

Grain Reserves: Common-Sense Farm Policy

Fact Sheet • May 2014

Farming is a tough job. Farmers deal with unstable weather patterns and have just a few buyers for most crops. This leads to boom-and-bust swings between bumper crops and dire shortages. Income isn't guaranteed, and farmers are required to put a lot on the line to get their crop into the ground.

The uncertainty of weather and price volatility affects all farmers, but farmers who grow storable staple crops like wheat, corn, soybeans, oats and sorghum are especially vulnerable to wild price swings.

For over a decade, U.S. farm policy has encouraged farmers to plant as many of these staple “commodity” crops as possible. But our farm policy no longer has any protective measures to manage this increased production or to prevent dramatic price crashes for farmers when there is a glut of crops on the market at the same time. Even though the prices paid to farmers may plummet if there is too much supply on the market, most farmers still overproduce.

So if farmers don't benefit from overproduction, who does? It's the corporate food manufacturers and factory farms that buy the grains, sometimes for less than they cost to produce, and then process and sell them at a huge markup to consumers. Unsurprisingly, it's also these corporate agriculture interests that have the political sway to lobby Congress for policies that keep prices low, markets volatile and overproduction unchecked.

Government payments to commodity crop producers (payments made every year regardless of crop prices) have served as a stopgap measure since 1996 to keep farmers in business when prices plummet because of overproduction. The 2014 Farm Bill ended direct payments to most commodity crop producers and instead emphasized subsidized crop insurance as the primary farm safety net. Missing from the final bill are the real reforms we need, including restoring grain reserve programs that were historically used to provide stability for farmers and to rein in overproduction of these crops.

The United States maintains a Strategic Petroleum Reserve to supplement the country's energy needs in times of emergency, but we no longer have such a program for the food supply. Because there's no policy mechanism to manage the overproduction of staple grain products, especially corn, it's resulted in a flood of corn that has drastically changed our food system. The oversupply of corn provides feed for factory-farmed animals, creates cheap high-fructose corn syrup for processed foods, produces ethanol to mix with gasoline, and dumps excess corn on international markets, where it can ruin the market for family farmers in those countries.

How Did We Get Here?

During the Great Depression, the New Deal established grain reserves to help prevent wide swings in the availability (and price) of staples because of weather, disaster or unusually good harvests. Reserves have been used for thousands of years to ensure food security. During extremely productive years, the government reserve purchased farmers' surplus of storable grain crops, which prevented prices from collapsing when farmers brought their entire crop to market all at the same time. If farmers had a bad year because of drought or pest infestation, the reserve could release the surplus grain onto the market. Thus, with the supply of grain remaining relatively steady from year to year, prices never dipped too low in good years or rose too high when harvests were poor. Evening out the volatility in agricultural markets was a long-term benefit to farmers and consumers.

During the 1980s, agribusiness-driven agricultural policy initiatives began to replace the programs of the New Deal. The 1985 Farm Bill began to dismantle the New Deal farm

Timeline

- 1933** Agricultural Adjustment Act of 1933 creates the Commodity Credit Corporation (CCC), which sets minimum prices that processors and other buyers must pay for commodity crops. Voluntary acreage reduction programs discourage farmers from overproducing.
- 1954** Agricultural Act of 1954 authorizes a CCC-run grain reserve for foreign and domestic food security.
- 1965** Food and Agricultural Act of 1965 authorizes a long-term diversion of acreage to reduce overproduction.
- 1977** Food and Agricultural Act of 1977 establishes a farmer-owned reserve for grain.
- 1985** Food Security Act of 1985 eliminates the CCC grain reserve.
- 1996** Federal Agriculture Improvement and Reform Act of 1996 marks the final shift toward “market-oriented” farm policy. It eliminates acreage reduction programs and farmer-owned grain reserves, and introduces direct payments to farmers as a different kind of “safety net” that allows market prices to stay very low. Market prices for corn and soybeans drop by nearly half by 1999.
- 2002** Farm Security and Rural Investment Act of 2002 makes direct payments permanent.
- 2014** Agricultural Act of 2014 ends direct payments and emphasizes subsidized crop insurance as the primary safety net.

safety net by reducing the number of acres that farmers were required to leave unplanted. It also started to phase out the crop-reserve purchase program. This both brought new acreage into production and allowed excess stocks to enter the market, which increased supply and lowered prices paid to farmers. These changes were sold to the farm community with promises that the excess supply would go to hungry export markets around the world. But the promised increase in earnings from export profits, based only on theory and not evidence, never materialized — farmers just lost money.

The End of Reserves

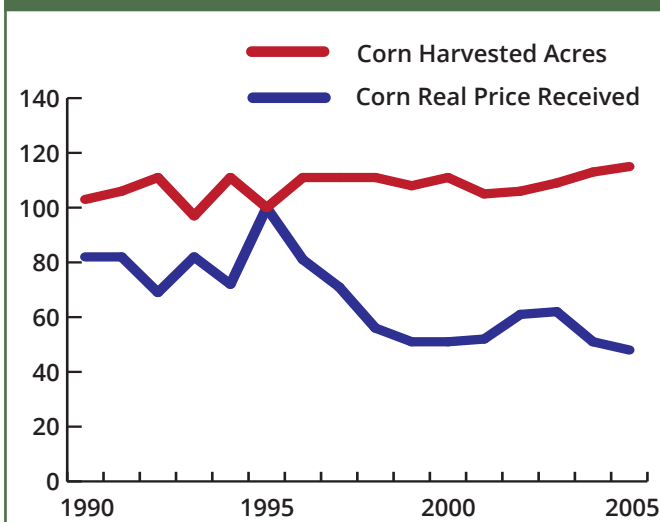
The 1996 Farm Bill significantly changed U.S. agricultural policy and completed many of the free-market efforts initiated in the 1980s. Until 1996, the federal government made emergency “deficiency” payments to producers of wheat, feed grains, cotton and rice to make up the difference if seesawing market prices fell below target prices set in the Farm Bill. The 1996 Farm Bill capped this spending for the first time, guaranteeing farmers a series of fixed but declining payments that were not linked to how much they were growing.¹ The 1996 Farm Bill also abolished the national system of holding grain in reserve.

Instead of buying or selling grain in reserves to stabilize national supply, the federal government paid farmers directly with fixed payments based on their historic production of specified commodity crops — but not their production that year. There was no mechanism in place to prevent farmers from planting as much as they could, and prices fell accordingly. Farmers harvested 7.5 million more acres of corn and 7.6 million more acres of soybeans in 1997 than in 1995.² As a result of this drastic increase in production, crop prices plunged. By 1999, the real price of corn was 50.0 percent below 1996 levels, and the soybean price was down 40.9 percent.³ By the 2002 Farm Bill, it was clear that these fixed but declining payments weren’t enough — farmers could not make a living based solely on the market. Congress restored a more expensive and weaker farm safety net payment system to provide some protection from crashing prices.⁴

As for the wheat held in reserves, it was transferred to a humanitarian food bank and global charities under the governance of the U.S. Department of Agriculture. Because it was no longer buying farmers’ surplus crops, the reserve was gradually depleted until 2008.⁵

Figure 1 tells the story: in contrast to the promises made in the 1980s and 90s, agriculture markets do not self-correct. As corn prices have continued to plummet in the last 20 years, farmers are still producing roughly the same acreage in hopes of greater return.⁶ They hope to make up for the low price for each bushel by selling more bushels. Without incentives to follow land set-aside programs or use strategic grain reserves, most farmers won’t decide on their own to limit their production in order to correct a market that they don’t control.

Figure 1: Indexed Corn Price and Acreage
(1995 = 100)



SOURCE: Food & Water Watch analysis of National Agricultural Statistics data; price index calculated on real 2010 dollars.

Damage to Foreign Markets

The pressure to open new markets to funnel U.S. farmers' excess supply in the 1990s resulted in the dumping of U.S. crops into insecure agricultural markets of the developing world. Export dumping is the practice of selling products at prices below their cost of production. Because it's cheaper for countries on the receiving end to import instead of grow their own crops, local agricultural markets are devastated.

The implementation of the North American Free Trade Agreement (NAFTA) in 1996 opened the floodgates for dumping the excess supply of U.S. corn into Mexico. One study found that from the early 1990s to 2005, U.S. corn exports to Mexico increased 413 percent. This translated to a 66 percent decline in prices for Mexican corn producers, at an estimated loss of \$6.5 billion in the nine years following the implementation of NAFTA.⁷ This was because with the reduction of tariffs and other trade liberalization rules, U.S. producers, with the force of Farm Bill-sanctioned overproduction of corn behind them, dumped massive amounts of corn into the Mexican market, undercutting the country's own production.

Bring Back the Grain Reserve

A popular refrain in the debate about farm policy is that ending government commodity crop payments (often described as farm subsidies) will force farmers to adjust to the realities of the market. But the last two decades have shown that cutting farm payments won't fix the problem. As we've seen, farmers produce as much as they can to try to make ends

meet, regardless of supply, and market changes alone won't force them to adjust their production levels.

Some major farmers' organizations including the National Farmers Union advocate for a stronger safety net to keep farmers in business and to prevent overproduction that devastates farm prices and floods our food system with corn, soybeans and other commodity crops. Its recommendation for future Farm Bills is to establish a farmer-owned food and feed reserve for domestic economic adjustments, and a world reserve for international humanitarian food aid "structured as to not depress prices nor discourage food production in developing countries."⁸

A 2012 University of Tennessee study found that these reserves would cost less than the current Farm Bill commodity programs (saving about \$100 billion from 1998 to 2010), would strengthen crop prices, and would increase the value of U.S. crop exports, reducing the amount of dumping in foreign markets.⁹ Importantly, this study covered not only periods when crop prices were low (from 1998 to 2005) but also when prices were high (2006 to 2010)¹⁰, demonstrating that the reserve mechanism would have been effective and affordable even during wild price volatility over the past decade.

A national strategic grain reserve can help alleviate the need for government payments, reduce export dumping and harm to farmers in other countries, and allow farmers to plan ahead and count on a certain level of payment for their supply — which is good for everyone.

Endnotes

- 1 Ray, Daryll E. Agricultural Policy Analysis Center. University of Tennessee. "Impacts of the 1996 Farm Bill Including Ad Hoc Additions." 2001 at 8 to 9.
- 2 U.S. Department of Agriculture (USDA). National Agricultural Statistical Service (NASS) data.
- 3 USDA NASS, Agricultural Prices Annual Summary. 1990-2009, adjusted for inflation to constant 2009 dollars using the Bureau of Labor Statistics inflation calculator.
- 4 Becker, Elizabeth. "Accord Reached on a Bill Raising Farm Subsidies." *New York Times*. April 27, 2002.
- 5 Kaufman, Frederick. "How to fight a food crisis." *Los Angeles Times*. September 21, 2012.
- 6 Ray, Darryl. "Rethinking U.S. Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide." Agricultural Policy Analysis Center, University of Tennessee. 2003 at 3.
- 7 Wise, Timothy. "Agricultural Dumping Under NAFTA: Examining the Costs of U.S. Agricultural Policies to Mexican Producers." Global Development and Environment Institute, Tufts University. December 2009 at 17, 19 to 22.
- 8 National Farmers Union (NFU). "Policy of the National Farmers Union." March 2013 at 14 and 55.
- 9 NFU. "Market-Driven Inventory System." March 5, 2012 at 3.
- 10 *Ibid.* at 5.

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