2018 Farm Bill: What shiny object will be used to distract this time?

Secretary of Agriculture Sonny Perdue launched his “Back to Our Roots” farm bill tour at the Wisconsin State Fair on August 3, 2017. At the same time, members of Congress were back in their home states and districts holding listening sessions with farmers to get a sense of what problems need to be addressed in the 2018 Farm Bill.

With all this flurry of activity, we have decided to put a temporary hold on our discussion of challenges facing farmers in Sub-Saharan Africa and talk about US farm legislation since 1985 and particularly the drastic changes we have seen beginning with the 1996 Farm Bill.

During these last 30-plus years, farmers and major farm and commodity organizations, abetted by agribusiness, have gone after one shiny new thing (policy) after another, often that border on entrepreneurial rent seeking, while playing the sympathy card of public support for family farmers and the agrarian ideal.

Our main theme in this series is that farmers and farm and commodity organizations have consistently ignored the economic characteristics of grain production that result in long periods of low prices punctuated by brief periods of high prices and, every few decades, with longer periods of high price that are the direct, disruptive result of government policies in this country or elsewhere in the world.

In the first two months of writing this column in 2000 (http://tinyurl.com/yc48dk33), we laid out our understanding of the fundamental economic characteristics of agricultural production. Over the years we have repeatedly described a set of policies that take into account the root causes of chronic price and income problems faced by farmers—that is policies designed to respond to the economic characteristics of primarily, but not limited to, grain agriculture, providing a policy environment in which market forces would allocate supplies among competing uses, and result in minimal governmental costs, while protecting farmers on the low side of farm commodity prices and consumer from the high side. At the same time, we have criticized policies that treat the symptoms rather that respond to the causes of the farm price and income problems.

Most of our profession, along with major farm and commodity organizations like the American Farm Bureau Federation, National Corn Growers Association, American Soybean Association, and National Association of Wheat Growers, as well as the vast majority of those in Congress, have consistently chased after the latest shiny policy in an all-out effort to avoid acknowledging the historic and still-current economic characteristics of farm production.

Until we acknowledge the need to design policies that take into account these characteristics, we will lurch from one set of ultimately ineffective policies to another. These shiny things have been an unmitigated disaster that has resulted in distorted decision making at the farm level and high governmental costs.

Beginning with the 1985 Farm Bill, farm policymakers began the quest to identify policies they thought would recapture the growth in export levels of the 1970s, which culminated in record export levels in the 1979-1981 period. The development of the Loan Deficiency Payment (LDP) program and the lowering of loan rates were the first steps in a trend that culminated with the 1996 Farm bill, which was described by its supporters as the “farm bill to end all farm bills;” the seven-year length of the legislation—instead of the traditional four or five years—reflected the optimism if its authors.

The argument for the elimination of traditional supply management programs was that the nature of agricultural production had changed since the 1930s. With farmers being more dependent on purchased inputs like fertilizer—as opposed to farm-supplied inputs like manure—it was thought farm production would be more responsive to commodity prices, specifically to lower prices. Also, it was assumed, with the increased importance of exports, demand would be more price responsive. Together then, lower prices would more quickly and more substantially reduce the quantity supplied and increase the quantity demanded, returning crop prices to a profitable level. There would be no need for farm policies since farming would be more like other economic sectors such as the proverbial local hardware store.

Agricultural Market Transition Act (AMTA, a title within the 1996 Farm bill) payments were used to persuade/bribe farmers to support the end of the farm program "as we know it." The AMTA payments were viewed as direct payments that did not influence agricultural production decisions and therefore World Trade Organization trade-legal.

Projections during that period of time showed China increasing its imports of corn from the US, reaching 500 million bushels by 2002.

But things did not turn out the way House Agriculture Committee Chair Pat Roberts and various farm groups expected.

The high prices that existed during the passage of the 1996 Farm Bill were primarily the result of a one-year production shortfall. Production returned to normal levels in next crop year which for corn began in September 1996.

The expectation was that farmers would respond to the resulting low prices and the guarantee of the "decoupled" AMTA payments by reducing production. But they did not. In fact, farmers argued that the low prices made it imperative to produce as much as possible to make up with quantity what they were losing with price.

To make matters worse, China exported rather than imported corn during this time period. By 2002, China was exporting 500 million bushels of corn, not importing the 500 million bushels that was projected—a 1 billion bushel discrepancy. (Even now in a good year, the U.S. exports about only 2 billion bushels of corn.)

Prices hit LDP territory, triggering massive payments, and yet LDPs and AMTA payments were not enough to stabilize farm income, resulting in emergency payments and government costs that were as high as $20 billion in one year.

The costs were so high that the 1996 act was terminated a year early and emergency payments were not made the last year.

The 1996 Farm Bill sowed the seeds of reality-denying policies that became a part of the 2002 and future farm legislation as various individuals and groups looked for new shiny policies that would treat the symptoms but avoid acknowledging the causes of chronically low farm commodity prices.

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