PolicyPennings by Dr. Daryll E. Ray

Overproduction: What it means depends upon who you ask

The subsidies that the U.S. government provides to farmers are among the bones of contention in the ongoing World Trade Organization (WTO) trade liberalization talks. The argument being made, by non-governmental organizations (NGOs) and countries of the global South, is that U.S. subsidies have stimulated U.S. farmers to overproduce, leading to lower world prices for major commodities like corn, cotton, and soybeans.

Some farm groups argue that overproduction was not in the problem in the 1998-2001 crop years when the season average price paid to farmers for corn was below $2.00 per bushel. World consumption of coarse grains exceeded production in three of those four years and world stock levels declined.

Much of this debate hangs on the definition of a single word—overproduction—and it appears to us that while many are using the word, not everyone is defining it in the same way.

Many of the documents written by the World Bank and the WTO are produced by economists. For economists, by definition, if prices are “too low” then too much is being produced. They reinforce that concept with the observation that, under a given policy regimen, if production is reduced prices will rise. Thus, if payments are “required” because of low prices, farmers must, by definition, be producing too much.

An international public health nutritionist, on the other hand, might argue that there is no overproduction of foodstuffs until every man, woman, and child in the world is provided with an adequate diet, overcoming the chronic problem of malnutrition. If the lack purchasing power on the part of the world’s 800 million malnourished were overcome, the current levels of production would barely be adequate.

A long-range planner, in the mold of Moses, would argue that there is no overproduction as long as carryover stocks are not large enough to meet the needs of the world should weather bring about a significant reduction in production. The long-range planner would argue that stocks should be sufficient to meet foreseeable emergencies and that one cannot talk about overproduction as long as this level of stocks is not on hand.

It appears to us that when the average person around the world reads that U.S. subsidies have led to overproduction, they imagine U.S. farmers breaking out acres that they otherwise would have left idle. As regular readers of this column know, our analysis shows that farmers tend to use all of their crop acres all of the time. They may change the mix of crops, but they plant every acre, subject to weather conditions. The extra acres that came into production following the adoption of the 1996 Farm Bill did so not as the result of increased payments, but because of the elimination of the annual setaside program.

To the extent that different groups use the same word to mean quite different things, it will be difficult to come to a common understanding of the problems that face agricultural production in the U.S. and around the world. Each of the definitions has merit and points to important facets of the problem that need to be taken into account.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of the UT’s Agricultural Policy Analysis Center. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; http://agpolicy.org. *Daryll Ray’s column is written with the research and assistance of Harwood D. Schaffer, Research Associate with APAC.*

Originally published in *MidAmerica Farmer Grower*, Vol. 22, No. 15, April 15, 2005