Rethinking US Agricultural Policy:

Changing Course to Secure Farmer Livelihoods Worldwide

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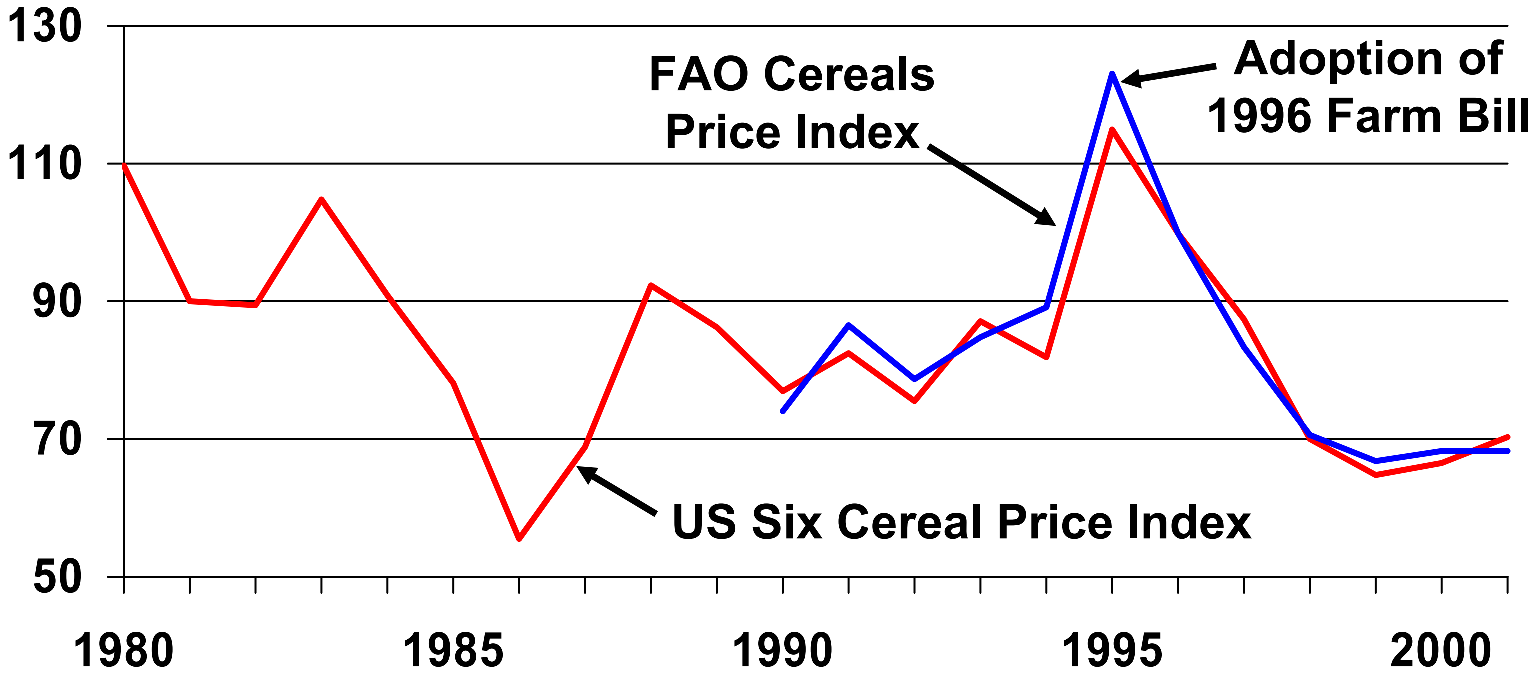
Agriculture: In a Policy-Caused Economic Crisis

- 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

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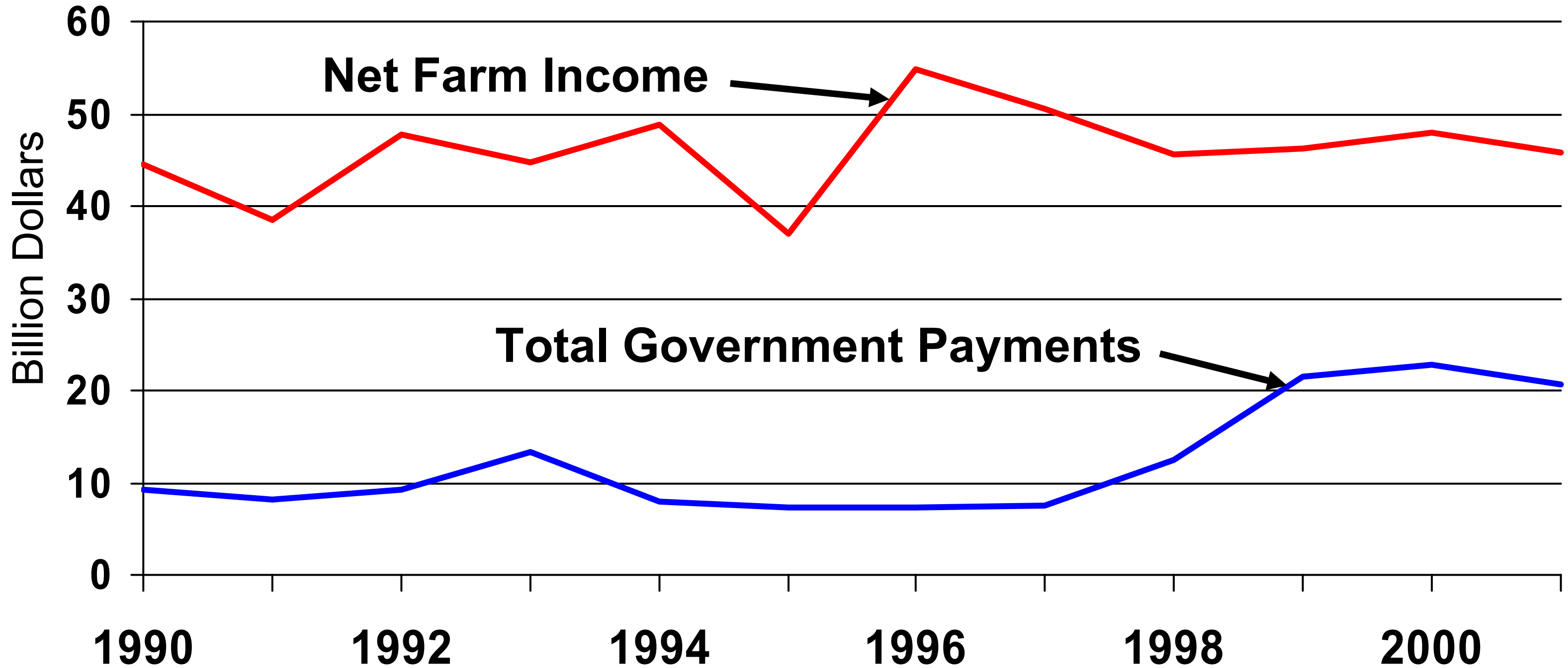
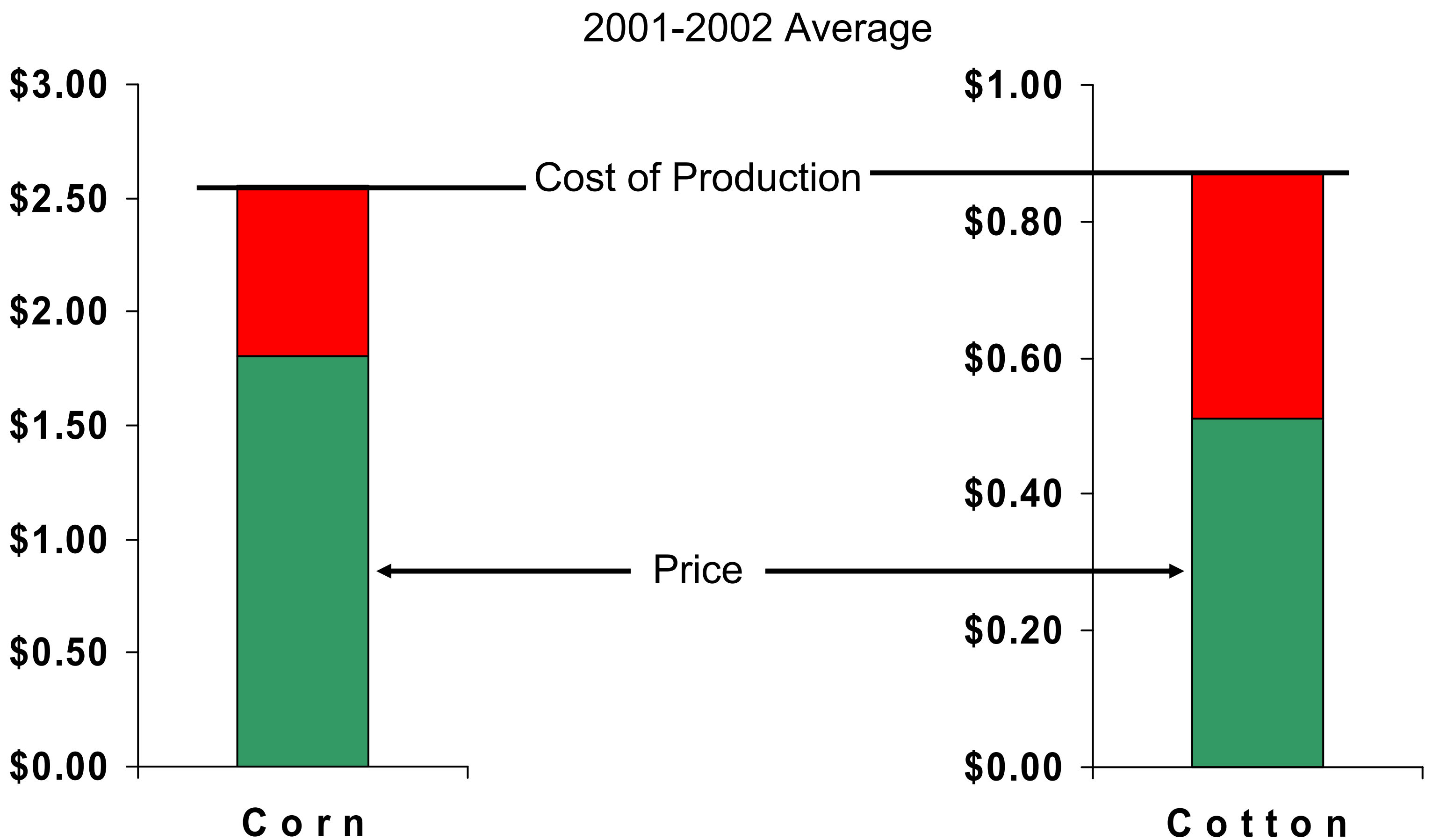
US Net Farm Income and Government Payments



Since 1996 US

- **Government payments are up over 100%**
- **Net Farm Income declined anyway**

US Prices and Cost of Production



- Prices cover only 60 to 75% for cotton and corn, respectively
- Even less for other crops

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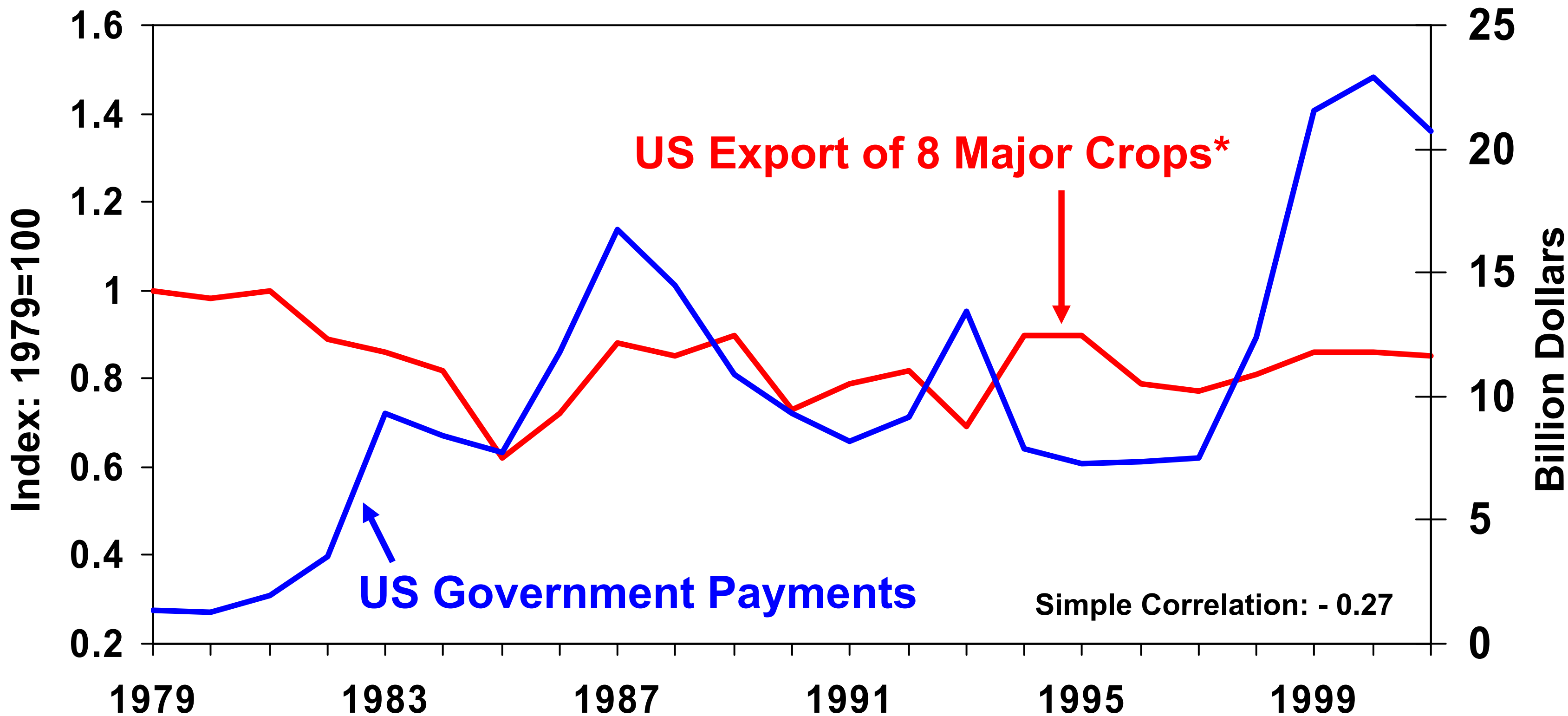
Exports and Government Payments



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

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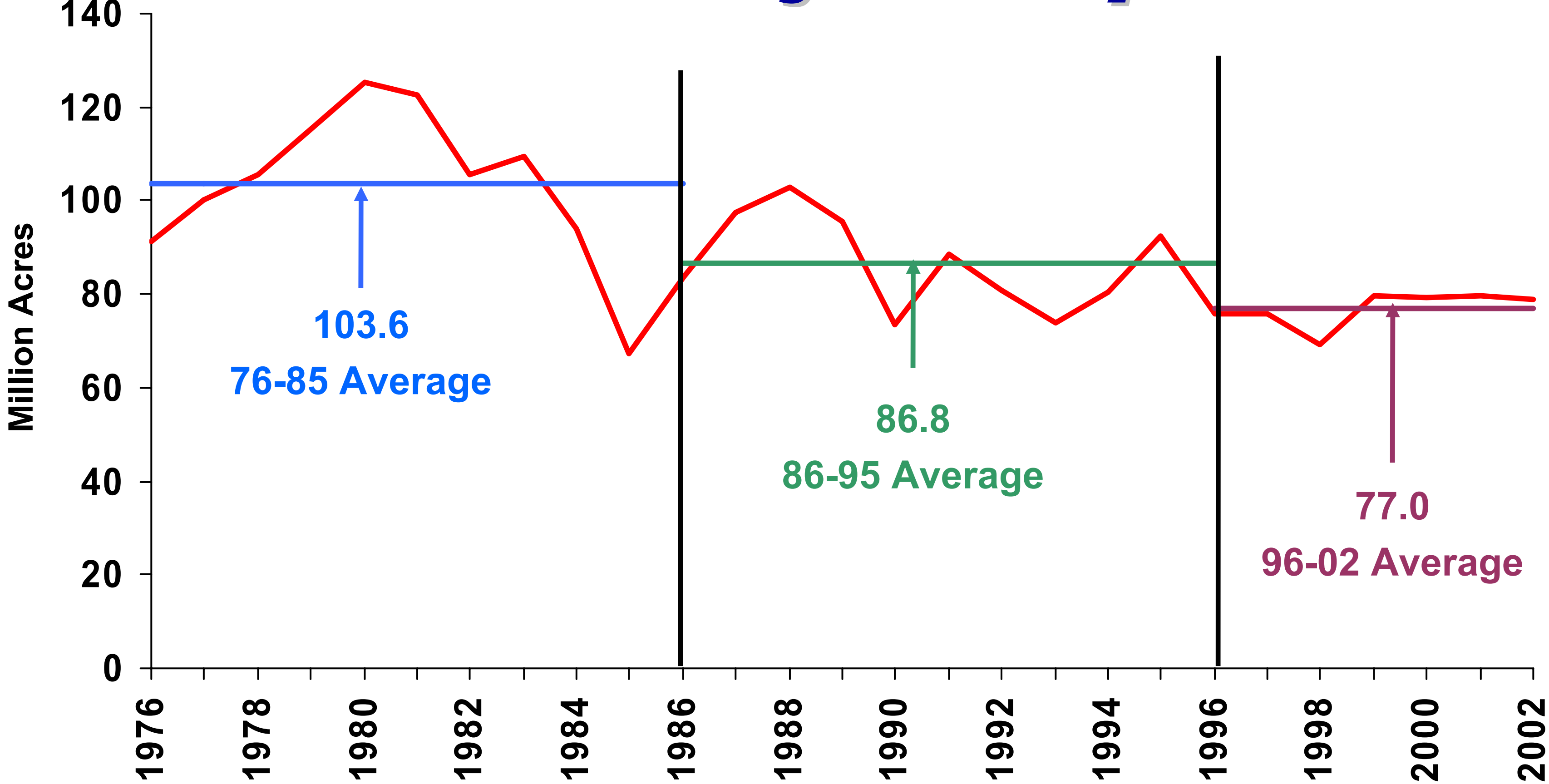
US Net Export Acreage for 8 Major Crops



27 million fewer acres are currently used for eight major crop exports than in the 1976-1985 period

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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

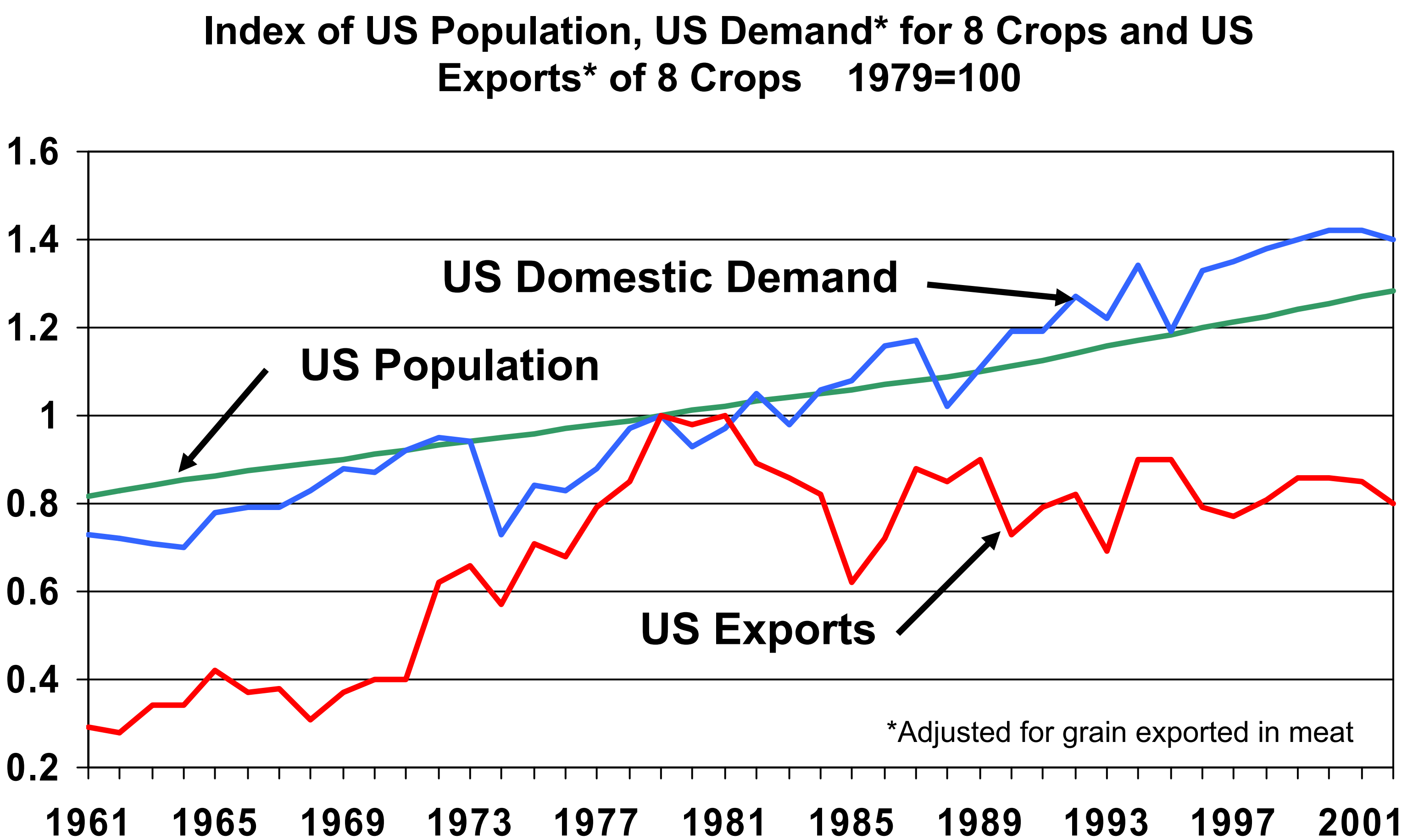
- Longstanding publicly supported research and consequent expansion in productive capacity

- 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



- 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

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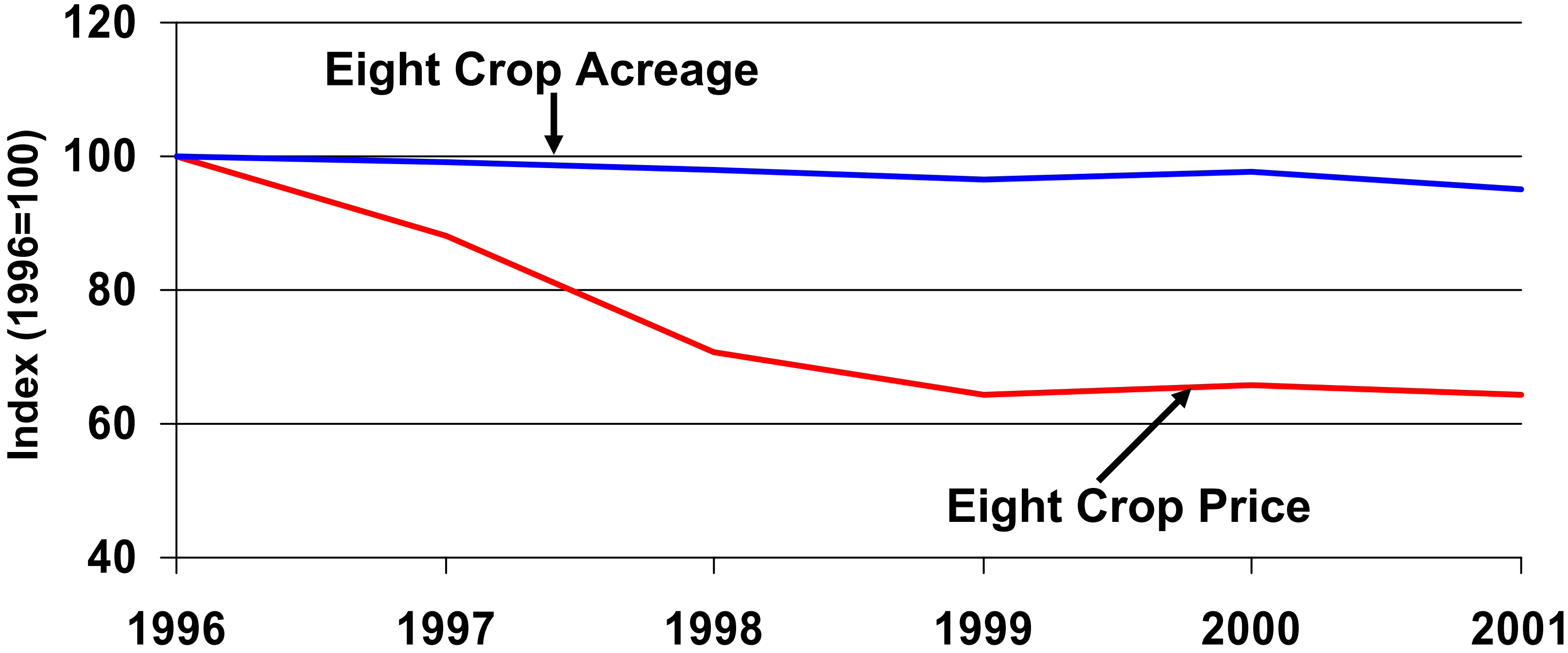
Nature of Crop Markets

- 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

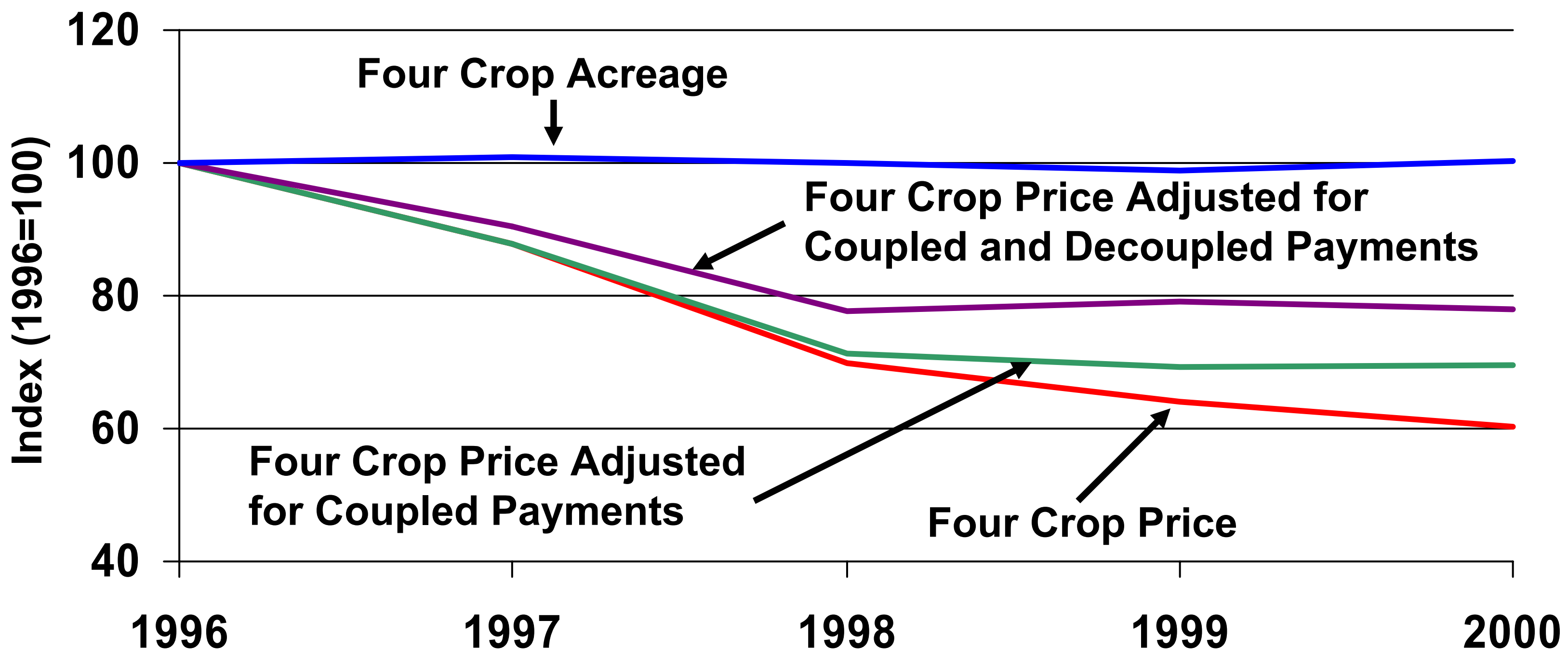
Acreage Response to Lower Prices?



Since 1996 US

- Eight major crops maintain acreage
- Eight-crop price drops by 36%

Acreage Response to Lower Prices?



Since 1996

- **Aggregate US corn, wheat, soybean, and cotton acreage changed little**
- **While "prices" (take your pick) dropped by 40, 30 or 22%**

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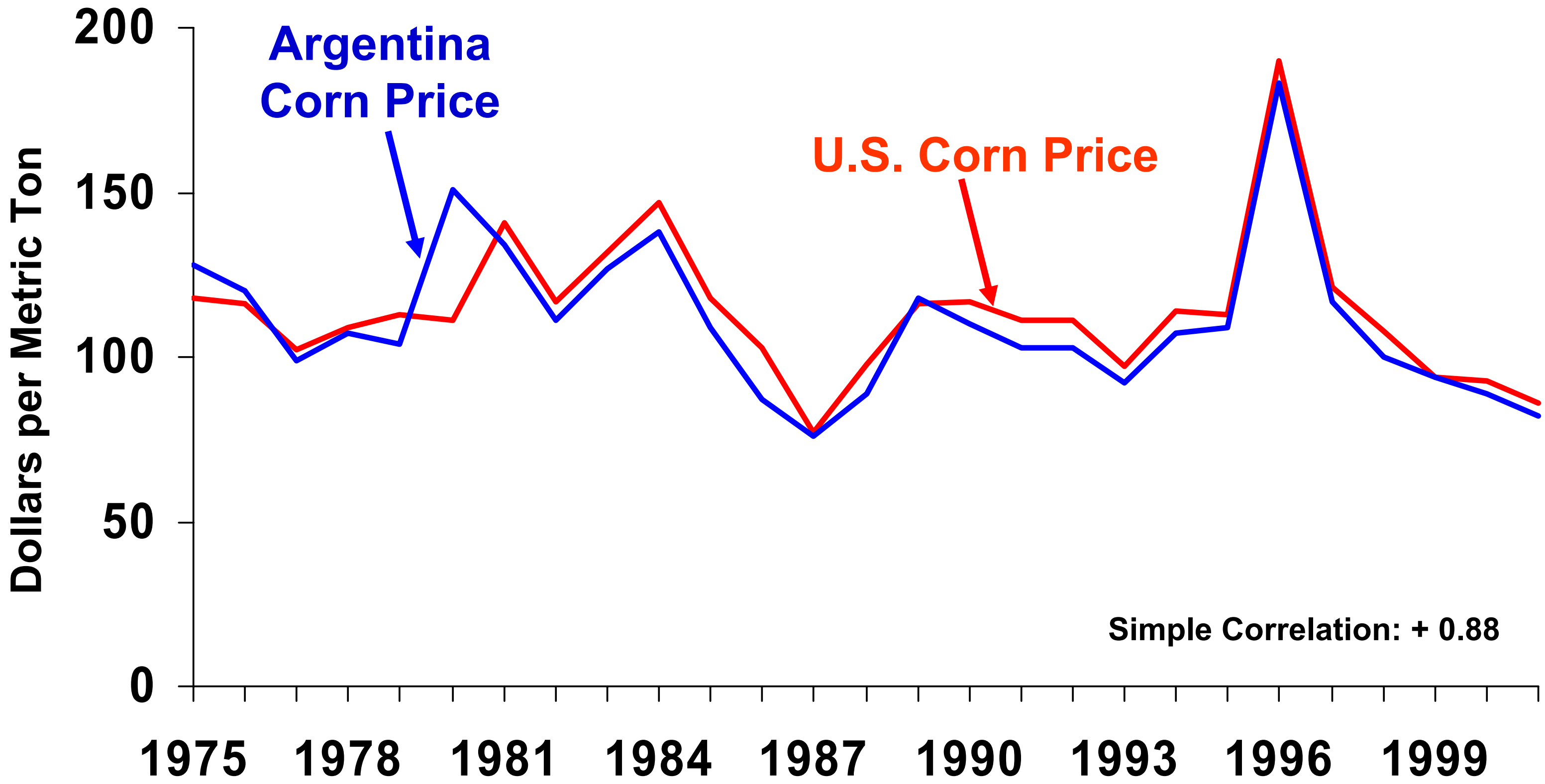
Impacts of Low Prices on Farmers in Developing Countries

- 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

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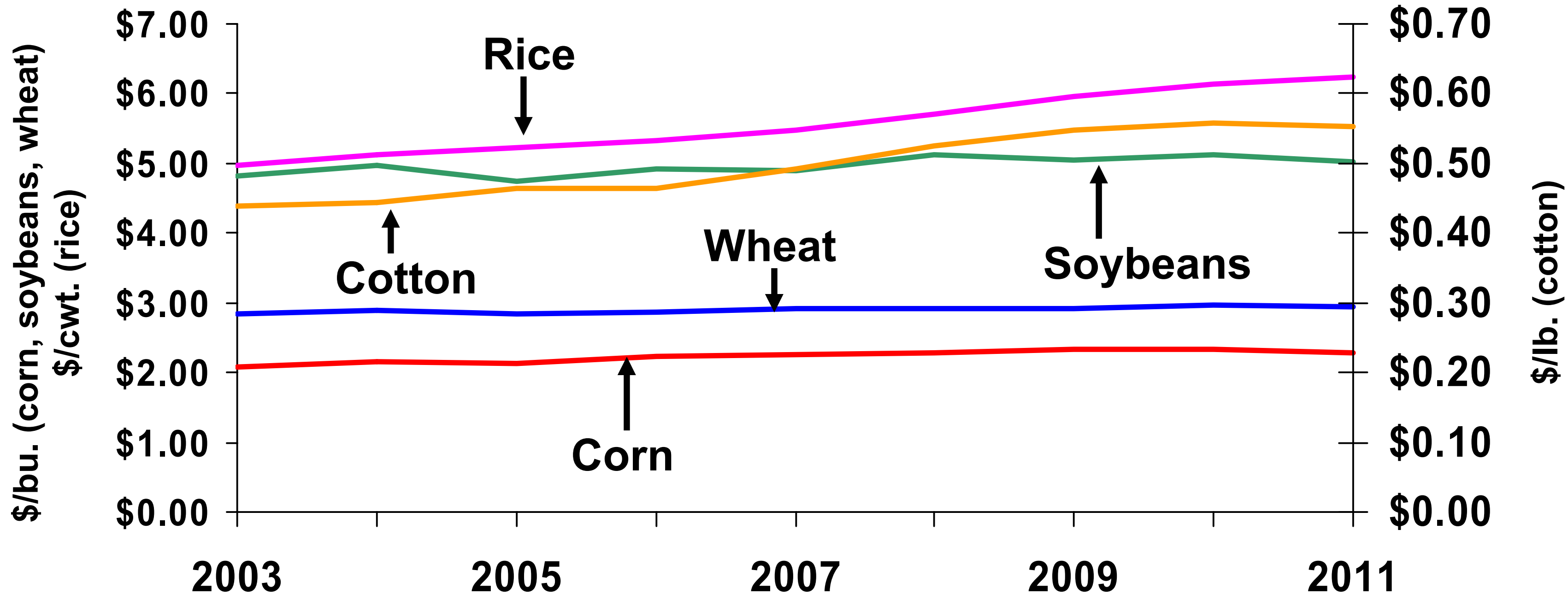
Continuation of Present US Agricultural Policies

- 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

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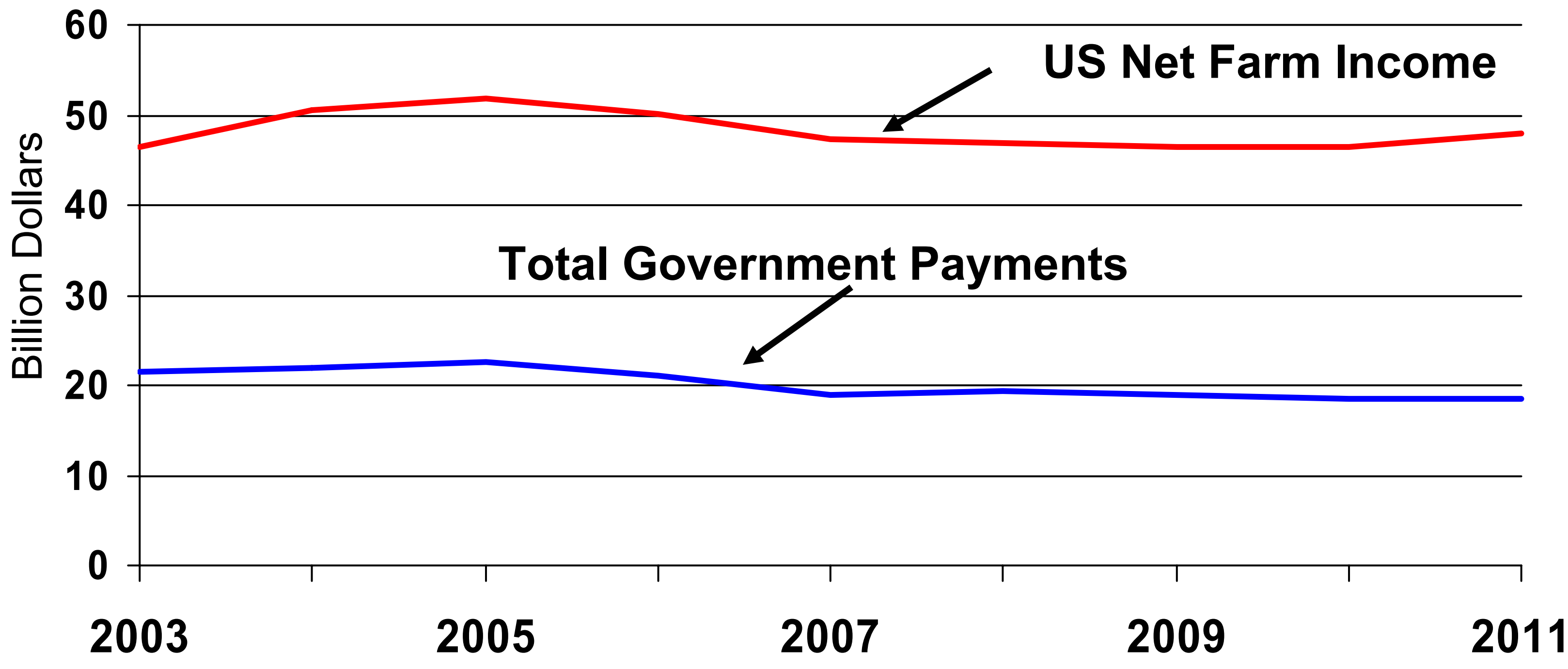
Projected US Net Farm Income and Government Payments



- 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

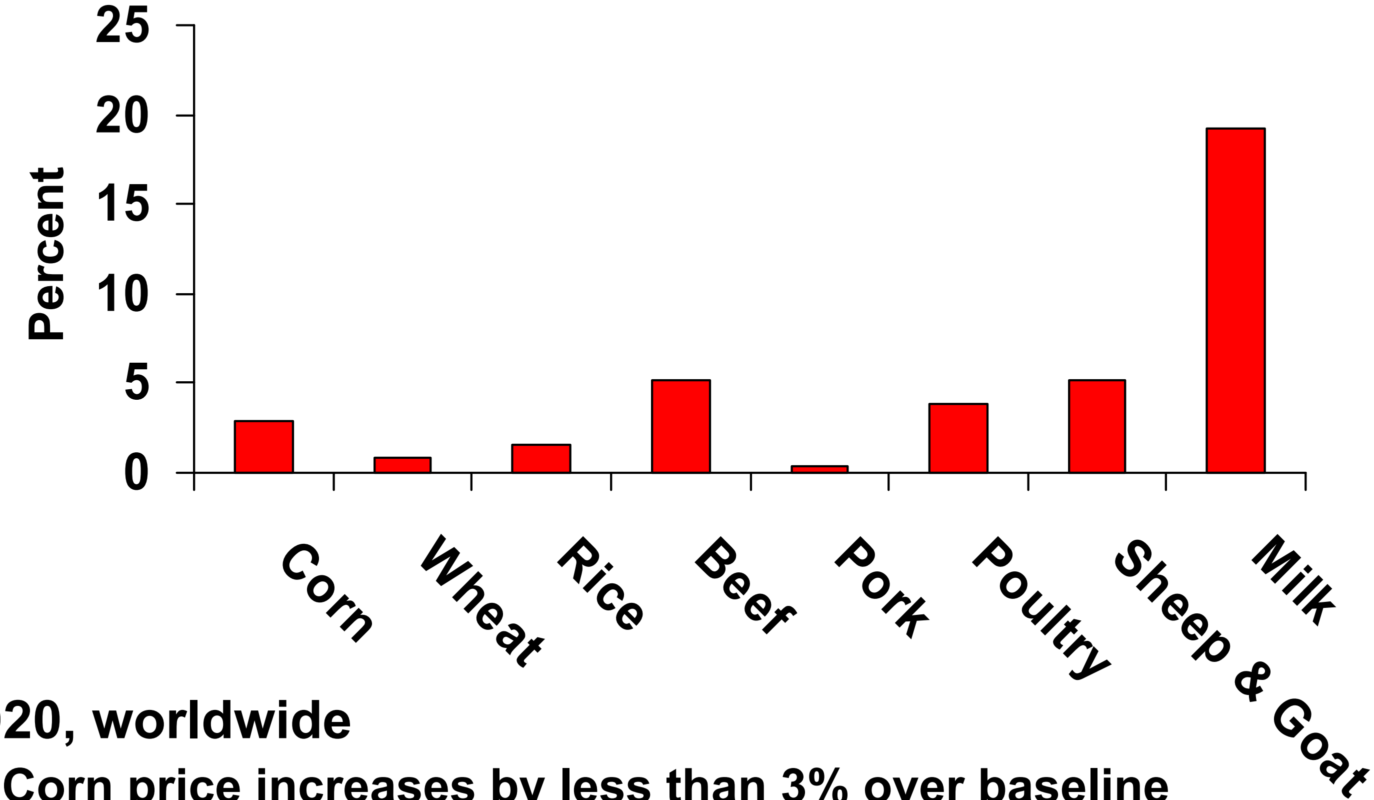
Conflicting Views: How to Fix Broken Policy

- ***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

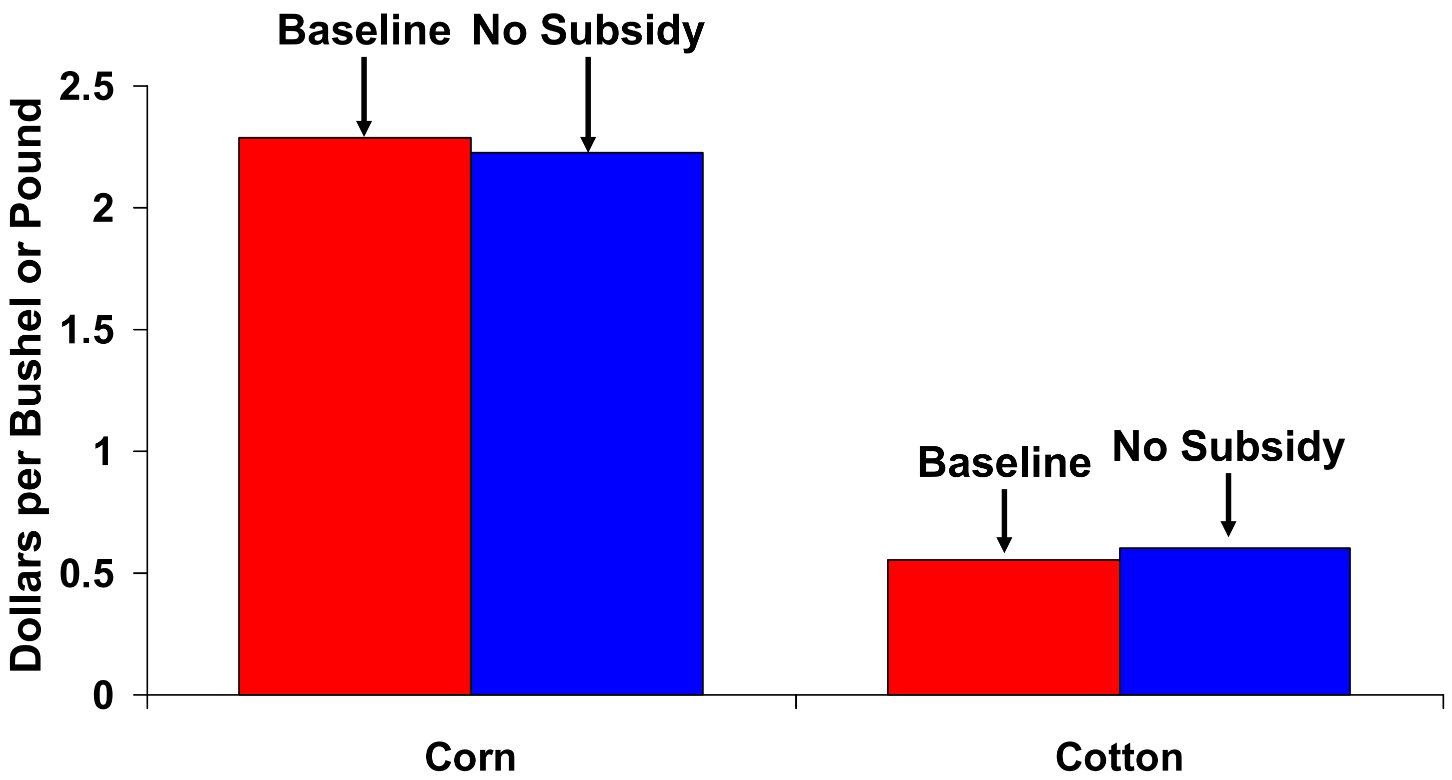
No US Subsidies: Worldwide Price Impacts, 2020



In 2020, worldwide

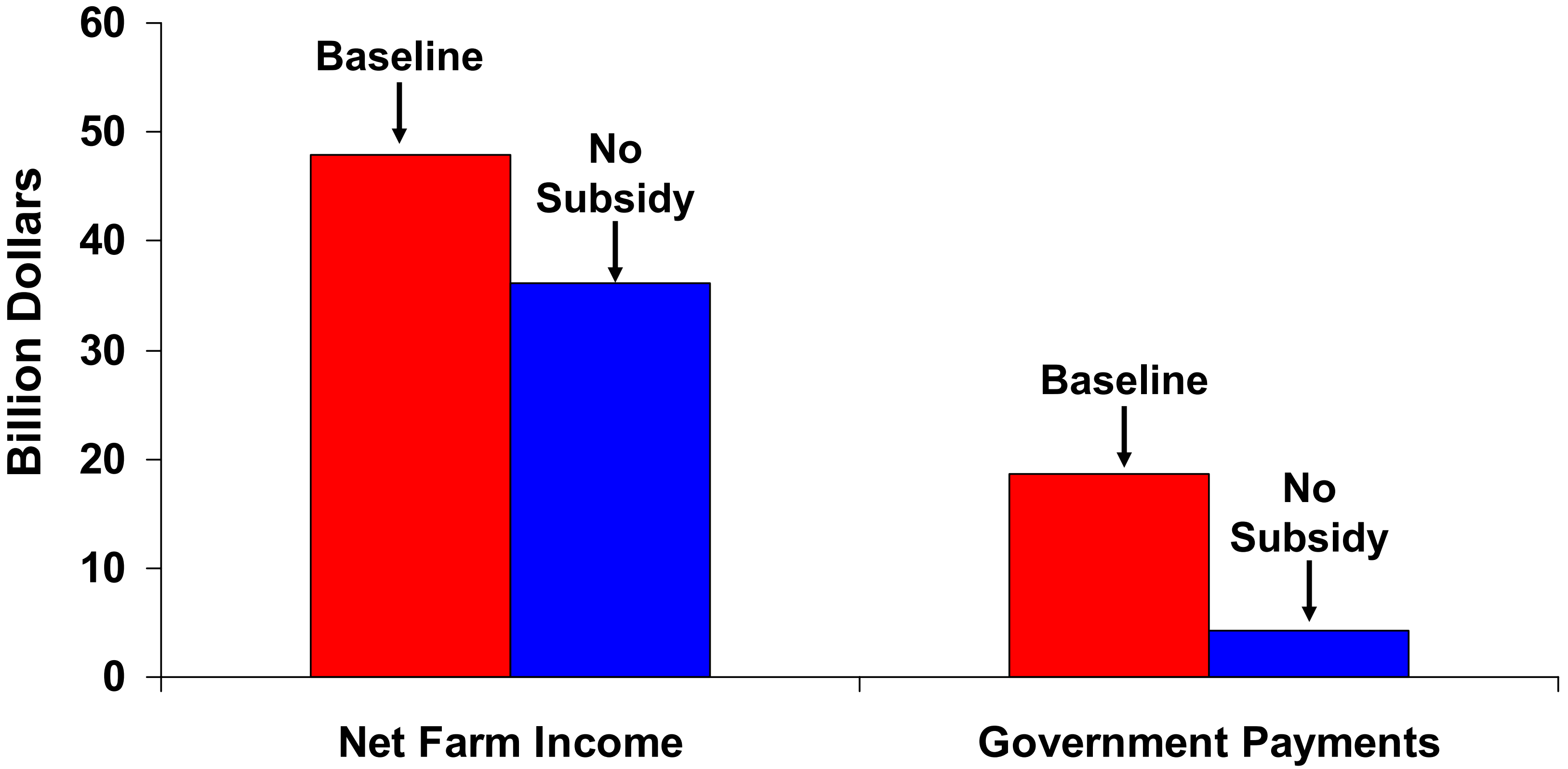
- **Corn price increases by less than 3% over baseline**
- **Wheat price increases by less than 1% over baseline**
- **Rice price increases by less than 2% over baseline**

No US Subsidies: US Price Impacts, 2011



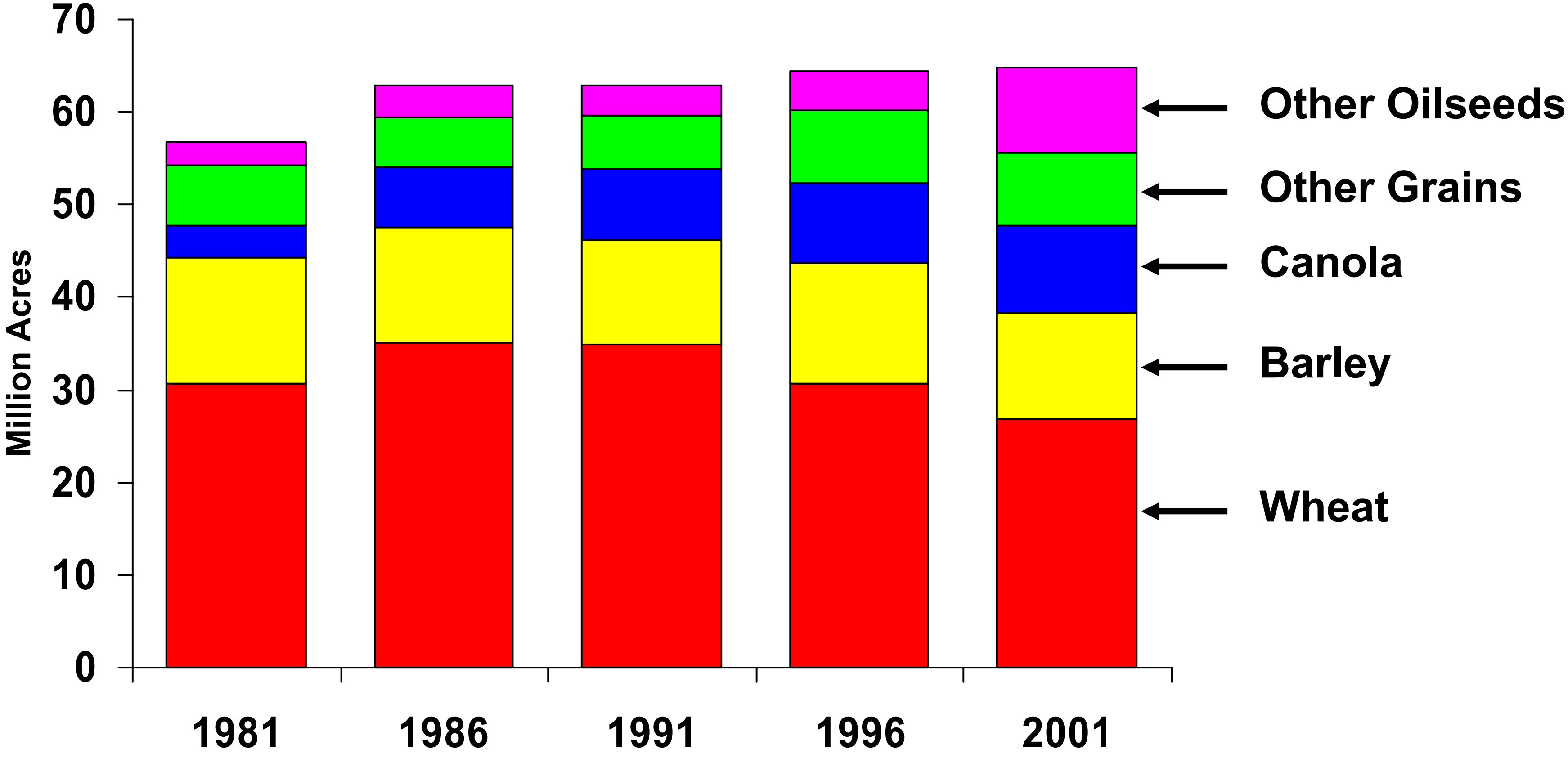
Corn prices decline slightly, while cotton prices edge upward

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: Farmland Planted



- Canada reduced subsidies in 1990s
- Eliminated grain transportation subsidies in 1995
- Crop mix changed, total acreage remained flat

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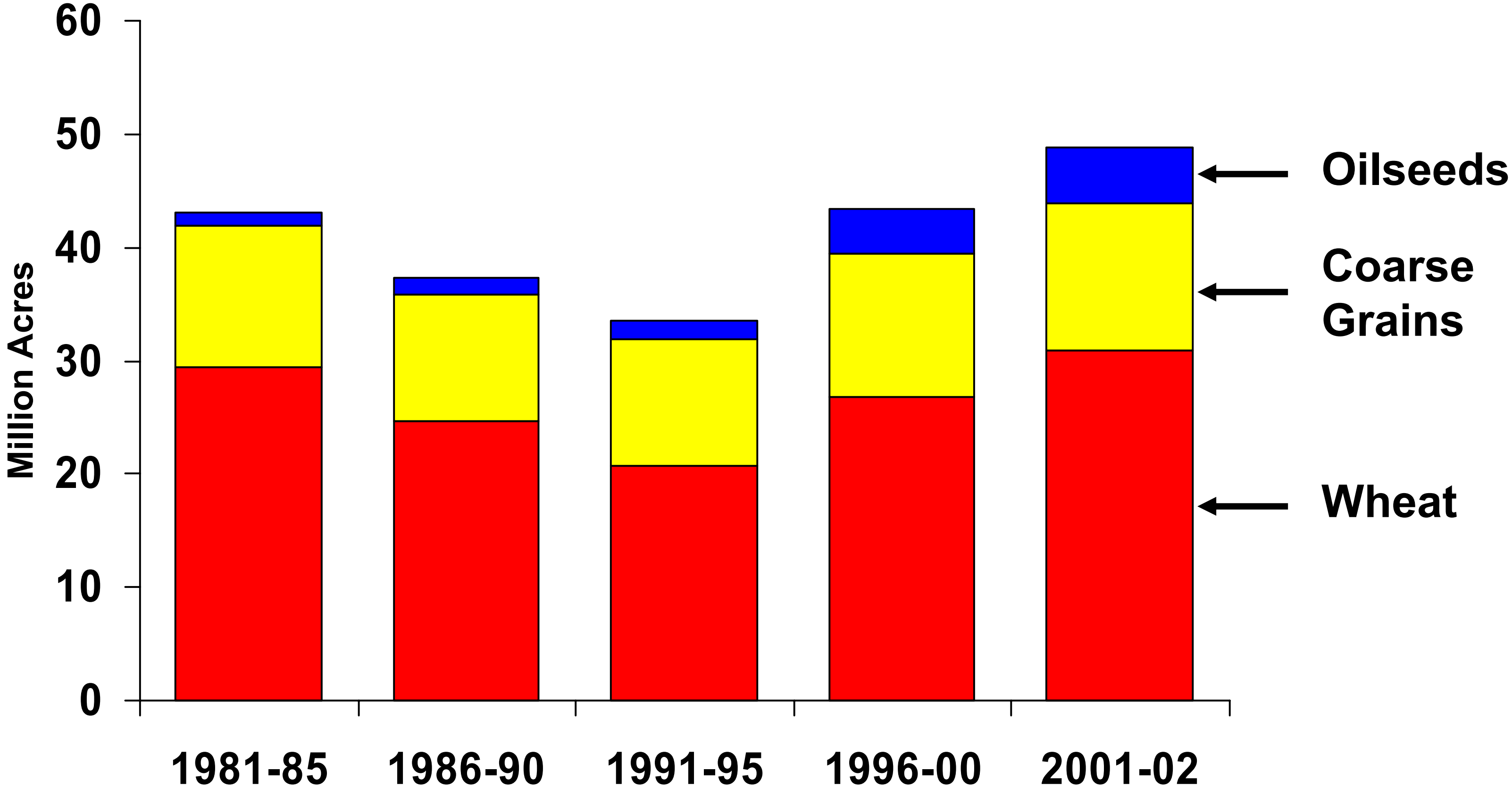
Australia: Farmland Planted



- Australia dramatically reduced wool subsidies in 1991
- Acreage shifted from pasture to crops
- All the while, prices declined

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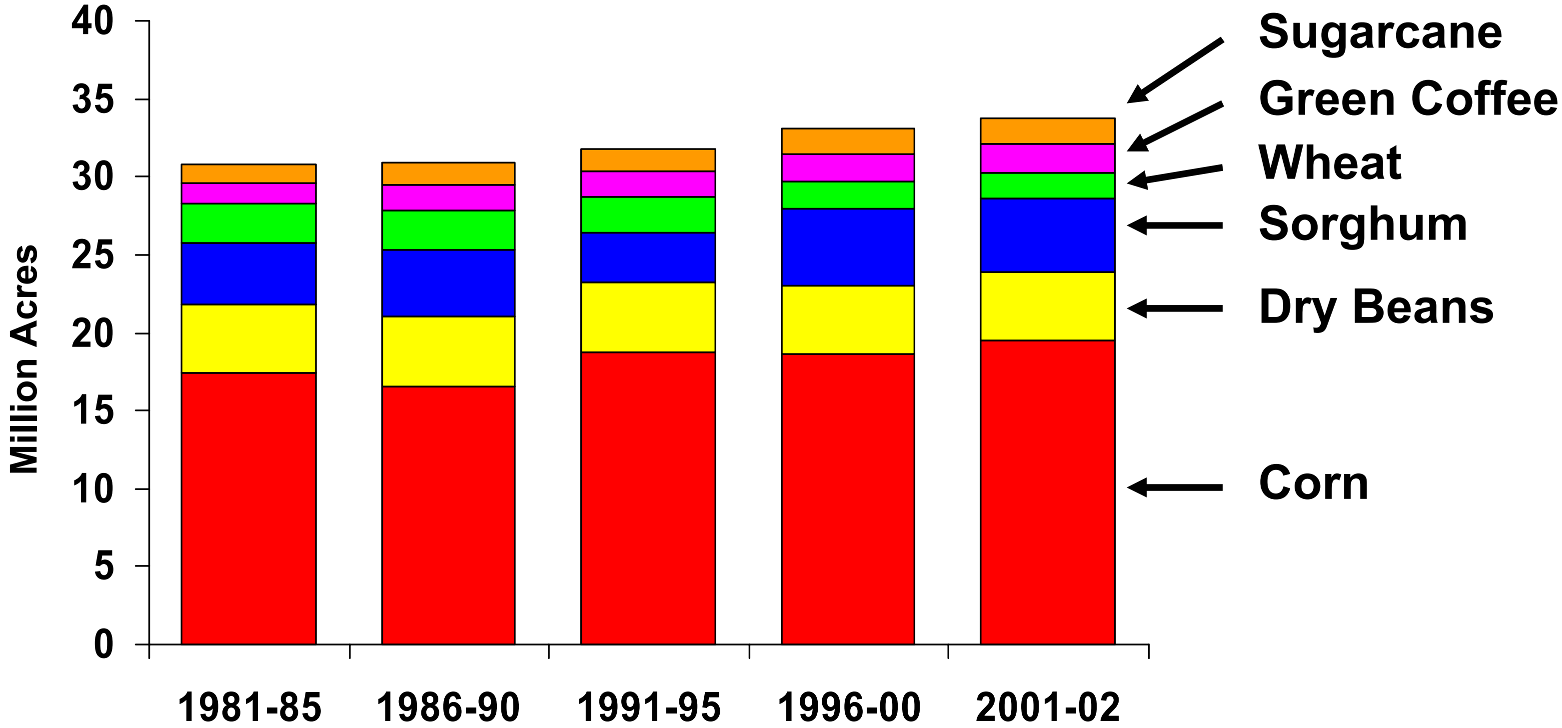
Mexico: Farmland Planted



- 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

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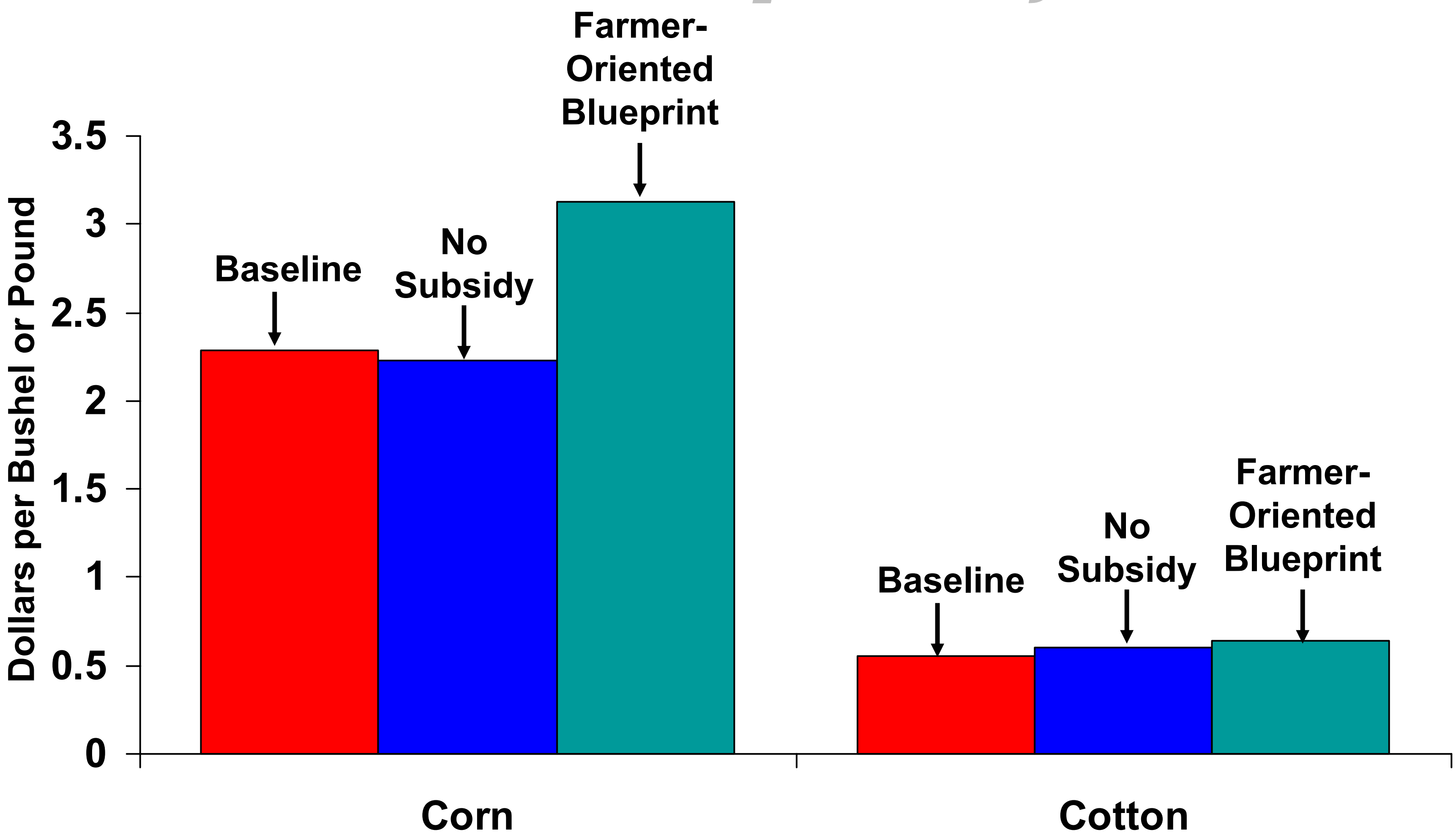
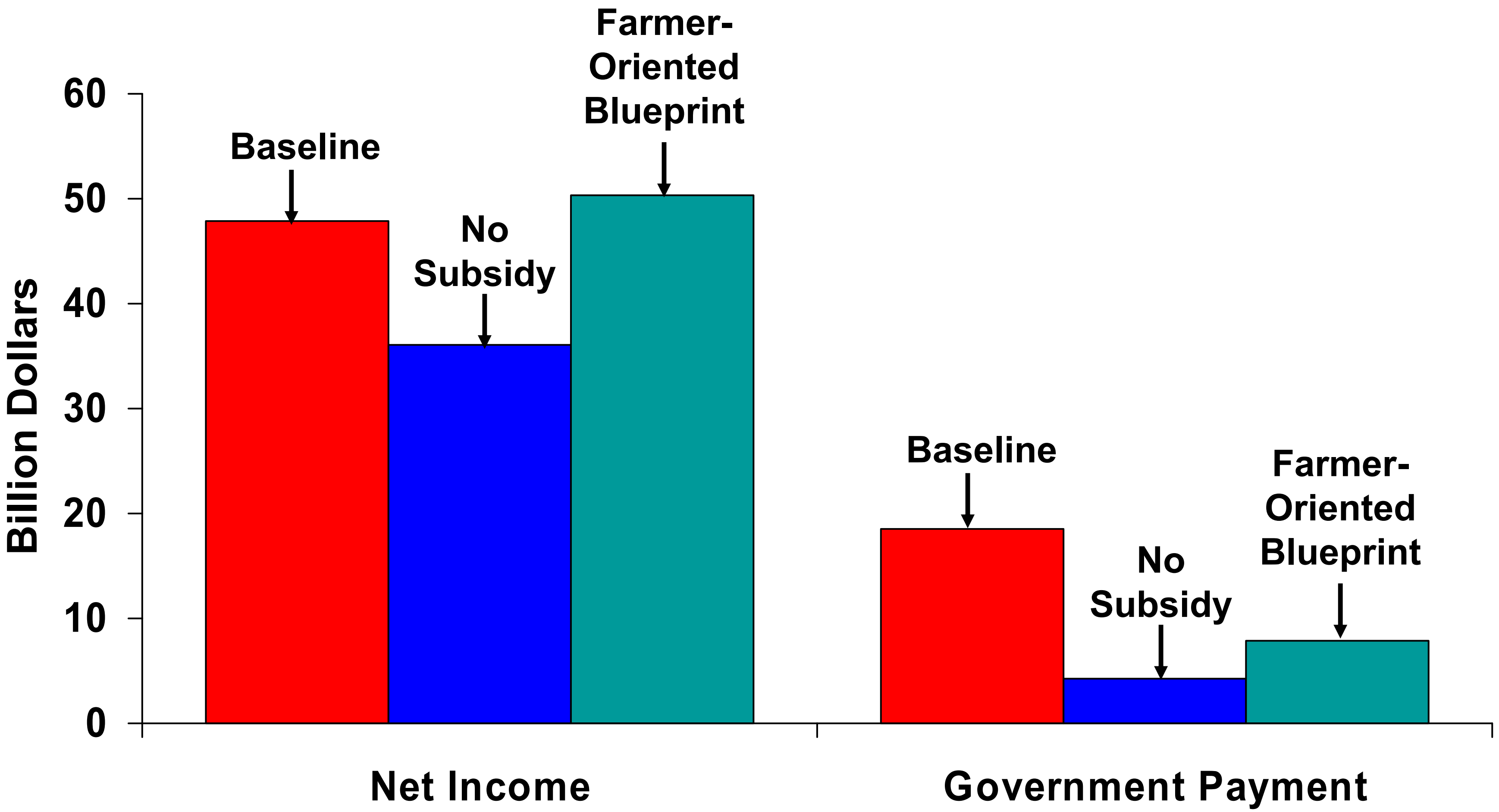
Farmer-Oriented Policy Blueprint

- Elimination of Government Payments
- Stock Management
- Set-Aside / Short-Term Land Retirement Program
- Price Support Mechanism

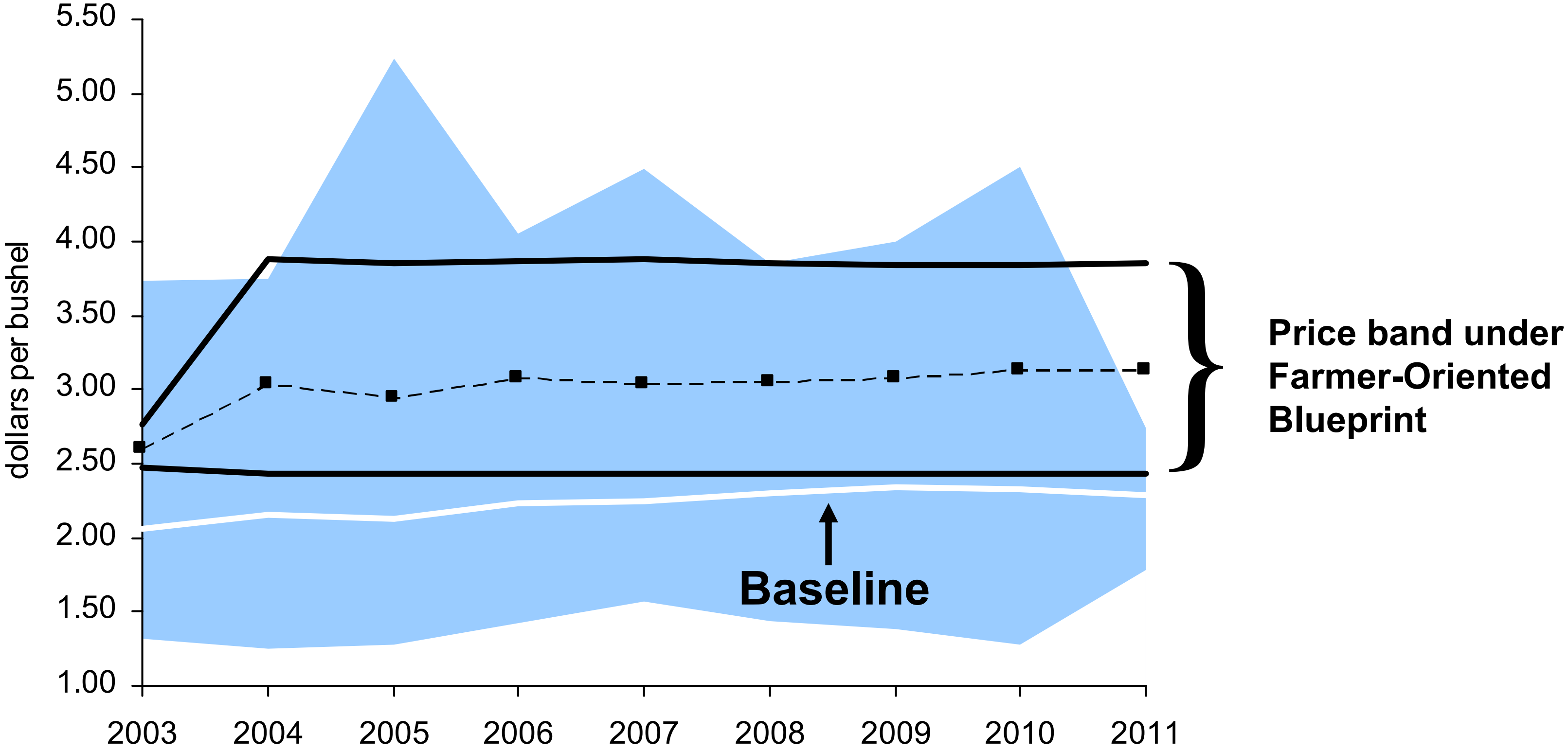
Farmer-Oriented Blueprint: US Price Impacts, 2011



Farmer-Oriented Blueprint: US Farm Income Impacts, 2011

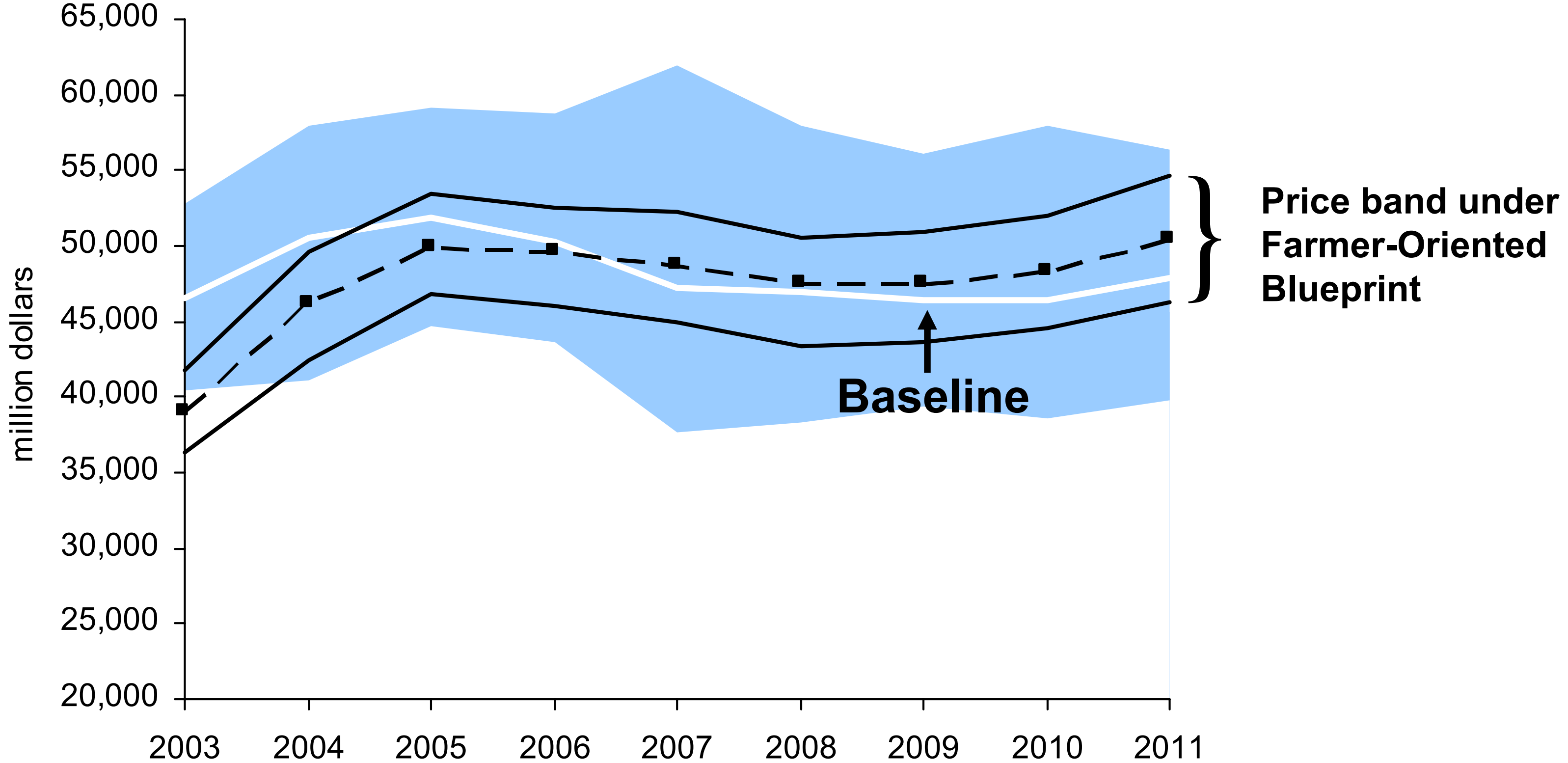


Farmer-Oriented Blueprint: US Corn Price Variability



Higher and more stable corn prices

Farmer-Oriented Blueprint: US Net Farm Income Variability



Slightly higher and reduced variability in Net Farm Income

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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

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