

AGEC 410 – Agricultural and Food Policy

7 – Macroeconomics and Agriculture

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:

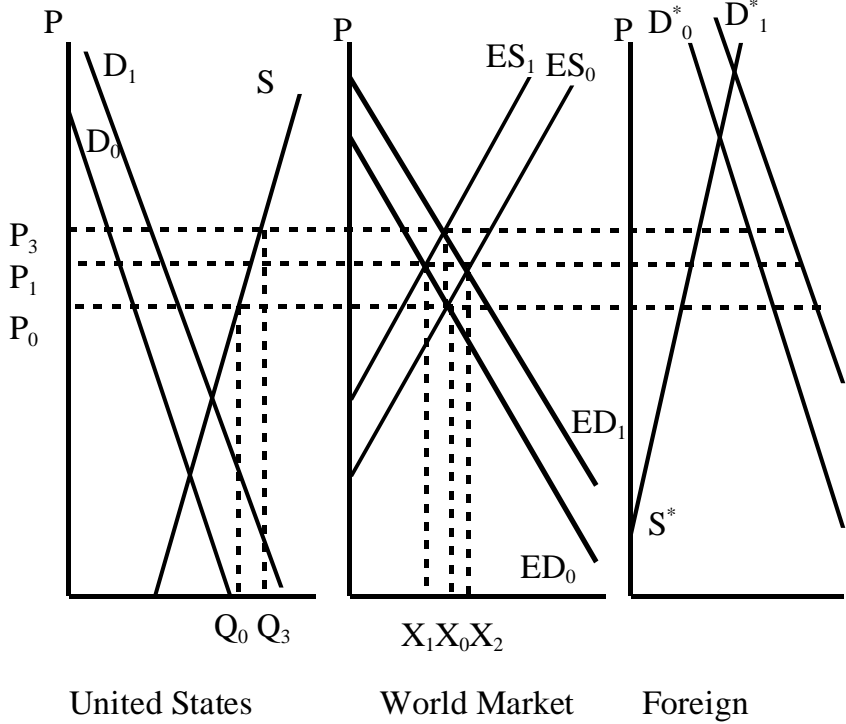
farm output about 1% of GDP, 1.2 % of jobs
food and fiber system 13% of GDP, 17% of jobs
consumers spend less than 10% of income on food
upwards of 75% of farm inputs purchased

Today the macroeconomy drives agriculture not the reverse.

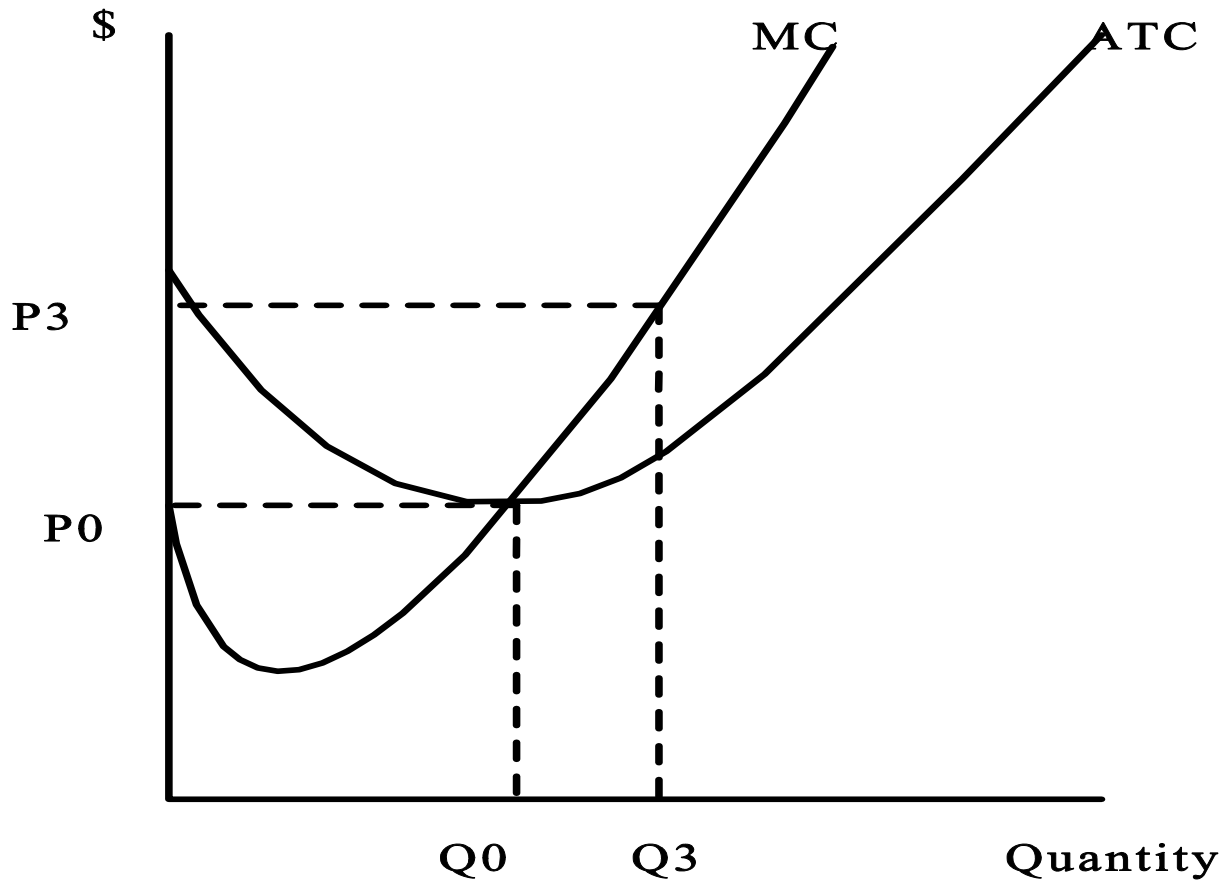
A. Linkages between agriculture and the macroeconomy

1. Income growth
2. Inflation
3. Interest Rate
4. Exchange Rates

1. Income growth – home and foreign



Income Growth at the farm level- Short-run



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

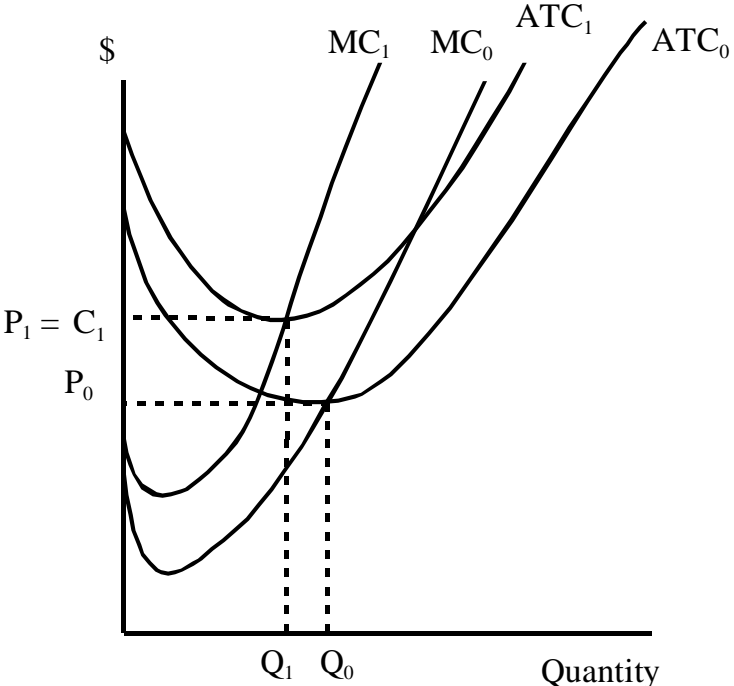
3. Interest Rates:

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 bimetallism
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

9. Asian Financial Crisis blamed for low prices, low farm income, and high U.S. Government farm spending.

Was that really the story?

Know: Prices low, export volume little drop.

