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Purdue expert: Farm bill likely to grow in cost, curb free trade

WEST LAFAYETTE, Ind. – The 2002 U.S. farm bill has the highest price tag ever, and the cost could grow as the bill moves producers further away from market-oriented agriculture and free trade, said a Purdue University agricultural economist.

"The $180 billion budget for the farm bill assumes that commodity prices will improve after four years," said Allan Gray, assistant professor of agricultural economics. "That's questionable, given that payment mechanisms in the farm bill will likely encourage overproduction that will depress prices."

Gray said the farm bill's counter-cyclical payments are made when commodity prices dip below certain levels. Those payments decrease as economic conditions improve.

"The basic assumption of the projected budget is that prices will be high enough in the later years of the bill so that counter-cyclical payments would be almost non-existent," he said.

The counter-cyclical payments are part of a safety net to protect producers when crop prices are low.

"Low prices generally reflect the market view that farmer's are producing too much of certain crops," Gray said. "However, the price supports send a different signal to producers."

In fact, the lower the market price, the greater the difference between the price the producer receives and what the market suggests is the commodity's real value.

"Without government subsidies, producers would respond to low prices by curbing production," Gray said. "The payments, however, keep farmers producing commodities despite low prices, which increases stocks, further reducing prices."

Gray said the disconnect between commodity prices and production behavior will drive producers further away from

market-based farming. "Producers will make decisions based on government programs and not on competitive markets," he said.

In the meantime, foreign producers still have to operate, and compete, in a market climate. "Producers in places like Brazil, Argentina, Canada and Australia will have stronger incentives to become more efficient and competitive. U.S. producers will have no such incentives," Gray said.

Gray said the 2002 Farm Bill also will impact U.S. trade negotiations. "Counter-cyclical payments and loan deficiency payments jeopardize the U.S. stance in trade negotiations," he said. "The United States currently has limits on 'trade distorting' government supports, and the spending limits may be breached with this farm bill."

He said the United States' position in World Trade Organization talks is toward reducing government supports that affect trade. "This farm bill is clearly heading in the opposite direction," Gray said.

Gray suggests other anticipated consequences from the 2002 Farm Bill, including:

• Increasing land values and rents;

• Continuing treating producers differently with respect to government support levels; and

• Reducing the flexibility of producers to plant fruits and vegetables.

"Clearly, some of these consequences are not what Congress had intended," Gray said. "Other consequences are counter to the publicly stated positions of the administration and Congress. We now have to see how the U. S. Department of Agriculture chooses to interpret these guidelines."

Writer: Beth Forbes, (765) 494-2722; forbes@purdue.edu

Source: Allan Gray, (765) 494-4323; gray@purdue.edu

Ag Communications: (765) 494-2722; Beth Forbes, bforbes@aes.purdue.edu;
http://www.agriculture.purdue.edu/AgComm/public/agnews/

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Purdue Farm Bill site

Purdue News Service: (765) 494-2096;
purduenews@purdue.edu