U.S. Agricultural Policy: Changes and Fundamentals

Daryll E. Ray & Harwood Schaffer

University of Tennessee
Agricultural Policy Analysis Center

Institute of Geographic Sciences and Natural Resources Research
Chinese Academy of Sciences
Beijing, China
June 2, 2008

APAC

Historically—there have been Two Major Components of U.S. Farm Commodity Policy

- **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**

Ag Policy Did Not Start in 1932

- **Historic policy of plenty**
  - **Land distribution mechanisms – 1620 onward**
  - **Canals, railroads, farm to market roads**
  - **Land Grant Colleges – 1862, 1890, 1994**
  - **Experiment Stations – 1887**
  - **Cooperative Extension Service – 1914**
  - **Federal Farm Credit Act – 1916**
- **This policy of plenty often results in production outstripping demand**

When Policy of Plenty is Too Much

- **Given agriculture's inability to quickly adjust to overproduction and low prices, there are 3 policy strategies:**
  - Supply side
  - Demand side
  - Just pay money

Traditional Farm Policy Elements

- **From 1973 (or earlier) to 1996, U.S. domestic farm policy generally included the following elements:**
  - **Base acreage**
  - **Acreage reduction / set-asides**
  - **Nonrecourse loans to support prices**
  - **Government storage of commodities**
  - **Domestic and foreign demand expansion**
  - **Target price for major crop commodities**
    - **Deficiency payments for the difference between target price and market price**

Critical Changes in U.S. Policy

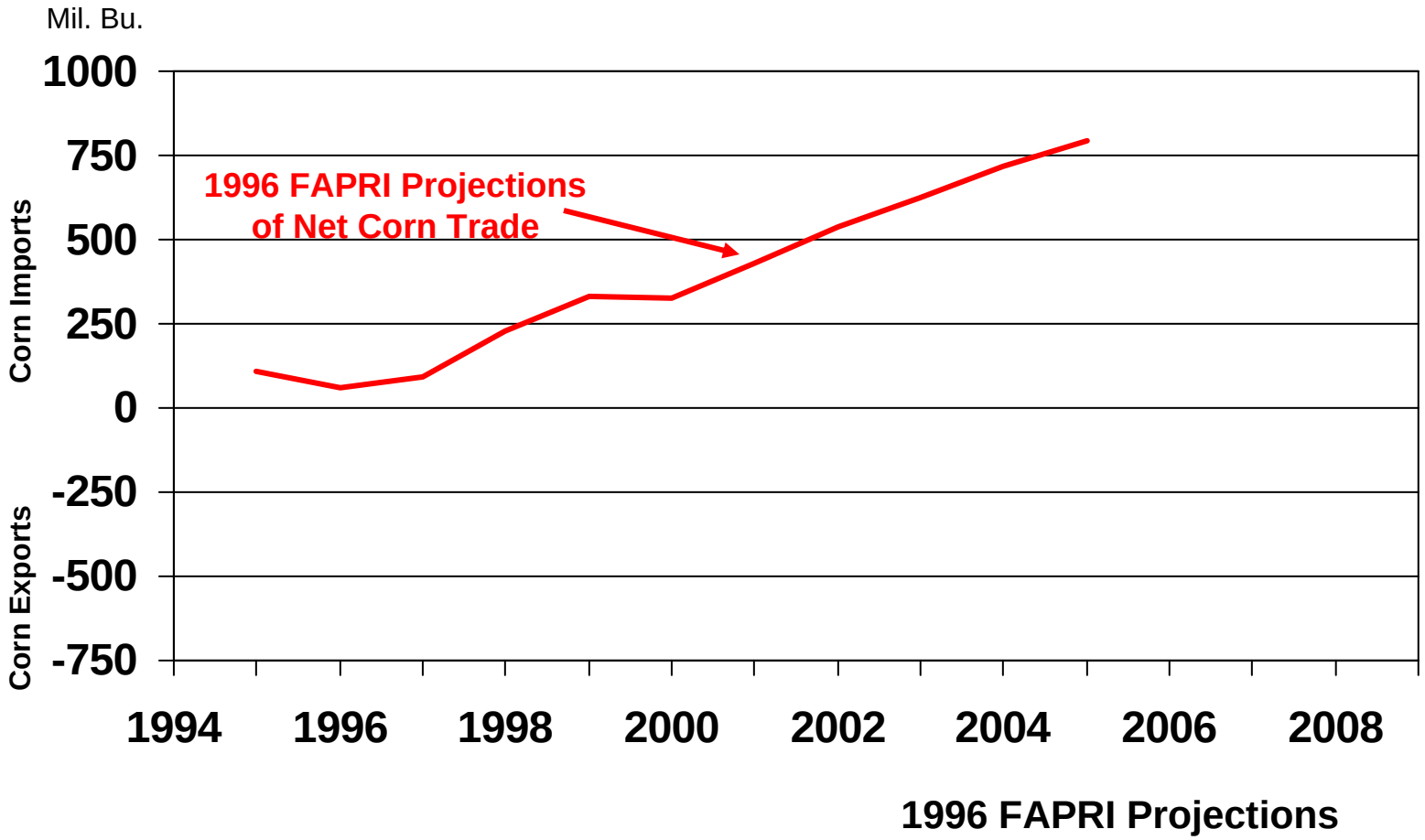
- **Since 1985 there has been:**
  - **An export "mindset"**
  - **A movement away from "managing plenty" to supporting income with government payments**
- **This view culminated in the 1996 FAIR Act:**
  - **Elimination of supply control instrument: set aside program**
  - **Replaced "price floors" with government payments**

Exports, Exports, Exports

- **For the last quarter century, exports have been heralded—and continue to be by some—as crop agriculture's salvation**
  - **Exports is the production safety valve that can rebalance agricultural markets**
  - **Exports will grow at accelerating rates**
- **But it is that what happened?**

China Net Corn Trade

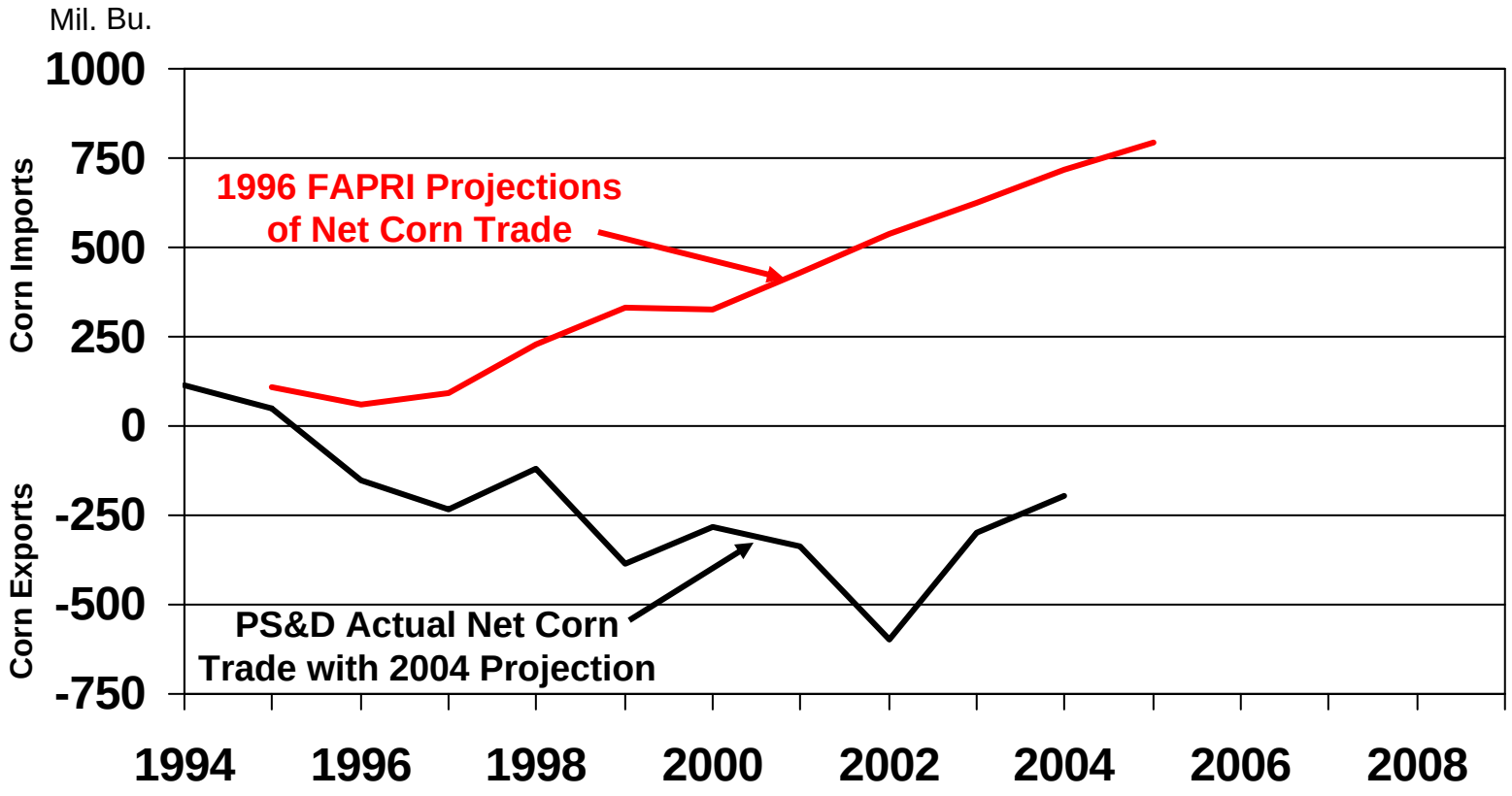
What We Expected During Debate of 1996 FB:



APAC

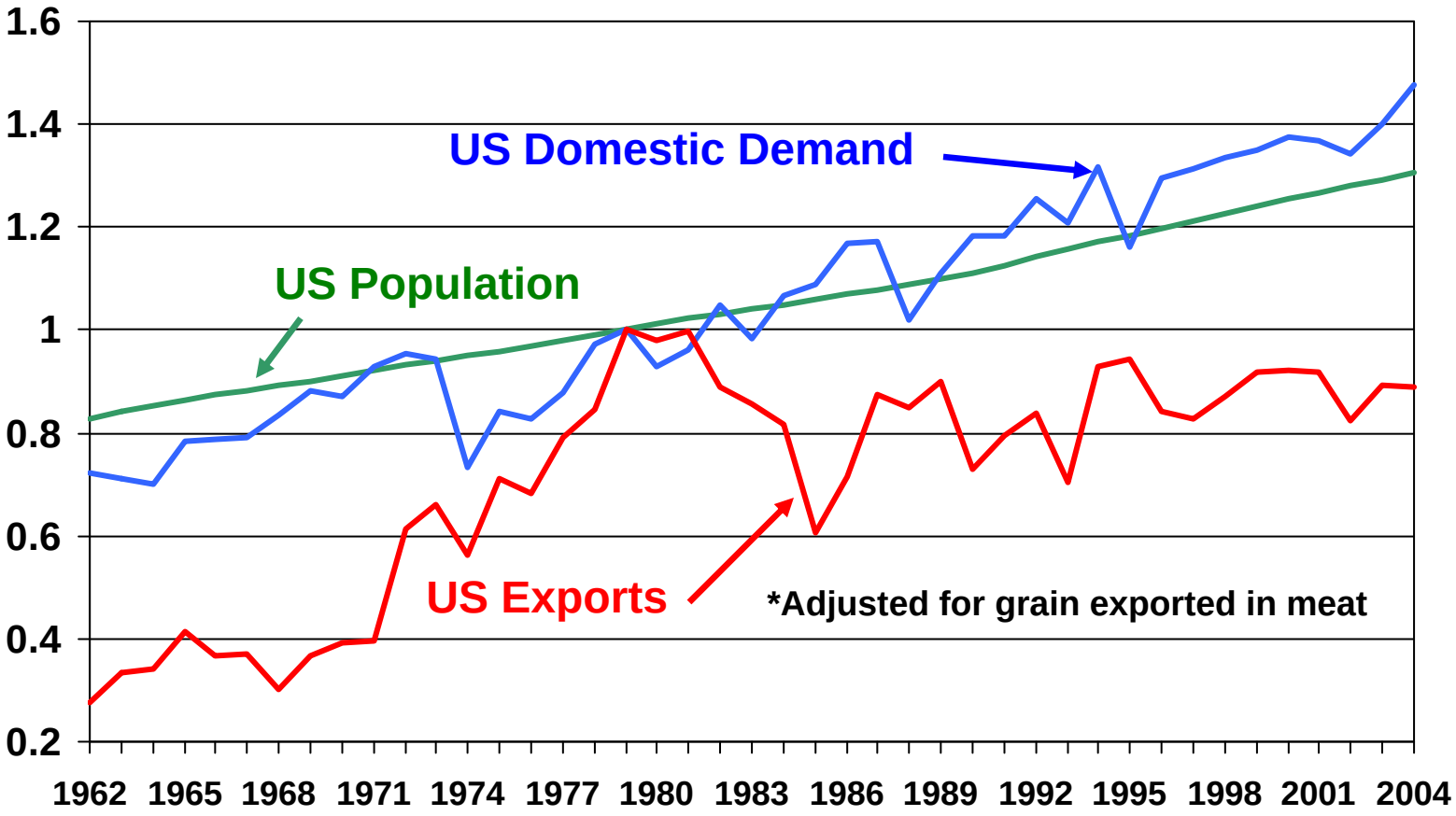
China Net Corn Trade

What We Got:



APAC

What About Exports



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

APAC

What About Exports?

- **Why have exports not fulfilled our hopes?**
  - **Export demand is braked by issues of food security/food sovereignty**
  - **International crop production is impacted by:**
    - **Increased acreage: Stage of development**
    - **Yield advances: World-wide distribution of technology**
    - **US role as the leading nation in the world**
      - **Politically, economically, technologically, and militarily**
      - **And in prices too: Others price off US prices**

Characteristics of Ag Sector

- **Agriculture is different from other economic sectors.**

  On the demand side:

  – **With low food prices—**

    - **People don't eat more meals a day**
    - **They may change mix of foods**
    - **Aggregate intake remains relatively stable**

Characteristics of Ag Sector

- **Agriculture is different from other economic sectors.**
  On the supply side:
  - **With low crop prices—**
    - **Farmers continue to plant all their acres**
    - **Farmers don't and "can't afford to" reduce their application of fertilizer and other major yield-determining inputs**
    - **Who farms land may change**
    - **Essential resource—land—remains in production in short- to medium-run**

Why Chronic Problems In Ag?

- **Technology typically 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 additionally fueled by**
  - **increased acreages in Brazil, etc.**
  - **technological advance worldwide**

Why Chronic Problems In Ag?

- **Lower prices should automatically correct itself**
  - **Consumers buy more**
  - **Producers produce less**
  - **Prices recover—problem solved!**
- **But in agriculture lower prices do not solve the problem**
  - **Little self-correction on the demand side**
    - **People do not consume significantly more food**
  - **Little self-correction on the supply side**
    - **Farmers do not produce significantly less output**

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**
  - **(Always year-to-year random variability)**

Greatest Risks

- **Short-term**
  - **Weather, weather, weather: US, Brazil, China, India, elsewhere**
    - **For example, US annual corn yields have dropped by 20 percent in years past (’83 ’88 ’93)**
  - **High input prices**
- **Long-term**
  - **Acreage and yields greatly increase worldwide (not if with current prices)**
  - **Low prices will return**
  - **Reduced farm asset values, especially land**

On Knife's Edge

- **Short-term object lesson?**
  - **Need strategic reserves**
    - A properly managed stocks reserve
    - Reduce economic dislocation
- **Long-term reality?**
  - **"New Era?" (fourth "New Era" in my lifetime)**
  - **Supply growth has always caught and then surpassed demand growth (and it does not take long)**
    - This time, surge in productive capacity will be global suggesting need for global supply management

Long-Term Considerations

- **International supply response—yield**
  - **Development and adoption of drought and saline resistant crops**
  - **Globalization of agribusiness: Near universal access to the new technologies world-wide**
    - Narrowing of technology and yield differentials between US and the rest of the world

Long-Term Considerations

- **International supply response—acreage**
  - *Long-run* **land potentially availability for major crops**
    - **Savannah land in Brazil (250 mil. ac. -- USDA says 350)**
    - **Savannah land in Venezuela, Guyana, and Peru (200 mil. ac.)**
    - **Land in former Soviet Union (100 mil. ac.)**
    - **Arid land in China's west (100 mil. ac. GMO wheat)**
    - **Savannah land in Sub-Saharan Africa (300 mil. ac. -- 10 percent of 3.1 bil. ac. of Savannah land)**
  - **Easy to underestimate supply growth**

Policy for All Seasons

- **Assume the unexpected will happen**
  - **Random policy and weather events do occur—*PLAN FOR THEM!***
- **Establishment of International Grain and Oilseed Reserve**
  - **Moderate impacts of random policy and weather events by providing stable supply until production responds**

Policy for All Seasons

- **Keep productive capacity well ahead of demand**
  - **Public investment in yield enhancing technologies and practices**
- **Provide means to hold arable land in rotating fallow during periods of overproduction**
  - **This land can then quickly be returned to production in the case of a crisis**

Thank You

Agricultural Policy Analysis Center

The University of Tennessee
310 Morgan Hall
2621 Morgan Circle
Knoxville, TN 37996-4519

www.agpolicy.org

APAC

Weekly Policy Column

To receive an electronic version of our weekly ag policy column send an email to:

dray@utk.edu

requesting to be added to APAC's Policy Pennings listserv

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

Senate ag committee resists pressure to adopt House Farm Bill

policy pennings

DARYLL E. RAY
Agricultural Economist
University of Tennessee

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 Boehlert-Kind amendment to shift $19 billion dollars from commodity programs to conservation programs, and 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 873.5 billion above the baseline that was made available in the 2001 budget resolution.

However, the authorizing 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 not given a moment's consideration as $40 billion was granted to New York for damage caused by the terrorists and for fighting the war on terrorism. Congress 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 896.5 billion baseline or will it be 8170 billion, including the additional 873.5 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 the coasts 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 conservation be tied to cropland related programs 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!

Contact Daryll E. Ray at the UT's Agricultural Policy Analysis Center by calling (865) 974-7407, faxing (865) 974-7298, or emailing dray@utk.edu. For more info, visit: www.agpolicy.org

Middlesex Farmer Grower/October 19, 2001

APAC