By Daryll E. Ray

How did the 1996 Farm Bill come to be: Long-term influences

The 1996 Farm Bill represents a Herculean change in farm legislation. Such a sudden and fundamental change in ongoing agricultural policy is unprecedented in the U.S. In the past, changes have occurred, but in an evolutionary not revolutionary way.

So how did the 1996 Farm Bill come about?

In reflecting on that question, I have identified both long-term and short-term factors that influenced the nature of the 1996 Farm Bill and the radical change it represents. We will discuss the longer-term events and changes in perception in this column and discuss the happenings during the year before the legislation was signed into law at another time.

Glimpses of ideas that would culminate in 1996 Farm Bill policies can be seen in some early changes in commodity programs. Since the 1960s, and especially since 1985, commodity programs have increasingly relied less on Commodity Credit Corporation storage programs to support commodity prices and more on direct payments to support farm incomes.

In addition, perceptions about the justification for farm programs began to move away from the traditional unique-economic-structure explanation and toward a belief that while free markets will work, farmers are using their political prowess to gain access to as many financial resources as possible (i.e. inappropriate milking of the system).

Growing impact of exports on agriculture

The growing impact of exports on the economic health of agriculture was one of the reasons for the changes in the public's perceptions of agricultural programs. Beginning in the mid-sixties, large commercial agribusinesses and low-cost crop producers believed that the U.S. would be more competitive in international markets if government actions that support commodity prices, often above world prices, were de-emphasized or terminated.

Except for a relapse or two in the late seventies and early eighties, the move to "cash out" farm programs gained momentum and direct payments became the dominant means of supporting crop agriculture by the early 1990s. Increased export competitiveness and the desire on the part of some for reduced governmental intrusion in agricultural markets were compelling arguments for shifting to direct payments.

A combination of studies and conjecture contributed to a new "conventional wisdom" that agricultural export demand was certainly price elastic after a few years and probably elastic in the short-run.

The unspoken translation of this belief in export price responsiveness was that farmers would receive increased revenue with lower prices despite the fact that the export price elasticity would have to be extremely large to offset the well-known price inelasticity of domestic crop demand, agriculture's major market outlet.

In addition, the cost of storing relatively large quantities of grains acquired by the government, or administered by government in the case of the Farmer-Owned-Reserve (FOR), as a result of supporting commodity prices was, at the time, judged to be exorbitant. And farmers complained that such stocks overhung the market preventing realization of price run-ups during times when domestic crop yields faltered or export demand surged.

Changing nature of the agricultural sector

Another longer-term consideration for moving toward the policies of the 1996 Farm Bill was the dramatic change in the way agriculture is organized and operated.

When farm programs were first instituted in the 1930s, 25 percent of the U.S. population lived on farms and most of the economic activity in a large portion of the country was directly or indirectly dependent upon agriculture. Thus, it was argued that the benefits of propping up agriculture with farm programs also benefited a large segment of rural America. Today, only 2 percent of the nation's population lives on farms.

In addition, few of the inputs used on the 6.8 million farms in 1935 were purchased from off-farm sources. Oats and hay produced on the farm fueled the horse power, manure fertilized the crops, homegrown seed filled the planter boxes, and mechanical and hand-labor kept the weeds at bay. Insect populations were kept down by the use of crop rotations that were required to meet the feed and bedding needs of the diversified crop and livestock farms of the time.

Nails, pitchforks, shovels, and blacksmithing services had to be purchased to run the farm while sugar, yeast, salt, spices, and bolts of cloth were purchased for the house.

Since few items were store-bought decades ago, lower prices and incomes meant farmers had less spending money; but, come spring, the crop could go in the ground as usual. Today's farmers, in contrast, face the very opposite situation: nearly all inputs are purchased and few are farm grown or, in someway, farm derived.

Over time, as farm output increasingly became more dependent upon purchased inputs, farmers were expected to be sensitive to changes in commodity and input prices. Thus, because crop agriculture contains fewer but larger farms and farmers must pay for almost all of the inputs used to grow crops, crop supply was expected to be con-

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siderably more price responsive compared to the 1930s when farm programs were started.

Increasing influence of the "Chicago School"

Still another long-term factor that served to set the stage for the 1996 Farm Bill was the increasing influence of the "Chicago School" which promoted the free-market economic model for agriculture. At first glance, the elegance and rigor of the perfectly competitive model does seem perfect for agriculture.

There are many firms, none of which is large enough to influence total supply. Entry and exit of firms are relatively uninhibited and the products produced are largely homogenous and therefore indistinguishable.

When I was a student, undergraduate and graduate students were routinely taught the distinguishing differences between the theory of the perfectly competitive model and way agricultural markets actually perform.

Since, for the most part, agricultural economists are, now, all in the "Chicago School," today's students—tomorrow's leaders—are generally not given the opportunity to consider how a) the inability to instantly adjust output levels during the growing season, b) the tendency for resources such as land to be fixed in production from year-to-year, c) the randomness of output rates (yields), and d) the virtually fixed per capita demand for the final product, food, violate assumptions or expected conditions that underlie the perfectly competitive model and, therefore, may blunt its predictive power.

Additional factors

Other factors contributing toward the gradual, long-term shift in the political environment that favored movement toward the policies of the 1996 Farm Bill include:

- Disillusionment with farm programs due in part to the occasional costly mistakes in land diversion and stock management decisions,
- Farmers specifically dislike the nuisance of dealing with acreage reduction programs and feel that government stocks prevent the realization of price spikes,
- Rising popularity of deregulation and less government interference in general.

Taken together, those, I believe, were some of the changes that have occurred over time that helped set the stage for the 1996 Farm Bill. We will look at the specific political and economic environment during 1995 and 1996 that clinched the radical change in farm policy at another time.

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