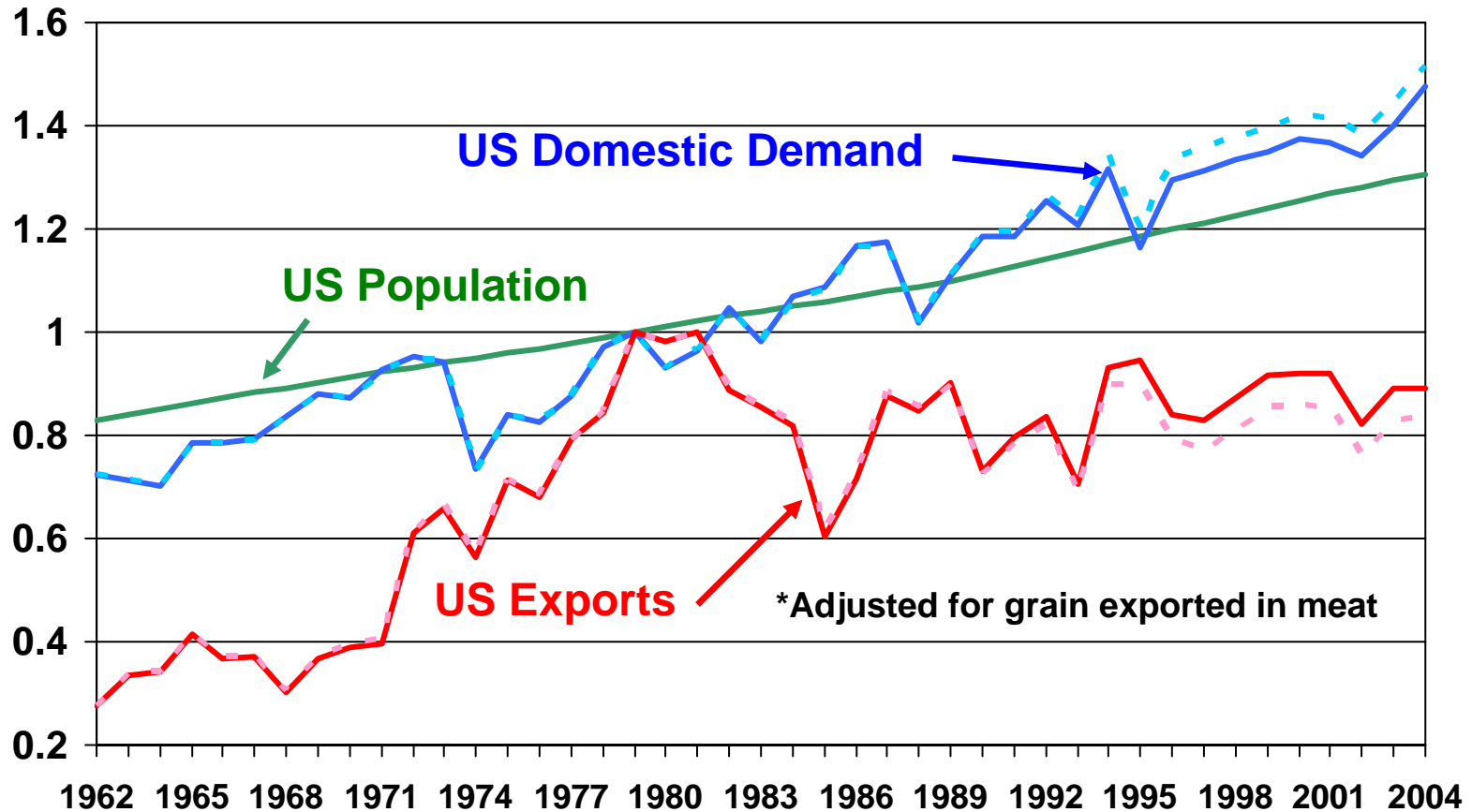
1996 FAPRI Projections

# China Net Corn Trade

## What We Got:

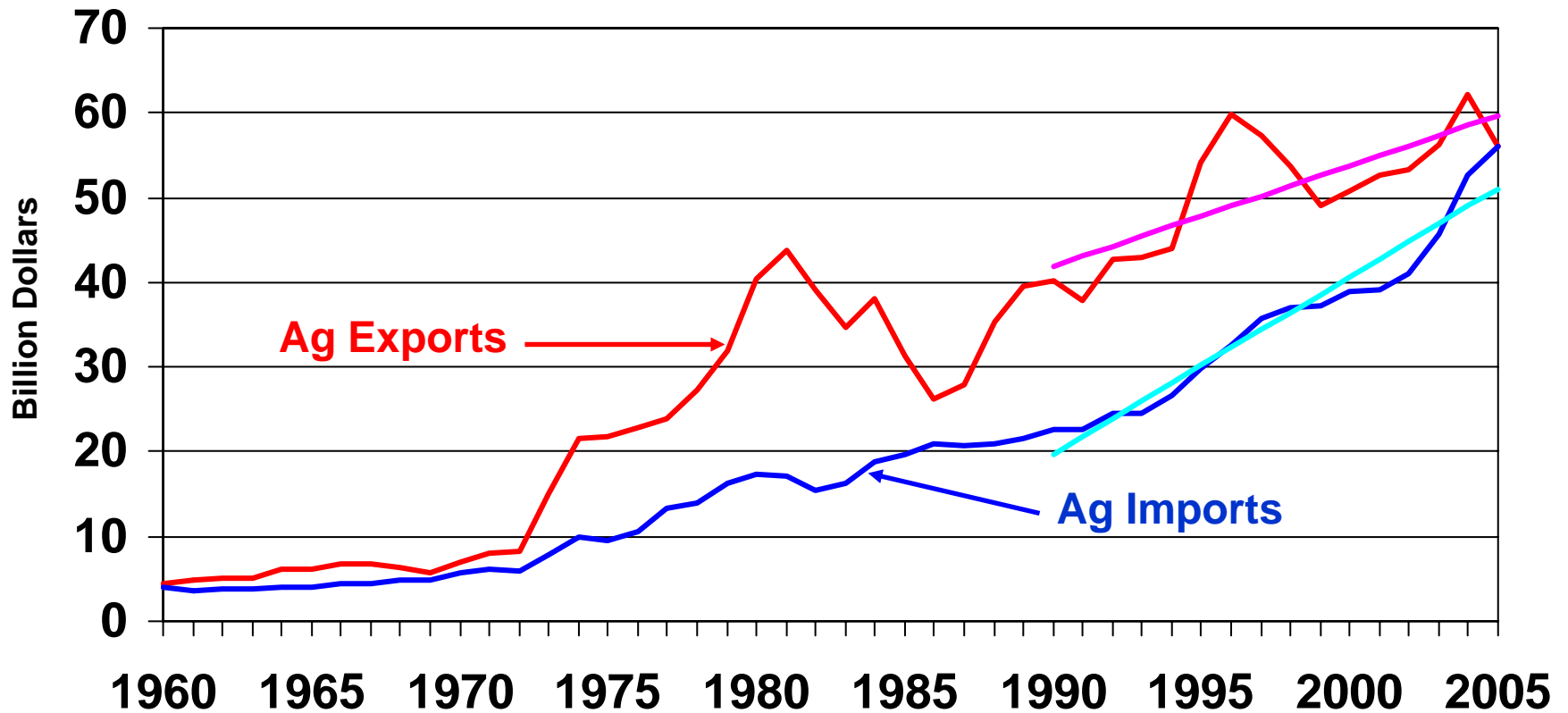


# Exports Did Not Deliver



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

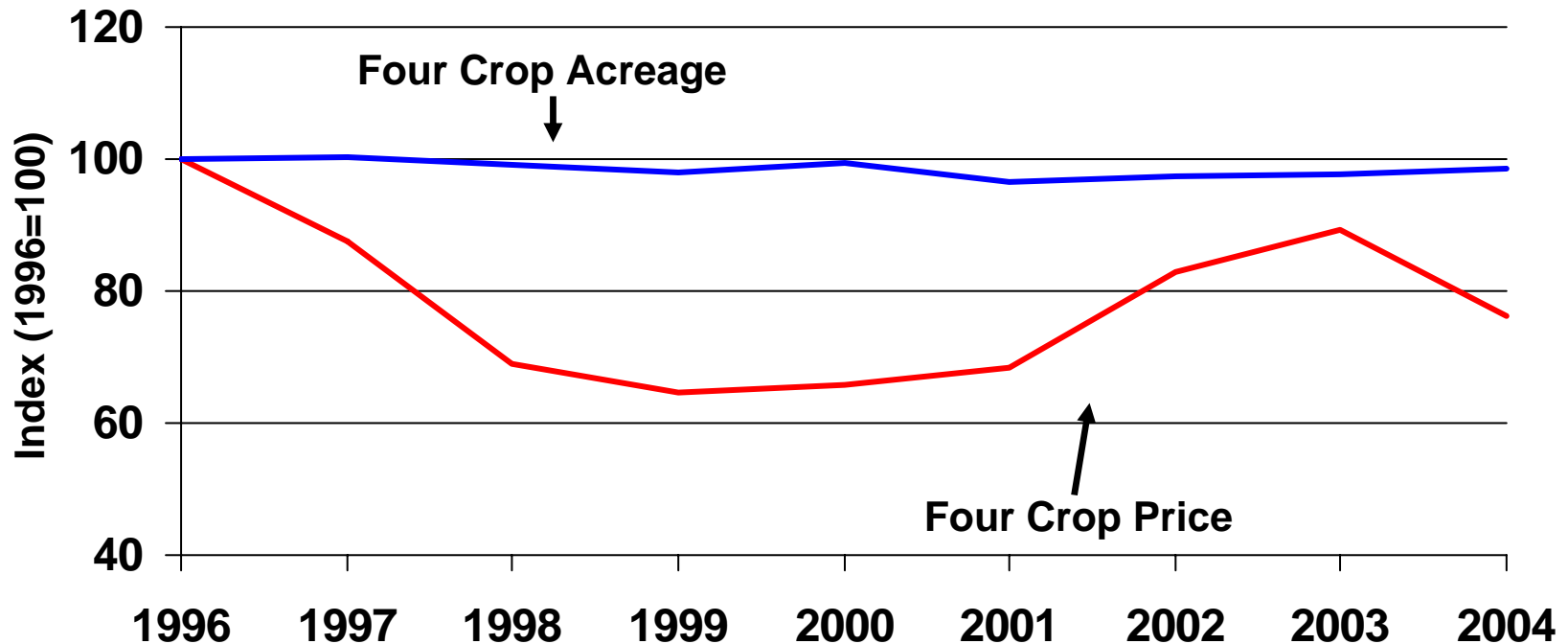
# *U.S. Total Ag Exports Have Grown Slower Than Total Ag Imports*



# From My Perspective...

- Crop exports did not deliver—probably will not deliver
- **For crop agriculture, timely free—market self-correction is a fantasy**

# 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*

# 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

# From My Perspective...

- Crop exports did not deliver—probably will not deliver
- For crop agriculture, timely free—market self-correction is a fantasy
- **Emerging agricultural powerhouses: Excess capacity will be a worldwide creation in the future**

# 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

# From My Perspective...

- Crop exports did not deliver—probably will not deliver
- For crop agriculture, timely free—market self-correction is a fantasy
- Emerging agricultural powerhouses: Excess capacity will be a worldwide creation in the future
- **Farmers version of the “Concentration” game: Buy inputs from few suppliers and sell output to few buyers**

# 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. Farm Output

- **Three firms export 81% of U.S. corn**
- **Four firms control 80% of the U.S. soybean crush**
- **Three firms control 84% of the beef processing in the U.S.**
- **Three firms control 64% of the pork processing in the U.S.**

Source: Mary Hendrickson

# From My Perspective...

- Crop exports did not deliver—probably will not deliver
- For crop agriculture, timely free—market self-correction is a fantasy
- Emerging agricultural powerhouses: Excess capacity will be a worldwide creation in the future
- Farmers version of the “Concentration” game: Buy inputs from few suppliers and sell output to few buyers
- **Current US farm programs are not sustainable**

# The US Likely Can't Go On Like This...

- **The current farm programs are too expensive**
  - **Budget boogie man**
    - Increasing Federal deficit
    - 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**

# My Question to US Farmers Is: What Are You 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

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- **One alternative is passively sit by, be co-opted, and let others commandeer the policy agenda**
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  - 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
  - **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.**

# My Question to US Farmers Is: What Are You 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
- **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

# Policy Vision

- **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**

# Other Possibilities

- **Stay the Course/Minor modifications**
- **Intensify the Free Market Prescription**
- **Switch to green payments**
- **Revenue insurance/Farmer savings accounts**
- **Bring back some traditional farm policy instruments**
- **Enlist multinational cooperation**

# What Was That Again?

- **Crop exports did not deliver—probably 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**
- **Do not ignore the realities of agriculture when considering farm policy**

# Thank You

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