PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Farm programs that benefit agribusiness

As we discussed in the previous column, the 1983 PIK program (Payment-In-Kind) was a watershed moment for the involvement of various agribusiness sectors in agricultural policy, including, but not limited to, the succession of farm bills. In 1983, the reduction in acreage to bring supply into balance with demand coupled with additional idled acreage on prevented planting fields combined to significantly reduce farm expenditures for equipment and supplies.

For farmers, the PIK program was a lifesaver in an extremely wet year, but reduced agribusiness income from Main Street to the offices of large corporate agribusinesses resulted from significantly lower sales levels.

For decades, farm policy had depended upon various configurations of supply-management programs to balance out supply and demand, bringing about crop prices that would enable farmers to remain in production. Farm income was not always lucrative, but it was dependable and bankers could count on the non-recourse loan rate to provide a floor under farm income during years of normal production.

Especially with the implementation of the PIK program, agribusinesses from equipment manufacturers and dealers to grain merchandizers and processors saw supply management programs as incompatible with their business model. They wanted to see all-out production every year so as to enable them to maximize their sales of farm inputs.

In this environment, agribusiness interests along with many agricultural economists and policy makers became convinced that the nature of decision making by producers had changed from the days when farmers purchased few inputs, using saved seed, and real horsepower along with crop rotations and manure for soil fertility. It was believed now that farmers purchased inputs like seeds, fuel, and farm chemicals, they would be more likely to reduce acreage and variable costs in response to lower market prices for their commodities.

Some never liked farm programs and required little convincing that this change was real. In their mind, the best farm bill was no farm bill at all. And, if there were to be any changes in agricultural acreage, they wanted to see those decisions made by individual farmers and not the Secretary of Agriculture.

For their part, farmers came to believe that acreage reduction programs and price supports were hampering their sales in the export market. As a result, the cry of both farmers and agribusiness was "get the government out of agriculture."

Just as it took a particular set of circumstances to convince agribusiness that they needed to get more involved in the design of farm policy, it took another set of conditions to bring about a radical change in farm programs—high prices and the promise of an export-led boom occurring during the period when Congress was considering the next farm bill.

The result of the change in the dominant view of the nature of agricultural production and the promise of a new era in agriculture was the Agricultural Market Transition Act of 1996 (AMTA), also known as "Freedom to Farm," which was expected to be the farm bill to end all farm bills. Though projected government costs for farm legislation in a high-price era were low, the legislation promised to use these savings to ease the transition by providing farmers with declining payments, whether they needed them or not, that did not depend upon production.

It turned out that a price peak hit during the farm bill debate. The expected export boom, based in part by the expectation that China would be importing 500 million bushels of corn by 2002, did not occur and by 1998 farm prices were well below the cost of production. Farmers did not reduce acreage or production in the face of lower prices as predicted by many. AMTA payments were not sufficient to stabilize farm income and Freedom to Farm soon became known as Freedom to Fail.

With no mechanism in the 1996 legislation to either increase farm prices or farm income, Congress resorted to ending the transition in the transitional payments and making large emergency payments each year from 1998 to 2001. The seven-year AMTA was retired a year early.

In the adoption of the 2002 Farm Bill, a transition did take place. Farm program design shifted from putting a floor on crop prices, and thus indirectly supporting income, to directly supporting farm income and allowing prices to seek their own level. With acreage reduction programs permanently off the table, the few of us who saw price supports and supply management as vastly cheaper mechanisms to help stabilize farm incomes compared to using government payments to offset low prices for each bushel of production were told to get with the program and agribusiness was given its wish: all-out production at all times.

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Originally published in *MidAmerica Farmer Grower*, Vol. 37, No. 69, May 6, 2016
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