# The 1996 shiny farm policy didn't work; on to the next

With the increasing costs of the various titled emergency payments and loan deficiency payments (LDPs) in the 1998-2001 period, Congress found itself in the position of needing to stanch the high costs that had resulted from the adoption of the 1996 Farm Bill. The solution was to end the seven-year program, designed to "end farm programs as we know them," a year early. The House of Representatives Agriculture Committee, under the leadership of Larry Combest of Texas. was the first out of the gate with farm bill legislation.

The House bill contained provisions to convert the Agricultural Market Transition Act (AMTA) payments that were paid to farmers under the 1996 Farm Bill to fixed, decoupled annual payments; they would be paid whether farmers produced that crop, another crop, or no crop at all. Though soybeans were not eligible for AMTA payments, they were added to the list of crops receiving the fixed, decoupled payments.

These payments were the newest, latest shiny policy that agricultural economists, farm organizations, and members of Congress would offer to farmers in an all-out effort to avoid acknowledging the historic and still-current economic characteristics of farm production (see our prior column, http://tinyurl.com/y9hy6jgb).

It was argued that the fixed, decoupled payments would be (World Trade Organization) legal because they were based on historic production and not tied to current production levels. The expectation was once these payments were decoupled from production, farmers would reduce their planted acres and pocket the payments.

The House legislation also included a continuation of the Loan Deficiency Payment (LDP) program that would also include soybeans. In addition, the House bill included a Counter-Cyclical Payment (CCP) program. The new CCP would only be paid if the fixed decoupled payment payment did not cover the difference between the crop's target price and the larger of the market price and loan rate. The shine was further brightened by making the CCP payments to farmers even if they did not plant that crop in the current year. The House legislation also included a number of provisions designed to attract the broadest support possible.

The Senate version of the legislation was more focused on conservation as the way to manage farm production and thus prices. But in the end, with the addition of some of the Senate's conservation provisions, the final version of the 2002 Farm Bill reflected the basic outline of the House bill.

As we wrote at the time, the 2002 Farm Bill is not "as some wags would have it, 'Back to the Future: Part Agriculture.' Michael J. Fox need not apply for a starring role because there is little in this farm bill that reflects traditional farm policy.

"Those who would call the 2002 Farm Bill 'Freedom to Farm on Steroids,' 'Super Freedom to Farm,' or 'Freedom to Farm Plus' are much closer to the truth. The legislation that was recently signed into law by the President is clearly the offspring of Freedom to Farm and bears little resemblance to the traditional farm programs of the 1930s through the 1970s…

"The 2002 Farm Bill is firmly rooted in the policies that began with the 1985 Farm Bill and reached their zenith in Freedom to Farm: 1) dependence upon market mechanisms to manage supply and demand; 2) income support; and 3) a mechanism to allow prices to drop as low as they want to go."

The 2002 Farm Bill was not rescued by its shiny new decoupled payment provision, but rather the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007. These energy acts established and expanded the renewable fuel standard (RFS), which required the blending of renewable fuels into the domestic transportation fuel supply. The renewable fuel was almost all ethanol made from corn. With the RFS, the increased demand for corn provided the lift in farm prices and incomes that farmers enjoyed during that latter years of the 2002 Farm Bill.

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