PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

# The 1996 "Freedom to Farm" Farm Bill

The period of US farm bills where the instruments were designed around compensation policies that used price support/supply management programs allowing farmers to remain in production during long periods of low prices—the result of four centuries of publicly-sponsored developmental policies—ended with the adoption of the 1996 Farm Bill.

In some important ways, the demise of price support/supply management programs can be traced back to three changes in the 1980s: 1) the ascendancy of neo-classical economic theory over an approach that recognized that agriculture was different from other economic sectors, 2) a downturn in grain exports after 1981 that was blamed on high loan rates, and 3) the mishandling of farm programs in the early 1980s that resulted in significantly reduced plantings in 1983. That being said, it must be acknowledged that there was continuous opposition to these programs, on the part of some, going back to their institution as a part of the New Deal.

The 1985 Farm Bill reduced support prices and provided export enhancement programs in a futile but unrelenting effort to "recapture" export markets, partly reflecting grain importers buying from an increasingly diverse set of export competitors as acreages were brought into production and the technology that had increased yields in the US spread to other countries.

At the same time agribusiness firms began lobbying against acreage reduction programs because those programs reduce the demand for new equipment, parts and repairs, and agrochemical inputs. They wanted to sell products for as many acres as possible. They bolstered their argument with free-market, neoclassical economic theory that saw agriculture as no different from any other industry.

In the run-up to what was initially to be the 1995 Farm Bill—it was delayed into early 1996, thus becoming the 1996 Farm Bill—the National Grain and Feed Foundation commissioned a 1994 study by the consulting firm Abel, Daft, and Earley which held that large-scale land idling had retarded the growth of US agriculture. During this period, Congress was operating under the Gramm-Rudman-Hollings Balanced Budget Act, leaving the agriculture committees with a reduced budget with which to work.

Then a crop shortfall sent prices soaring. With 10-year projections showing massive corn imports by China, it became possible to convince people that there was no longer a need for farm bills. Thus was born the 7-year Federal Agriculture Improvement and Reform Act of 1996, known as Freedom to Farm, and its provisions to dismantle the existing price support/supply management programs.

With few agricultural programs to support and high prices expected to continue into the future, the money that was budgeted for commodity programs was converted to production flexibility contract payments (also known as AMTA payments named for the commodity title of the 1996 Farm Bill: the Agricultural Market Transition Act) that were to decline over time. With the AMTA payments, farmers could grow any crop they wanted—with the exception of fruits and vegetables—or no crop at all. The payments were decoupled from production and were to be paid whether prices were high or low.

With freedom from production controls, and with the expectation of a growing export market, US farmers were confident that they could out-compete farmers anywhere in the world in the race for exports. The mantra of many farmers was, "Bring it on."

The expectation was that times had changed and with farmers purchasing most of their inputs they would be more price responsive than in the past. Thus, it was reasoned, with guaranteed AMTA payments, if prices fell, farmers would idle acreage on their own or switch some acres to a more profitable crop—there was no need for government programs to tell them what to do. The magic of the market would do all the work, and with reduced production, prices would increase back to profitable levels.

While remaining below its 1994 peak, the 1996 corn crop recovered from the 1995 shortfall and prices began to fall. By 1998, with a good—but not record—corn crop, the season-average price fell back below $2.00 from a 1995 season-average price of $3.24. Farmers were losing money.

The expectation was that, in the presence of AMTA payments, farmers would be more price responsive in their acre allocation decisions. They weren't.

The result was four years of Emergency Payments and huge Loan Deficiency Payments (LDPs). With LDPs, farmers were paid the difference between the loan rate (that is, what used to be the support price) and the posted market price. As a result, large government payments were paid out for every bushel produced and no grain was taken off the market. With all of the year-ending stocks remaining on the open market, prices remained in a four-year trough and the farm-bill-to-end-all-farm-bills was terminated a year early and replaced with the 2002 Farm Bill. The 2002 Farm Bill fixed the level of decoupled payments rather than

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allowing them to decline over time and added back a program in which payments were made when major-grain prices fell below specified levels.

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