Some argue that macroeconomic policy more important to health of U.S. agriculture than farm policy.

True in 19th century

William Jennings Bryan 1896 Presidential campaign speech: “You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold.” in *The Agrarian Crusade* by S. Buck

Sometimes hear agriculture is the backbone of the U.S. economy. Here are the raw numbers:

- Farm output about 1% of GDP, 1.2% of jobs
- Food and fiber system 13% of GDP, 17% of jobs
- Consumers spend less than 10% of income on food
- Upwards of 75% of farm inputs purchased

Today the macroeconomy drives agriculture not the reverse.
A. Linkages between agriculture and the macroeconomy

1. Income growth
2. Inflation
3. Interest Rate
4. Exchange Rates
1. Income growth – home and foreign

United States              World Market          Foreign
2. Inflation (Anyone know what that is??)
Demand pull
Cost push

Flex price vs fixed price markets

Cost-price squeeze

Buy now, pay later – borrowers and lenders
“Farmers should have one million dollars of debt for every year of age and be able to cash flow 18 months ahead.”
– former farmer, 1977

Land as a hedge
3. Interest Rates:

Farm costs

Storage costs

Exchange Rate
Interest rate increase on the farm – short-run
4. Exchange rate:
   Appreciation
   like export tax, import subsidy

   Depreciation
   like export subsidy, import tax
B. Macro Policy Tools

1. Fiscal Policy:

2. Monetary Policy:
C. Quick history of U.S. agriculture and the macroeconomy

1. 19th century agriculture wanted bimetalism

2. 1914-1922 war inflation, good years for agriculture

3. 1922-1929 Monetary contraction, lost exports

4. Great Depression

5. After WWII stability until late 1960s
6. Late 1960s and 1970s
   inflation emerges

   global demand growth

   oil embargoes

   stagflation

7. Early 1980s monetary contraction
   inflation

   high interest rates

   global recession

   debt crisis

   Savings and Loan collapse

   Farm financial crisis
8. Recovery and growth until Asian Financial Crisis

Was that really the story?
Know: Prices low, export volume little drop.