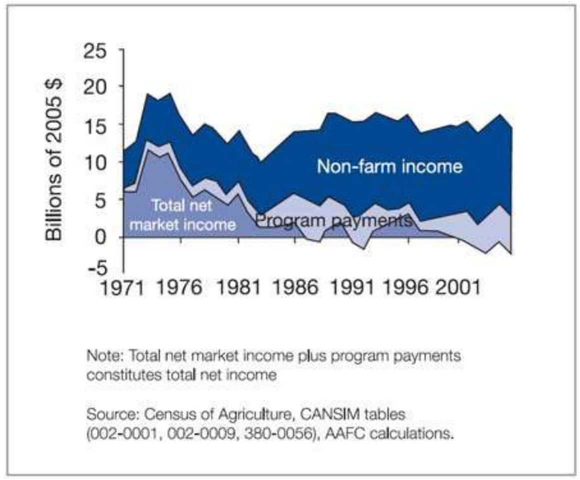
Business Risk Management: Examining the basics of the farm income crisis and the implications for BRM design

National Farmers Union presentation to the
House of Commons Standing Committee on Agriculture and Agri-Food

Thursday, March 29, 2007 Ottawa, Ont.

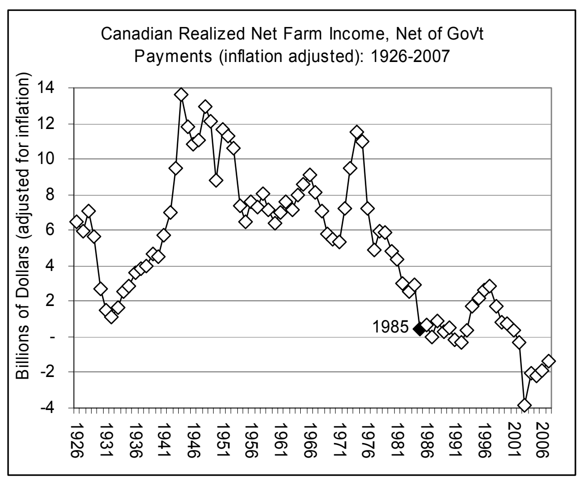
1. Undeniably, there is a farm crisis.



This graph, created by Agriculture and Agri-Food Canada (AAFC), shows that there is a profound and persistent farm income crisis. ("Economic Wellbeing of Farm Households", AAFC, Nov. 2006)

The graph's bottom wedge shows farmers "Total Net Market Income" (net income with subsidy payments taken out). If you add up Total Net Market Income since 1985, if you add the positives and negatives, the total is approximately *zero*. According to AAFC, over the past 20+ years, the markets have not rewarded farm families with a penny of net income.

2. This hasn't happened before.



The graph above shows that the near-zero (and sub-zero) net incomes of the past 20+ years are very different from net incomes of the 1970s: those net incomes were consistently positive and large, as were net incomes in the 1960s, '50s, and '40s.

Only in the 1930s do we find net farm incomes like those of today. However, current net incomes are *far below* those of the '30s (subsidies and off-farm income allow farming to continue despite sub-Depression level net incomes). Moreover, while the 1930's low incomes persisted for a decade, the current crisis is entering its 22nd year.

3. "Safety Net" programs can't deal with this.

Our current generation of Safety Net programs are based on the idea that, while farm incomes can be cyclical and volatile, they are generally adequate over the medium term. Thus, these programs—Crop Insurance, NISA, AIDA/CFIP/CAIS—try to even out the highs and lows.

The reality of the 1970s and '80s, however, no longer holds. The main goal of our "Safety Net" programs—smoothing fluctuations in farm incomes that are more-or-less adequate—is at odds with the history of the last 20+ years. Net farm income from the markets, as shown by AAFC, is essentially zero. Smoothing and averaging a medium-term net income that equals zero still yields zero.

Real progress on Business Risk Management must start by facing the realities of the past 20+ years:

- Net incomes no longer display the cyclicality and overall adequacy of previous decades;
- The term "Safety Net" is a misnomer (farm incomes rarely get off the ground);
- Similarly, "Business Risk Management" is a misnomer (more on this, below); and
- Since the mid-'80s, there has existed a structural defect in our agricultural markets that has created a new reality: perennially depressed net farm incomes despite economy-topping efficiency gains, production growth, and export volume gains.

The parade of programs of the past 15 years—NISA, AIDA, CFIP, Crop Insurance, GRIP—has failed to staunch the bleeding in rural Canada because these programs were based on a reality that no longer holds. To end the farm crisis, policy makers must step out of the box, they must admit the new reality, and they must craft farm support programs in tune with that reality.

4. The problem is market power.

While farmers have been racking up record losses, the agribusiness corporations that control the rest of the agri-food chain have been posting record profits. 2004 was the best year in history in terms of agribusiness profit; 2004 was the second worst year in history for farmers. The lesson here is that the allocation of profits within the agri-food chain is largely dictated by market power—huge transnationals with only two or three competitors have market power, individual farmers competing in a global market against a billion other farmers do not have market power.

In the new reality, the key to ending the farm crisis is to deal with market power. In the new reality, "Business Risk Management" must focus on market power. The number one "risk" that farm "businesses" must "manage" is that a radical imbalance in market power within the agri-food chain threatens to bankrupt most of those farm businesses.

5. BRM in an age of market power.

There are two ways to stabilize and improve farmers' incomes: programs to transfer money from taxpayers, and programs to equip farmers to extract money from the marketplace. We must concentrate on the latter.

We must strengthen and protect current programs that give farmers power in the marketplace: the CWB; Supply Management; single-desk, orderly marketing of hogs and other commodities. This is critical. If we dismantle such programs, or if we allow foreign attack at the trade table to destroy them, then we will have failed to learn the lesson of the past 20+ years and we will have dashed any hopes of ending the farm crisis. To be effective, new BRM programs must arm farmers to extract higher returns from the marketplace; to be effective, new BRM programs will have to build on and proliferate Supply Management and other orderly marketing, single desk programs.

6. Conclusions

Market power is real. It is the primary determinant of who will be left holding profits and who will not. Our failure to deal with this reality causes our farm crisis. If new BRM programs are to end that crisis then those programs must face the issue of market power. Anything less will fail.

New BRM programs must position farmers to buy and sell collectively, to hold product back if markets do not offer fair prices, to idle land if markets seem to be signalling surpluses, and to manage supplies (as does GM, Nike, Sony, and every sector outside of agriculture).

<u>If farmers are more powerful, they will be more profitable.</u> Upon this foundation we must build a new generation of BRM programs.