

## Have We Given the 1996 Farm Bill A Chance?

Have We Given the 1996 Farm Bill A Chance? That is a critical and a controversial question. Much of the 1996 Farm Bill is built around the idea that farmers are to use price signals—rather than government programs—to decide which crops to grow and how many acres to put under cultivation. Thus, lower prices for all crops should signal a reduction in total cropland plantings.

Many of those who say that the 1996 legislation has not been given a chance believe that the market-signal idea has not been fully implemented because price signals to farmers become garbled when market prices go below the loan rate. They are garbled, the argument goes, because offsetting loan deficiency payments prevent farmers from experiencing “prices” that are below loan rates. Their conclusion is that farmers would have reduced production by now if it weren’t for the price-signal interference of loan rates and associated deficiency payments. Those with this view generally consider contract/AMTA payments, and by extension, fixed multiples of these payments, to be unconnected to farmers’ planting decisions.

There are a couple of things that should be pointed out when considering this argument. The first relates to the prices farmers have in mind when they make planting decisions. For purposes of analysis, let’s suppose that farmers used 1996 season average prices to determine their 1997 planting decisions, and so on, so that the 2000 planting decisions were based on 1999 season average prices. Since the concern is that the loan rates prevent farmers from responding to low prices, how often and to what extent have loan rates exceeded season average prices?

During the 1996 to 1999 marketing years, the season average prices for corn, wheat, and cotton have dropped below the loan rate in only one year, 1999. In 1999, the season average corn price was 9¢ per bushel below its national average loan rate of \$1.89 per bushel. Wheat’s season average price was 8¢ per bushel below its 1999 average loan rate of \$2.58 per bushel, while cotton’s season average price was a more substantial 6¢ per pound below its \$0.519 per pound loan rate. In the case of soybeans, season average price dropped below its \$5.26 per bushel loan rate by 33¢ per bushel in 1998 and by 61¢ per bushel in 1999. Except for soybeans, even when a crop’s season average price has dropped below its loan rate, the difference between the two has not been large, suggesting that the price response potential is limited.

Of course, other alternatives may better represent how farmers use prices to make planting decisions. One oft-cited alternative is to use harvest-time futures prices, taken a month or two before planting, to represent farmers’ price expectations for making acreage allocation decisions. So, in March of 2000, a farmer would base his/her corn and soybean plantings on a December 2000 futures quote for corn and a November 2000 futures quote for soybeans. Derived that way, farmers’ price expectations would have been above loan rates for all years for all crops, making the loan rate-garbles-the-price-signal a non-issue.

The second point is this: The argument that acreage will decline if the prices farmers use to make acreage decisions are allowed to fall below loan rates should not divert attention from the starkly different price-acreage response experience of the last four years. There was no response. Although the mix of crops planted has changed, farmers have continued to plant nearly the same total number of acres to the four major crops as they did in 1996 when prices were substantially higher.

Specifically, the total acreage of the four major crops remained flat from 1996 to 2000 while the price index for the four crops dropped by 36 percent between 1996 and 1999 (a 30 percent decline if loan rates are inserted in the place of season average prices whenever the loan rate exceeds a price).

If you think about what this means in terms of a supply curve, it would imply that the supply curve for cropland in major crops is vertical over the range that prices have declined during the first four years of the 1996 Farm Bill—not the positive slope seen in economics textbooks nor the positive slope needed for supply adjustment to occur over the rather sizable price range.

I would find it difficult to argue that the 1996 Farm Bill “has not been given a chance” because farmers lacked opportunity to respond to prices that are below their respective loan rates. Would there have been less acreage if farmers “decision prices” were below the loan rate? Possibly, but probably not enough to reduce production and carryover sufficiently to bring prices back to profitable levels.

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