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Movement Toward Sustainable Agricultural Policies: Cooperative Policy Alternatives to Address the Farm Income Crisis

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Movement Toward Sustainable Agricultural Policies:

Cooperative Policy Alternatives to Address the Farm Income Crisis

The Farm Crisis

- Farmers, worldwide, are plagued with unsustainably low prices
- Public intervention costs are about \$300 billion per year
- 800 million people lack access to adequate nutrition

One Contributor: Recent Policies

- We were promised that the policy trio of:
 - Deregulation
 - Trade liberalization
 - Privatization
- Would lead to:
 - Declining malnutrition
 - Increasing rates of social gains
 - Increasing farm prices, incomes, and stability

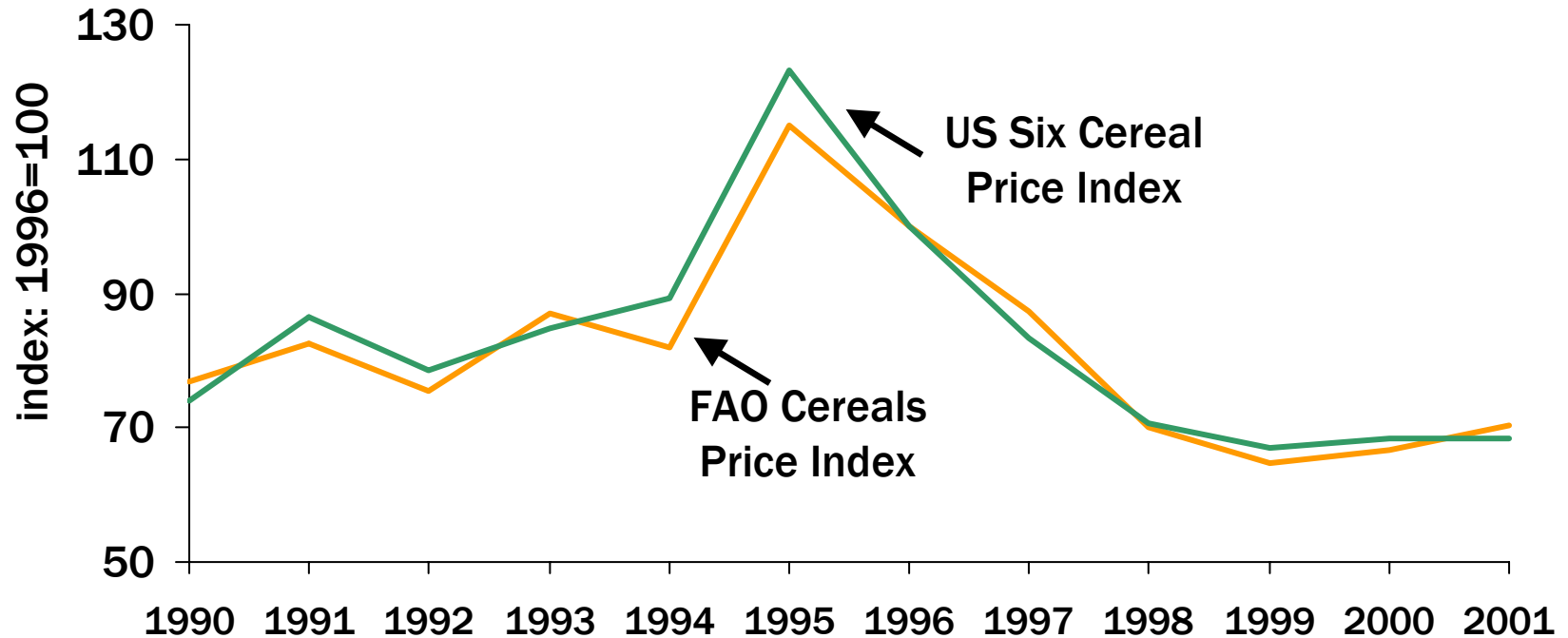
Policies Haven't Delivered

- The current international consensus for food/agricultural policy:
 - Fails to provide adequate and stable market returns for farmers worldwide
 - Favors concentration and benefits multinational agribusinesses
 - Does not allow for distinctive national policies
 - Increased public cost
 - Fails to help feed the hungry

The US Case: Policy Change

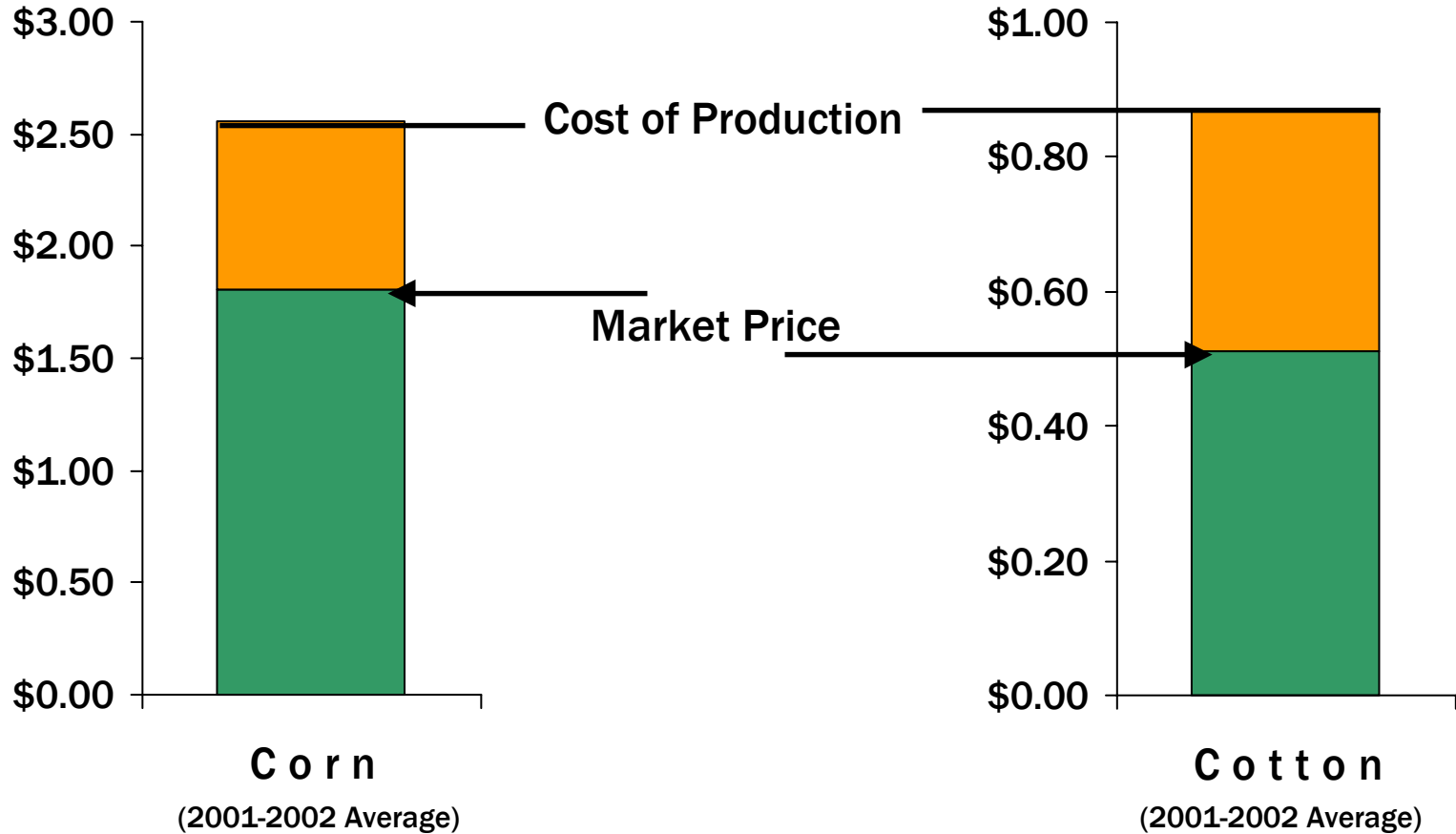
- Significant reductions in government intervention in agriculture in 1996
 - Eliminated price supports
 - Eliminated supply controls (acreage reductions)
 - Eliminated government stocks/reserves

US Six Cereals and FAO Cereals Price Indices



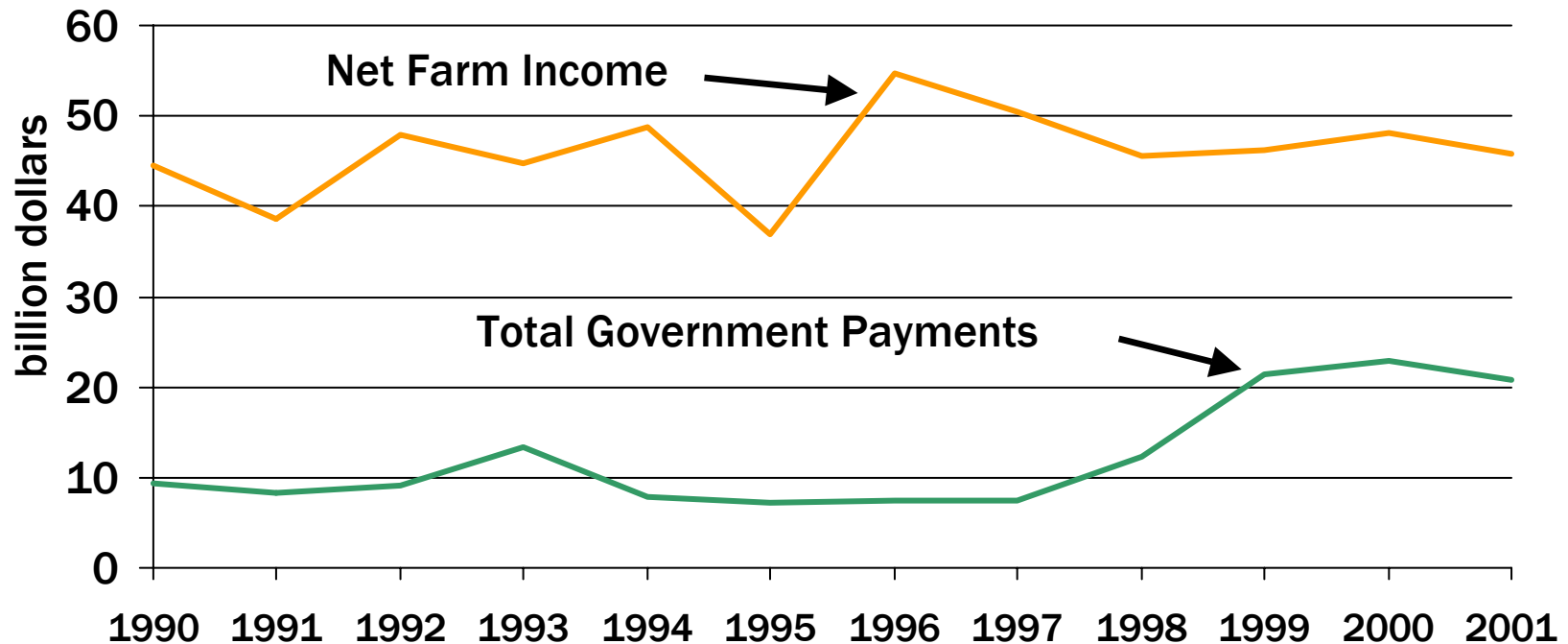
- Since reducing government intervention in 1996, US prices plummeted
- World prices followed

US Prices & Cost of Production



- Prices cover only 60% to 75% for cotton and corn, respectively
- Even less for other crops
- Corresponding graphs for other countries would look even worse

US Net Farm Income and Government Payments



- US government payments are at historic highs at \$20+ billion per year
- Worldwide government subsidies total a staggering \$300 billion per year

The US Case: Results

- US policy changes
 - Resulted in significantly lower prices
 - Led to “dumping” commodities below the cost of production
 - Triggered large government subsidies
 - Resulted in declining farm income, despite large government payments
 - Benefited agribusinesses, importers, input suppliers, some consumers

Predictable Policy Consequences

- Technology expands output faster than population and exports expand demand
- Market failure: lower prices do not solve the problem of unbalanced supply and demand
- 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 *something* on all their land
 - Few alternate uses for most cropland

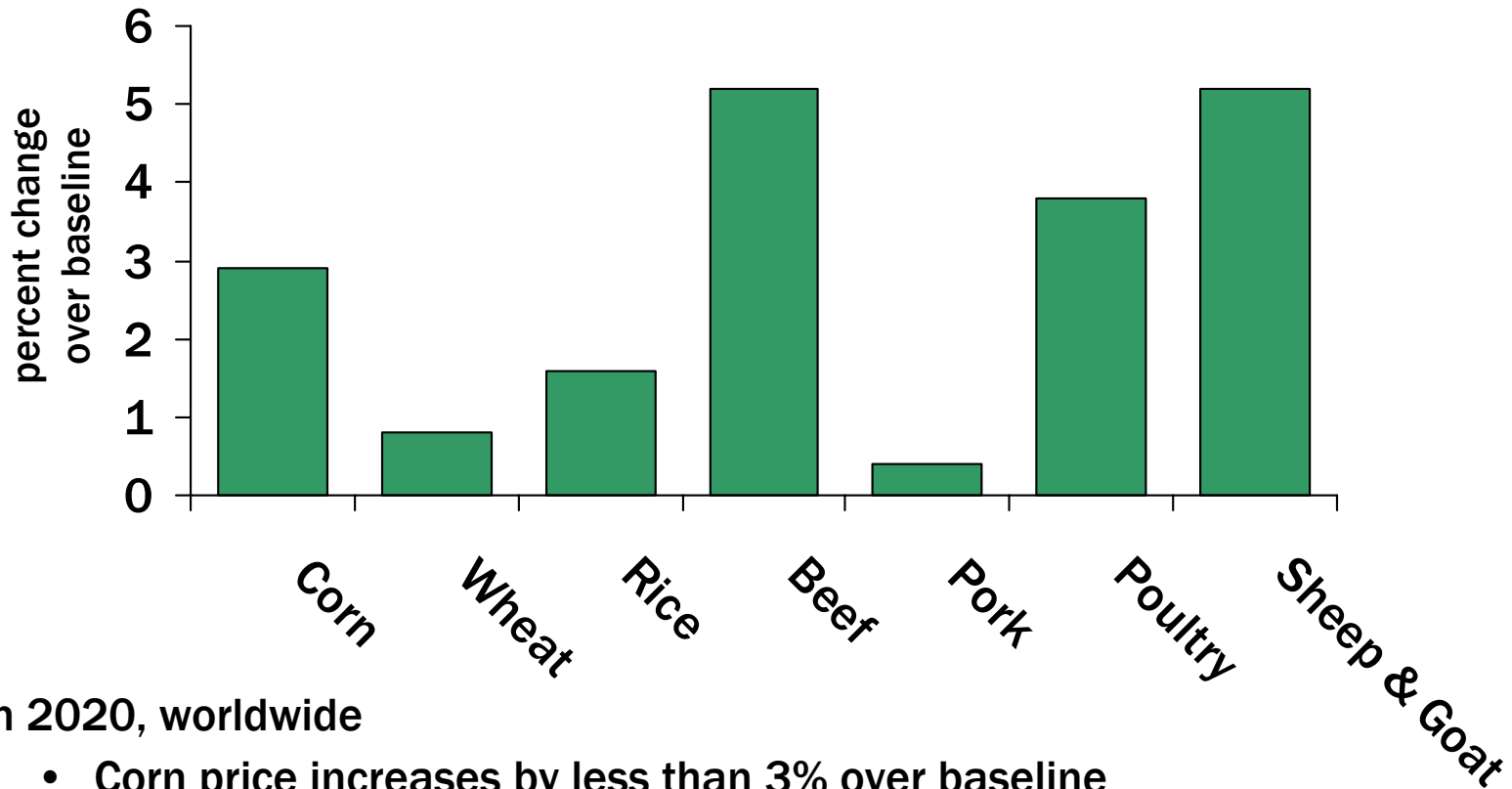
Problems with Continuing Current US Agricultural Policy

- Prices projected to remain below the cost of production
- Continued “dumping”
- Large government payments in the US
- Depressed crop prices worldwide

Is a Free Market Solution the Answer?

- Free market solution suggests that
 - Eliminating all trade barriers and government trade distortions
- Will allow producers and consumers
 - To properly adjust to market signals, rebalancing supplies and demands

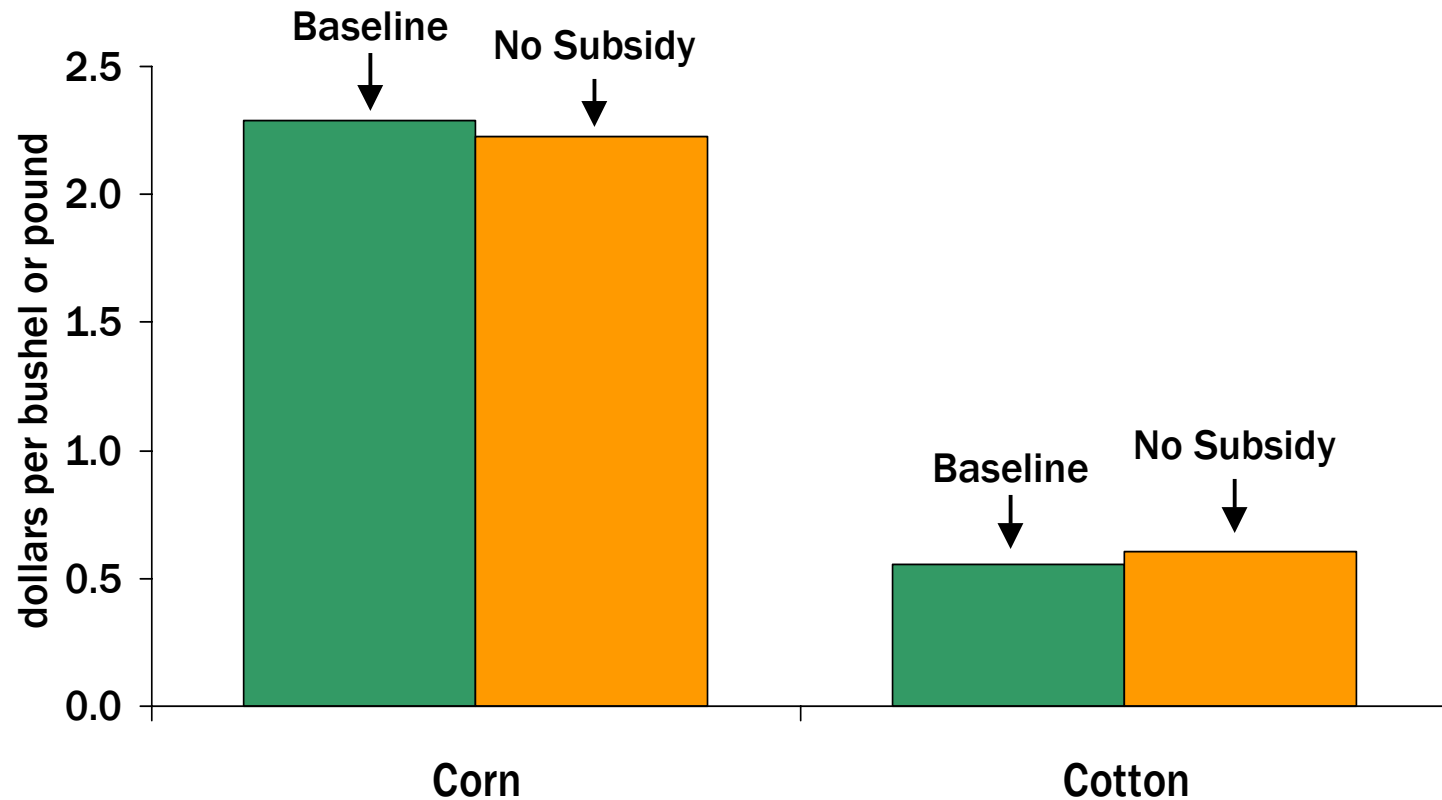
No Subsidies in Developed Countries: Worldwide Price Impacts, 2020



In 2020, worldwide

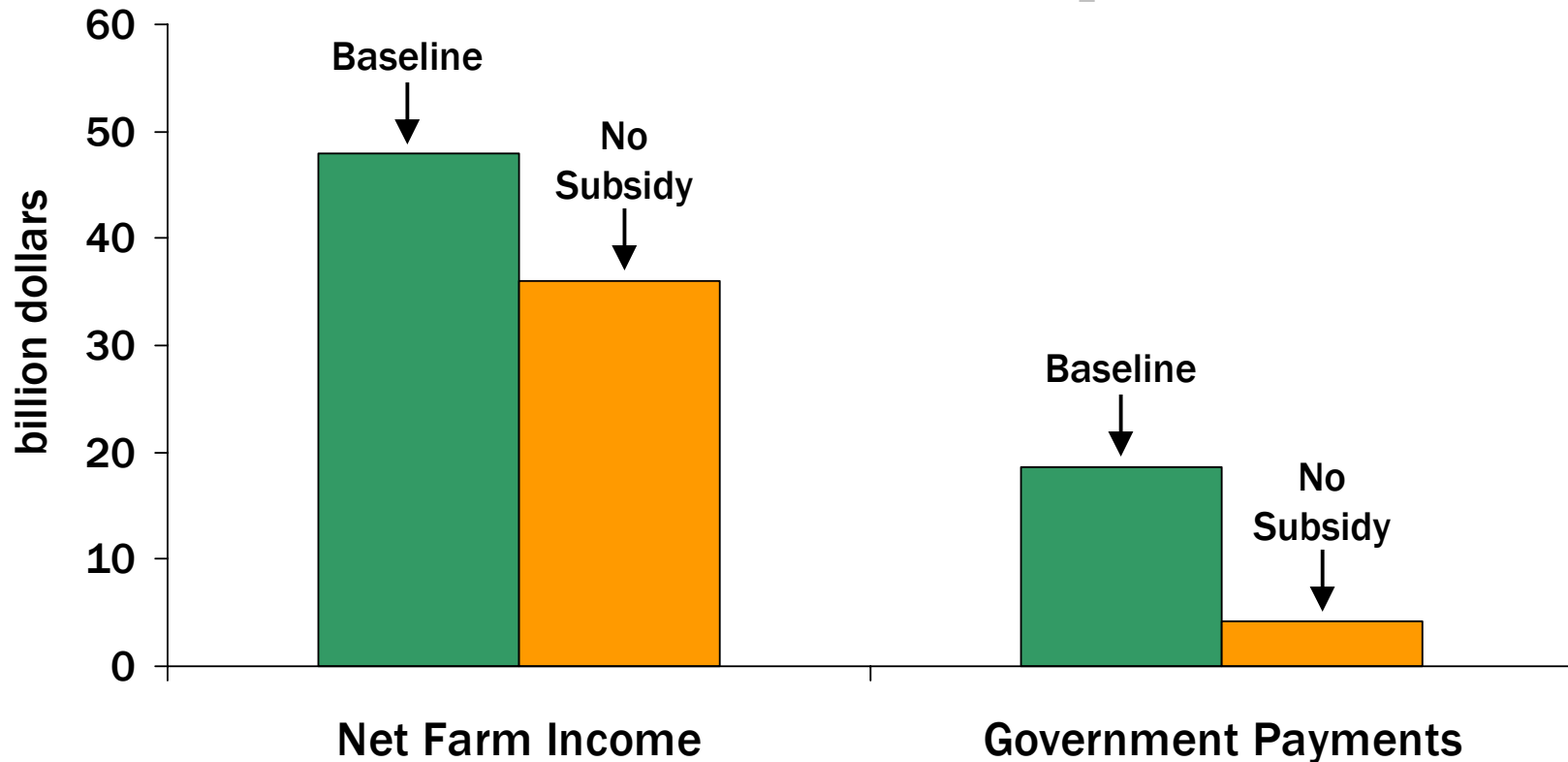
- Corn price increases by less than 3% over baseline
- Wheat price increases by less than 1% over baseline
- Rice price increases by less than 2% over baseline

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

Food/Ag Policy Should Address

- Reasonable returns for producers
- National food and nutrition security
- Multifunctionality in agriculture

Other Considerations of a New Ag/Food Policy

- Autonomy
- Availability/accessibility/sufficiency
- Equitability
- Reliability/sustainability
- Stability

US Policy Blueprint Illustration

- Eliminate direct government income support payments
- Stock management program
- Acreage set-aside / short-term land retirement program
- Price support mechanism (via non-recourse loans)

Conclusions

- Farmers would produce nearly the same quantity of aggregate crop output over a wide range of subsidies
- Technological advances and additional productive capacity enhance need for global balancing of supply and demand in the future
- Trade liberalization, by itself, is not a sustainable solution
- A farmer-oriented policy is possible
- May be politically impossible for a nation to accomplish unilaterally, international cooperation is needed

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