How Well Has the 1996 Farm Bill Worked?

J. B. Penn
Agricultural Outlook Forum 2001
U.S. Department of Agriculture

Washington, DC
February 22, 2001
Looking Through the Fog

• Partisan politics dominated economic environment since passage of FAIR Act

• Public perception of Act has been shaped almost entirely by politics

• Act heavily criticized - blamed for low prices, other ills of the farm sector - But, major features widely popular - proposed for continuation

• Today’s task: How to explain the disparity? Answer lies in economics of the sector.
Review of 1990s Economic Performance

• Prolonged period of global economic growth - persistent growth in food demand

• Sporadic adverse weather reduced supplies

• Result: empty bins - record high prices
• FAIR Act passed in this boom time -
  continued evolution begun in 1985
  – Ended old program strictures
  – Began assured payments
  – Continued marketing loan program
• Farmers worldwide responded to high prices -
• At same time, economic shock occurs -
  important regional market collapses - spreads
to other regions - demand slumps - S/U imbalance worsens - stocks build, prices fall
World Grain Stocks/Use

- Ending Stocks
- Stocks/Use Ratio
• Marketing Loan Program (guaranteed prices) come into play as a “safety net”
• Politics intensifies before 1998 election
  – Farm “crisis” talk begins
  – First ad hoc transfers authorized - $5.9 bil.
  – And again in 1999 ($9.3 bil.) and 2000 ($7.1 bil.)

• A “disconnect” becomes apparent
  – Low prices persist - FAIR Act criticism intensifies
  – Yet: acreage/output grow
    land prices/cash rents increase
    sector balance sheet strengthens
• What explains this? Why no response to low prices?
  – Marketing loan program and farm sector structure
  – Loan rate levels relative to variable costs of commercial producers
  – Extra payments ($22 bil.) “icing on the cake”

• Commercial farms ($250k+ sales)
  – Higher yields - lower unit costs
  – Higher realized prices
  – Have wider margins
  – Continue apace - maintaining downward price pressure
• Lower prices used as justification for more federal assistance - circularity

• Quandry - how to end the cycle? How to define future policies?
How well has the 1996 Farm Bill worked?

- Depends on your concept of the bill
  - Direct (decoupled) payments - full flexibility
  - Guaranteed prices - no supply controls
- Performance is explainable by economics
- Analysis reminds us - FAIR Act still a “one size fits all” approach - doesn’t reflect the structural disparity of the sector
- Probably now positioned to define a commercial ag/food policy apart from rural development/other policy
How Well Has the 1996 Farm Bill Worked?

J. B. Penn
jpenn@sparksco.com

Agricultural Outlook Forum 2001
U.S. Department of Agriculture

Washington, DC
February 22, 2001