# The Effects of the 1996 Farm Bill on Feed and Food Grains

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The 1996 Farm Bill, now known as the *FAIR (Federal Agricultural Improvement and Reform) Act* of 1996, has been portrayed as reforming U.S. agricultural policy. Gone are set aside and base acreage controls over farm planting decisions. Gone, too, are deficiency payment programs that provided protection against downward price movements for producers of program commodities. According to conventional wisdom, the FAIR Act provides an environment in which farmers enjoy greater production flexibility, but face much more risk.

In fact, careful examination of the FAIR Act innovations leads to the conclusion that no radical changes have been made in food and feed grain agricultural policies, and that it is unlikely that the FAIR Act will cause large changes in crop acreages.

The framework for the agricultural price and income support programs of the 1980s and 1990s was established by the 1973 *Agriculture and Consumer Protection Act.* The key elements for wheat, barley, and rice were target prices and deficiency payments and price supports for each crop through nonrecourse loan programs.

In contrast, the FAIR Act creates a much simpler system of transfer payments for food grain and feed grain producers. Nonrecourse loan programs remain, but variable deficiency payments are replaced by fixed market transition payments for the period 1996 to 2002. For each program crop, producers receive payments of 85 percent of their 1996 crop acreage base multiplied by their 1995 program crop yields. Producers can plant any crops (other than fruits and vegetables) on their land (unless it is CRP land). This paper discusses the following aspects of the farm program:

**Decoupling**: Most links at the farm level between current production decisions and current or future deficiency payments were severed by the provisions of the 1985 Act which froze program yields at 1985 levels. The FAIR Act can therefore be viewed as simply completing a decoupling process between deficiency payments and production decisions, by ending the system that actually required farmers to plant program crops on base acres to receive government transfer payments.

**Elimination of acreage reduction programs**: By the 1990s the role of ARPs in controlling supplies had diminished for wheat and feed grains, partly because of the 1988 and 1989 droughts which reduced inventories, and partly because of higher prices associated with the advent of the CRP and land retirement through the 0-92 program. Their abolition in 1996 has therefore had little effect on the farm decision making environment.

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## S U M M A R Y

**Production Flexibility**: The rules governing base acreage calculations under the 1981 and 1985 farm bills made it costly for producers to switch to nonprogram crops like soybeans. However, these problems were mitigated in the 1990 Act which allowed program crop producers to reallocate up to twenty-five percent of their base acres to other crops. In fact, the planting flexibility provided by the 1990 Act has never been fully utilized by producers. The planting flexibility of the 1996 Act therefore seems unlikely to have significant effects on farmers' planting decisions.

**Federal Spending:** Whether the FAIR Act involves a cut in support for feed and food grain producers is also unclear. Under the Act, wheat and feed grain producers will receive $29.2 billion in market transition payments over the next seven years. Based on current estimates, these payments are likely to be higher than those that would have been made under the 1990 Act provisions because wheat and feed grain prices are forecast to be relatively high over the period 1996-1997.

**Farm Income Variability:** Much has also been made of the effects of the FAIR ACT on "the farm safety net." Yet, in fact, price-based deficiency payments provided little income stability to producers with low yields when prices were high, since in that case deficiency payments were small. In fact, increased planting flexibility may actually provide some degree of income stability to producers by allowing them to respond to shifts in relative prices for different crops. In addition, the 1996 Act provides minimum guarantees for revenue streams through the market transition payment system. As these payments decline over the duration of the Act, they will become less important as a source of income stability.

By 2002, Congress will have to readdress farm programs, including food and feed grain policies. Whether the 1996 Act represents the end of large scale farm subsidies therefore remains an open question. One interpretation of the 1996 legislation is that it is providing aid to the farm sector as it moves towards a "new subsidy" environment rather than a "no subsidy" environment. In the interim, although the FAIR Act involves substantive changes in the structure of U.S. agricultural policy, its actual effects on agricultural production seem likely to be small.


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# Farm Bill Legislation 1973-1996

**1973** Agriculture and Consumer Protection Act

**1977** Food and Agriculture Act

**1981** Agriculture and Food Act

**1985** Food Security Act

**1990** Food, Agriculture, Conservation, and Trade Act

**1996** Federal Agriculture Improvement and Reform Act

# THE EFFECTS OF THE 1996 FARM BILL ON FOOD AND FEED GRAINS

The 1996 Farm Bill, which as enacted legislation is known as the FAIR (Federal Agricultural Improvement and Reform) Act of 1996, has been portrayed as reforming U.S. agricultural policy. Gone are set aside and base acreage controls over farm planting decisions. Gone, too, are deficiency payment programs that provided protection against downward price movements for producers of program commodities. According to conventional wisdom, the FAIR Act provides an environment in which farmers enjoy greater production flexibility but face much more risk.

Yet, early assessments of the FAIR Act suggest that the aggregate impacts of the commodity provisions of the Act are relatively small (see FAPRI [1996] and USDA [1996]). With the exception of rice acreage, which is projected to fall as rice income transfer payments are decoupled from production, these studies conclude that any changes in planted acreage for major farm program crops, such as wheat and feed grains, are more likely to reflect changes in the Conservation Reserve Program (CRP), a voluntary ten-year paid acreage retirement program initiated by the 1985 Food Security Act, rather than changes in the income support programs engendered by the FAIR Act.

*Does the Fair Act represent a radical change in U.S. food and feed grain farm policy?*

This paper examines the implications of the FAIR Act for wheat, feed grains, and rice markets, and for producers of those commodities. Careful examination of the FAIR Act policy innovations for these commodities does not lead to the conclusion that radical changes have been made to the direction in which food and feed grain agricultural policies have been moving over the past eleven years. Also, it seems unlikely that the so-called "Freedom to Farm" changes in programs for these commodities embedded in the FAIR Act will result in large changes in crop acreage or will have large effects on the year-to-year variability or riskiness of farm revenues from these crops. The formal changes in policy incorporated in the FAIR Act are substantive, but their effective consequences are modest.

## The Development of Food and Feed Grain Agricultural Policies: 1973-1996

Over the sixty-three year period between the passage of the 1933 Agricultural Adjustment Act and the FAIR Act, substantial changes were made to the tools of agricultural policy, the degree of farm gate price and income stability they provide, the levels of income transfers they engender, and the

incentive they create for changes in land use. The 1973 Agriculture and Consumer Protection Act established the framework within which price and income support programs were implemented in the 1980s and 1990s. This framework was substantially different from that which prevailed between 1948 and 1973. The key elements of the agricultural support policies introduced by the 1973 legislation for the program commodities wheat, corn, grain sorghum, barley, oats, upland cotton, and rice, were target prices and deficiency payments. The Act also retained price supports for each crop through nonrecourse loan programs. Under these loan programs, farmers could receive nonrecourse loans from the Commodity Credit Corporation (CCC) for all of a crop raised on "eligible" acres (acres on which farmers were legally allowed to produce that crop). The amount of the crop loan was equal to the output of the crop multiplied by the loan rate, which therefore served as a minimum support price.

The 1973 Act created an income transfer program. Producers of program commodities were provided with base acreages for each program crop, and crop-specific payment yields were assigned to these base acres. In any given year, producers received deficiency payments for a particular crop based on the difference, if positive, between the target price and the national average market price for the commodity or the loan rate, whichever was greater. Producer payments were then established by multiplying the deficiency payment rate by the producer's eligible production (eligible program base acreage times program yield).

In contrast, the FAIR Act creates a much simpler system of transfer payments for food grain and feed grain producers. While nonrecourse loan programs remain in place, price-based variable deficiency payments have been replaced by fixed market transition payments over the seven crop years from 1996 to 2002. Participating producers now receive market transition payments equal to their "payment production" times the payment rate. For each program crop (described in the FAIR Act as contract commodities), each producer's payment production equals eighty-five percent of the 1996 crop acreage base times the producer's 1995 program yield for the crop. Producers may plant any crops they choose other than fruits and vegetables on land eligible for production (that is, land whose use is not restricted by commitments under other programs such the Conservation Reserve Program) and receive market transition payments for contract commodities.

*The 1996 Fair Act creates a much simpler system of government payments for food and feed grain producers.*

Several aspects of the structure and historical development of agricultural income support programs over the 1973-1996 period are of interest in evaluating the degree to which the FAIR Act represents a radical change in the development of U.S. agricultural policy. These aspects include a) the issue of decoupling of income support payments from actual production, b) the

elimination of acreage reduction programs, c) increased production flexibility, d) reductions in federal *on line* budget outlays for agriculture, and e) the effects of farm programs on the variability of farm income. Each of these issues is examined below. Careful examination of the provisions of the FAIR Act in relation to each of these issues suggests that many popular conceptions about its implications are probably misconceptions.

*Decoupling support from actual production.* The farm program established by the 1973 legislation began to decouple government income transfers for program commodities from current output levels. Unlike the nonrecourse loan program, under which crop support loans are based on the producer's actual production level, the size of the farmer's deficiency payment was determined by the farm's payment production, not the current year's production level. However, prior to the 1985 Food Security Act, current production decisions could affect deficiency payments by altering both base acres and assigned yields in subsequent years. For example, under the Agriculture and Food Act of 1981, the Secretary of Agriculture was given discretion to set a producer's base acreage on the basis of the previous year's plantings or an average of the two previous years' plantings. Under the 1985 Act, a farm's crop acreage base was set equal to the simple arithmetic average of the acreage planted, or considered planted, to that crop in the five previous years. If a producer overplanted his base, he was ineligible for payments that year. This change substantially reduced the potential for building crop acreage base, because of the relatively stiff penalty it placed on producers who overplanted their base acreage.

*Most links at the farm level between current production decisions and current or future deficiency payments had been severed by the 1986 crop year.*

Prior to the 1985 Act, a farm's effective payment yield was set equal to the average yield for that county or a higher "proven" yield for the farm based on an Olympic average of the five previous crop years (calculated by dropping the highest and lowest years from the average). This approach allowed income transfers to farmers to increase over time as average crop yields increased in response to improvements in technology and/or farm input decisions. The 1985 Act froze program yields at 1985 levels. Therefore, most links at the farm level between current production decisions and current or future deficiency payment income transfers had been severed by the 1986 crop year. In this context, the FAIR Act can be viewed as completing the decoupling process for deficiency payments and production decisions that began in 1973, by ending the system that actually required farmers to plant program crops on base acres in order to receive government transfer payments. Under the FAIR Act, base acres have been renamed contract acres, but producers do not have to plant program crops to receive income transfers in the form of market transition payments.

*Under the 1996 Fair Act, annual acreage reduction programs were eliminated.*

*Elimination of acreage reduction programs.* Under the FAIR Act, annual acreage reduction programs were eliminated, so food and feed grain farmers now have almost complete flexibility over crop planting and production decisions. Under previous legislation, to be eligible for deficiency payments, a producer had to participate in the annual acreage reduction program. Acreage reduction programs were implemented to control the costs of deficiency payments and nonrecourse loan outlays through restricting the amount of production eligible for payment, by taking land out of production and attempting to keep prices relatively high (and deficiency payment rates relatively low). As market prices fell in the early 1980s, deficiency payments, and loan forfeitures increased. As a result, acreage reduction percentages also increased. In 1986, for example, corn and wheat producers, respectively, had to set aside twenty-five percent and thirty percent of their base acreage to be eligible for deficiency payments.

By the late 1980s, the role of acreage reduction levels in controlling supplies had diminished considerably for wheat and feed grains. This was due in part to the droughts of 1988 and 1989, which sharply reduced large government-owned inventories of wheat and feed grains that had overhung those markets in the early and mid-1980s. Secondly, for a variety of reasons (including drought and pessimistic expectations about market conditions), some producers chose to place their program acreage in the so-called "0-92" program established under the 1985 Act. Under this program, producers could place crop acreage base in a conserving use and receive ninety-two percent of the expected deficiency payment. Thirdly, and perhaps most importantly, by the early 1990s enrollment in the CRP had resulted in the long-term retirement of over ten million acres of wheat base acres and ten million acres of feed grain base, substantially reducing the need for annual acreage reduction programs.

*Planting flexibility problems were mitigated under the 1990 Food, Agriculture Conservation and Trade Act, but these flexibility opportunities were not fully utilized by most farmers.*

*Increased planting flexibility.* The rules governing base acreage calculations under the 1981 and 1985 farm bills made it costly for producers to switch to nonprogram crops like soybeans. Planting less program crop acreage reduced the eligible base acreage in subsequent years. For example, under the 1985 Act, a producer with a 100-acre corn base who chose to plant soybeans on those acres, would lose twenty acres of corn base in the subsequent year and ultimately one-third of that base, unless he left the program to rebuild the base. Soybean acreage fell by over ten million acres from 1982 to 1985, in large part because of the level of the corn target price relative to soybean prices. When soybean prices rose sharply relative to corn prices in the late 1980s, producers had little or no ability to shift production out of corn and into soybeans, because of restrictive base provisions.

These problems were mitigated in the 1990 Food, Agriculture, Conservation and Trade Act, which introduced the concepts of normal flex acres and optional flex acres. Under the 1990 Act, producers could plant any program crop and most nonprogram crops on up to fifteen percent of their base acreage, (normal flex acres). In addition, producers could choose to forego deficiency payments on an additional ten percent of their base acres for each program crop in return for the right to plant those acres (optional flex acres) in other crops, including other program crops. Thus, after 1990, program crop producers could choose to reallocate up to twenty-five percent of their base acres to other crops.

*The effects of the 1996 FAIR Act planting flexibility provisions on aggregate supplies of individual crops have been, and are likely to continue to be, quite modest.*

**Table 1. Summary of Compliance Reports, 1992-1995**

| Program crop | Percent of Normal Flex Acres | | | Percent of Optional Flex Acres planted to another crop |
|---|---|---|---|---|
| | Planted to that crop | Planted to another crop | Idled [1/] | |
| Wheat | 48.9 | 24.9 | 26.2 | 7.8 |
| Corn [2/] | 54.5 | 36.7 | 8.8 | 9.0 |
| Grain Sorghum [3/] | 30.6 | 42.2 | 27.2 | 9.9 |
| Barley | 22.9 | 41.7 | 35.4 | 14.6 |
| Oats | 15.9 | 53.7 | 30.4 | 35.6 |
| Upland cotton | 67.8 | 15.0 | 17.1 | 3.1 |
| Rice | 30.5 | 46.5 | 22.9 | 7.5 |

Source*: Young and Westcott*

1/ Total flex acres minus acres reported planted to that crop minus acres planted to another crop.

2/ Normal flex acres planted to another crop includes acreage planted to sorghum.

3/ Normal flex acres planted to another crop includes acreage planted to corn.

The evidence presented in Table 1 suggests that the planting flexibility provided by the 1990 Act has never been fully utilized by producers. While this planting flexibility contributed to the five percent increase in soybean acreage witnessed since 1990, program compliance data for crop years 1992-1995 showed that for corn and wheat, about fifty percent of normal flex acres and over ninety percent of optional flex acres remained planted to those crops. Moreover, in no state did the planted acres for program food and feed grain crops (or soybeans) rise or fall by more than fifteen percent between 1990 and 1995. Thus, it is unlikely that the removal of all restrictions on planting decisions at the individual farm level will have any significant effect on total acres planted to individual program crops. The planting flexibility created by

the provisions of the FAIR Act increased the planting choices available to U.S. food and feed grain producers. As a result, some farmers may make substantial changes in the mix of crops they grow. However, the effects of the FAIR Act planting flexibility provisions on aggregate supplies of individual crops have been, and are likely to continue to be, quite modest.

*Reduction in support levels*. An additional issue is whether or not the FAIR Act involves a cut in support for the farm sector in general, and feed and food grain producers in particular. A related concern is whether the 1996 legislation genuinely represents the "beginning of the end" for income transfer payments to agricultural producers, as some policy makers have suggested. Budgetary considerations have played major roles in the debate surrounding the development of farm policies over the past fifteen years. Between 1981 and 1985, target prices for wheat and corn rose fifteen and twenty-six percent, respectively as shown in Table 2. By 1985, the nonrecourse loan rates for wheat and corn were $3.30 per bushel and $2.55 per bushel, respectively. The results of these relatively high loan rates were large government inventories, and steadily increasing deficiency payments. Total deficiency payments for wheat and feed grains rose from $696 million for the 1981 crop year to $4.4 billion for the 1985 crop year.

*Budgetary considerations have played major roles in the debate surrounding the development of farm policies over the past fifteen years.*

**Table 2. Target Prices, Loan Rates, and Deficiency Payments for Wheat and Corn, 1981-1995**

(dollars per bushel)

| | Wheat | | | Corn | | |
|---|---|---|---|---|---|---|
| Marketing Year | Target Price | Loan Rate | Deficiency Payment | Target Price | Loan Rate | Deficiency Payment |
| 1981 | $3.81 | $3.20 | $0.12 | $2.40 | $2.40 | $0.00 |
| 1982 | 6.05 | 3.55 | 0.50 | 2.70 | 2.55 | 0.15 |
| 1983 | 4.30 | 3.65 | 0.65 | 2.86 | 2.65 | 0.00 |
| 1984 | 4.38 | 3.30 | 1.00 | 3.03 | 2.55 | 0.43 |
| 1985 | 4.38 | 3.30 | 1.08 | 3.03 | 2.55 | 0.48 |
| 1986 | 4.38 | 2.40 | 1.96 | 3.03 | 1.92 | 1.11 |
| 1987 | 4.38 | 2.28 | 1.81 | 3.03 | 1.82 | 1.11 |
| 1988 | 4.29 | 2.21 | 0.69 | 2.93 | 1.77 | 1.09 |
| 1989 | 4.10 | 2.05 | 0.32 | 2.84 | 1.65 | 0.36 |
| 1990 | 4.00 | 1.95 | 1.28 | 2.75 | 1.57 | 0.51 |
| 1991 | 4.00 | 2.04 | 1.35 | 2.75 | 1.62 | 0.41 |
| 1992 | 4.00 | 2.21 | 0.81 | 2.75 | 1.72 | 0.73 |
| 1993 | 4.00 | 2.45 | 1.03 | 2.75 | 1.72 | 0.28 |
| 1994 | 4.00 | 2.58 | 0.95 | 2.75 | 1.89 | 0.57 |
| 1995 | 4.00 | 2.58 | 0.00 | 2.75 | 1.89 | 0.00 |

Source: *USDA Agricultural Outlook (various issues).*

Under the 1985 Act, loan rates for wheat and feed grains were based on a percentage of past market prices. The Secretary of Agriculture was also given discretionary authority to further reduce the loan rate for a commodity if the previous year's market price was less than 110 percent of the previous year's loan rate. As a result, the 1986 crop loan rates for wheat and corn fell by twenty-seven and twenty-five percent from 1985 levels; by 1990, they were forty percent below 1985 levels. Target prices for wheat and feed grains were held constant at 1985 levels for the 1986 and 1987 crop years but were then reduced by about nine percent between 1987 and 1990. Nonetheless, deficiency payments for those crops remained large throughout the period covered by the 1985 farm bill, averaging $6.9 billion per year in nominal terms.

Under the 1990 Act, target price maximums were fixed at 1989 levels, but to meet federal budget targets, fifteen percent of all crop acreage bases became ineligible for deficiency payments. This provision further reduced the amount of production eligible for deficiency payments, continuing the trend which began in the 1985 Act with the freezing of program yields (Westcott, 1993). Deficiency payments for wheat and feed grains averaged less than $4.0 billion annually over the 1991-1995 crop years. However, because of their countercyclical nature, total deficiency payments varied, ranging from $5.4 billion in 1992, when commodity prices were low, to zero in 1995, when commodity prices exceeded target prices.

Under the FAIR Act, wheat and feed grain producers will receive $29.2 billion in market transition payments over seven years. While the total amount is roughly equal to the level of payments for wheat and feed grains for the seven previous fiscal years (as shown in Table 3), payment levels are scheduled to decline over the period, falling from a maximum of $6.4 billion in 1997 to $3.2 billion in 2002. When first proposed by Congressman Pat Roberts in July 1995, the Freedom to Farm Act was projected to save $13 billion over seven years compared to a continuation of the 1990 Act. Opponents in Congress heavily criticized these cuts.

*The 1996 FAIR Act is likely to result in higher income transfers to farmers than those that would have been paid if the 1990 Act had been extended.*

**Table 3. Planned Food and Feed Grain Market Transition Payments, 1996-2002**

| Year | Wheat | Corn | Other Feed Grains* | Total |
|---|---|---|---|---|
| | | (billion dollars) | | |
| 1996 | $1.46 | $2.57 | $0.42 | $4.45 |
| 1997 | 1.41 | 2.49 | 0.40 | 4.30 |
| 1998 | 1.52 | 2.68 | 0.43 | 4.63 |
| 1999 | 1.47 | 2.59 | 0.42 | 4.48 |
| 2000 | 1.35 | 2.37 | 0.38 | 4.10 |
| 2001 | 1.08 | 1.91 | 0.31 | 3.30 |
| 2002 | 1.05 | 1.85 | 0.30 | 3.20 |

* *These include grain sorghum, barley, and oats.*

Source: *USDA*.

Ironically, based on current estimates, the FAIR Act is likely to result in higher income transfers to farmers than those that would have been paid if the 1990 Act had been extended. Strong export markets, combined with domestic crop shortfalls, sent wheat and feed grain prices above target price levels in 1995, and wheat prices remained relatively high in 1996. In December 1995, the Congressional Budget Office estimated that the FAIR Act would save only $1 billion over a continuation of the 1990 Act. The view of the administration on potential budget savings was more pessimistic. Based on the president's January 1996 budget baseline, the USDA estimated that the new farm bill was likely to cost over $24 billion more than the continuation of the 1990 Act. These budget estimates underscore the countercyclical nature of deficiency payments, and help to explain why the FAIR Act was so widely supported by wheat and feed grain producers.

*Income variability*. By far the most controversial feature of the FAIR Act was the replacement of price-based deficiency payments with fixed payments. The 1973 target price/deficiency program payment guaranteed farmers at least the target price for all output they produced on planted base acres in years when actual yields fell below program yields. During years when actual yields exceeded program yields, they would receive at least the target price on program yields. In addition, they also received some protection against very low prices on all eligible output through the nonrecourse loan program. Thus, the target price/deficiency payment program has been viewed correctly as providing farmers with hedges against downside price risk.

The target price/deficiency payment program has also been viewed as providing producers with a degree of revenue insurance that is not available under the FAIR Act. However, the effectiveness of deficiency payments in providing revenue protection can be questioned on two grounds. First, as pointed out previously, the percent of actual production covered by deficiency payments has declined under the 1985 and 1990 farm bills. Frozen program yields and the creation of nonpayment acres in 1990 meant that less than seventy-five percent of expected production was typically covered by deficiency payments (Westcott,1993). Second, the effectiveness of deficiency payments in providing revenue protection depended on the degree to which an individual producer's yield was correlated to aggregate yield and price. Widespread droughts typically resulted in high prices and small deficiency payments. Thus, deficiency payments were often poor instruments to offset declines in revenue caused by low yields.

*...deficiency payments were often poor instruments to offset declines in revenue caused by low yields.*

*Other issues*. The FAIR Act was also noteworthy because of some programs with which it did not grapple thoroughly. Foremost among these, from the perspective of the food and feed grains sector, was the Conservation Reserve Program. Both Congress and the Clinton Administration agreed that

the CRP should be extended, and that the FAIR Act should define the maximum acreage for the program between 1996 and 2002 as 36.4 million acres. However, the Act did not indicate precise criteria for program eligibility.

These unresolved issues mattered profoundly. If a high priority were placed on water quality criteria, then land in feed and food grain producing regions currently in the CRP would move back into production. In contrast, if an emphasis were placed on soil erodibility and wildlife, then higher rents would have to be paid to keep land in the CRP in grain producing areas such as the Northern Plains and the Midwest. In the latter case, feed and food grain producers would be better off, and U.S. production of these commodities would be lower. The final rule for the CRP was amended in February 1997, and the initial producer sign-up under the re-authorized CRP was completed in March 1997. The new rule did not substantially affect the geographic distribution of enrollments or payments in food and feed producing regions.

Federal crop insurance programs also provide substantial subsidies for food and feed grain producers, especially for wheat and barley producers in Western States. As noted previously, the FAIR Act only addressed these programs by removing the requirement, which had been introduced in 1994, that farmers receiving benefits from major government programs purchase catastrophic multiple peril crop insurance contracts. Removal of this provision was widely sought by producers with very small acreages, for whom the fixed catastrophic contract fee of $50 per crop made insurance contracts quite expensive. However, Congress had addressed federal crop insurance subsidies, which averaged over $2 billion per year for all crops between 1990 and 1993, in the Federal Crop Insurance Reform Act of 1994. Under the provisions of the 1994 Act, the Federal Crop Insurance Corporation was given a mandate to achieve substantial reductions in loss ratios and to increase premium rates to accomplish that objective.

## Effects of the 1996 Act on Wheat and Feed Grains

The FAIR Act reflects just one more step in a gradual evolution of U.S. agricultural policy towards greater market orientation that began with the 1985 farm bill. Most analyses of the 1996 Act suggest little change in acreage or prices for wheat and feed grains (USDA, 1996, FAPRI, 1996). Differences between these analyses are largely attributable to differences in assumptions about how the USDA will implement the Conservation Reserve Program and about future export market growth.

These findings are not surprising. The extended decoupling of producer income support under the FAIR Act represents a marginal change from program yield and base restrictions built into the provisions of the 1985 and

*The 1996 FAIR Act reflects just one more step in a gradual evolution of U.S. agricultural policy towards greater market orientation that began with the 1985 farm bill.*

*There are compelling arguments that suggest the acreage flexibility provisions of the 1996 FAIR Act may lead to more stable farm incomes.*

1990 Acts. Under the 1996 Act, producers will be able to receive payments even if their land is in a conserving use, but producers already had flexibility to idle crop acreage bases under the 0-85-92 programs. Acreage reduction programs have been eliminated, but ARP levels had already declined significantly for most crops between the mid-1980s and 1995. Most baseline estimates suggest that, because of projected growth in export markets, future ARP levels would have been zero for wheat and feed grains had the 1990 Act been continued. The 1996 Act provides producers with two-way flexibility; that is, they are now able to plant corn on soybean acreage as well as soybeans on corn acreage. However, aggregate forecasts indicate that this legislative change will have little effect on production decisions. Nevertheless, the FAIR Act does provide producers with flexibility to respond to changing market conditions. This flexibility should tend to stabilize rather than destabilize markets.

*The effects on supply variability*. The FAIR Act has been criticized on the grounds that it is likely to destabilize commodity markets. Critics point to the elimination of Acreage Reduction Programs and the fact that production is now decoupled from income transfer payments. But there are compelling arguments that suggest acreage flexibility may lead to more stable farm incomes because producers will be able to respond more effectively to changing market conditions. The 1996 crop year is a good case in point. Poor weather affecting winter wheat acreage resulted in producers plowing up some one million acres of winter wheat in Indiana and Illinois and replanting corn and soybeans. Similarly, in response to relatively high expected prices for wheat, producers in the Northern Plains increased the amount of land planted to spring wheat. Under previous farm bills, base restrictions would have prevented producers from overplanting their corn and wheat bases or penalized wheat producers for planting soybeans on wheat base.

Moreover, previous farm legislation restricted when ARP levels could be announced and provided little recourse if market conditions changed substantially after the ARP announcements but prior to planting. For example, under the 1990 Act, the Secretary of Agriculture was required to set the feed grain ARP by no later than September 30 prior to the calendar year in which the crop was to be harvested. The Secretary was given authority to make adjustments in that level by November 15 if it was determined that there had been a significant change in the total supply of feed grains since the program was first announced. After that date, the Secretary could allow producers to participate on a voluntary basis in a reduction (increase) in the set aside as long as their deficiency payments were offset accordingly. Even then, changes in ARP levels were limited.

The net effect was to make changes in the ARP level difficult and largely ineffectual after November 15 because of the offset in deficiency payments. The decision to set the 1995 corn ARP at 7.5 percent has been widely criticized, but when the initial decision was made in September 1994, the projected stocks-to-use level mandated a minimum 7.5 percent ARP. It was only after November 15, 1994 that export markets exploded and corn futures rose. Had the 1996 farm bill been in place, it is quite possible that producers would have planted more corn, thus dampening some of the increases in corn prices that were experienced in 1996.

*The effects on price and revenue variability*. Increased planting flexibility should allow producers to react more quickly to changing market conditions, hence acting to stabilize market prices. Critics have pointed to provisions in the 1996 Act that suspended authority for operating the Farmer Owned Reserve (FOR). However, changes in the FOR since 1985, including the lowering of loan rates, more restrictive entry, and storage payment provisions made in the 1990 farm bill, had probably marginalized the FOR by the early 1990s. Much has been made of the effects of the FAIR ACT on "the farm safety net." Yet, as has already been pointed out, price-based deficiency payments provided little income stability to producers whose yields were positively correlated to national yields. The droughts affecting wheat producers in the Southern Plains in 1996 demonstrate that fixed market contract payments can provide producers some income support for yield losses, when target price-based deficiency payments would have been nonexistent. Increased planting flexibility may also provide more income stability to producers. With respect to fixed payments, it should be noted that as these payments decline over the duration of the Act, they will become less important as a source of income stability.

## Conclusions

Whether or not the FAIR Act leads to more substantial reform over the long run remains an open question. For many conservative policy makers, a major selling point of Congressman Pat Roberts's Freedom to Farm House Bill was the abolishment of all permanent legislation for agricultural subsidies via intervention in commodity markets, including the provisions of so-called permanent legislation in the Agricultural Adjustment Acts of 1938 and 1949 that established essential elements of the loan rate program. These provisions were included in the House version of the 1996 farm bill but were excluded from the Senate's version. In conference, the Senate's version prevailed, and the permanent legislation was preserved.

*...although the 1996 Fair Act involves substantive changes in the structure of U.S. agricultural policy, its actual effects on agricultural production seem likely to be small.*

By 2002, Congress will have to readdress farm programs, including food and feed grain policies or, yet again, be confronted with an expensive revision to the provisions of the 1938 and 1949 farm bills. One interpretation of this aspect of the 1996 farm bill debate is that the market transition payments provided by the 1996 legislation will aid the farm sector as it moves towards a "new subsidy" environment rather than a "no subsidy" environment. In the interim, although the FAIR Act involves substantive changes in the structure of U.S. agricultural policy, its actual effects on agricultural production seem likely to be small. In addition, even the policy initiatives incorporated in the FAIR Act represent more of an evolutionary approach to agricultural policy change than a revolutionary one.

*...market transition payments provided by the 1996 legislation will aid the farm sector as it moves towards a "new subsidy" environment rather than a "no subsidy" environment*

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