Agriculture: In a Policy-Caused Economic Crisis

- US commodity prices have plummeted
- Lower US prices triggered low prices in international ag commodity markets
- Accusations of US dumping
- Countries in the South unable to neutralize impacts of low prices
**US Six Cereals and FAO Cereals Price Indices**

After 1996

- US prices plummeted
- World prices followed
US Net Farm Income and Government Payments

Since 1996 US
- Government payments are up over 100%
- Net Farm Income declined anyway
US Prices and Cost of Production

2001-2002 Average

- Prices cover only 60 to 75% for cotton and corn, respectively
- Even less for other crops
After skyrocketing government payments following the adoption of the 1996 Farm Bill

- US export volume for 8 major crops remained on flat trend

*Adjusted for grain exported in meat
US Net Export Acreage for 8 Major Crops

27 million fewer acres are currently used for eight major crop exports than in the 1976-1985 period.
Who Benefits from Low Crop Prices?

• Hurts all crop farmers: US and worldwide
• Users of agricultural commodities benefit by not paying full cost of production:
  – Large livestock producers
  – Agribusinesses: input and machinery, processors, marketing and retailers
  – Importers
  – Consumers, if marketing system transmits lower prices
**Historical Background**

- Longstanding publicly supported research and consequent expansion in productive capacity

- Implementation of policy mechanisms to manage productive capacity and compensate farmers as consumers accrued benefits of productivity gains
Critical Changes in U.S. Policy

• Since 1985 “policy makers” believed that to allow exports to drive agricultural growth, markets should be allowed to work

• This finally materialized in the 1996 FAIR Act:
  – Elimination of supply control instrument: set aside program
  – Elimination of non-recourse loan as support price mechanism
Exports Did Not Deliver

Index of US Population, US Demand* for 8 Crops and US Exports* of 8 Crops  1979=100

- Exports down to flat for last two decades
- Domestic demand increases steadily
- Since 1979, exports have NOT been the driving force in US crop markets

*Adjusted for grain exported in meat
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
Acreage Response to Lower Prices?

Since 1996 US
  * Eight major crops maintain acreage
  * Eight-crop price drops by 36%
Since 1996

- Aggregate US corn, wheat, soybean, and cotton acreage changed little
- While “prices” (take your pick) dropped by 40, 30 or 22%
Impacts of Low Prices on Farmers in Developing Countries

- No protection mechanisms:
  - Pressure to deregulate economy
  - Eliminated tariffs in compliance with trade agreements
  - Unable to provide payments to farmers

- Mexico: corn price halved and tortilla prices doubled

- Haiti: from self-sufficient to malnourished

- Africa and SE Asia in downward spiral
Corn Price: US and Argentina

US and Argentine prices move together

Simple Correlation: + 0.88
Continuation of Present US Agricultural Policies

- More of the same
- Prices and net farm income will remain largely flat
- Government payments will remain high
Projected US Prices of Five Major Crops Under Current Farm Policy

- Corn, wheat, soybean prices at $2, $3, $5 per bushel over period
- Some improvement in rice and cotton prices
**FAPRI**

**Projected US Net Farm Income and Government Payments**

- Net Farm Income flat through 2011
- Large government payments over full period
Problems with Continuing Current US Agricultural Policy

- Prices projected to remain below the cost of production
- Continued “dumping”
- Large government payments in the US
- Depressed crop prices worldwide
Conflicting Views: How to Fix Broken Policy

• **Free Market Solution**
  - Eliminate trade barriers and government distortions
  - Producers and consumers will properly adjust to market signals

• **Farmer Oriented Solution**
  - Recognizes unique characteristics of agriculture
  - Policy should recognize farmers’ actual behavior
What If We Did Get Rid of Subsidies

• Worldwide price impacts
• US price impacts
• Supporting evidence from other countries:
  – Canada
  – Australia
  – Mexico
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

Corn prices decline slightly, while cotton prices edge upward
No US Subsidies: US Farm Income Impacts, 2011

- Net Farm income drops by $12 billion or 25% in 2011
- Government payments drop by $14 billion or 77% in 2011
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
Farmer-Oriented Policy Blueprint

• Elimination of Government Payments
• Stock Management
• Set-Aside / Short-Term Land Retirement Program
• Price Support Mechanism
Farmer-Oriented Blueprint: US Price Impacts, 2011
Farmer-Oriented Blueprint: US Farm Income Impacts, 2011

Bar chart showing the impact of Farmer-Oriented Blueprint on Net Income and Government Payment compared to Baseline and No Subsidy scenarios.
Farmer-Oriented Blueprint: US Corn Price Variability

Higher and more stable corn prices
Farmer-Oriented Blueprint: US Net Farm Income Variability

Slightly higher and reduced variability in Net Farm Income
This Is Only A Blueprint

Alternative means of managing crop production should be considered

- Adding to existing CRP acreage
- Creating a shorter-term CRP-like program
- Energy crops – Could be a win-win-win
Conclusions

• Low price policies benefit agribusinesses, integrated livestock producers, import customers

• US is exporting poverty because it no longer manages supply

• US farmers would produce nearly the same quantity of aggregate crop output over a wide range of subsides

• Trade liberalization, by itself, is not a solution

• A farmer-oriented policy is possible

• Changing US policy alone is not enough, international cooperation is needed