

AGEC 410 – Agricultural and Food Policy

9 – Farm Programs

Overview of U.S. farm programs from independence to 2002 bill

1. The Frontier Period – Independence to 1900

Forces:

Policy driven by need to settle land with limited labor
Land settlement

Transportation

Trade

Technology

2. The “Golden Period” – 1900 - 1922

Drivers:

Policy designed to expand production:

3. The Collapse of U.S. Agriculture – 1922 -1929

Drivers:

Policy:

4. The New Deal – 1933 - 1954

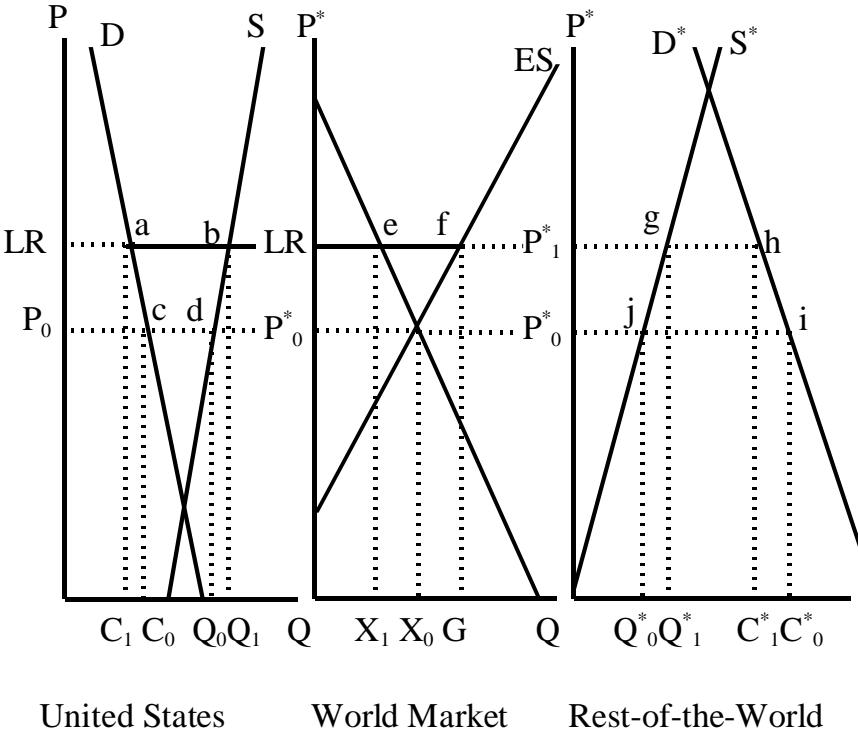
Begin heavy government intervention that continues

Series of acts; 1933, 1936, 1938, 1949

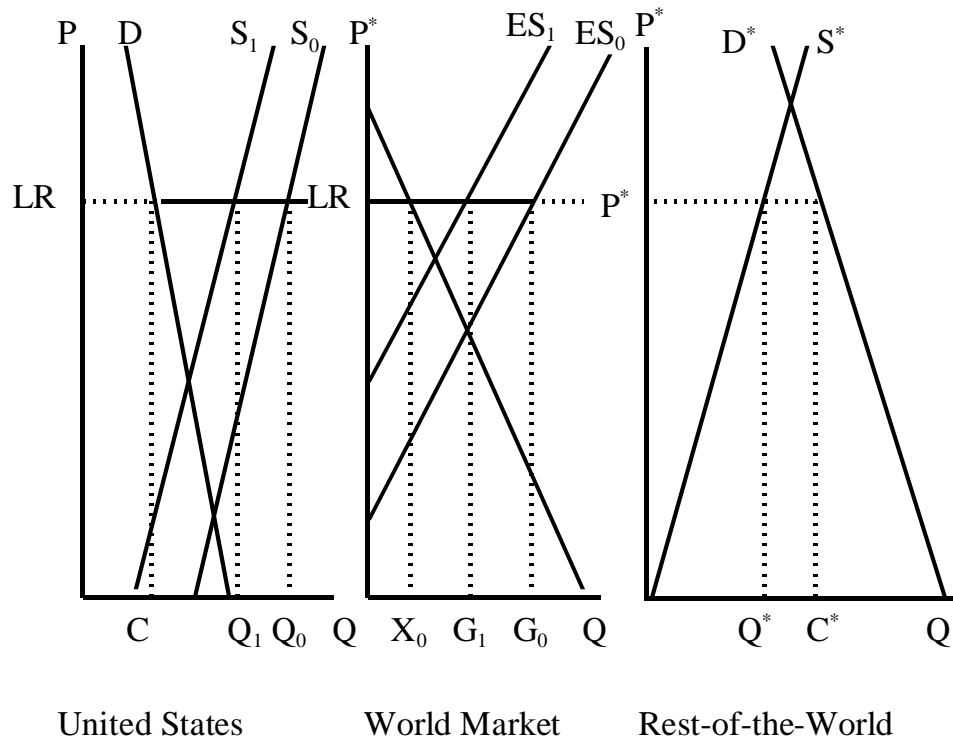
1949 remains the permanent legislation, all other bills written to temporally replace.

General Provisions:

1. Nonrecourse loan



2. Production Controls, 1936 AAA



Key issues with these types of programs
slippage

elasticity of demand:

capitalization in land

mandatory or voluntary?

Only certain commodities covered:

5. Flexible Price Supports – 1954-1972

Attempts to deal with mounting surpluses from price supports above market clearing prices.

1. Hold nominal support allow inflation to erode.

2. Paid diversion

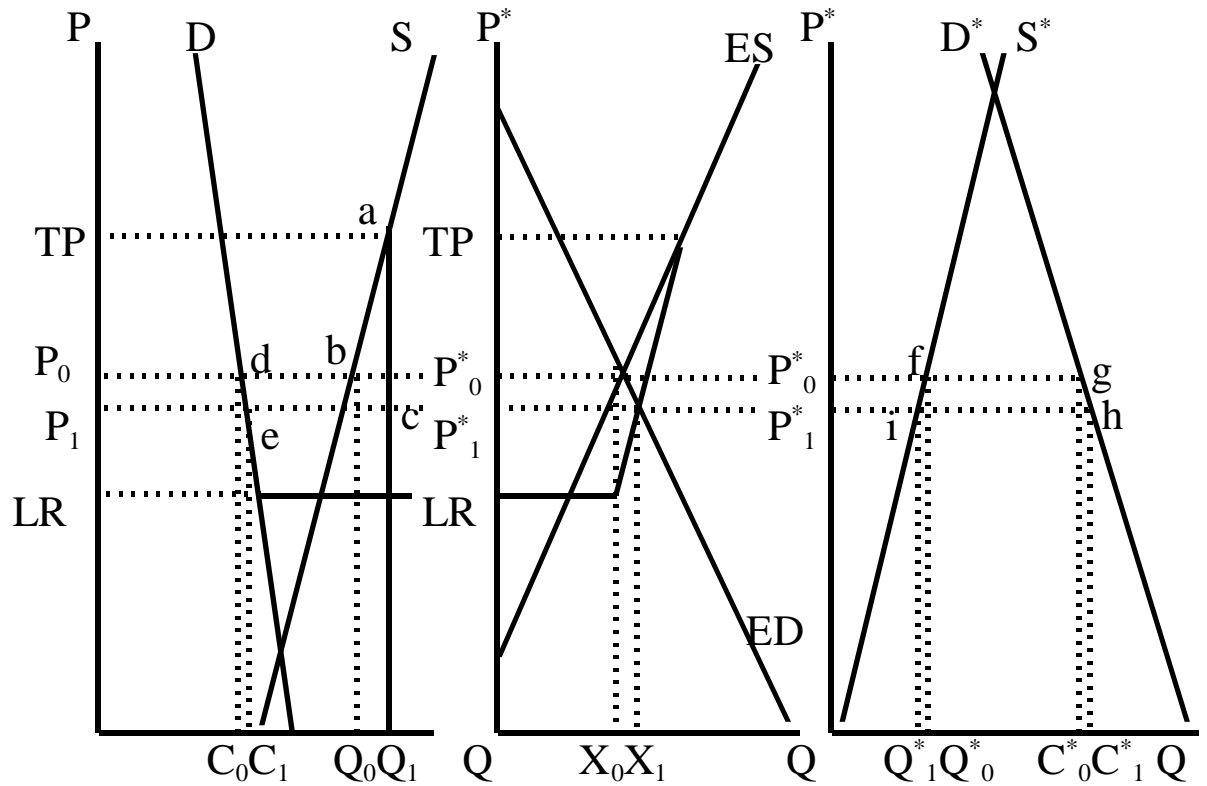
3. Expand demand

4. Two price systems for wheat and corn

6. Moving to a "Market Orientation" – 1973 and 1977

Dissatisfaction with results of high non-recourse loan program plus market conditions resulted in new policy

Target Price: 1973



Idea is to avoid stock build up and the adverse impact on trade.

Keep loan rate at below normal market price level as “safety net.”

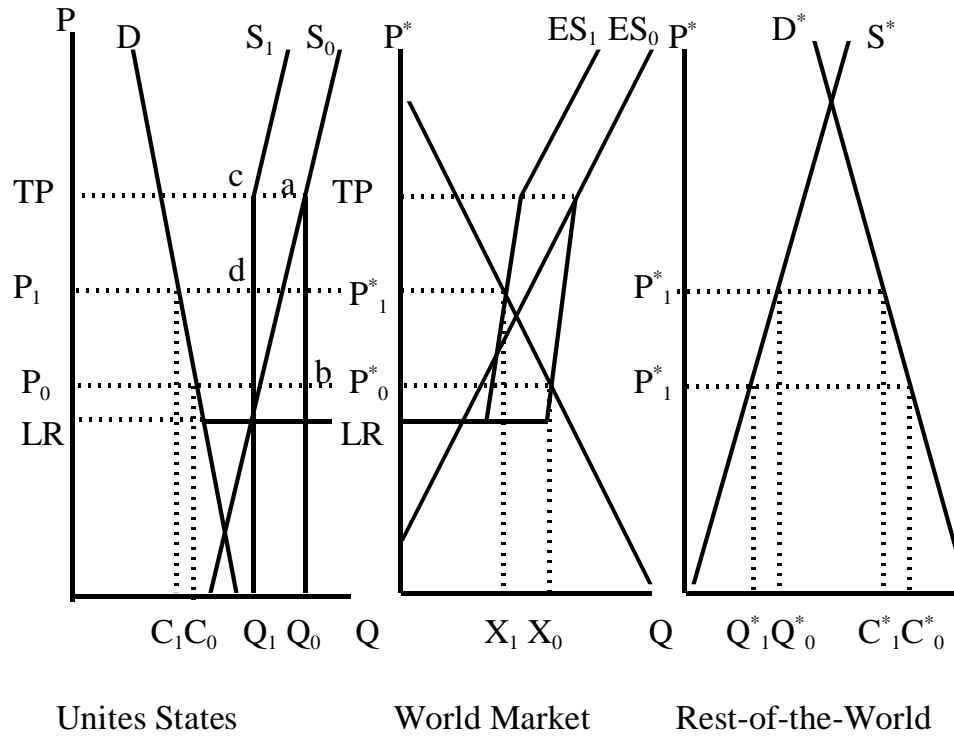
Target price implies large budget exposure so:
loan rate level

Payment limits

Set-asides and paid diversion

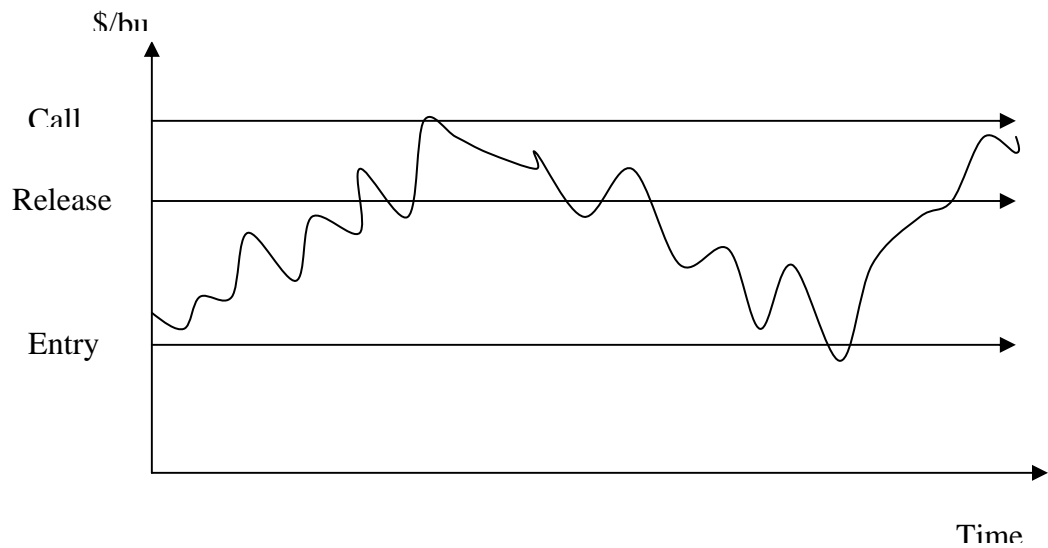
Soybeans were different.

Set-asides with target prices
 another way to limit budget exposure payment limits



Farmer-Owned Reserve (FOR), 1977

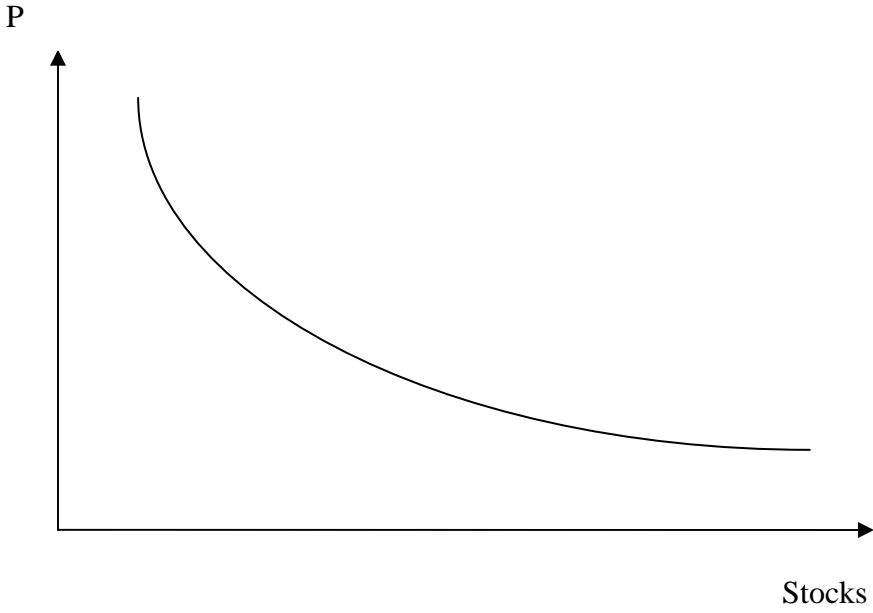
Original idea to manage prices in a band



Not very effective at stabilizing prices.

Became another way to support price

Created stock overhang



7. The 1981 farm bill

In the 1981 bill Congress raised price supports and made rigid.

The wrong policy at the wrong time.

Sets the stage for all subsequent bills.

Why raise support prices?

But:

Result:

Policy response:

8. 1985 farm bill – Looking for the 1970s

Argue that high support prices of 1981 bill priced US commodities out of world markets

So make US an aggressive competitor in global markets

How:

1. Lower support

2. Start decoupling

3. Export Enhancement Program (EEP)

4. Marketing loans for cotton and rice

5. Push trade liberalization

6. Conservation Reserve Program (CRP)

9. The 1990 bill – Stay the course

Budget pressures

Few changes

Budget Reconciliation Act

10. 1996– Freedom to Farm or Freedom to Fail?

Major changes in US farm policy, break with the New Deal programs from the 1930s.

Why in 1996?

Policy Changes:

1. Pure decoupled payments

2. End set-asides or ARP's

3. End FOR

4. End target prices

5. Revised safety net or price floor

What happened?

.

Policy response:

large supplemental increases in assistance

Actual outlays far exceeded projected

Outlays not predictable

Government role in ag not reduced

11. 2002 farm bill – **Return of the Jedi**

“What I told you is true, from a certain point of view.”

Complex bill

Main features:

1. Potentially very expensive
2. Make emergency spending regularized
3. Allowed updating of program yields and bases
4. Reintroduce discontinued programs for
5. Soybeans in the base now

6. Expanded environmental programs

Instruments:

1. Direct payment (DP)
2. Keep loan rate (LR) and LDPs
3. Reintroduce target price (TP)

Illustrative Example Support Calculation, 2004-07

	Corn
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	\$/bu
Market Price (P)	2.00
Loan Rate (LR)	1.95
Loan Deficiency (LDP=LR-P)	0.0
Target Price (TP)	2.63
Direct Payment (DP)	0.28
Adjusted TP (ATP=TP-DP)	2.35
Counter Cyclical (CCP = ATP-P-LDP)	0.35
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Criticisms:

1. Spending projections too low
2. Conflict with trade commitments
3. Loss of planting flexibility
4. Will encourage production and lock in low prices

12. 2008 bill

Two mechanisms (options)

Keep 2002 instruments

For 2009 and later can enroll in Average Crop
Revenue Election (ACRE)

Changes in payment limits

13. 2012 and beyond

Will be the standard policy choices:

But may be some new ideas, some probably have already appeared :

insurance programs

stocks policy

market-driven set-aside, flex-fallow

devolution

what else???