APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Agribusiness: A major determinant of farm policy direction since the mid-1980s

Understandably, farmers and farmer-based organizations were the primary supporters of the set of agricultural policies introduced during the Great Depression in response to a decade of low prices and farm incomes. Producers of various agricultural products pressured their representatives to make sure that their products were supported. With 21 percent of the labor force engaged in agricultural and many rural communities dependent upon agriculture as a mainstay of the local economy, members of Congress needed to be supportive of their farmers if they wanted to be reelected.

But the distress in the economy went far beyond the farmgate and included hungry industrial workers. Policies to handle farm products that were currently in surplus supply—unaffordable to the unemployed even at Depression-level low prices—often ran against the needs and interests of the urban unemployed who were struggling to secure enough food to put on the table.

Out of this tension developed the modern farm program that included both farm policies to protect producers and nutrition policies to reduce hunger in America. The blend of policies has changed over time as each of these groups has jockeyed to make sure its interests were taken care of, but this uneasy coalition has endured as attested by the failure of the attempt to separate the two during the 2014 Farm Bill negotiations.

For farmers, the nutrition programs provide markets that wouldn't exist in the absence of these programs—economists call this demand enhancement—and for low-income consumers they help stretch meager food budgets. Both parties recognize that they would lose legislative negotiating power if the two parts were cleaved into separate bills.

While this coalition has endured, there has been a shift in the power and impact of various groups influencing the "farm" side of the farm bill. As we have said, before and during the Great Depression, farmers and their organizations had considerable sway in the direction of farm policy, with a smaller part played by farm equipment manufacturers and food processors. For equipment manufacturers, typified by George Peek President of the Moline Plow Company, greater farm prosperity resulted in more plows that were sold. The economic interests of farmers and the farm equipment manufacturers were reasonably well aligned.

With the use of acreage reduction programs as a tool to balance the supply of agricultural products with amount that could be sold profitably, misalignments began to appear between the economic interests of these two groups. In addition, while the farm input side was somewhat limited to equipment in the early part of the twentieth century, over time it began to include a larger set of industries including producers of hybrid seeds, fertilizers, herbicides, insecticides, the downstream side—merchandizers and processors of agricultural products—became larger and more concentrated.

While some dismantling of traditional farm programs had begun in the 1970s under the influence of Earl Butz, who served as Richard Nixon's Secretary of Agriculture, 1971-1976, the shift in influence of farmers vis-à-vis agribusinesses came as the result of the decision of Ronald Reagan to implement in 1983 what he called the Payment-In-Kind (PIK) program.

Under the PIK program, farmers who reduced voluntarily reduced their acreage to balance out supply and demand, would be paid not with cash but with commodities from government-held stocks. The farmers would then take title to those commodities at harvest-time and sell them as if they had just harvested the crops from their fields.

What could not have been anticipated when Reagan rolled out the program was that the spring of 1983 would be extremely wet and many farmers would be unable to get into their fields. In response to the cry of panicked farmers, the acre reduction program was opened up to additional acreage and the total area of land diverted from agricultural production jumped from 11.1 million acres the previous year to 78.0 million acres in 1983 while corn yields dropped by 28 percent from 113.3 bu./ac. to 81.1 bu./ac with total corn production dropping by 49.4 percent. Agribusinesses from the Quad Cities to Main Street were hit by a double whammy, fewer acres and fewer bushels per acre. Not only did farmers need fewer seeds and farm chemicals, fewer repairs, and little need for replacement equipment, they had less to haul to the elevator and higher prices.

Right then and there, major agribusiness interests vowed that they would never be caught like that again, and they began to fund studies like the one by Abel, Daft, and Early that resulted in 1996's Freedom to Farm legislation that ended acreage set-aside programs and set a different course for agricultural programs with strong input from agribusiness interests.

Next week we begin an examination of what agribusiness seeks from agricultural policy in this post-1983 policy era.

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Originally published in *MidAmerica Farmer Grower*, Vol. 37, No. 68, April 29, 2016

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