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PolicyPennings by Dr. Daryll E. Ray

Proposed farm policy changes in the US vs. Brazil and Canada: Ships passing in the night

The development of the 1985 Farm Bill was dominated by the search for policies that would allow the US to regain the share of export markets it held in the late 1970s. The talk surrounding the formation of the 1996 Farm Bill was "getting the government out of agriculture." With the 2007 Farm Bill looming on the horizon, the framing discourse involves designing policies that are compliant with World Trade Organization requirements.

In each case the framing discourse has served to limit the nature of the agricultural policies that could be considered as "realistic." In 1985 the concern that high US loan rates were pricing US producers out of international markets led to a reduction in loan rates and the introduction of instruments like Loan Deficiency Payments for some crops. In 1996 the focus was on getting farmers to produce for the market instead of "farming the program." The result was a program that introduced fixed decoupled payments and the widespread use of LDPs to allow the US price to fall to the world price, while protecting farm income.

In the present setting, trade negotiations cluster around two scenarios: full liberalization and the most likely outcome. Full trade liberalization calls for the elimination of all subsidies and all tariffs, allowing the marketplace to determine all production decisions. The likely scenario includes policies that would substitute "non trade distorting" programs, like risk management, for more direct subsidies.

If one were to look for a model of what a more complete liberalization would look like, Brazil would certainly come to mind. The rapid expansion of soybean producing areas has taken place without commodity-program-like government subsidies. As a part of its push for full liberalization, Brazil won a case against the US cotton program arguing that portions of that program were trade distorting.

When we were in Brazil three months ago, the roads were filled with trucks delivering their cargo of soybeans to local crushers and export points. Today nearly all of the movement of soybeans in the center west of Brazil has come to a halt as the result of protests by farmers. With the increasing cost of petroleum products and the loss of purchasing power as the result of a strengthening of the Brazilian Real, most farmers are caught in a squeeze as local soybean prices drop below the cost of production.

Three weeks into the protests, the Brazilian government offered a commodity-specific financial package that amounted to about a half a billion dollars. Farmers rejected the package as inadequate and the government has promised to reconsider the offer. The farmers are hoping for substantial aid to help them deal with two to three years of production debts, not to mention capital costs.

Canada, on the other hand, is a model of a country that has replaced traditional farm programs with a revenue-insurance-type risk management strategy. Many analysts in the US see the Canadian farm insurance program as a model for the US farm program.

Recent developments in Canada would suggest that the insurance program does not work out as well as its proponents expected and today Canadian farmers find themselves in financial trouble. As a result the Canadian government has made available C$950 million to farmers in trouble and has proposed re-separating disaster assistance from income stabilization.

This presents with an interesting juxtaposition of circumstances where farmers in countries, such as Brazil and Canada, operating under apparently WTO compliant policies are calling for more government support while the US is looking for ways to reduce its support of agriculture. Hmmmm. . .

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