The Last Farm Bill?

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“Farm bill” is a colloquial term for omnibus legislation that authorizes various government programs related to agriculture, food, and rural areas.¹ Some of these programs have their roots in New Deal legislation. Others were initially authorized after the New Deal and subsequently included in farm bills. Some debate exists about exactly which omnibus legislation was the precursor of modern-day farm bills. However, since at least 1973, farm bills have included titles related to farm programs, trade, rural development, farm credit, conservation, agricultural research, food and nutrition programs, and marketing. Beginning in 2008, crop insurance-authorizing language was also included in the farm bill.

Farm bills generally have a life of approximately five years. In the case of farm support programs (typically authorized in Title 1), the farm bill temporarily amends permanent legislation. When the farm bill expires, these programs revert to permanent legislation (from the 1930s and 1940s) unless a new farm bill is adopted that again temporarily amends permanent legislation. The permanent legislation would put in place price supports, at extremely high levels, for many agricultural commodities, distorting markets and greatly increasing federal costs. The specter of reverting to permanent legislation has, through the years, been used by Congress to ensure that future Congresses will replace expiring farm bills with new legislation.

¹The word “omnibus” is from the Latin meaning “for all.” It was originally used to describe a public vehicle used for carrying many people. The modern word “bus” is a shortened version of omnibus. The use later evolved to include a volume consisting of many parts.

The 2014 Farm Bill (the Agricultural Act of 2014) was signed into law on February 7, 2014, after what may have been the most protracted and contentious farm bill debate in U.S. history. The process began with Senate hearings held in May 2011, almost three years before the 2014 farm bill was adopted. During this process, the 2008 farm bill, which was scheduled to expire at the end of 2012, had to be extended for one year until a new farm bill could be completed.

“Is this the last farm bill?” As the 2014 farm bill debate dragged on, this question kept surfacing in my conversations with farmers, farm organization staff members, Congressional staffers, and colleagues. Although the question was phrased with reference to the omnibus farm bill, the questioners were typically referring specifically to the farm support programs authorized in Title 1. Near the end of this address, I return to this question but first I want to explore how we got to the set of farm programs authorized by the 2014 farm bill. Toward this end, I begin with a rather extended discussion of farm bill (particularly Title 1) history and then describe the rather convoluted process that produced the 2014 farm bill. I conclude with observations about the current state of farm bill political economy and a return to the question that serves as the title of this address.

A Selected History of Farm Programs

The 1910s was a prosperous decade for U.S. agriculture. Global supply of many agricultural commodities was severely reduced by the devastating effects of World War I on European agriculture. At the same time the belligerent governments were purchasing large amounts of
agricultural products to support the war effort. As a result, nominal U.S. net farm income more than doubled between 1914 and 1918 (U.S. Department of Agriculture, Economic Research Service, 2013).

After the war ended, European agriculture quickly recovered and global agricultural commodity prices fell. Between 1919 and 1921, nominal U.S. net farm income decreased by 63% (U.S. Department of Agriculture, Economic Research Service, 2013). The U.S. agricultural sector experienced only modest growth during the remainder of the 1920s before being hammered by the onset of the Great Depression. By 1932, nominal U.S. net farm income was only 22% of its 1919 value (U.S. Department of Agriculture, Economic Research Service, 2013). Also, around this time, the plains states began experiencing the first of the “black blizzards” that would later cause the 1930s to become known as the Dust Bowl era. Eventually it was said that sailors 300 miles off the Atlantic coast often needed to sweep Kansas soil from the decks of their ships (Glass, 2010). The combination of historically low levels of net farm income and Dust Bowl conditions had devastating social and ecological consequences for rural areas. Because approximately 25% of the U.S. population lived on farms, a political response to these unprecedented conditions was likely inevitable (Dimitri, Effland, and Conklin, 2005).

The Agricultural Adjustment Act (AAA) of 1933, part of President Franklin Roosevelt’s New Deal, was the first major federal effort to improve farm incomes by intervening in agricultural commodity markets. The major components of the AAA were mandatory production controls and price supports for major commodities. In 1934, 35 million acres were taken out of production (Cashman, 1989). A tax on initial processors was used to pay for the cost of the AAA production control and price support programs. To facilitate the implementation of AAA price supports, the legislation was amended in 1935 to allow for import quotas on supported commodities. Also in 1935, in response to worsening Dust Bowl conditions, the Soil Conservation Act was adopted establishing what later became known as the Natural Resource Conservation Service (NRCS) and providing for federal programs to reduce soil erosion, in part by taking land out of production.

On January 6, 1936, the U.S. Supreme Court declared certain aspects of the 1933 AAA (including, but not limited to, the financing mechanism) to be unconstitutional. In response to this decision, Congress almost immediately amended the 1935 Soil Conservation Act to channel more federal funds to farmers through soil conservation mechanisms. The amended legislation was signed into law just 54 days after the Supreme Court decision, an indication of the severity of the crisis conditions in U.S. agriculture.

A new AAA, modified to address the constitutional problems identified by the Supreme Court, was adopted in 1938. Mandatory production controls and price supports were restored for major crops and permitted (although not made mandatory) for a number of other commodities such as dates, figs, hops, turpentine, rosin, pecans, prunes, raisins, barley, rye, grain sorghum, wool, and mohair. The AAA of 1938 also created the Federal Crop Insurance Program and introduced food stamps, although this initial food stamp program would be abolished in 1943. Aspects of the 1938 AAA (related to wheat and upland cotton) are now part of the permanent legislation that has been amended by subsequent farm bills.

The Steagall Amendment adopted on July 1, 1941, in the run-up to U.S. involvement in World War II, increased price support levels for agricultural commodities. In early 1942, after the United States entered the war, price supports were further increased and these higher price support levels were mandated to remain in place until two years after the end of the war. As a result of higher price supports and war demand for agricultural commodities, nominal U.S. net farm income in 1942 finally returned to 1919 levels (U.S. Department of Agriculture, Economic Research Service, 2013). When the war ended in 1945, farm incomes continued to increase as a result of reconstruction efforts in Europe and Asia as well as pent-up domestic demand for agricultural commodities and high price support levels. As a result, between 1942 and 1948, nominal U.S. net farm income

Despite higher farm incomes, the price support levels enacted in 1942 were maintained in the AAA of 1948 and the Agriculture Act of 1949. The 1949 legislation, which is the other major piece of farm program permanent law, was also the first to authorize the use of surplus agricultural commodities to support international development efforts. These efforts were expanded through the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480).

Throughout the 1950s and 1960s, agricultural production recovered in Europe and technological improvements increased global supplies of major agricultural commodities. U.S. policymakers struggled with what came to be known as the “farm problem”—low farm incomes that were attributed primarily to domestic overproduction. Average nominal net farm income for 1950–1969 was 30% below the level attained in 1948 (U.S. Department of Agriculture, Economic Research Service, 2013). Agricultural economists attributed the farm problem to factors such as asset fixity (Edwards, 1959; Johnson, 1956; Johnson and Quance, 1972) and the technological treadmill (Cochrane, 1958, 1979). Lower commodity prices during this period dramatically increased federal cost for price support programs. In the 1965 farm bill (the Food and Agricultural Act of 1965), policymakers responded by reverting to market manipulations (supply controls and demand enhancement programs) similar to those first used in 1933 and 1938. What many policymakers failed to understand (at least initially) was that, as a result of the expanding global nature of most agricultural commodity markets, these manipulations were becoming less effective in moving domestic prices.

As part of the Johnson-era “War on Poverty,” the Food Stamp Act of 1964 created a permanent domestic food assistance program that is now known as the Supplemental Nutrition Assistance Program (SNAP). Later expansions and modifications to this program would occur both within omnibus farm bills and occasionally in standalone legislation. Since the 1960s, conventional political wisdom has held that to obtain sufficient votes for either federal farm programs or nutrition programs (including, but not limited to, SNAP) in the U.S. House of Representatives, it is necessary to concurrently reauthorize both in an omnibus farm bill. Said differently, urban members may be unwilling to support standalone federal farm programs, whereas rural members may be unwilling to support standalone federal nutrition programs, but both groups would support omnibus legislation that authorized both federal farm programs and nutrition programs. This conventional wisdom was challenged in the 2014 farm bill debate when partisan divisions in the House of Representatives over cuts to federal nutrition programs threatened to scuttle the entire farm bill.

In the early 1970s, the United States experienced its first trade deficit since World War II. In the agricultural sector, there was a growing recognition that domestic price support and supply control programs effectively ceded export market opportunities to global competitors. As a result, the 1973 farm bill (the Agriculture and Consumer Protection Act of 1973) and the 1977 farm bill (the Food and Agriculture Act of 1977) replaced price supports for many commodities with target price and deficiency payment programs that guaranteed an effective minimum price for producers but did not put a floor under domestic market prices.

At approximately the same time, a number of factors converged to put upward pressure on commodity prices. In 1972, President Nixon visited China creating hope that the United States would soon be exporting large amounts of agricultural commodities to the world’s most populous nation. In 1973, the United States moved to a floating exchange rate system. The value of the dollar dropped considerably against other currencies stimulating export demand for U.S. agricultural commodities. As a result of massive crop failures, the Soviet Union purchased large amounts of wheat on global markets. Many developing countries experienced droughts and, with loans obtained from various sources, purchased large amounts of agricultural commodities. World grain reserves were quickly depleted and commodity prices increased dramatically. In response,
Lester Brown wrote, “Over the past two decades, nations have devised numerous means for managing commercial abundance—including special farm-subsidy programs and the withholding of cropland from production. It has now become essential to develop the policies and institutions, both national and international, for managing scarcity” (Brown, 1974, p. 15, emphasis in original).

In just one year, between 1972 and 1973, U.S. real net farm income increased over 67% reaching levels not attained since 1948 (and never attained since) (U.S. Department of Agriculture, Economic Research Service, 2013). The boom was on and American agriculture demonstrated an exceptional capacity to increase production in response to high commodity prices. Farmers invested heavily in land and equipment. In addition, high levels of inflation, extremely low real interest rates, and favorable tax treatment of capital gains further fueled speculative investments in farmland. In real terms, the value of farmland and buildings in the United States increased 73% between 1969 and 1978 (Barnett, 2000a). Much of this investment was debt-financed. Between 1970 and 1980 farm mortgage debt increased by 59% in real terms (Barnett, 2000a). One farmer told a New York Times reporter that he had borrowed so much money to buy so much land that was going up in value so fast that every morning he “woke up $8,000 richer” (Strange, 1989, p. 20).

Prices of agricultural commodities leveled off by the mid- to late 1970s. As a result, real net farm income for 1976–1979 was 35% lower than for 1972–1975 (U.S. Department of Agriculture, Economic Research Service, 2013). In 1978, and again in 1979, a populist farm organization known as the American Agriculture Movement came to Washington, DC, to protest low commodity prices and demand a return to federal price support programs. Despite widespread beliefs that inflation needed to be brought under control, few in agriculture seemed to recognize the vulnerability of the sector to anti-inflationary policies. In October 1979, the Federal Reserve decided to fight inflation by restricting the growth rate of the money supply. The desired result did not occur immediately. The inflation rate for 1980 was 13.5%, up from 11.3% in 1979. However, by 1983, inflation had fallen to 3.2% and by 1986 it was 1.9% (Barnett, 2000a). In addition to lower rates of inflation, contractionary monetary policy caused higher nominal interest rates. The combination of higher nominal interest rates and lower rates of inflation caused real interest rates to increase dramatically. The average real interest rate in 1981 was almost five times the rate in 1980 (Barnett, 2000a).

Between 1981 and 1985 the dollar rose more than 70% against other major currencies and U.S. agricultural exports fell by 50%. Between 1980 and 1986, real corn, soybean, and wheat prices fell 64%, 52%, and 51%, respectively (Barnett, 2000a). Average real net farm income from 1981–1985 was less than 50% of the average for 1971–1975 (U.S. Department of Agriculture, Economic Research Service, 2013). As a result of the combination of low commodity prices and an extensive drought, real net farm income in 1983 was lower than at any time during the Great Depression (and lower than any year since). The combination of low farm incomes and high interest rates caused farm asset values to plummet. At a national level, the nominal value of farm assets fell more than 30% between 1981 and 1987. In the Corn Belt, nominal land values fell by approximately 50% (Barnett, 2000a).

In the 1985 farm bill (the Food Security Act of 1985), policymakers responded by greatly increasing government payments to farmers. Between 1985 and 1988, federal government payments would account for 31% of national net farm income (Barnett, 2000a). This, and the easing of monetary policy as inflation was brought under control, brought about a gradual recovery in the agricultural sector.

During the 1990s, farm organizations argued that federal farm programs were necessary to create a “level playing field” for U.S. farmers who were competing with government-subsidized farmers in Europe, Japan, and elsewhere. At the same time, concerns about the high cost of domestic farm programs relative to U.S. World Trade Organization (WTO) commitments contributed to a relaxation of base acreage constraints. The 1990 farm bill, the
Food, Agriculture, Conservation, and Trade Act of 1990 (as amended by the Omnibus Budget Reconciliation Act of 1990), designated 15% of base acres as so-called “flex” acres. Farmers received no farm program benefits on flex acres but were allowed to plant any crop on these acres except for certain fruits and vegetables. As the 1996 farm bill (the Federal Agricultural Improvement and Reform Act of 1996) was being debated, the primary concern among farm organizations was that higher expected prices for commodities would reduce the benefits farmers received from federal farm programs. To counter this, the 1996 farm bill eliminated the target price program and replaced it with annual fixed direct payments that did not vary with commodity prices and carried no planting restrictions except for a fruit and vegetable prohibition similar to what had been in place for flex acres.

The 1990s also witnessed the emergence of the Federal Crop Insurance Program as a significant component of the suite of federal programs that provided benefits to crop producers. This program had been created by the AAA of 1938 but was relatively small until major changes were introduced in the Federal Crop Insurance Act of 1980 and the Agriculture and Food Act of 1981 (Barnett, 2000b; Coble and Barnett, 2013). Crop insurance purchasing increased gradually between 1980 and 1994. In the Federal Crop Insurance Reform Act of 1994, policymakers introduced a low-level catastrophic (CAT) yield insurance policy that was provided free of premium cost to farmers who produced major crops. Farmers could supplement their CAT insurance coverage by purchasing so-called “buy-up” insurance that increased coverage levels and the indemnity that would be paid for production shortfalls.

Also during the 1990s, new crop insurance products became available. County-level (rather than farm-level) yield insurance products were first offered in 1993 and farm-level revenue (rather than yield) insurance products were first offered in 1996 (Hennessy, Babcock, and Hayes, 1997; Skees, Black, and Barnett, 1997). Although county-level products have never been a significant part of overall crop insurance liability, revenue insurance has become the dominant crop insurance product used by U.S. crop farmers. Many of the federal farm programs adopted in the 2014 farm bill were focused on various types of county-level and revenue-triggered designs.

Interestingly, the fixed direct payments introduced in the 1996 farm bill were called “market transition payments”—implying that this was a first step toward weaning U.S. agriculture from the federal programs begun in 1933. However, when commodity prices fell in 1998 and remained low throughout the rest of the decade, policymakers responded with ad hoc increases in fixed direct payments each year from 1998–2000. By the time the 2002 farm bill (the Farm Security and Rural Investment Act of 2002) was being debated, commodity prices had improved somewhat but policymakers were no longer interested in transitioning U.S. crop agriculture off of federal farm programs. The low commodity prices experienced in previous years had clearly demonstrated the inherent limitation of fixed federal payments. Although these payments would allow farmers to continue receiving benefits even when commodity prices were high, the benefits were fixed and would not automatically increase when prices were low. Thus, the 2002 farm bill essentially took the funds that had been used in previous years for ad hoc additional direct payments and used them to fund a new federal program that provided payments that were countercyclical with commodity prices (like a target price program) but allowed for full planting flexibility (again, except for the fruit and vegetable restriction). This allowed for rather strange scenarios where farmers could be receiving federal payments to compensate for low prices on commodities that they were no longer even producing because price countercyclical payments were tied not to the commodity being produced but rather to the commodity assigned to the base acres.

The farm programs authorized under the 2008 farm bill (the Food, Conservation, and Energy Act of 2008) maintained much of the

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2 CAT policyholders were required to pay a modest administrative fee.
structure of those authorized under the 2002 farm bill. A significant change was that program crop producers were offered a choice between the existing countercyclical payment program and a new alternative called the Average Crop Revenue Election (ACRE) program. The 2008 farm bill also authorized a standing, whole farm (i.e., multiple-crop), revenue-triggered, disaster program known as the Supplemental Revenue Assistance (SURE) program, which expired at the end of federal fiscal year 2011 (Ubilava et al., 2011).

2014 Farm Bill

In an effort to reduce federal budget deficits, the 112th U.S. Congress created the Congressional Joint Select Committee on Deficit Reduction (also known as the Supercommittee) as part of the Budget Control Act of 2011. The deficit reduction proposals adopted by the Select Committee would be considered without amendments by each chamber and would be immune from filibuster in the Senate. The goal of the Budget Control Act was to reduce deficits by $1.5 trillion over 10 years. Failure to do so would eventually lead to across-the-board cuts in nonexempt federal budget categories through a process known as “budget sequestration.”

As the debate over farm bill reauthorization began, the leadership of the agricultural authorizing committees in the Senate and House was concerned about the challenge of getting a farm bill through Congress (a concern that subsequent events would prove valid). Because it could not be amended or filibustered, the language being drafted by the Joint Select Committee was viewed as an effective “vehicle” to which farm bill legislation could be attached. Despite objections raised by committee members who felt they were being left out of the process, the leadership of the authorizing committees in the Fall of 2011 agreed on farm bill language and successfully attached it to the proposal being drafted by the Joint Select Committee. Ultimately, however, the Joint Select Committee was unable to reach a decision regarding a deficit reduction proposal so this initial attempt to pass a farm bill was unsuccessful.

During 2012, the process of drafting a new farm bill began again, this time through the standard authorizing committee channels. The Senate Committee on Agriculture, Nutrition, and Forestry adopted farm bill language (although many southern Senators on the Committee voted against the legislation), which was eventually approved by the full Senate. The House Committee on Agriculture adopted farm bill language but the Committee proposal was never debated by the full House of Representatives before the 112th Congress was adjourned on January 3, 2013.

With the beginning of the 113th U.S. Congress in January 2013, the process of adopting a farm bill began yet again. The Senate adopted farm bill legislation in June that was, in general, similar to that adopted in 2012. One significant change related to target price provisions desired by Southern rice and peanut producers. Southern senators had tried unsuccessfully to insert these provisions into the 2012 legislation. The farm bill adopted in May by the House Committee on Agriculture was defeated in a floor vote in June. After the nutrition programs (Title IV) were stripped out of the legislation, it was adopted by the House in July. The nutrition programs were subsequently adopted by the House in separate legislation. The nutrition bill was then again combined with the rest of the farm bill for purposes of conferencing with the Senate.

Farm Programs Have Withstood Tremendous Demographic and Economic Changes

When federal farm programs were first initiated, the average income of farm households was considerably lower than that of nonfarm households. One-fourth of the U.S. population lived on farms and the agricultural sector was enduring both economic and environmental crises (Dimitri, Effland, and Conklin, 2005). Now, more than 80 years later, only approximately two-tenths of 1% of the population live on farms and the average
income of farm households far exceeds that of the general population.\textsuperscript{3}

There are at least two important reasons why federal farm programs have continued despite these tremendous demographic and economic changes. The first is that the benefits of farm programs are increasingly concentrated among a declining number of program crop producers. Although it may seem counterintuitive, this likely increases the political influence of program beneficiaries who each have a significant vested interest in maintaining federal transfers. In contrast, the costs of federal farm programs are diffused across a large number of taxpayers (or for some programs, consumers) such that no individual has sufficient economic incentive to actively oppose the programs.

A second reason why federal farm programs have continued through the years is that farm organizations and their political supporters have carefully adapted their arguments to fit changing social and political climates. Early farm programs were rationalized by the Depression, the Dust Bowl, and the Second World War. Over time, the arguments evolved to include the “Farm Problem,” world food shortages, the farm financial crisis, the need for a “level playing field,” and risk management concerns.

**Farm Programs Exhibit Path Dependency**

The 2014 farm bill creates an incredibly confusing mix of federal farm programs and federally facilitated crop insurance products. It is conceivable that, in a given year, a producer of a program crop (other than cotton) could receive payments from as many as four different federal programs/products.\textsuperscript{4} It is hard to imagine that, starting from a clean slate, policymakers would have created such a confusing and potentially redundant set of federal programs/products.

However, that is just the point. Policymakers do not get to start from a clean slate. Federal program beneficiaries organize to maintain their hard won benefits. As a result, typically only incremental changes are politically feasible so policy evolution exhibits path dependency. As a brief aside, this is a point that policy economists overlook at their own peril. We use constrained optimization models to identify efficient outcomes but too often fail to realize that political constraints are real constraints. Studies that demonstrate that existing programs are inefficient relative to radically different programs (or free market outcomes) are unlikely to influence actual policy decisions. Instead, economists generally have the most influence when they conduct analysis that demonstrates that marginal improvements in efficiency can be gained through marginal changes in policy.

**The Last Farm Bill?**

Having described some of the reasons for the resiliency of federal farm programs, I now return to the question that serves as the title of this address. Is this the last farm bill? No, I do not think so. However, I do believe that significant challenges threaten the long-run viability of traditional omnibus farm bills generally and federal support for selected program crops, specifically. I close by briefly discussing two of those challenges.

**Forming and Maintaining Coalitions**

Perhaps the most important lesson to be drawn from the 2014 farm bill process is that the political strategy of adopting omnibus farm bills may be in danger of collapsing under its own weight. On the one hand, an omnibus strategy may be necessary to build the coalitions needed to generate sufficient political support for each of the separate farm bill titles. However, the number of different interests that seek to influence the farm bill debate has increased dramatically over time. Furthermore, traditional

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\textsuperscript{4}Price Loss Coverage, Marketing Loan Program, Yield or Revenue Protection, and the Supplemental Coverage Option.
agricultural interests are fragmenting along more narrow lines (e.g., California rice producers versus mid-South rice producers). As James Bonnen, David Schweikhardt, and others first noted more than 15 years ago, when the number of interests that need to be satisfied increases additively, the transaction costs of forming and maintaining coalitions among these various farm bill interests increases multiplicatively (Bonnen, Browne, and Schweikhardt, 1996; Bonnen, Hedley, and Schweikhardt, 1997; Bonnen and Schweikhardt, 1998). At the same time, increased federal budget pressures make it more difficult for any particular interest to agree to the compromises necessary to form and maintain coalitions. As the size of the overall budget decreases, the opportunity cost of compromise increases in percentage terms. As a result, reduced stakes can actually lead to more intense intracoalition battles as interests vie for “their share” of a shrinking budgetary pie.

Related to this is the question of whether the coalition between farm program and nutrition interests will be maintained in the future. As mentioned earlier, this coalition has long been considered absolutely necessary to get the widespread support needed to pass an omnibus farm bill. However, in the 2014 farm bill debate, the nutrition title became a focus of intense partisan differences in the House of Representatives. Historically, farm bill debates have been notably nonpartisan. With the 2014 farm bill, the intensity of the partisan debate regarding the nutrition title, along with the associated media attention it brought to both the nutrition title and other titles, further complicated the process of adopting an omnibus farm bill. In short, while obtaining adequate political support for farm programs (and programs authorized in other farm bill titles including various agricultural research and extension programs) still likely requires omnibus legislation that includes a nutrition title, this coalition may in the future face an intensity of partisanship and media scrutiny unlike anything it has experienced previously.

Farm Policy versus Food Policy

Beyond the challenges to future omnibus farm bills generally, there is likely also a specific challenge facing federal Title I farm programs. Over time traditional farm interests have been successful in maintaining political support for federal farm programs by adapting the rationalizations for these programs to fit changing social and political climates.

The emerging challenge facing supporters of federal farm programs is to articulate a rationalization for those programs that resonate in a social and political climate, which is increasingly focused on food concerns rather than farm concerns. By this I mean that issues such as obesity, food safety, early childhood nutrition, “food deserts,” and consumer preferences for various food attributes (e.g., organic, local, gluten-free) seem to surface in current political discussions far more than the global competition or risk management concerns faced by commercial farms that produce program crops. Thus, it is hard to escape the conclusion that the long-term political viability of federal farm programs will depend in part on whether traditional farm interests are able to again successfully recharacterize the need for these programs.

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