The input industry championed the three-decade push for all-out production

Why are supply management programs such an anathema to so many people? Part of the reason can be traced to events that took place 34 years ago.

Between the 1981 crop year and the 1982 crop year, corn ending stocks increased 1 billion bushels (12.2 percent of production) to 3.5 billion bushels with grain reserves growing to 3.0 billion bushels and prices falling to the loan rate of $2.55 per bushel.

"On January 11, 1983, President Reagan announced that the US Department of Agriculture would implement a payment-in-kind (PIK) program to help reduce government grain surpluses and to improve farm income" (http://tinyurl.com/yd5cmnry).

Secretary of Agriculture John Block explained, "PIK is basically simple…. Farmers who take out of production additional acres over what they agree to take out under the current program will receive as payment a certain amount of the commodity they would have grown on these acres. The commodity is theirs to do with as they wish. Commodities for the PIK program will come from farmer-owned reserve, regular loan or CCC-owned stocks.

"We have a three-fold objective with PIK…. Reduce production, reduce surplus stock holdings, and avoid increased budget outlays that would otherwise be necessary under price support programs."

Farmers responded positively to the program. Production problems during 1983 resulted in farmers taking more acres out of production than anticipated. In the end, 32.2 million corn acres were taken out of production and the harvest fell by nearly 50 percent to 4.2 billion bushels.

With reduced acreage, purchases of input supplies fell drastically, fewer machinery repairs were needed, and reduced production resulted in less grain going through the marketing channels. The impact on Main Street and the agribusiness sector was immediate as was the response.

At that point, the agribusiness sector began to pay more attention to agricultural policy and the design of commodity programs. Blame for reduced sales was directed toward supply management programs which used acreage reduction programs to keep from accumulating excessive stocks.

Agribusiness wanted to see an agricultural sector which used all its capacity all the time so they would not have to deal with periodic government-induced reductions in demand for their products and services.

The way to achieve that goal was to lay the groundwork for the elimination of farm programs, especially those that used acreage reduction programs. That goal was achieved with the passage of the 1996 Farm Bill which eliminated "farm programs as we know them." When it turned out that farm programs were needed, they favored revenue support programs.

Today, we are experiencing the fourth year of low crop prices. With crop prices below the full cost of production, farmers are looking for every way they can find to reduce production costs. That means they are shopping more carefully for seeds and farm chemicals, purchasing no more than they absolutely need. They are buying fewer new tractors, combines, and pickup trucks.

As a result, the agribusiness sector is facing the same problem that they did in 1983. Demand for their products and services, except for repairs, has fallen and they have had to reduce their workforce. They have had to lower the price of inputs and profitability in the agribusiness sector has fallen. Merger talks are in the air as they seek ways to survive in a tight market.

Ironically, agribusiness is facing a similar set of problems (reduced demand for agricultural inputs) in a different farm policy environment. In the 1983, it was low 1982 marketing year prices coupled with unforeseeable production difficulties that were the problem and not the government acreage reduction program per se. Without a wet spring in some parts of the country and a dry summer in other parts of the country, the 1983 acreage reduction under PIK would not have nearly as large.

The common underlying problem between 1983 and 2017 is low prices.

The solution is to design a farm program that counteracts prices that are well below the full cost of production.

Policy Pennings Column 899

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 145, November 24, 2017

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