

The 1996 Farm Bill: Is This What We Expected To Happen to Crop Agriculture?

Daryll E. Ray

University of Tennessee

Agricultural Policy Analysis Center

Preparation for Farm Bill Debate Season

- Events and changes in perceptions that led to adoption of 1996 Farm Bill (FB)
 - Long Term factors
 - Short Term Factors
- Conventional wisdom about FB's performance
 - Performed well first two years — “high” prices and incomes
 - Sabotaged by the Asian Crisis
- Were the premises that underlie the legislation proven true?

Events and Changes in Perceptions that Influenced the Shape of the 1996 Farm Bill

- Long Term Factors
 - Growing importance of exports

Events and Changes in Perceptions that Influenced the Shape of the 1996 Farm Bill

- Long Term Factors
 - Growing importance of exports
 - Changing nature of agricultural sector

Events and Changes in Perceptions that Influenced the Shape of the 1996 Farm Bill

- Long Term Factors
 - Growing importance of exports
 - Changing nature of agricultural sector
 - Increasing influence of “Chicago School”

Events and Changes in Perceptions that Influenced the Shape of the 1996 Farm Bill

- Long Term Factors
 - Growing importance of exports
 - Changing nature of agricultural sector
 - Increasing influence of “Chicago School”
 - Disillusionment with farm programs
 - Rising popularity of deregulation

Events and Changes in Perceptions that Influenced the Shape of the 1996 Farm Bill

- Short Term Factors
 - Election of a Republican majority in Congress

Events and Changes in Perceptions that Influenced the Shape of the 1996 Farm Bill

- Short Term Factors
 - Election of a Republican majority in Congress
 - Release of land idling study

Events and Changes in Perceptions that Influenced the Shape of the 1996 Farm Bill

- Short Term Factors
 - Election of a Republican majority in Congress
 - Release of land idling study
 - Lugar's questions
 - Anonymous outlines of 1996 FB-like program

Events and Changes in Perceptions that Influenced the Shape of the 1996 Farm Bill

- Short Term Factors

- Election of a Republican majority in Congress
- Release of land idling study
- Lugar's questions
- Anonymous outlines of 1996 FB-like program
- Increase in farm commodity prices during farm program debate

Prices peak before first crop year of 1996 Farm Bill

- Prices peaked shortly after FB signed into law

Prices peak before first crop year of 1996 Farm Bill



Closing weekly futures price for corn
for the nearest contract month

Prices peak before first crop year of 1996 Farm Bill

	Harvested acreaage	Yield	Production	Beginning stocks	Exports	Farm price
Corn	<i>M ac</i>	<i>Bu/ac</i>	<i>M bu</i>	<i>M bu</i>	<i>M bu</i>	<i>\$/bu</i>
1994/95	72.9	138.6	10,103	850	2,177	2.26
1995/96	65.0	113.5	7,374	1,558	2,228	3.24
1996/97	72.6	127.1	9,233	426	1,797	2.71
1997/98	72.7	126.7	9,207	883	1,504	2.43
1998/99	72.6	134.4	9,759	1,308	1,981	1.94
1999/00*	70.5	133.8	9,437	1,787	1,935	1.80

–1995 was record price crop-year; year before FB

Prices peak before first crop year of 1996 Farm Bill

	Harvested acreaage	Yield	Production	Beginning stocks	Exports	Farm price
Corn	<i>M ac</i>	<i>Bu/ac</i>	<i>M bu</i>	<i>M bu</i>	<i>M bu</i>	<i>\$/bu</i>
1994/95	72.9	138.6	10,103	850	2,177	2.26
1995/96	65.0	113.5	7,374	1,558	2,228	3.24
1996/97	72.6	127.1	9,233	426	1,797	2.71
1997/98	72.7	126.7	9,207	883	1,504	2.43
1998/99	72.6	134.4	9,759	1,308	1,981	1.94
1999/00*	70.5	133.8	9,437	1,787	1,935	1.80

–1995 was record price crop-year; year before FB

–Prices began falling from the get go

Prices peak before first crop year of 1996 Farm Bill

	Harvested acreaage	Yield	Production	Beginning stocks	Exports	Farm price
Corn	<i>M ac</i>	<i>Bu/ac</i>	<i>M bu</i>	<i>M bu</i>	<i>M bu</i>	<i>\$/bu</i>
1994/95	72.9	138.6	10,103	850	2,177	2.26
1995/96	65.0	113.5	7,374	1,558	2,228	3.24
1996/97	72.6	127.1	9,233	426	1,797	2.71
1997/98	72.7	126.7	9,207	883	1,504	2.43
1998/99	72.6	134.4	9,759	1,308	1,981	1.94
1999/00*	70.5	133.8	9,437	1,787	1,935	1.80

–1995 was record price crop-year; year before FB

–Prices began falling from the get go

–Exports were down—not strong—the first two years of FB

Prices peak before first crop year of 1996 Farm Bill

	Harvested acreaage	Yield	Production	Beginning stocks	Exports	Farm price
Corn	<i>M ac</i>	<i>Bu/ac</i>	<i>M bu</i>	<i>M bu</i>	<i>M bu</i>	<i>\$/bu</i>
1994/95	72.9	138.6	10,103	850	2,177	2.26
1995/96	65.0	113.5	7,374	1,558	2,228	3.24
1996/97	72.6	127.1	9,233	426	1,797	2.71
1997/98	72.7	126.7	9,207	883	1,504	2.43
1998/99	72.6	134.4	9,759	1,308	1,981	1.94
1999/00*	70.5	133.8	9,437	1,787	1,935	1.80

- 1995 was record price crop-year; year before FB
- Prices began their fall to current levels from the get go
- Exports were down—not strong—the first two years of FB
- Granaries empty when FB began in crop year 1996

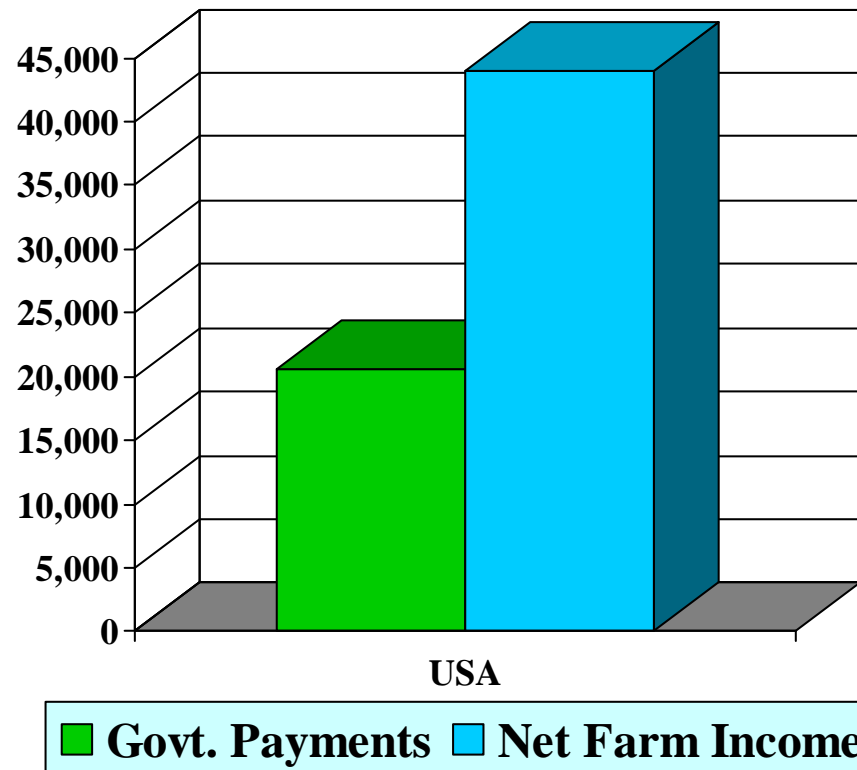
Did the Asian Crisis Cause U.S. Agriculture to Crash?

- Major U.S. drop in crop exports came before Southeast Asian crisis occurred

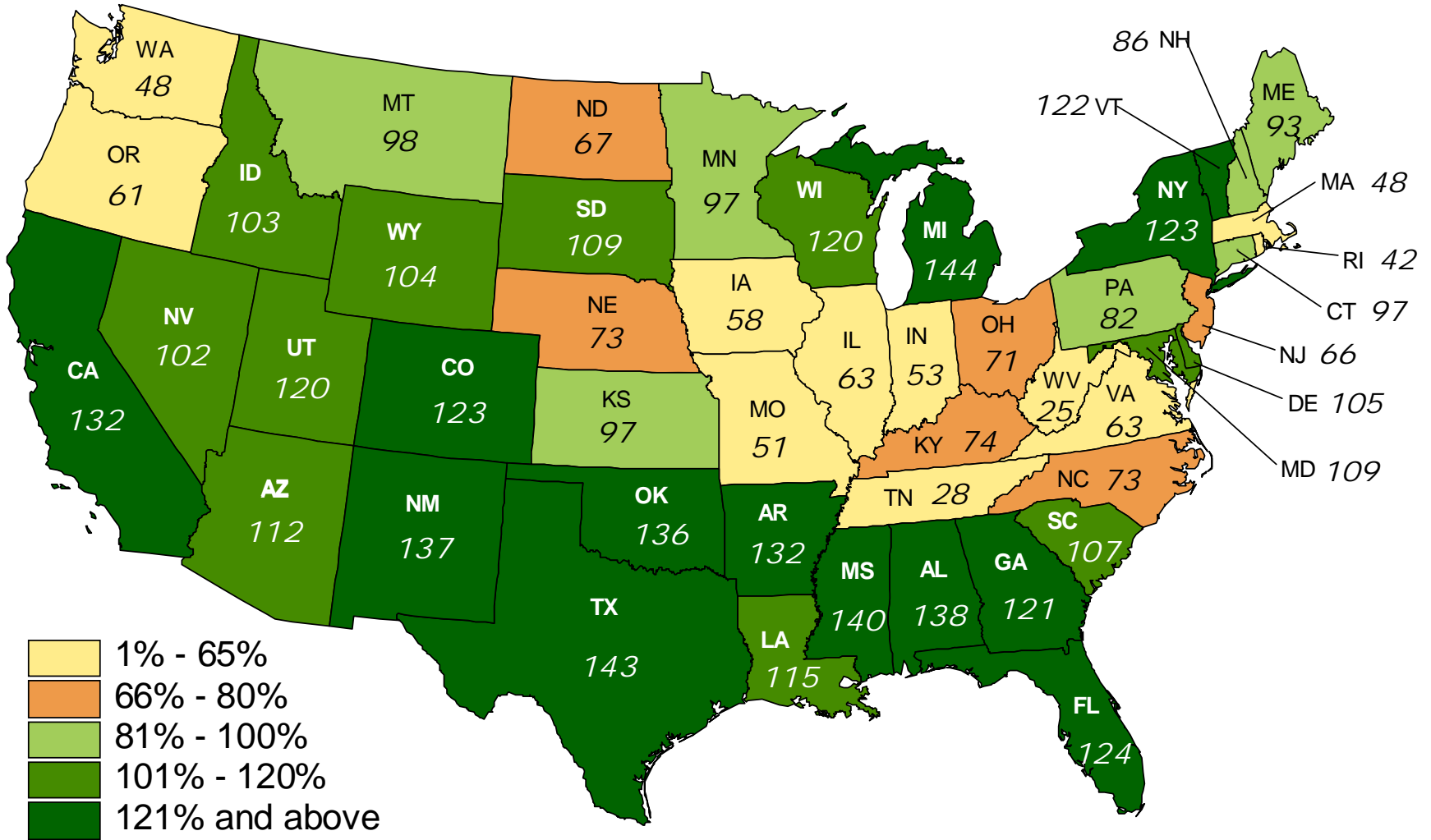
Did the Asian Crisis Cause U.S. Agriculture to Crash?

- Major U.S. drop in crop exports came before Southeast Asian crisis occurred
- There were reductions in U.S. exports to Japan and S. Korea but they were offset by other suppliers (China & Argentina in case of corn)
- Total Asian crop imports were relatively unaffected by crisis

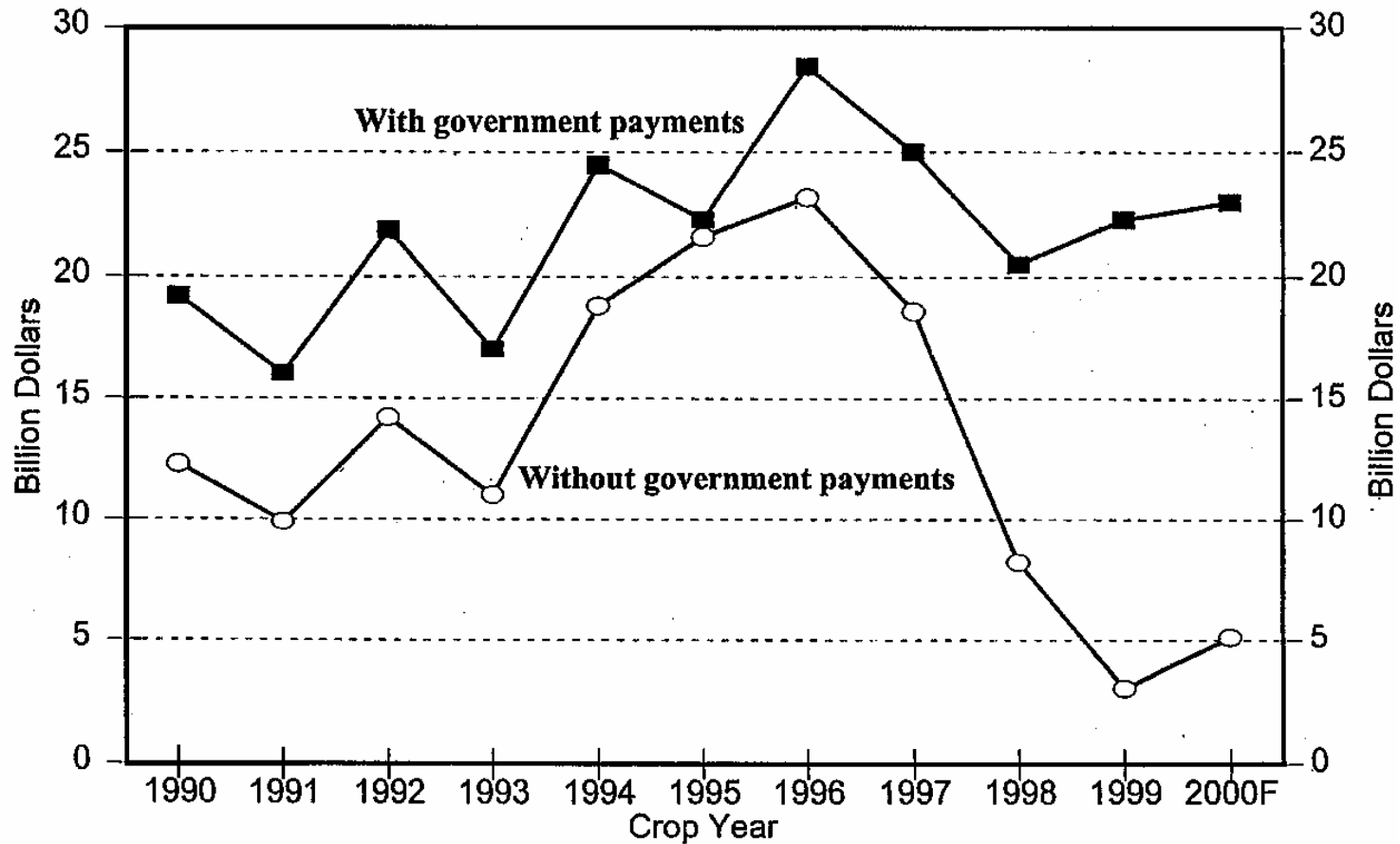
1999 Net Farm Income and Government Payments



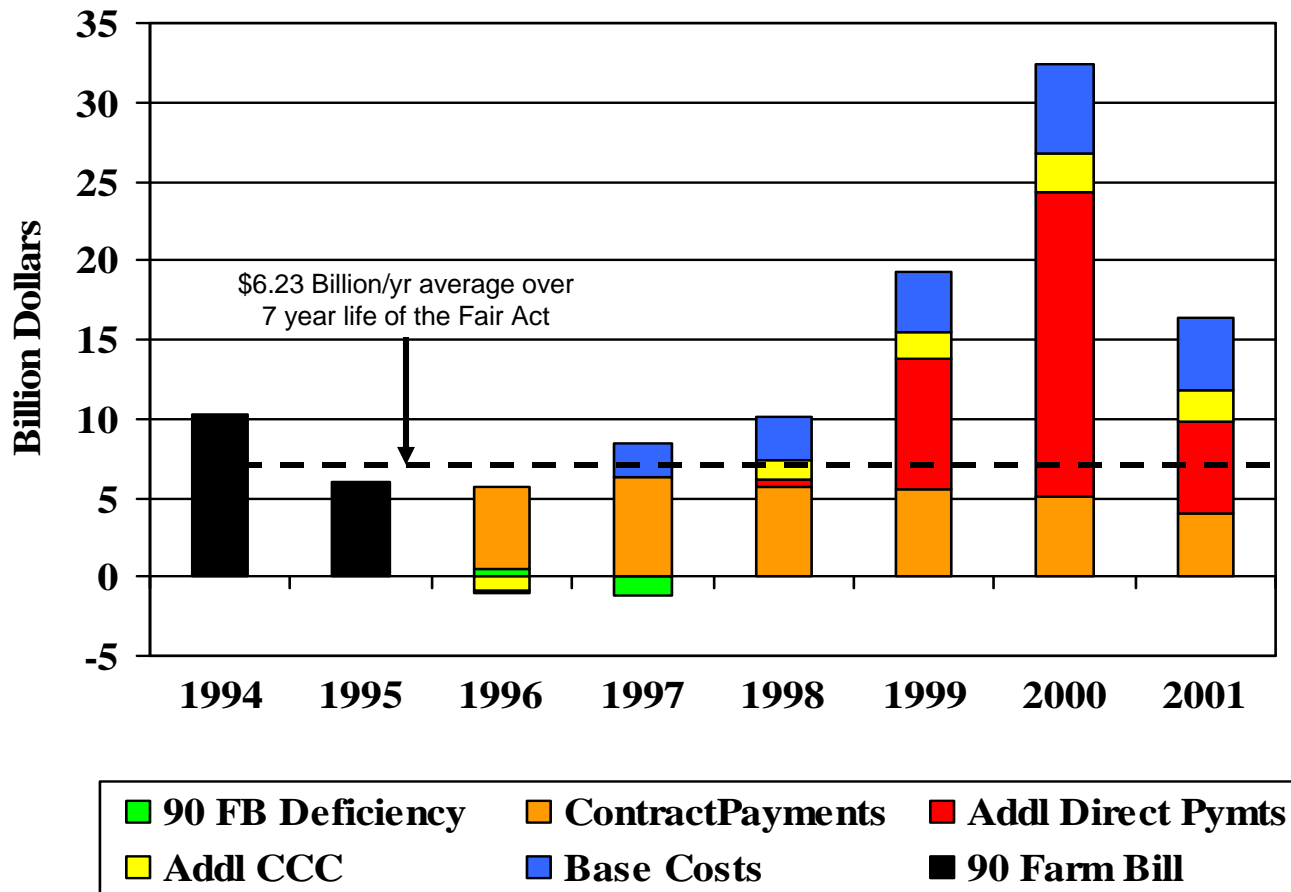
1999 Net Farm Income as a Percent of 1990-1998 Average



Net Cash Income for 8 Major Crops



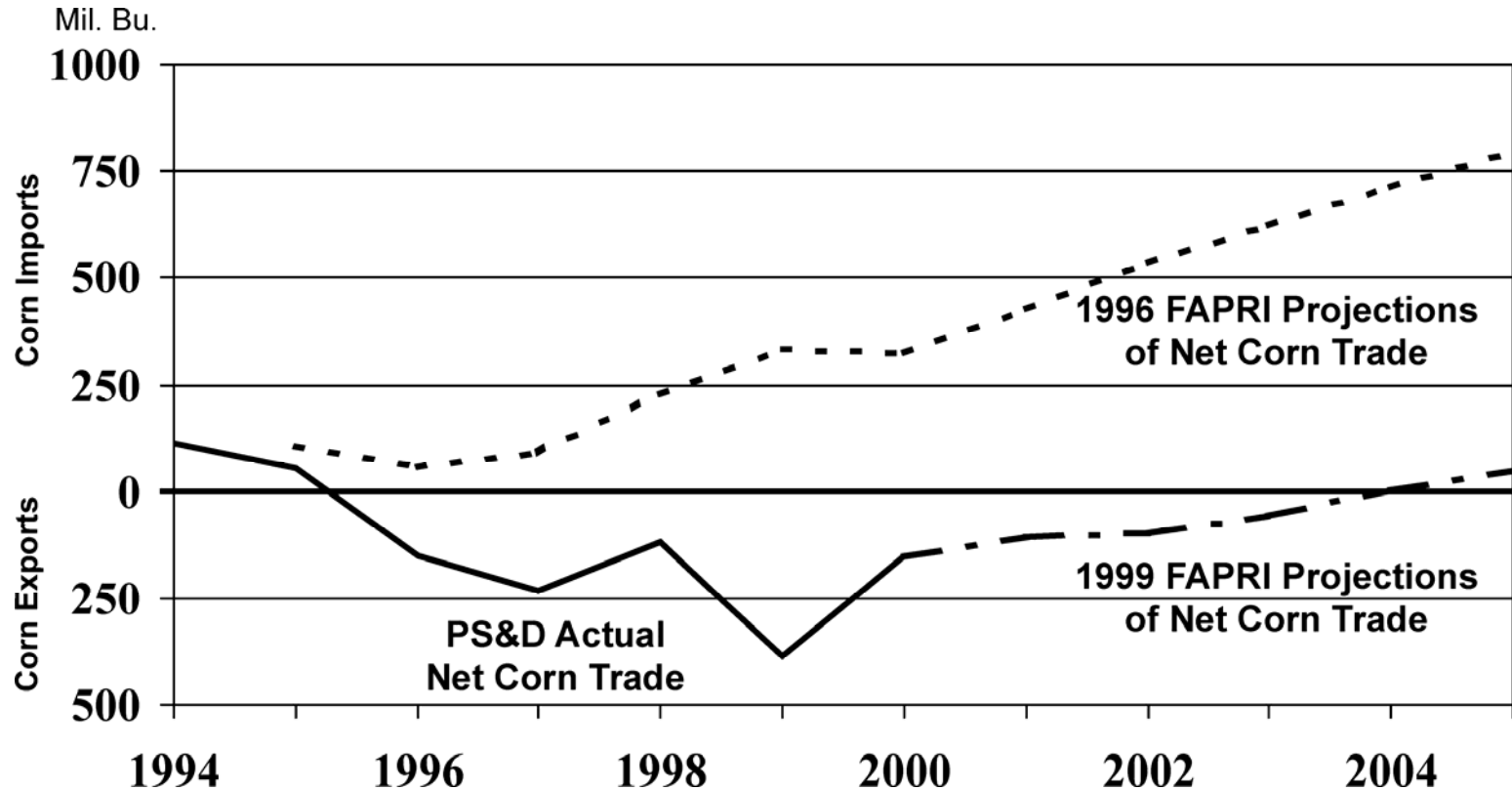
Government Outlays by Source, 1994-2001



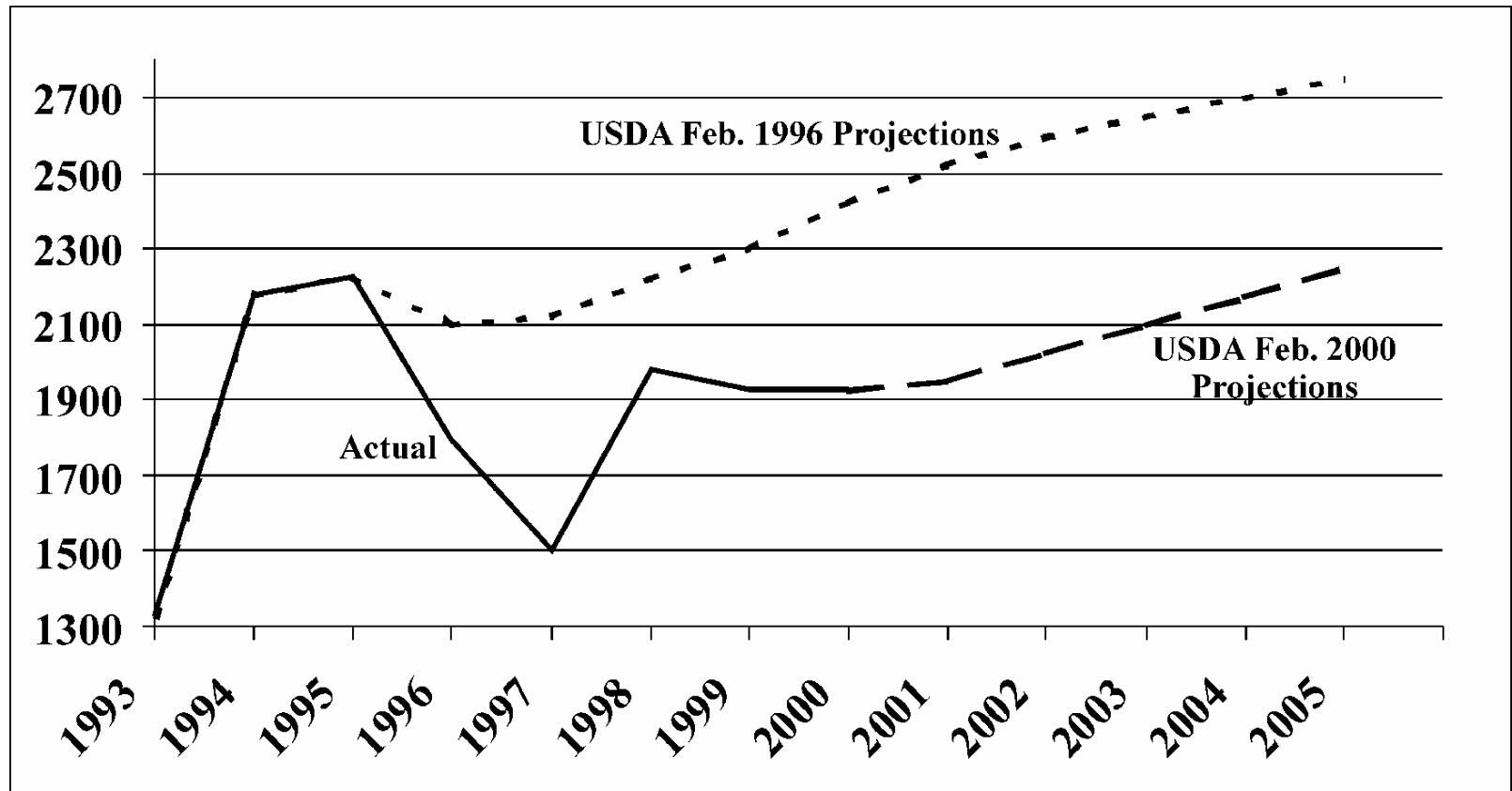
Premises and Expectations

- Sustained rapid growth in crop exports

Net Corn Trade for China: Actual and Projections, 1994-2005



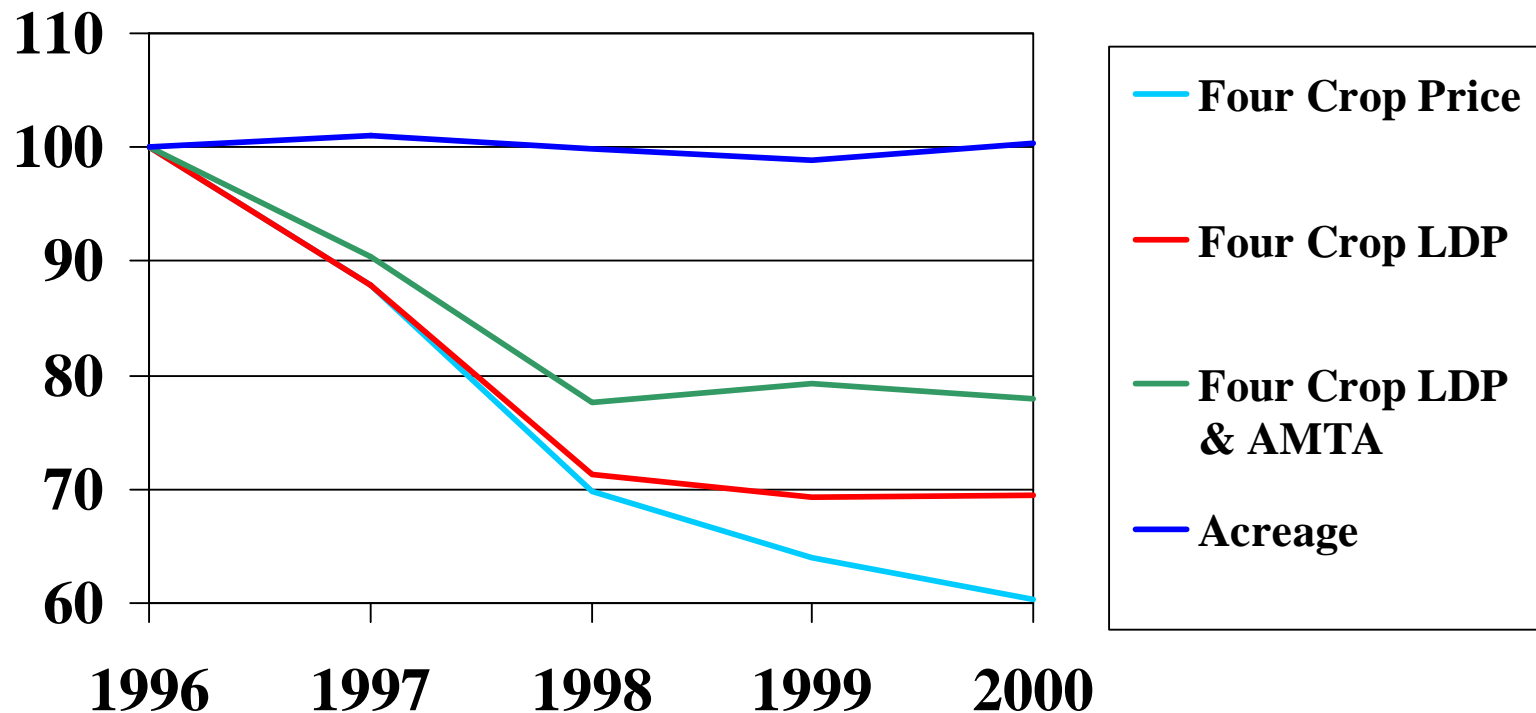
U.S. Corn Exports: Actual and Projections, 1993-2005



Premises and Expectations

- Sustained rapid growth in crop exports
- Price responsiveness
 - Supply

Indexed four crop acreage, price and price adjusted for LDP and contract payments

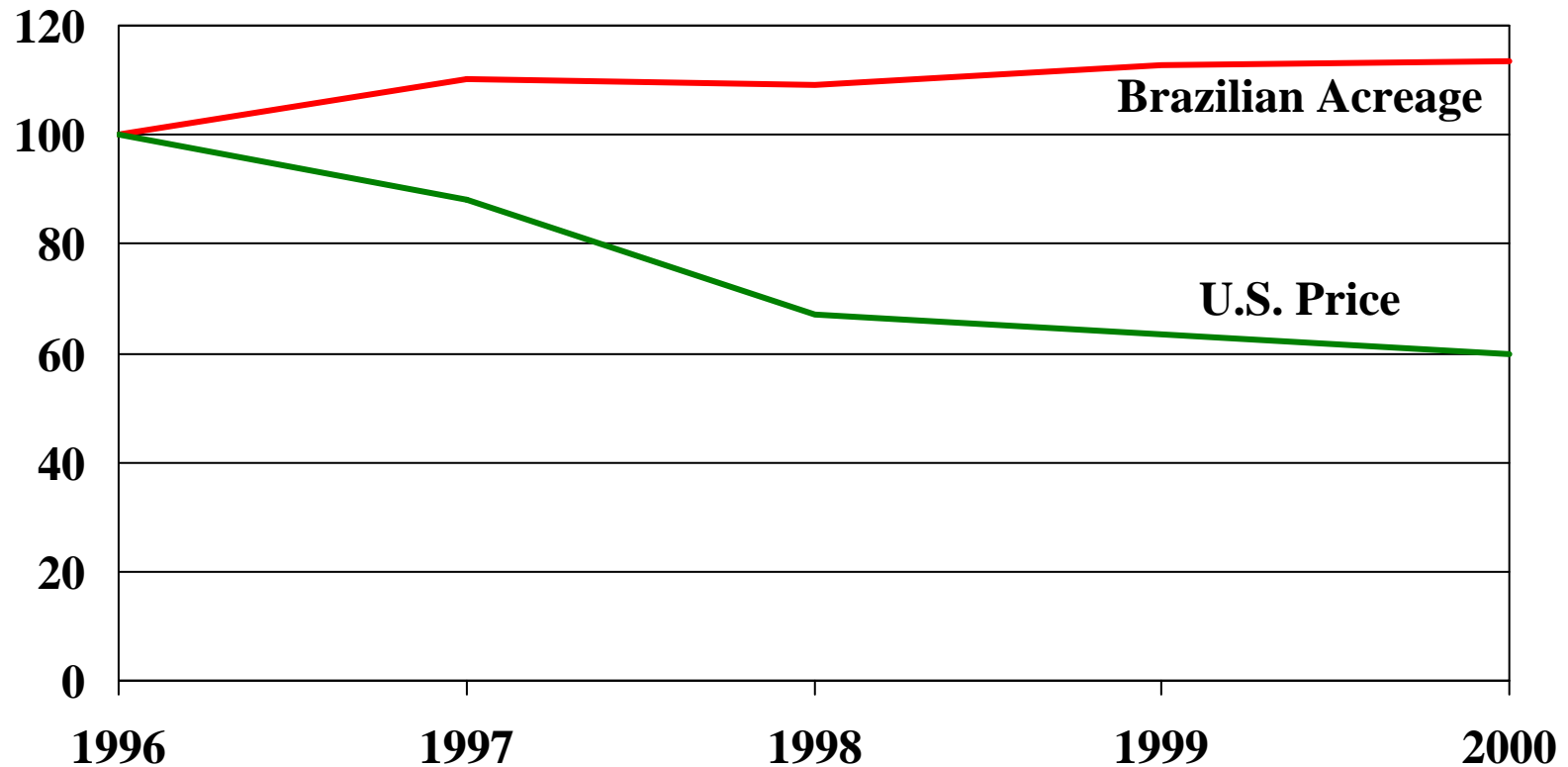


Premises and Expectations

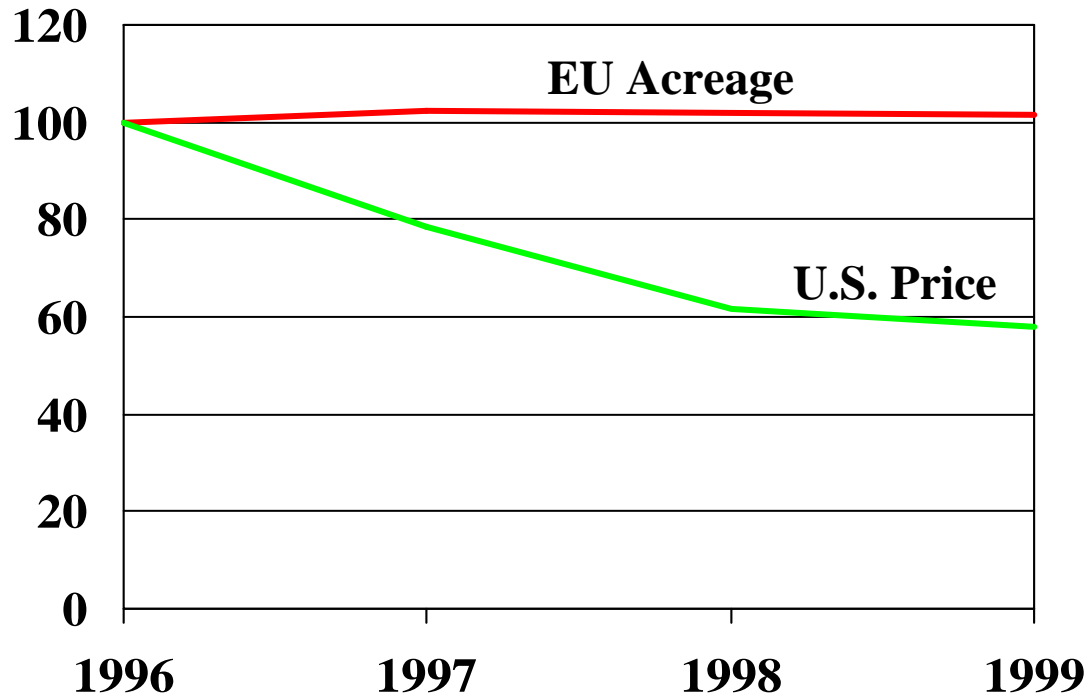
- Sustained rapid growth in crop exports
- Price responsiveness
 - Supply
 - Demand

Brazilian Soybean Acreage and U.S. Price

(1996=100)



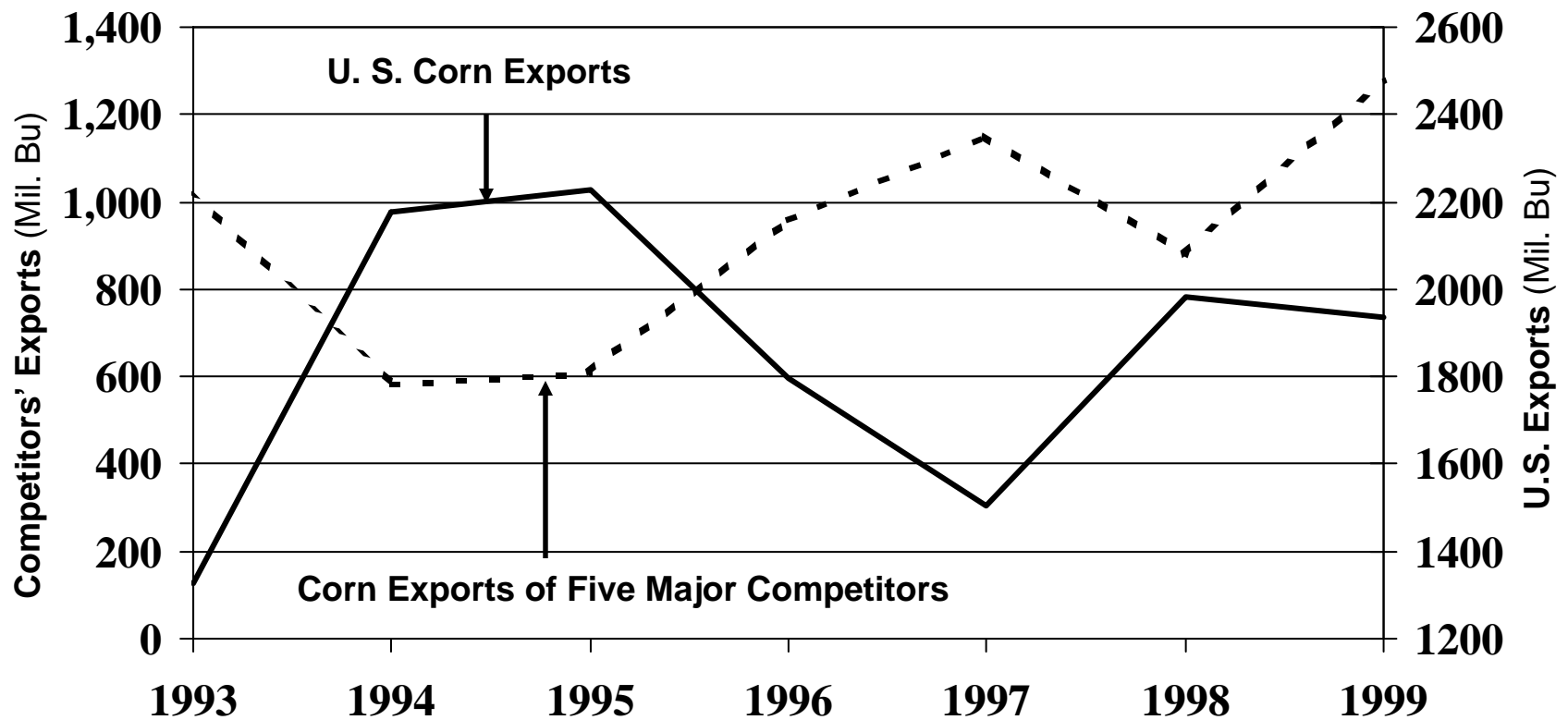
Wheat Area European Union, and U.S. Price (1996=100)



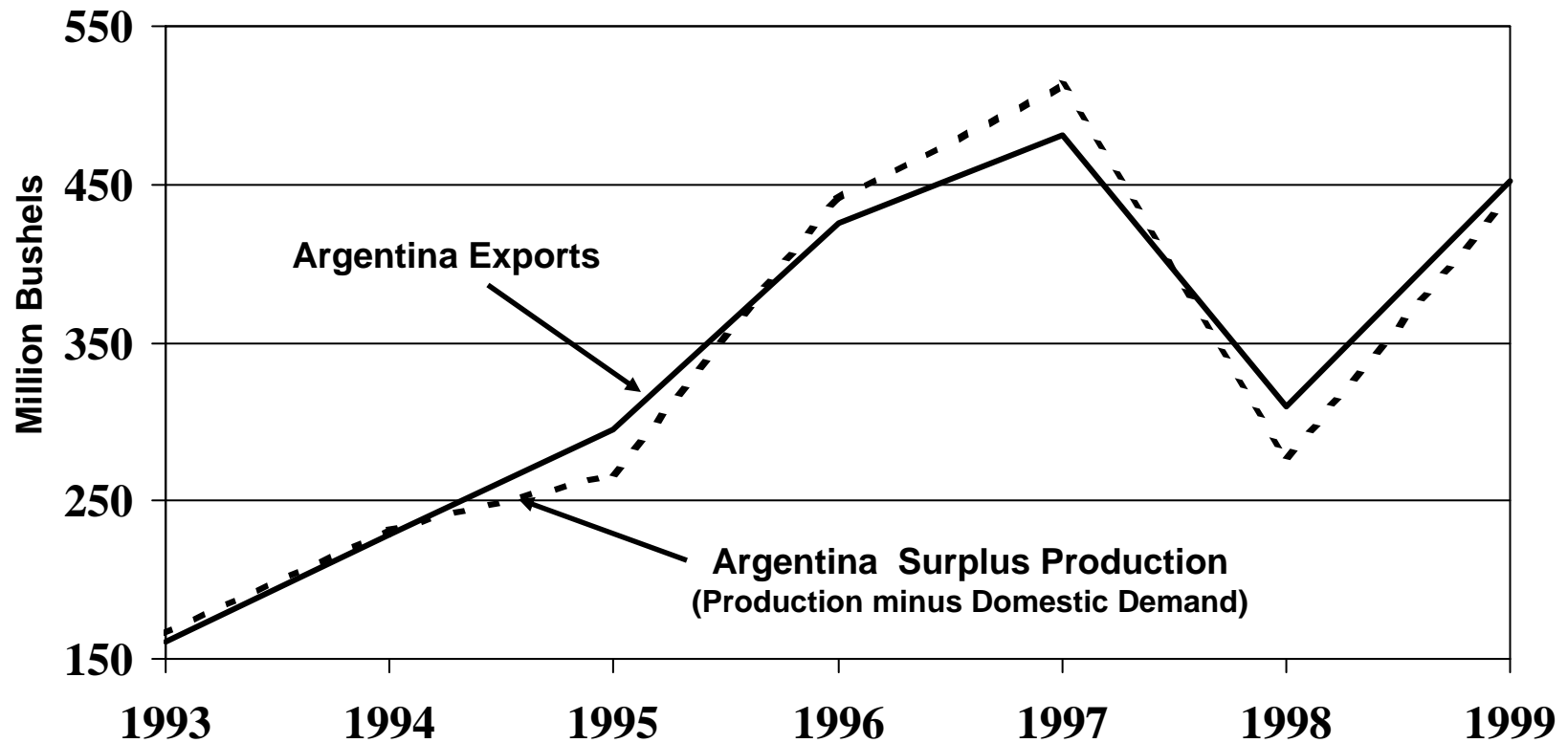
Premises and Expectations

- Sustained rapid growth in crop exports
- Price responsiveness
 - Supply
 - Demand
- Technology: A supply (and demand) shifter
 - Shifting U.S. supply to right
 - Increasingly over time shifting U.S. export demand to left(?)

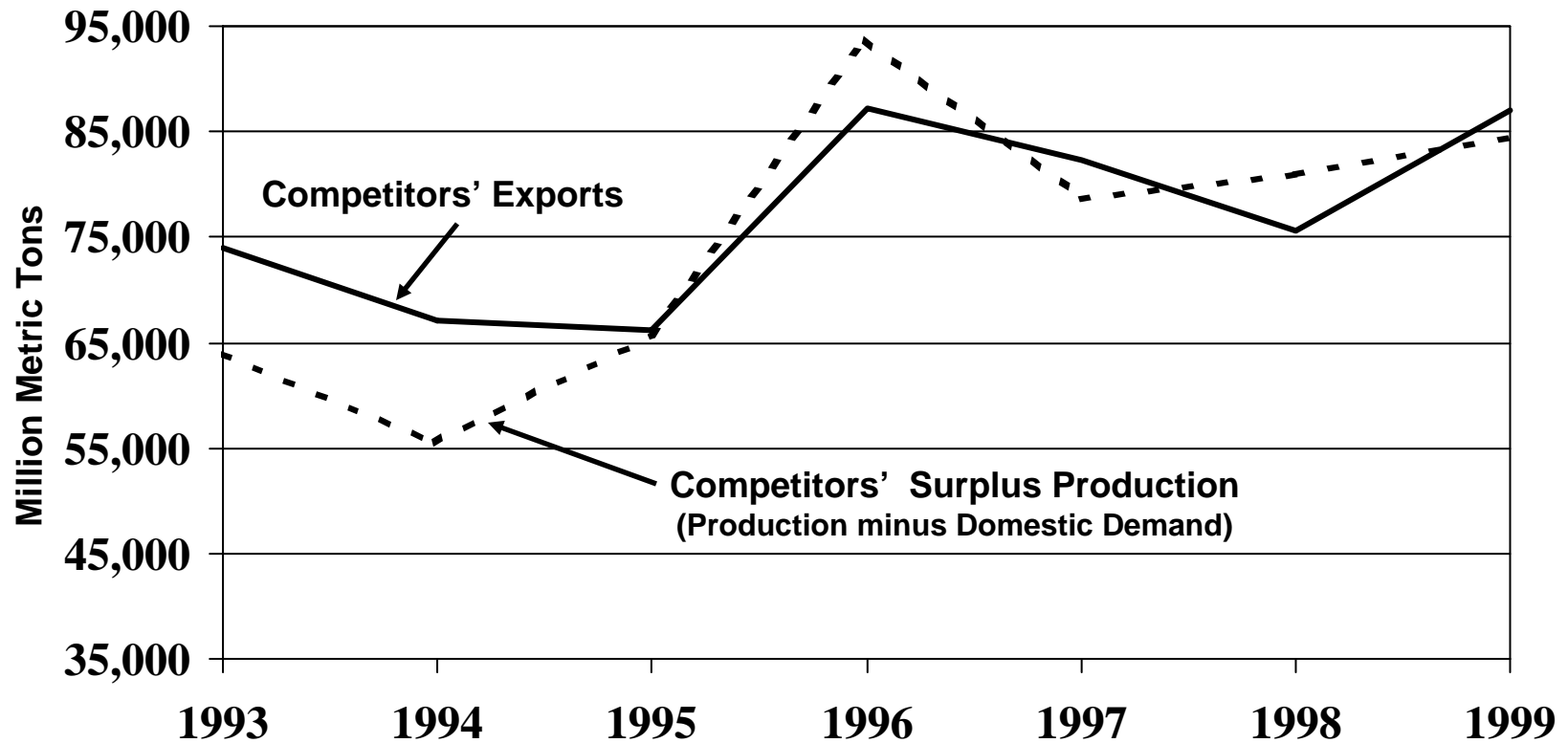
U.S. exports decline when Competitors enter the market



Argentina Corn Exports and Surplus Production

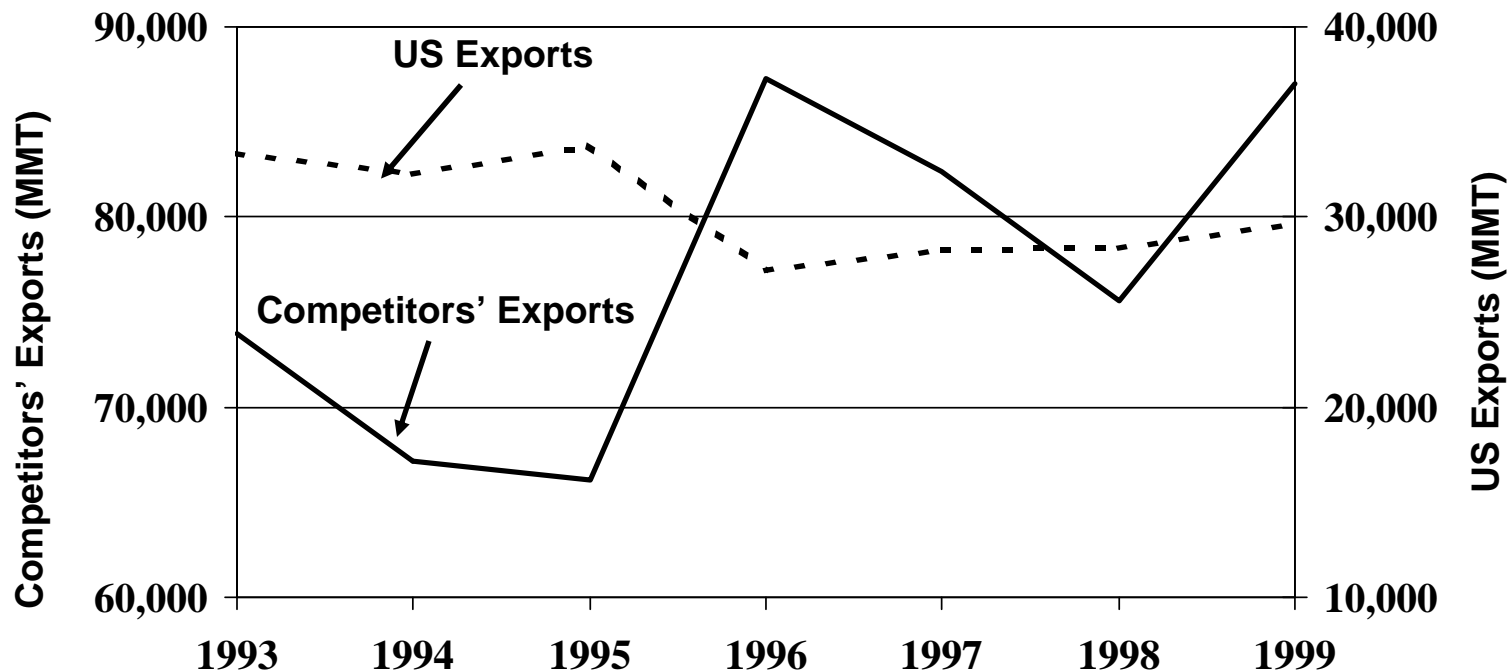


Competitors' Exports and Surplus Wheat Production



Competitors: EU15, Canada, Australia, Argentina, Kyrgystan

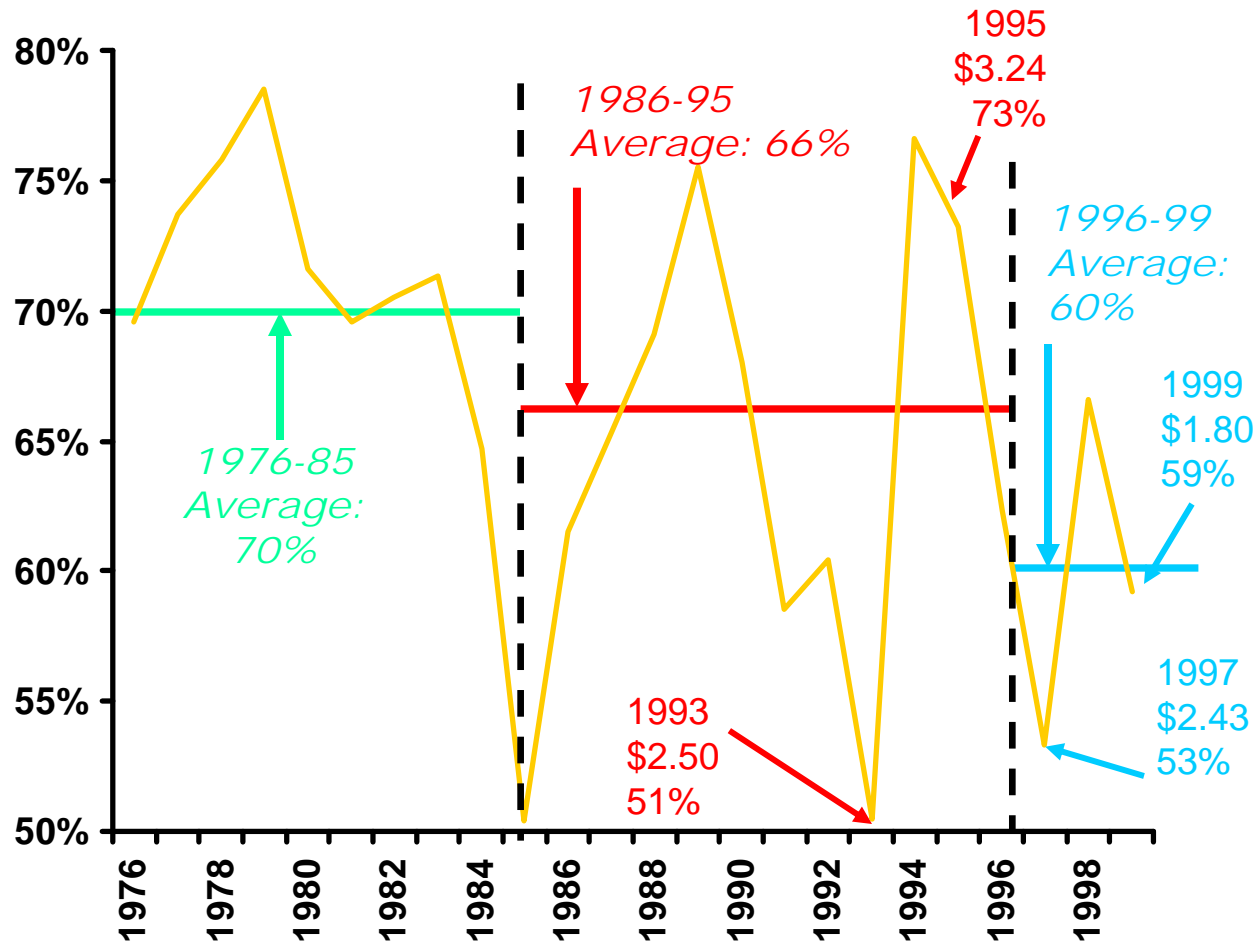
U.S and Competitors' Wheat Exports



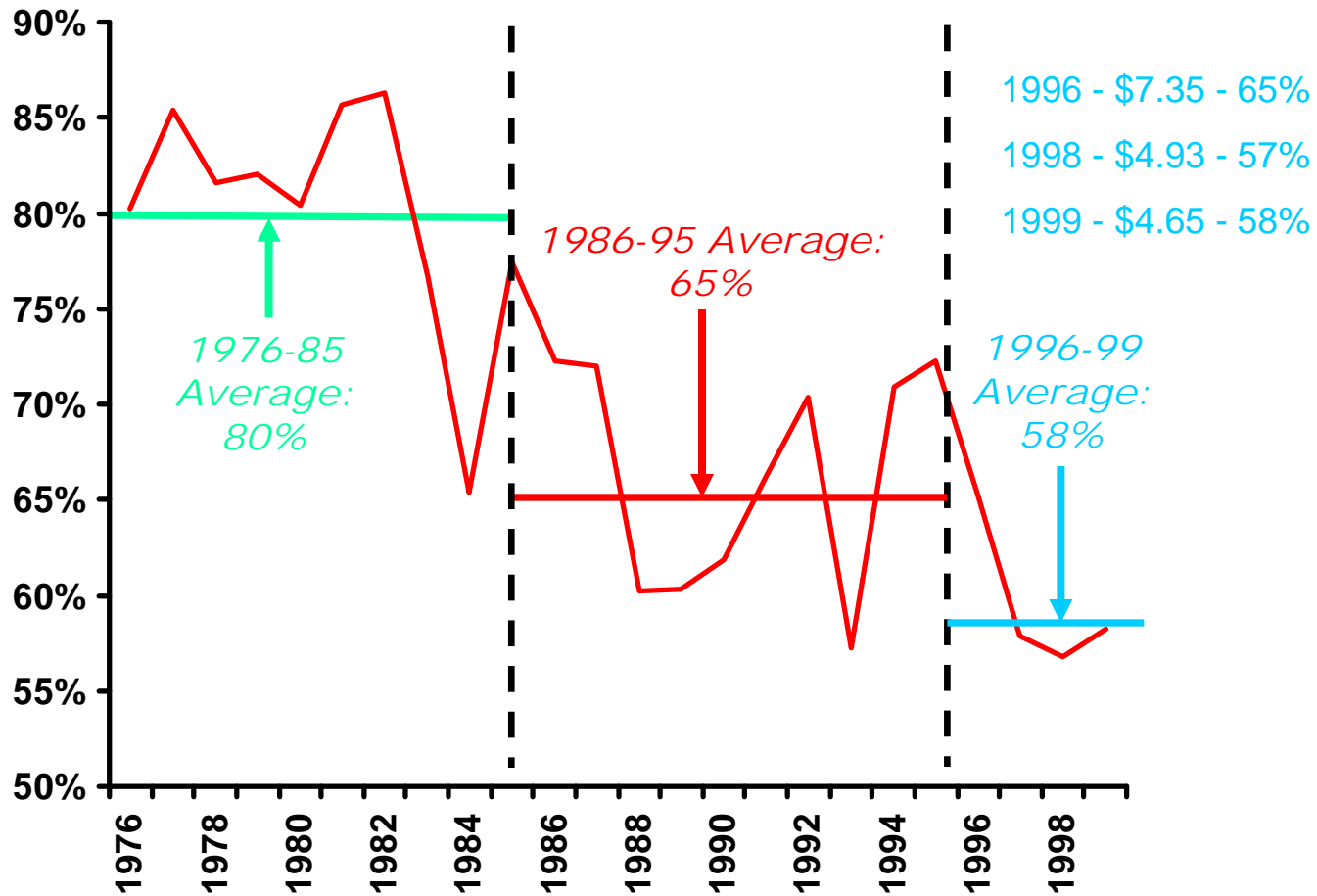
In addition to being affected by surplus production among our competitors, US wheat exports are also affected by changes in production, demand and stocks among the consuming nations (World less the US and our 5 major wheat export competitors).

- US exports in 1996 did not drop as much as our competitors increased their production because domestic demand in consuming nations increased significantly
- US exports did not rise in 1998 in response to lower exports by our competitors because carryover stocks in consuming nations decreased significantly.

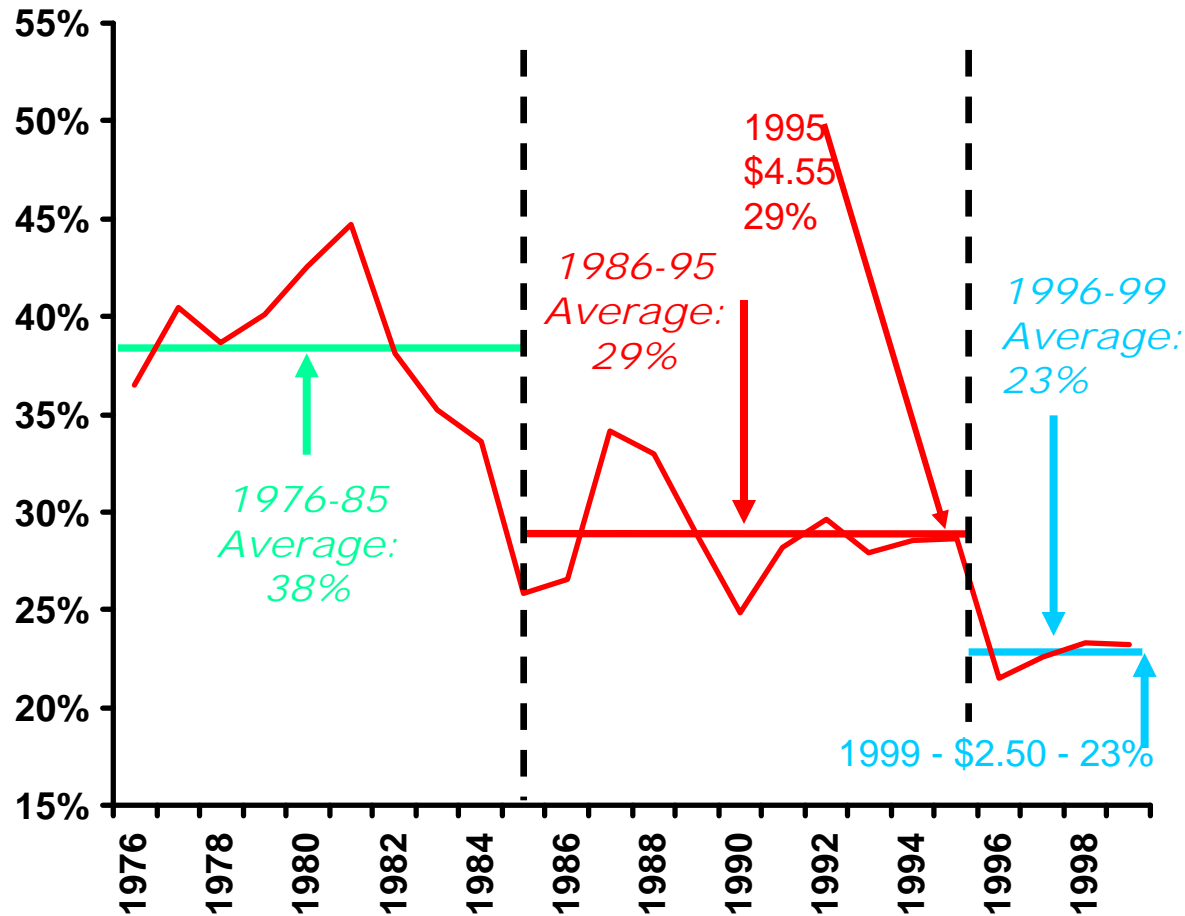
U.S. Share of World Exports



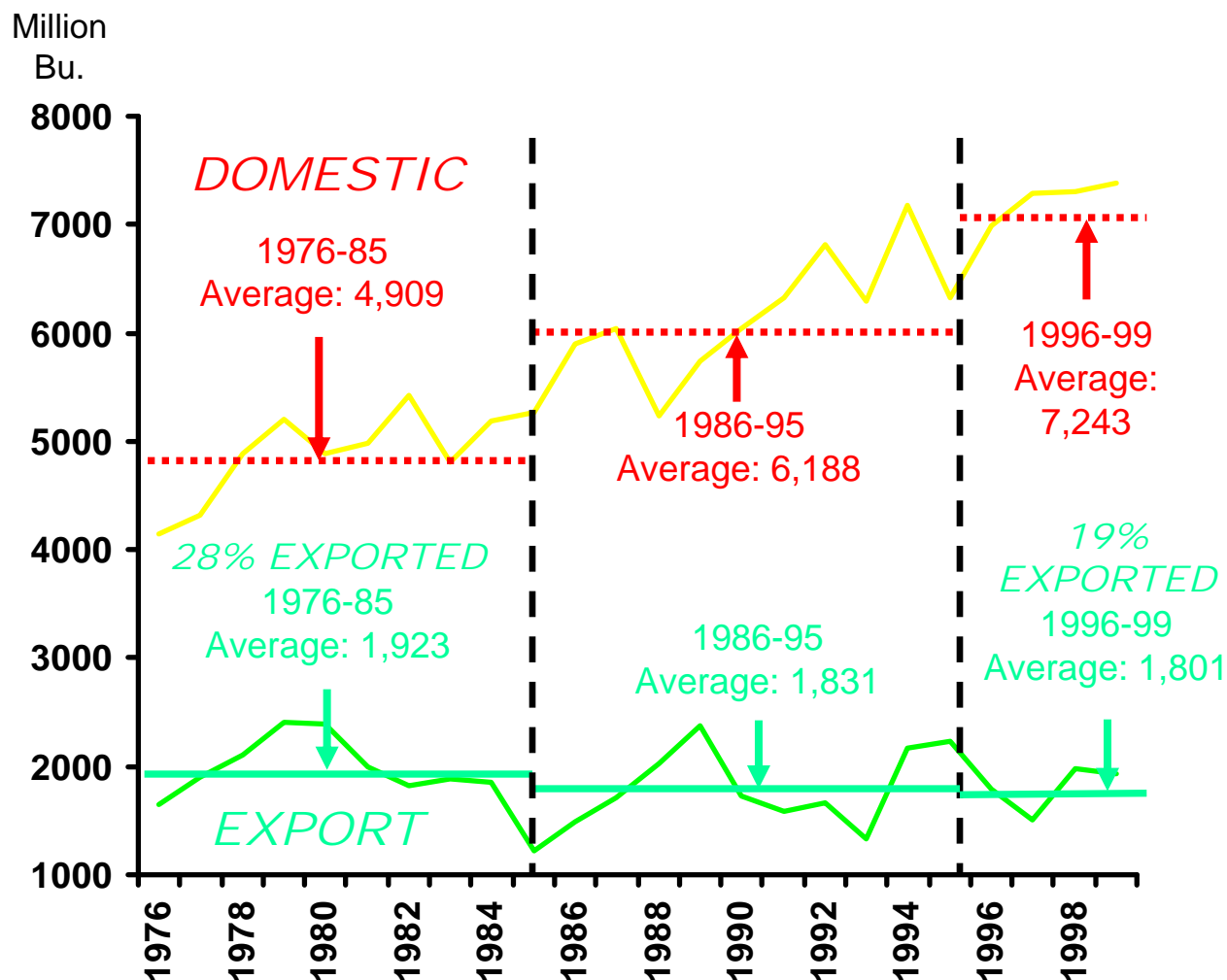
U.S. Share of World Exports



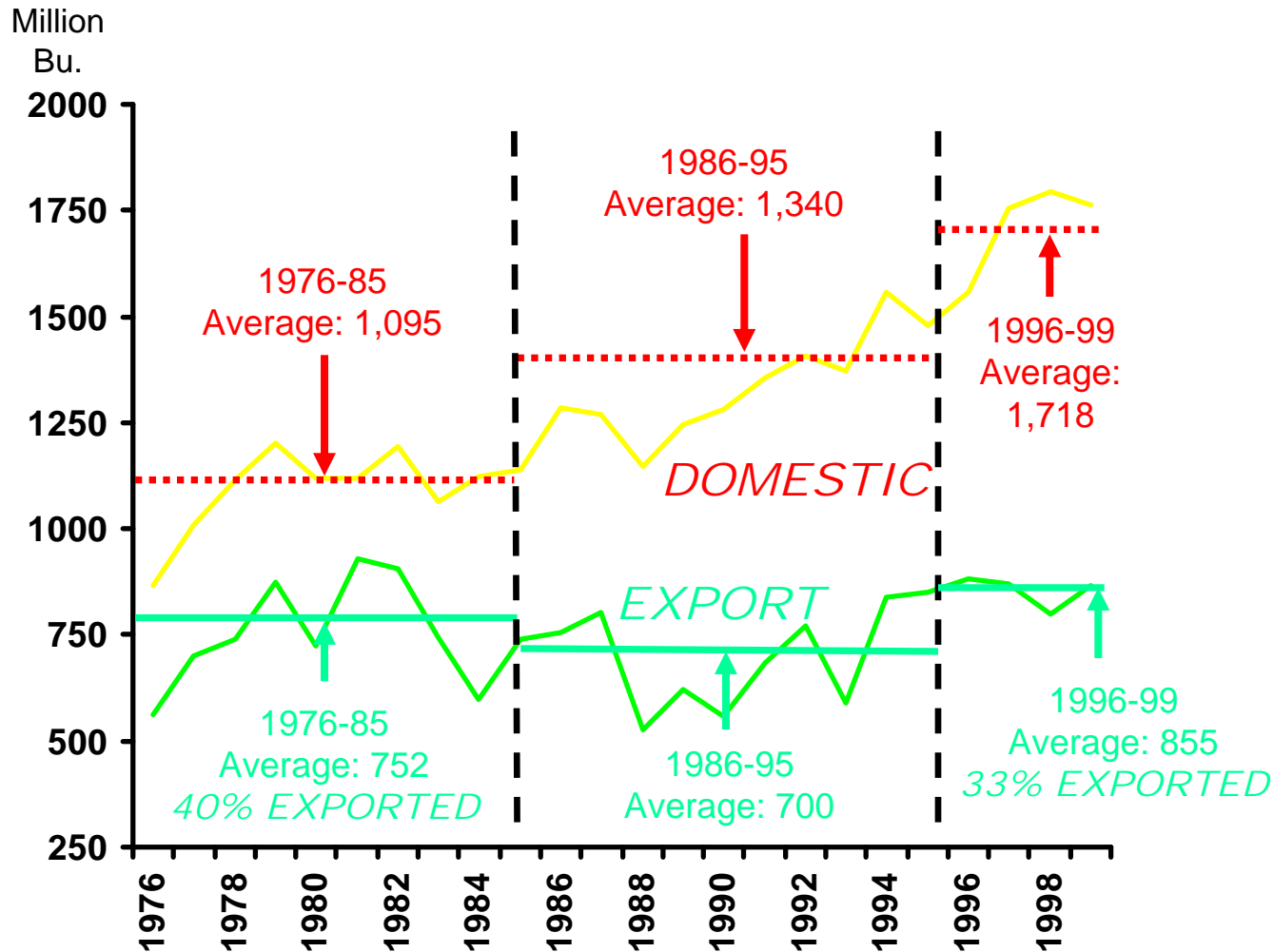
U.S. Share of World Exports



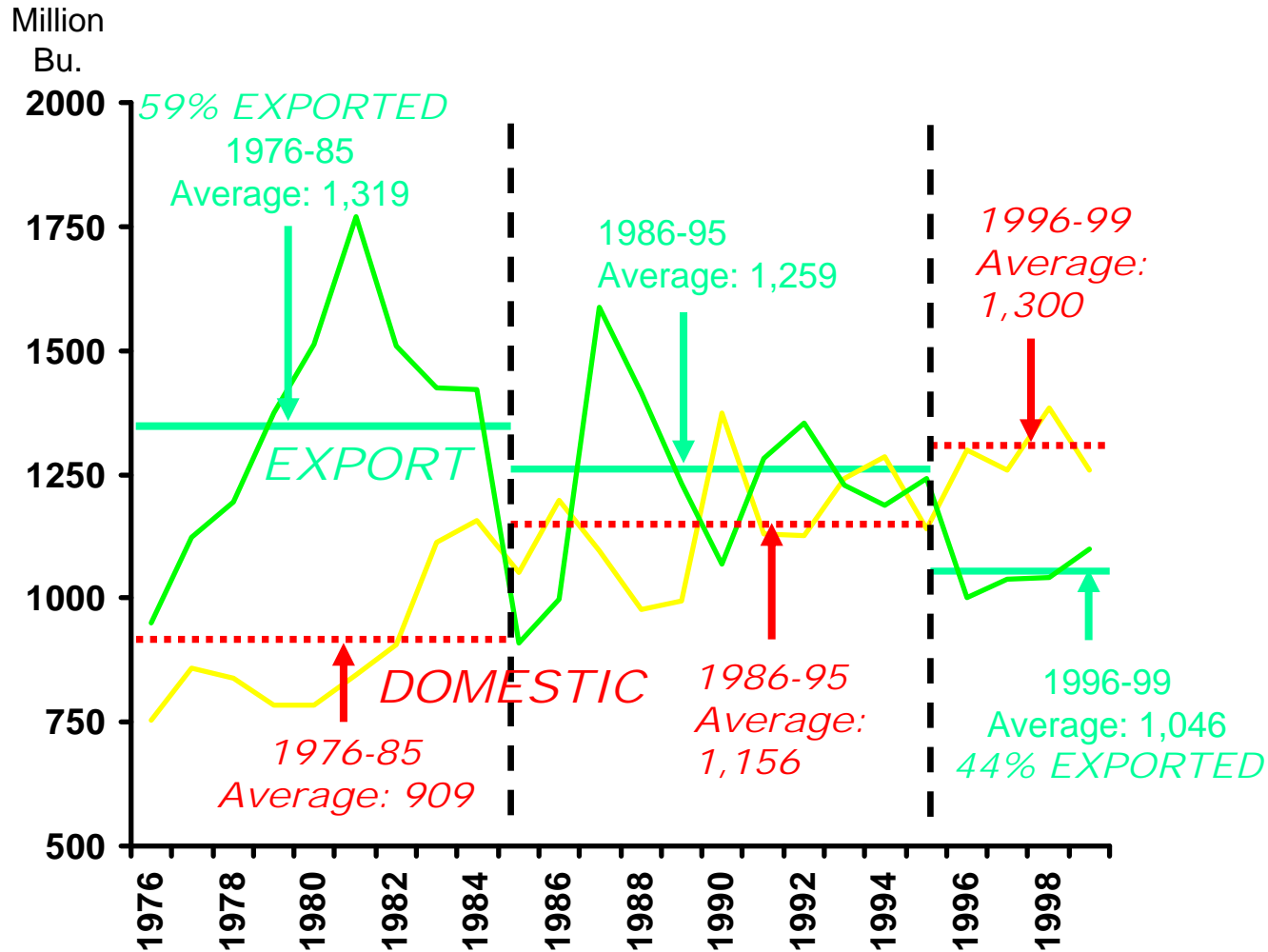
U.S. Domestic and Export Demand



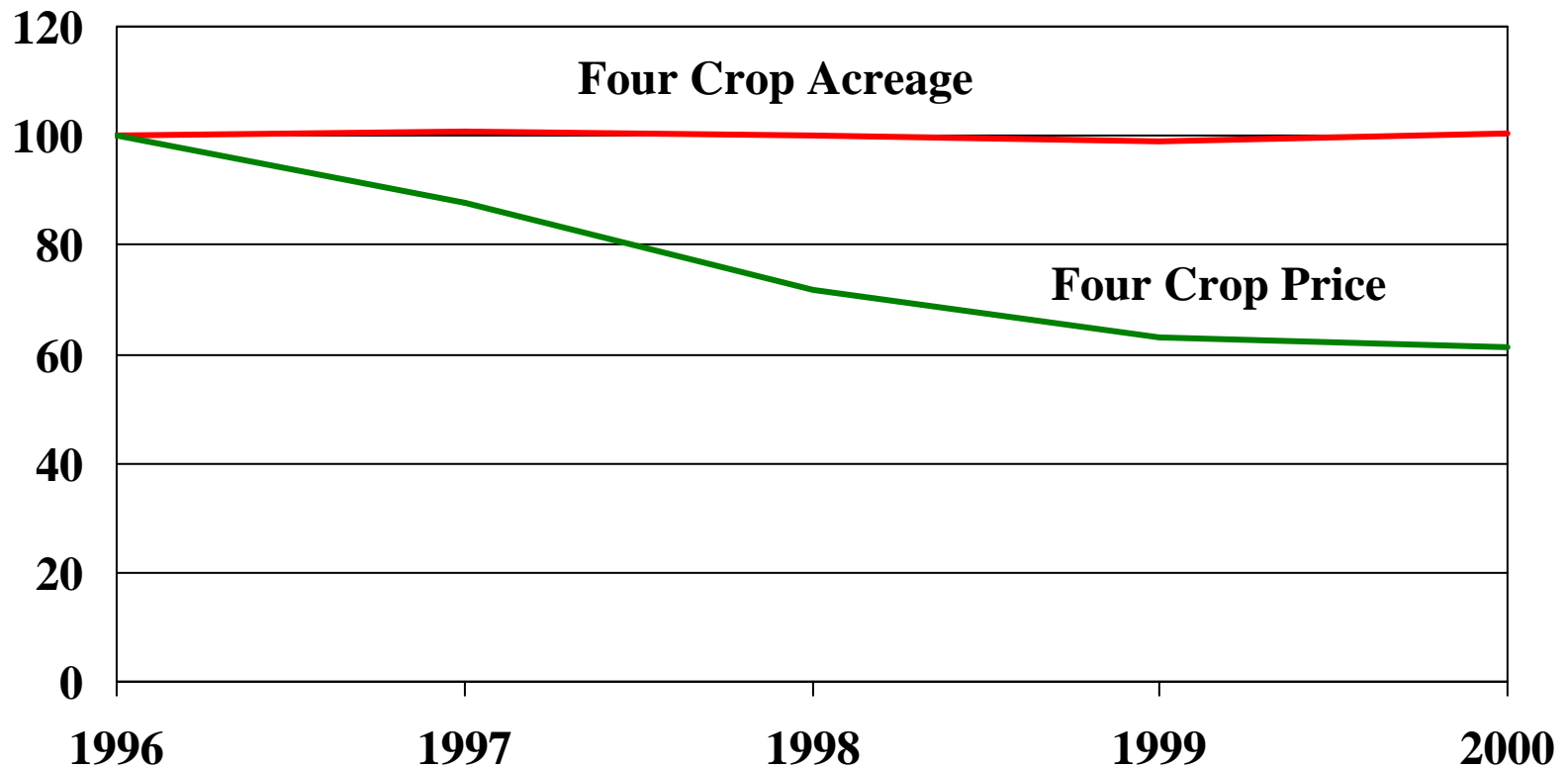
U.S. Share of World Exports



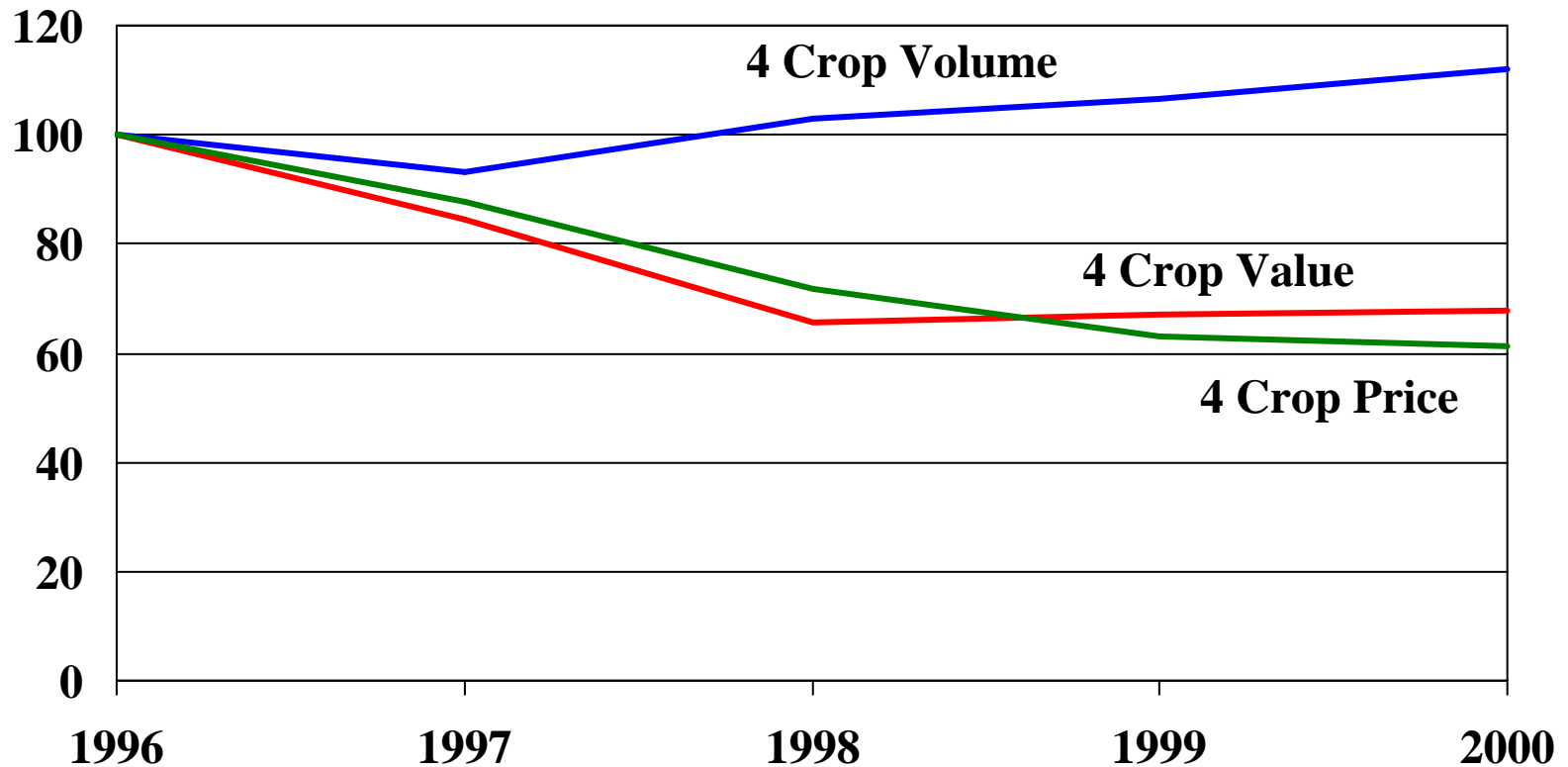
U.S. Share of World Exports



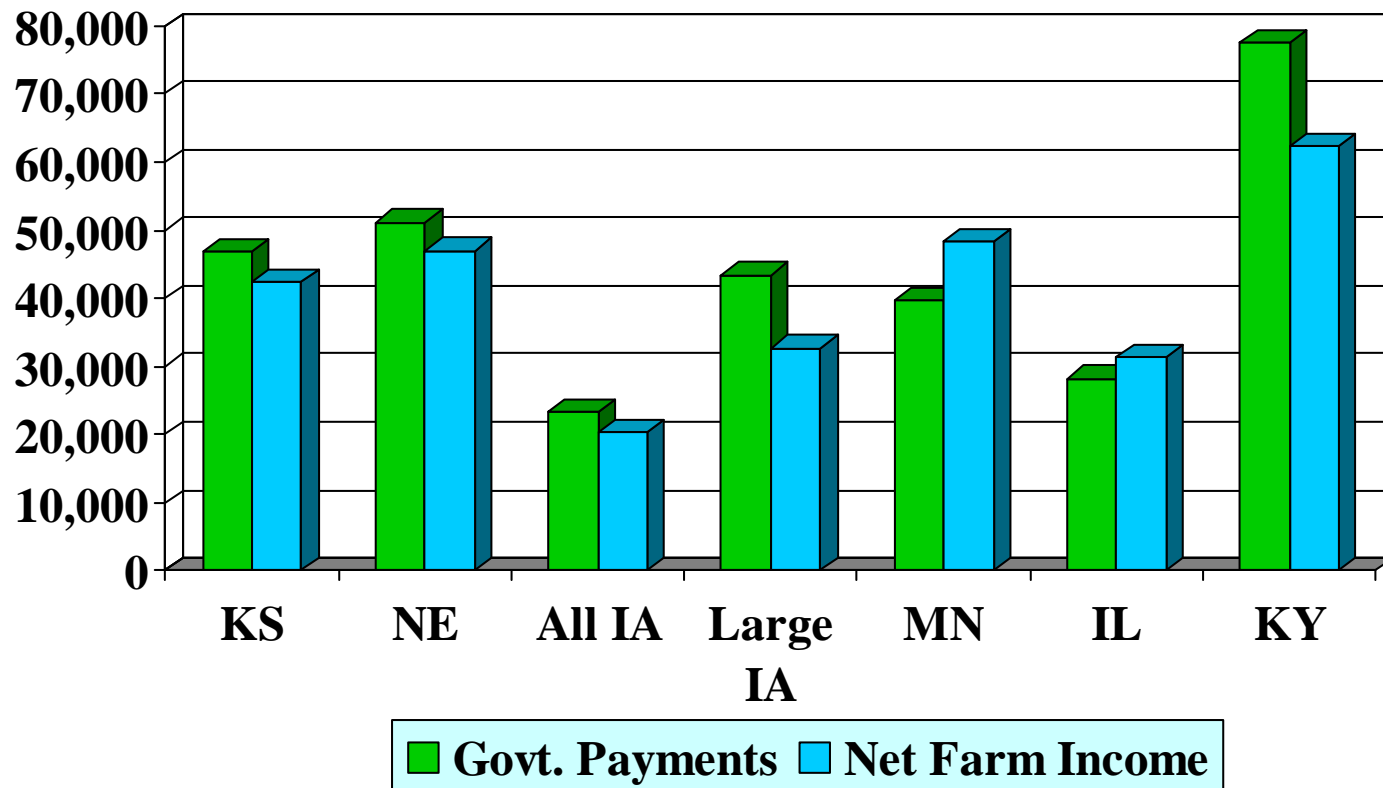
Corn, Cotton, Soybeans and Wheat Acreage and Price (1996=100)



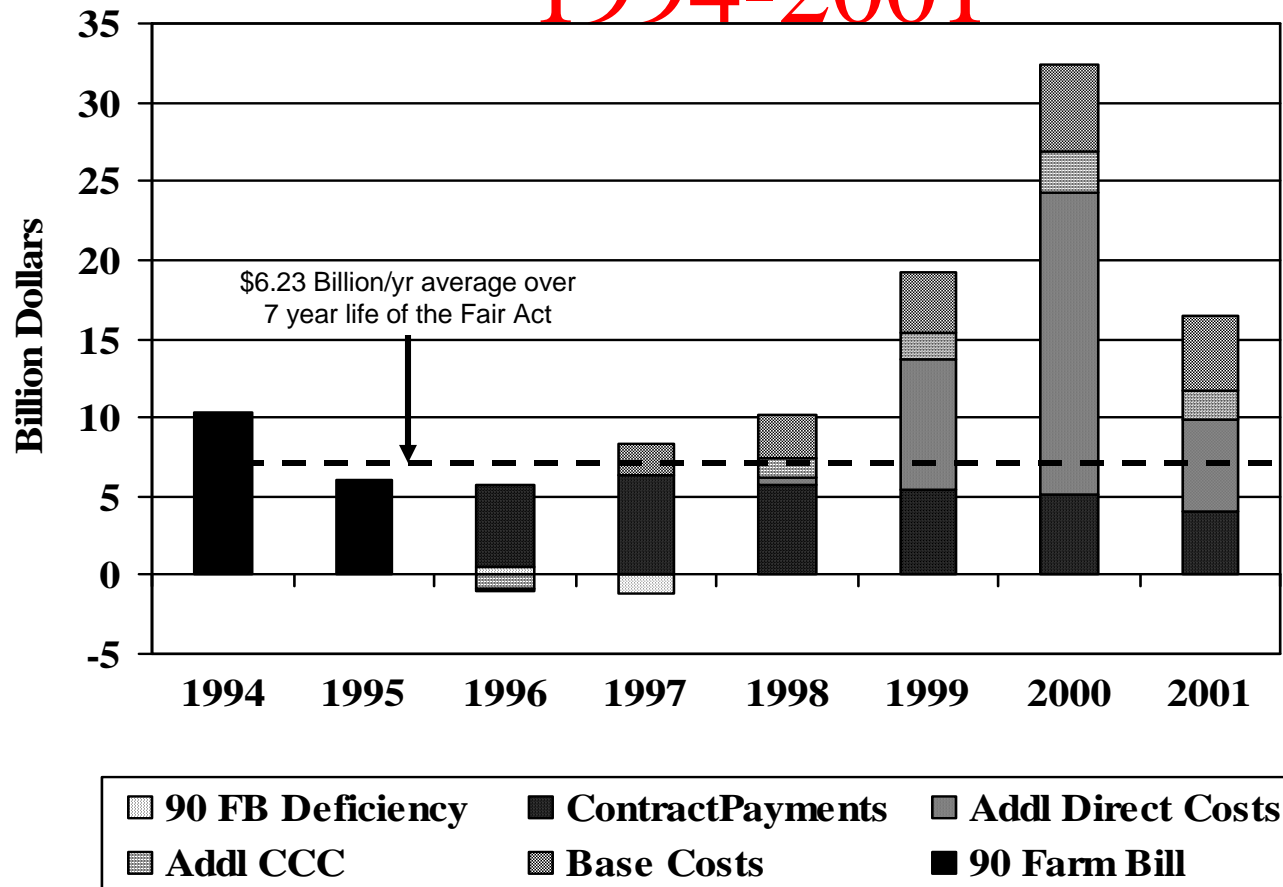
Corn, Cotton, Soybeans and Wheat Export Value, Volume and U.S. Price (1996=100)



1999 Net Farm Income and Government Payments



Government Outlays by Source, 1994-2001



- payments