So What’s the Deal With Agriculture?

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• The “new era” of agricultural prosperity? Really?
• Are excess capacity and persistent low prices unlikely from here on out?
• If not, what are farmers going do about it?
• What IS agriculture’s problem?
• A farmer-oriented farm program
Don’t worry about low prices; They will be fine!

• Extremely low prices won’t happen again
  – Never see sub-$3 corn prices
  – Ethanol and export demand will see to that

• 9.5 billion people in the world by 2050
  – 95 percent of who reside outside the U.S.

• 70% more food will be needed
  – Implicitly assumed that the U.S. producers will be THE major beneficiary

Agribusiness is leading the parade
What's the basis for such optimistic price expectations?

• Ethanol
  – Major source of the recent price run-up
  – Growth virtually over now

• Exports
  – Soybeans exports have done well
  – But overall major-crop exports have been stagnant for three decades
  – In contrast, exports from our competitors has exploded
  – Our export shares have declined markedly, even for soybeans
US Corn, Soybeans and Wheat Exports
US and World Exports of Corn, Wheat, Grain Sorghum, Barley, Oats and Soybeans, 1980-2014f

World Exports of 5 Grains and Soybeans

US Exports of 5 Grains and Soybeans
US and World Exports of 5 Grains and Soybeans, 1980-2014 - Percentage

59% in 1980
US 5 Grains and Soybean Exports as % of World

29% in 2014
US Exports of Soybeans, 1980-2014

US Soybean Exports as % of World
US Exports of Corn, 1980-2014

US Corn Exports as % of World

76% in 1994

40%

US Wheat Exports as % of World

45% → 16%
Other Considerations

- Multi-year price run-up has ramped up production of our competitors
  - They have more “head room” with regard to expanding acreage and yields
  - Our competitors will likely secure most of the 2050 demand growth

- No price floors now (unlike the 1970s, for example)
  - CCC loan rate no longer supports prices
  - There is nothing now to stop a catastrophic drop in prices
Worldwide Excess Capacity? Multiple Years of Very Low Prices?

- Excess capacity happened after the 1970s price surge (after the two other times too: WW I & WW II)
  - Other countries responded to the high prices and fear of food insecurity by increasing production over time
  - U.S. export demand collapsed
  - The resulting U.S. excess agricultural capacity in the early 1980s turned out to be over 30 million acres
  - And wound-up in a newly created Conservation Reserve Program

- What about this time?
  - My answer: Excess capacity definitely could happen again but there are caveats
Yes, But Much of Ag Has Revenue Insurance Now!

• Revenue insurance tends to be an upside-down safety net
  – When prices are high, revenue insurance provides protection
    • Depending on circumstances, could guarantee profits well above all production costs
    • Courtesy of U.S. taxpayers
  – When prices remain very “low,” revenue insurance does not provide a meaningful safety net
    • “Guarantees” a proportion of low prices, even when prices are well below production costs
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
  – Advocating unfettered free markets, promising export growth, or claiming a level playing field as farmers’ magic bullet, etc., ain’t workin.
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
  - Must be willing to energetically embrace other groups that genuinely share identical or complementary objectives
  - Work as hard to become independent as we have “worked” to become subservient in the past
My Question to US Farmers Is: What Are You Going to Do About It?

• Did I mention that there must be a mindset change?

• 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
What IS the Problem?

• Technology/Ac expands output faster than population and exports expand demand
• Yield variability
• Market failure: lower prices do not solve the problem in a timely fashion
• 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
Farmer-Oriented Agricultural Policy

I. Three components:
- Farmer-Owned-Reserve to put a relatively-wide band around prices
- Annual general cropland set-aside, allowing complete planting flexibility on remainder
- Eliminate the marketing loan
  General cropland set-aside and occasional use of CCC non-recourse loan would be used to help keep within the price band of FOR.

II. Complement set-aside in I. with additional longer-term land withdrawal in CRP or perennial energy crops, thus reducing annual set-aside acreage requirements
In the Long Term...

- Solutions to chronic price and income problems need to include:
  - International supply management to manage supply on a global scale
  - At the present US supply management can benefit farmers everywhere in the world
  - As countries like Brazil and other developing export competitors continue to increase their capacity they will need to be a part of an effective supply management program
Summary

• Conventional wisdom has seemed to be that we are in a “new price and income era”
• When we had a similar price run-up in the 1970s, worldwide production increases slammed U.S. agriculture
• This time there is no floor on crop prices
• Without modification, current revenue insurance proposals...
  – Provide a safety net when prices are “high”
  – But are not much help when prices are “low”
• So where does that leave us?
  – Déjà vu all over again?
    • With status quo, will there be emergency payments like after the 1996 Farm Bill?
    • An expanded Conservation Reserve?
  – Really need to rethink Ag policy
    • The source of agriculture’s price and income problems
    • And programs that actually get to the root of Ag’s problems
Thank You

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Weekly Policy Column

Senate ag committee resists pressure to adopt House Farm Bill

The House of Representatives staged a vote on the Farm Bill today, the Senate Agriculture Committee is expected to vote on the bill tomorrow. The Senate vote will be closely watched as it is a key test of the administration’s ability to pass its top priority legislation. The House has already passed its version of the bill, but it is not expected to be voted on in the Senate this year.

News reports indicate that the Senate Agriculture Committee is likely to pass a bill that is similar to the House version, but with some key differences. The Senate bill includes provisions to increase funding for rural development programs, which the House bill does not.

However, the Senate bill also includes provisions that have been opposed by the administration, including funding for the Department of Agriculture’s Farm Service Agency and the Rural Development Agency. The Senate bill would increase funding for these agencies, while the House bill would cut funding.

The Senate Agriculture Committee is scheduled to vote on the bill tomorrow, and it is expected to pass it with a majority vote. The bill will then be sent to the Senate floor for a final vote, which is expected to occur in the coming weeks.

Looking beyond the Farm Bill, the Senate is expected to take up a number of other policies in the coming weeks, including a proposal to increase funding for the Department of Homeland Security and a bill to reduce the federal deficit.

In other news, the Senate Health, Education, Labor, and Pensions Committee is expected to vote on a bill today that would provide funding for the National Institutes of Health. The bill includes provisions to increase funding for cancer research, which is a priority of many senators.

The Senate is also expected to vote on a bill that would provide funding for the Department of Veterans Affairs, which is facing a budget shortfall. The bill includes provisions to increase funding for veterans’ health care and education programs.

Finally, the Senate is expected to vote on a bill that would provide funding for the Department of Homeland Security, which is facing a budget shortfall. The bill includes provisions to increase funding for border security and counterterrorism programs.

Overall, the Senate is expected to be busy in the coming weeks, as it takes up a number of important policies.

[Source: APAC press release]

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