

6. U.S. Consumers, producer income and the reduced role of subsidies

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Higher commodity prices benefit producers. Our research investigates the consequences of the recent period of high prices for commodity producers and farmland owners in the California and the United States as a whole. Recent USDA data and projections suggest that net farm income will increase by 4.1% to \$92.3 billion in 2008; a 51% increase over the ten-year average of \$61.1 billion. Higher crop revenues more than offset higher costs of production. Crop revenue is expected to be more than \$175 billion in 2008, about 17 percent more than the previous record of \$150 billion in 2007. The big jumps are in corn and soybean receipts that will likely be up about 50 percent over 2007 and double 2006. Agricultural cash receipts will exceed \$300 billion in 2008, with almost \$140 billion from livestock. The value of livestock production jumped in 2007, but is expected to dip in 2008. Land prices jumped again from 2007 to 2008. These increases were led by land prices in the Midwest, where grains and oilseed dominate the crop mix. The land price changes suggest that buyers expect relatively high commodity prices to continue.

After gaining from high prices in 2007, profits for the livestock industries have fallen due to high energy and feed prices. The beef and pork industries have reduced breeding stock, leading to increased marketings and much lower prices. These gains to consumers will moderate US food prices in the latter half of 2008 and early 2009. The livestock industries have responded to high feed prices by lobbying against Federal biofuel mandates. In August the USEPA rebuffed those lobbying efforts, but we expect to see continued pressure for policy changes to moderate biofuels demand for grain.

Higher prices caused payments of farm subsidies to fall from 2006 through 2008. There were almost no payments in the price-contingent programs in 2007 and there are unlikely to be such payments in 2008. These budget savings of \$10 to \$15 billion per year mean that farm program spending is unlikely to be a major policy issue. Furthermore, with high prices, farm commodity programs do little to stimulate production of program crops and do little to distort production incentives or incomes of competitors. Despite the fact that the US farm sector does not currently rely on

government subsidies, US negotiators at the Doha Round were unwilling to bind future subsidies to the current low level, perhaps because they are concerned that currently high market prices may be transitory. Our research explores these farm economics issues in more detail with examination by commodity groups.