



**SPARKS**  
C O M P A N I E S I N C .

# **How Well Has the 1996 Farm Bill Worked?**

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# Looking Through the Fog

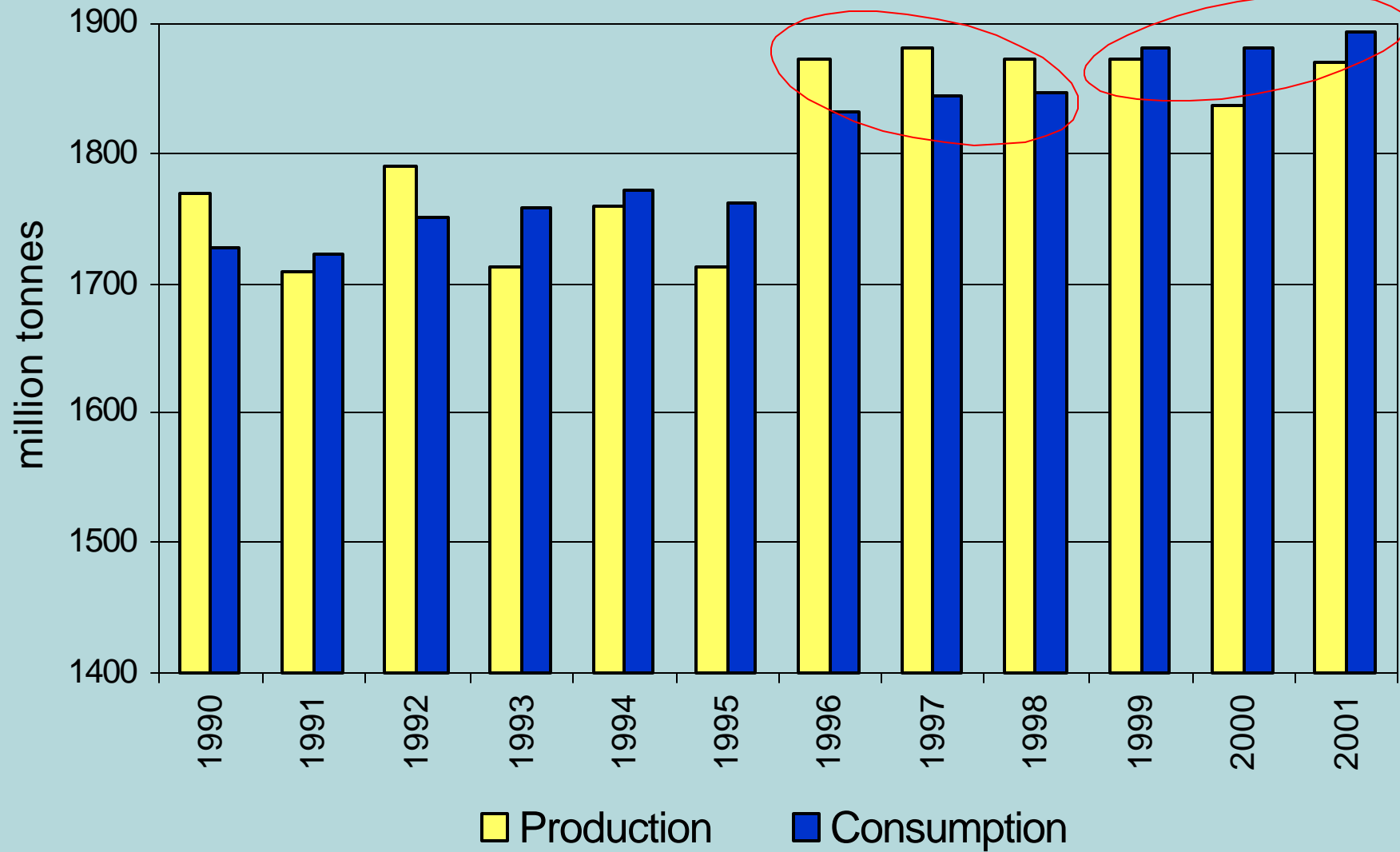
- Partisan politics dominated economic environment since passage of FAIR Act
- Public perception of Act has been shaped almost entirely by politics
- Act heavily criticized - blamed for low prices, other ills of the farm sector - But, major features widely popular - proposed for continuation
- Today's task: How to explain the disparity? Answer lies in economics of the sector.

# Review of 1990s Economic Performance

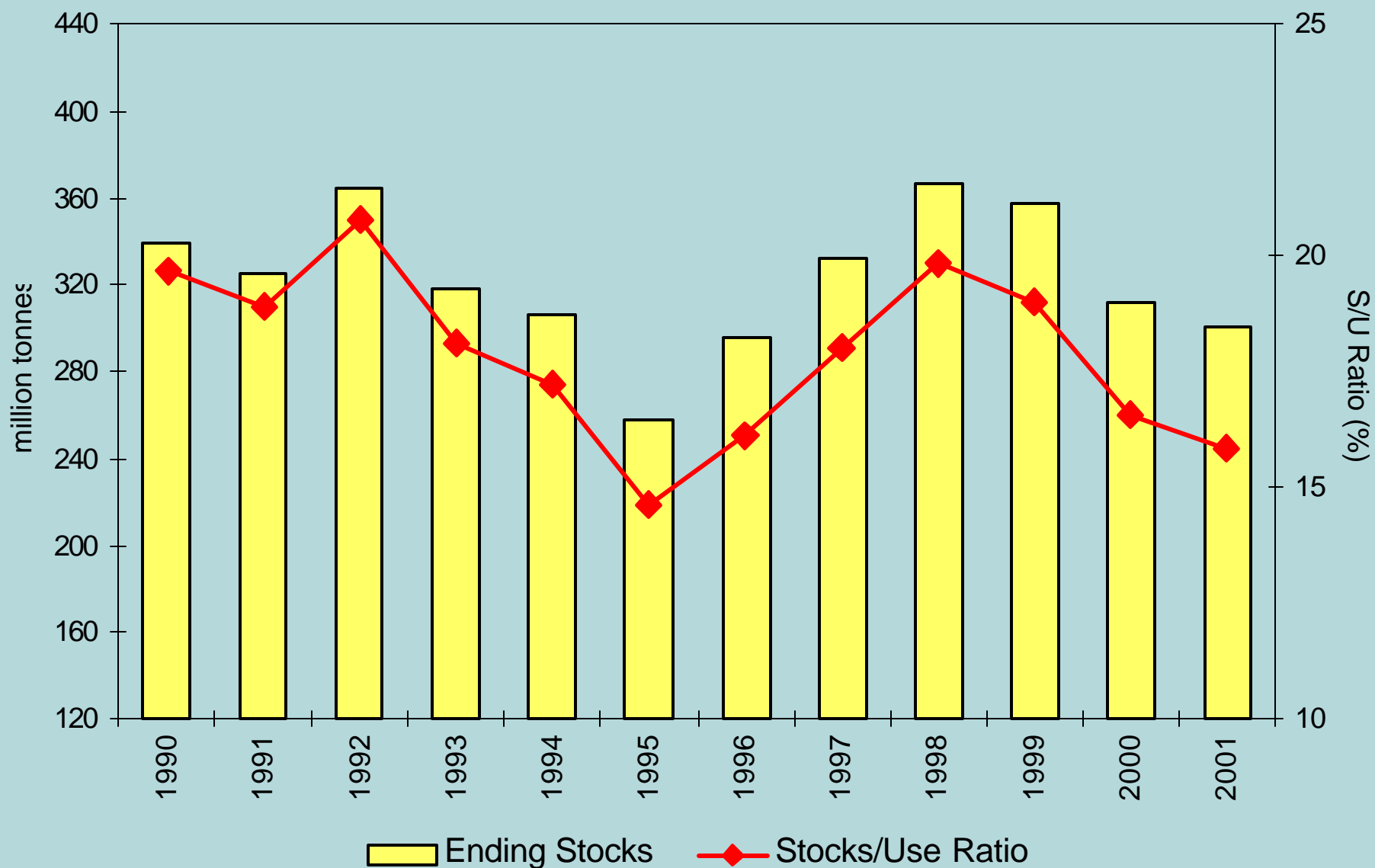
- Prolonged period of global economic growth - persistent growth in food demand
- Sporadic adverse weather reduced supplies
- Result: empty bins - record high prices

- FAIR Act passed in this boom time - continued evolution begun in 1985
  - Ended old program strictures
  - Began assured payments
  - Continued marketing loan program
- Farmers worldwide responded to high prices - supplies grew quickly - 1996, 1997, 1998
- At same time, economic shock occurs - important regional market collapses - spreads to other regions - demand slumps - S/U imbalance worsens - stocks build, prices fall

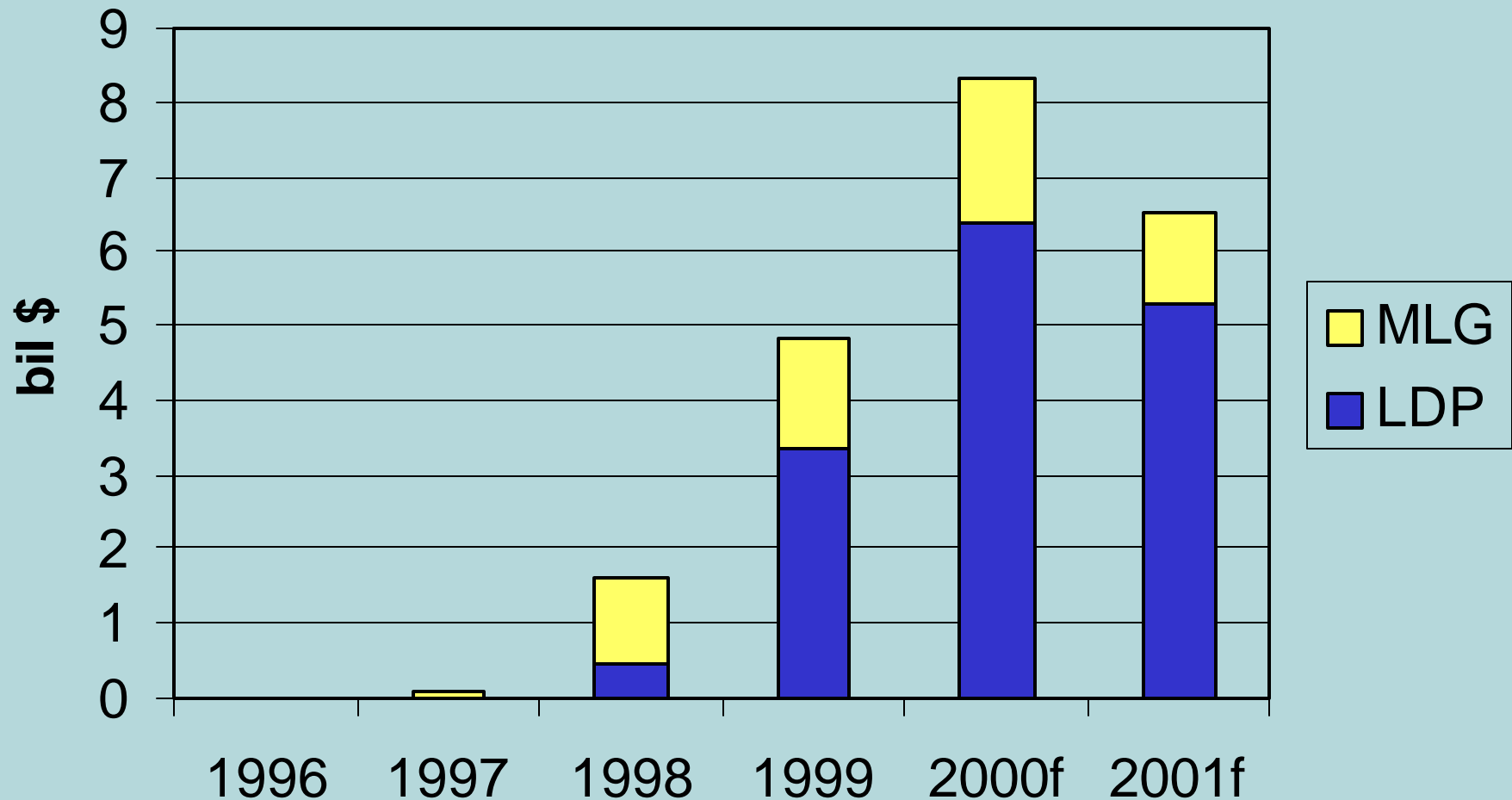
# World Grain Production/Consumption



# World Grain Stocks/Use



- Marketing Loan Program (guaranteed prices) come into play as a “safety net”



- Politics intensifies before 1998 election
  - Farm “crisis” talk begins
  - First ad hoc transfers authorized - \$5.9 bil.
  - And again in 1999 (\$9.3 bil.) and 2000 (\$7.1 bil.)
- A “disconnect” becomes apparent
  - Low prices persist - FAIR Act criticism intensifies
  - Yet: acreage/output grow
    - land prices/cash rents increase
    - sector balance sheet strengthens



- What explains this? Why no response to low prices?
  - Marketing loan program and farm sector structure
  - Loan rate levels relative to variable costs of commercial producers
  - Extra payments (\$22 bil.) “icing on the cake”
- Commercial farms (\$250k+ sales)
  - Higher yields - lower unit costs
  - Higher realized prices
  - Have wider margins
  - Continue apace - maintaining downward price pressure

- Lower prices used as justification for more federal assistance - circularity
- Quandry - how to end the cycle? How to define future policies?

- How well has the 1996 Farm Bill worked?
  - Depends on your concept of the bill
    - Direct (decoupled) payments - full flexibility
    - Guaranteed prices - no supply controls
  - Performance is explainable by economics
  - Analysis reminds us - FAIR Act still a “one size fits all” approach - doesn’t reflect the structural disparity of the sector
  - Probably now positioned to define a commercial ag/food policy apart from rural development/other policy



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