U.S. Farm and Cotton Policy in the Post-MFA World

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The End of the Multifiber Arrangement: Impact on Developed and Developing Countries
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Presentation Outline

• How Did We Get Here?
• What Is/Has Been Our Policy?
• What Are Our Policy Tools?
• Trends in Commodity Payments
• Analysis of Individual Crop Support
• Conclusions
How Did We Get Here?

Impact on Rural Communities

Commodity Programs

Many Policy Decisions Made Independent of Each Other

Policy Goals

Politics

Agronomics

Loss of Domestic Mills

MFA

WTO
What Is/Has Been Our Policy?

Figure 1. Agricultural policy goals: 1933 - present

Sources: Flinchbaugh and Knutson (2004); The National Agricultural Law Center (2007).

Source: Doering and Outlaw, Choices 2006-4
What Are Our Policy Tools?

• Prior to 1996
  - Target Prices and Deficiency Payments
  - Set-asides/ARPs
  - Marketing Loan Initiated in 1990

• 1996
  - Freedom to Farm
  - Marketing Loans and PFC payments

• 2002
  - Marketing Loans and Direct payments
  - Target Prices and CCP payments

Very Regulated
Move to less involvement
Move back to slightly More involvement
Representation of 2002 Commodity Cotton Programs

Revenue per Pound

Target Price - $0.724

Loan Rate - $0.52

Market Price

CCP

MLG/LDP

Market Receipts

Reflects payments not on full production (payment acres = .85 x base acres)

Decoupled (do not have to produce to receive payment)

Coupled (do have to produce to receive benefits from marketing loans gains or LDPs)
Historical Domestic Mill Use and Exports with Projections

Source: FAPRI November 2007 Baseline
Breakdown of Payments - Equitability

1990 to 2002 Average Support By Crop

Source: Higgins, 2004
Breakdown of Payments - Equitability

1990 to 1996 Average Support By Crop

- Corn: 38%
- Wheat: 26%
- Rice: 11%
- Sorghum: 4%
- Oats: 0%
- Soybeans: 1%
- Barley: 2%
- Peanuts: 1%

2002 Support By Crop

- Corn: 26%
- Cotton: 28%
- Wheat: 16%
- Rice: 13%
- Oats: 0%
- Sorghum: 3%
- Soybeans: 10%
- Barley: 1%

Source: Higgins, 2004
Loan Rates Relative to Total Economic Costs Per Unit

Doesn’t consider set-asides and/or payments on Base vs Production

*Annual Loan Rate per unit divided by Total Economic Costs per unit. Economic costs per unit calculated by taking Total Economic Costs per planted acre divided by yield in units per acre.

**Note: Loan Rate obtained from FAPRI. Total Economic Costs obtained from Economic Research Service, USDA. Actual Yield obtained from National Agricultural Statistics Service, USDA.

Source: Higgins, 2004
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Source: Higgins, 2004
**Effective Benefits from Govt Programs Relative to Total Economic Costs Per Unit**

Considers set-asides and/or payments on Base vs Production

*Effective Benefits divided by Effective Costs. Effective benefits include direct payments, market price or loan rate, payment fractions, and for 2002, countercyclical payments. Effective costs include variable costs, fixed costs, and ARP costs.

**Note: Actual Yield and price obtained from NASS, USDA. Farm bill payment provisions obtained from Farm Service Agency, USDA.

Source: Higgins, 2004
Summary

- U.S. commodity policy has evolved over the past 70+ years
- Programs used to implement policy have been adjusted as the economic/political/social conditions have changed
- Cotton has not been treated “too differently” from other commodities
- MFA contributing factor to WTO “problems”
  - Along with ….
Conclusions

• Clearly, we are where we are based on a number of independent decisions
• Our policy has been relatively stable
  – Programs have accomplished exactly what was desired
• Why the Problem?
  – Taken as a whole “ball of yarn” it doesn’t make everyone happy
• What does this mean about future policies?
  – Can’t do the policy without considering just the impact on farmers