US Corporate Agribusiness and Farms:  
A Comparative Analysis of  
Agricultural Policy

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Prepared for
“Domestic and Trade Impacts of US  
Domestic Policy:
Opportunities and Challenges”
Trade Conference
Washington, D.C.
November 15-16, 2007
Claims of Economists & Politicians & A simple Question

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

“For whom?”
How has the mix of US domestic and trade policy affected Farmers and Agribusiness?

- Long term generally positive for sector
- More volatility in both agriculture and agribusiness
- Distributional inequity and concentration continue
- Consumers have benefited w/price and diversity
- Federal budget has worsened
- Ag trade surplus has narrowed
- General trade deficit has worsened

US Agricultural Trade Balance, 1991-2007f; 2012 projection ($mil/FY; agricultural product only)

- Imports
- Exports

$114 b.
$107 b.
Index of US Agricultural Trade Balance, 1991-2007f (1991=100; FY; agricultural product only)*

[Graph showing the index of US Agricultural Trade Balance from 1991 to 2007. The graph plots import and export values against years, with notable events such as NAFTA and WTO indicated.]
Predictions & Reality: Agriculture

- Early/mid-1990s—Sets stage for market-oriented policy
  - Market improving
- 1996 Farm Act—A triumph of the free market?
  - Planned for market to continue up and govt to be reduced
- Late 1990s—Reality check
  - Prices down, markets down, govt support up
Predictions & Reality: Agriculture

◆ 2002 Farm Act
  – Increased government support

◆ Reality in 2007
  – Government support & market up

◆ 2007 (?) farm bill proposals
  – Generally continues government support to farmers w/little reform
How will the next farm bill (2007 or later?) likely affect Agriculture, Agribusiness & future trade talks?

◆ House & Senate versions
  – Generally status quo w/commodity provisions
  – Options for revenue programs provide similar or even large support levels (varies by commodity and region)
  – Modestly increased funding for conservation
  – Generally ignores WTO reform & cases

◆ Agricultural impact
  – Similar to 2002 act: NFI continues hi/up; govt support steady; exports likely up…largely due to supply and demand.

◆ Agribusiness impact
  – Financial indicators positive, with returns tightening

◆ Future trade talks
  – Little interest until new President and Congress; then may be limited
Net Farm Income & Direct Government Payments
($bil., 1991-2007f); 2012 projection of NFI

$ Billion

140
120
100
80
60
40
20
0

1991 1993 1995 1997 1999 2001 2003 2005 2007f 2009 2011

net farm income
govt payments
NFI-G

NAFTA
FTA
TAR
127
87.1
73.5
Net Farm Income & Government Payments: Trends 1990s-present

<table>
<thead>
<tr>
<th>Average ($bil/yr)</th>
<th>1991-95</th>
<th>96-02</th>
<th>03-07</th>
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<tbody>
<tr>
<td>NFI</td>
<td>43.5</td>
<td>46.9</td>
<td>73.8</td>
</tr>
<tr>
<td>Dir. G.</td>
<td>9.2</td>
<td>14.8</td>
<td>16.7</td>
</tr>
<tr>
<td>NFI-G</td>
<td>34.3</td>
<td>32.2</td>
<td>57.1</td>
</tr>
<tr>
<td>(G/NFI)%</td>
<td>21</td>
<td>32</td>
<td>22</td>
</tr>
<tr>
<td>Range (G/NFI)%</td>
<td>16-30</td>
<td>13-48</td>
<td>15-32</td>
</tr>
</tbody>
</table>

Note: Estimates suggest about 2/3 of Government payments go to support top 10% of producers. Further, top 10-15% of producers produce about 80% of gross sales. Further, government payments tend to be capitalized into land rents. Research studies indicate that, for every $1 of crop subsidy tied to cropland, the cash rent increases by about $1.
Predictions & Reality: Agribusiness

◆ **Early/mid-1990s**— Sets stage for market-oriented policy
  - Indicators generally up
  - ROA, ROE steady to lower

◆ **1996 Farm Act**— A triumph of the free market
  - Agribusiness hopes for expanded markets, lower prices, less G

◆ **Late 1990s**— Reality check
  - Earnings down; volatility increasing
  - Profits mixed; ROA, ROE generally lower
  - Exports generally down (contrary to hope)
  - Government support had greatly increased (contrary to plan; 32% average)
  - The market contribution to net farm income had declined (contrary to hope)
Predictions & Reality: Agribusiness

- **2002 Farm Act**
  - Re-commitment to increased gov’t protection

- **Reality in 2007**
  - Globalized markets/concentration
  - Volatility increases...politics, energy costs, competition, etc.,
  - Financial indicators generally up but stagnating
  - WTO negotiations stagnant...however bilateral/regional agreements progressing.
  - Increased WTO claims against US, w/US losing

- **2007 (?) farm bill proposals**
  - Agribusiness continues to promote “free-er” market w/less govt support, less taxes and intervention for US and WTO
  - Congress generally ignores WTO cases
  - Little support from Admin, less from Congress for WTO reform
Food Industry Financial Indicators, selected crops, 1991-2008*: Earnings/share (cents/share)
Index of Food Industry Financial Indicators, selected crops, 1991-2008*: Earnings/share (1991=100)
Food Industry Financial Indicators, selected crops, 1997-2008: Return on Assets (% after tax)
Index of Food Industry Financial Indicators, selected crops, 1997-2008*: Return on Assets (1991=100)
Some Tentative Conclusions Since NAFTA, WTO, FAIR96 & FSRIA02: Is this what we expected?

1. Trade has improved, with both imports & exports up.
2. Net Farm Income has improved.
3. Distributional inequality increased.
4. Selected major agribusinesses have done relatively well.
5. Concentration has continued, perhaps accelerating.
6. Rent-seeking by agriculture and agribusiness has increased & been successful.

- Trade & trade agreements are an integral part of the farm profit picture.
- However, farm bill subsidies are too.
- Farm interests will continue to rent-seek for trade and subsidy opportunities.
- Agribusiness will too.
- It’s part of gaming the system.