RECENT TRADE & AGRICULTURAL POLICY:
Tough Questions about the Market and Policy for Agricultural Trade

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Claims of Economists & Politicians & A simple Question

“Trade is good; protection is bad; trade agreements that reduce protection are good.”

“For whom?”
Predictions & Reality

Predictions in 1990s

(1) Government support would decline.

(2) The market would more than compensate for the loss of government support.

(3) With reduced government intervention, efficiencies would be captured by the industry.

Reality in 2002

(1) Government support has greatly increased.

(2) The market contribution to net farm income has declined.

(3) Distributional inequity continues, & efficiency remains elusive.
Figure 1. US AGRICULTURAL TRADE BALANCE ($mil/FY; ag product only)
Figure 2a. US Wheat price & exports, 1991-2002
Figure 2b. US Corn price & exports, 1992-2002

[Graph showing US Corn price and exports from 1992 to 2002. The graph includes lines for corn price and corn exports, with data points for each year.]
Figure 2c. US Cotton price & exports, 1992-2002
Figure 3. Net Farm Income & Government Payments

$ Billion

1996 Farm Act (FAIR)

$ Billion

1996
1997
1998
1999
2000
2001

Planned FAIR
direct support

net farm income
govt payments
NFI-G

NA
FA
WT
TA
WO

**Figure 4. 1999 Net Farm Income by Sales Class – Oklahoma sample**

<table>
<thead>
<tr>
<th>Sales Class</th>
<th>$/ac. Operated</th>
<th>% total NFI</th>
<th>% farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$2500</td>
<td>-31.79</td>
<td>-2.4</td>
<td>11</td>
</tr>
<tr>
<td>$2500-4999</td>
<td>-20.82</td>
<td>-3.1</td>
<td>12</td>
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<tr>
<td>$5000-9999</td>
<td>-8.78</td>
<td>-2.2</td>
<td>15</td>
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<tr>
<td>$10000-24999</td>
<td>-2.15</td>
<td>-1.6</td>
<td>22</td>
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<tr>
<td>$25000-49999</td>
<td>7.02</td>
<td>4.8</td>
<td>12</td>
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<tr>
<td>$50000-99999</td>
<td>13.42</td>
<td>10.7</td>
<td>11</td>
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<tr>
<td>$100000-249999</td>
<td>21.33</td>
<td>24.7</td>
<td>11</td>
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<tr>
<td>$250000-499999</td>
<td>40.58</td>
<td>22.5</td>
<td>3</td>
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<tr>
<td>$500000-999999</td>
<td>52.12</td>
<td>20.9</td>
<td>2</td>
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<tr>
<td>&gt;$1 million</td>
<td>49.85</td>
<td>25.7</td>
<td>1</td>
</tr>
<tr>
<td>State</td>
<td>18.79</td>
<td>100</td>
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</table>
Figure 5. Food Industry Financial Indicators, selected crops, 1991-2002: Earnings/share (cents/share)
Figure 6. Food Industry Financial Indicators, selected crops, 1991-2002: Net Profit ($mil)
Some Tentative Conclusions Since NAFTA, WTO & FAIR 96: Is this what we expected?

1. Trade has improved, with both imports & exports up.
2. Net Farm Income has not improved.
3. Distributional inequality continues.
4. Major agribusinesses have done relatively well.
5. Concentration has continued, perhaps accelerating.
6. Rent-seeking by agriculture and agribusiness has increased & been successful.
Some Suggestions for Future Education Programs

1. **Free markets are a myth.**
2. **Market power is a fact.**
3. **Trade agreements are a form of govt. intervention.**
4. **Capitalism is a govt-supported program.**
5. **Trade agreements shift protection:**
   - Many firms & farms driven out of business
   - Many forced to alter their practices & structure
   - These protective responses further prevent self-regulating markets.
Some Suggestions for Future Education Programs (continued)

6. **Survivors continue to seek rents from govt**
   --Periods of profitability that are a result of this anti-free-market govt support.

7. **Govt continues to be responsive to rent-seeking, especially from those w/market power.**

8. **Rural farm communities continue to face cyclical pressures and will fail unless sufficiently compensated by capitalized govt subsidies.**

9. **Choices for rural farming communities: rural economic diversification/economic malaise.**
10. **Choices for “excess” farm families and farm labor:** off-farm employment, alternative education & training programs, entrepreneurial creativity, & relocation to urban centers.

11. **Consumers benefit:** relatively cheap food & fiber, varied & convenient food choices, more simplified one or two-stop shopping experiences, & as much labeling information as they demand.

12. **Consumers lose:** having a sense of community which supports local food production, losing locally rich markets because of the power of large chains, greater challenges in getting the market to be responsive to concerns about food safety.
What is our role as public educators & economists?

Are we part of the problem, or
Are we part of the solution?