Lecture XXII: History of Agricultural Price Policies

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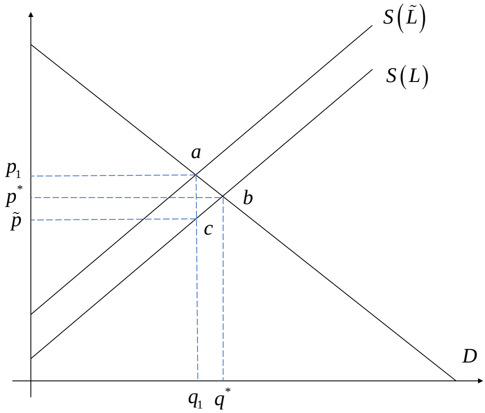
Depression Era Policies



Parity

- Several of the older programs were written in terms of parity - the ratio of agricultural prices relative to a base period (typically agricultural prices 1910-1914)
- Several different price indexes exist
- Laspeyres - quantity at time $t+1$

$$L_t = \frac{\sum_i^N p_{t+1} q_{t+1}}{\sum_i^N p_t q_{t+1}} \tag{1}$$

Parity, Indexes

- Paache - quantity at time t

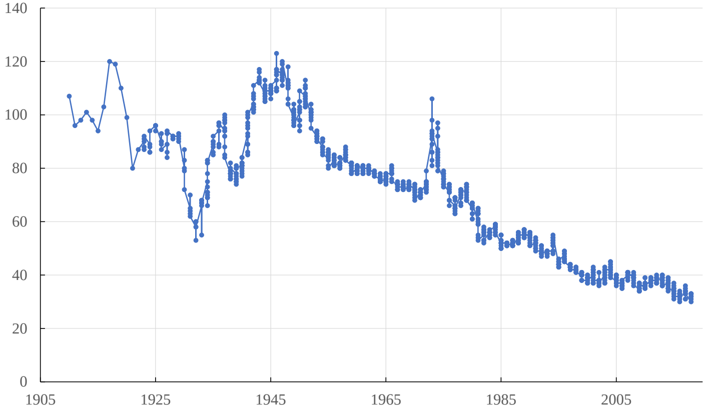
$$P_t = \frac{\sum_{i}^{N} p_{t+1} q_t}{\sum_{i}^{N} p_t q_t} \tag{2}$$

- Fisher - $(L_t P_t)^{1/2}$
- Tornqvist-Theil

$$\dot{p} = \sum_{i}^{N} (s_{i,t+1} + s_{i,t}) \ln (p_{t+1}/p_t) \tag{3}$$

$s_{it} = p_{it} q_{it} / \sum_j^N p_{jt} q_{jt}$

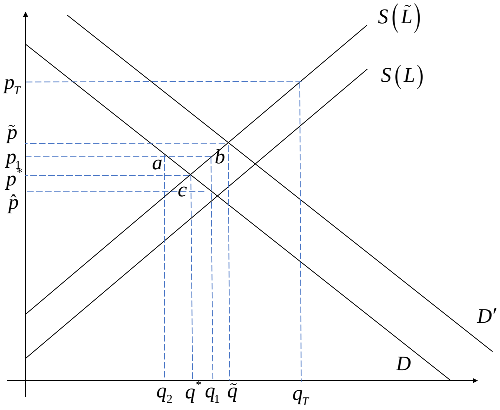
Parity Ratio Over Time



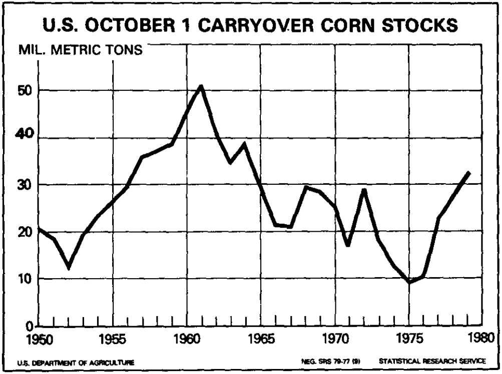
Brannan Plan

- Secretary of Agriculture Charles F. Brannan (under President Truman) proposed changes in agricultural policy to replace the parity base with a more flexible measure of farm income using direct government payments while allowing the prices of agricultural commodities to fluctuate more freely according to market conditions (his plan included some of the basic ideas found in the McNary-Haugen Act).
- The essence of the Brannan Plan was introduced in the Food and Agricultural Act of 1965.

Prices under 1965 Act



Stocks under 1965 Act

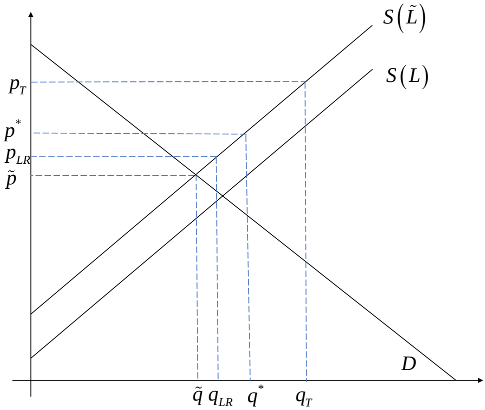


Deficiency Payments

- Apart from the loan rate, the 1970 legislation provided for additional support through the deficiency payment program, which was based on the difference between the floor price and either the loan rate or the prevailing market price, whichever was higher.
- This difference was paid on base or program acres and on average yields. Hence, deficiency payments were not affected by production decisions within each year.

$$\max_{\{x_t\}_{t=1}^{T}} \mathrm{E}\left[\tilde{p}_t f\left(x_t\right) + \sum_{t=1}^{T} \beta^t \left\{ \delta\left(p_t^T - \tilde{p}_t\right) \sum_{i=1}^{5} \omega_t f\left(x_{t-i}\right) \right\}\right] \tag{4}$$

Deficiency Payments



Payment in Kind Program (PIK)

- The Deficiency Payment Regime was supplemented in the the late 1970s by the Farmer Owned Reserve Program in the Food and Agricultural Act of 1977.
- The Farmer Owned Reserve Program accumulated huge stocks.
- Payment in Kind was a program where the farmers bid (share of crop they would not plant) for grain that would be released from the Farmer Owned Reserve.

Freedom to Farm

- The Federal Agricultural Improvement and Reform Act of 1996 (also referred to as the 1996 FAIR Act, and the 1996 Freedom-to-Farm Act) made substantial changes in the income support and supply control mechanisms of U.S. farm commodity policy.
- The acreage set-aside programs of earlier policies that supported grain and fibre prices by restricting cropland were removed.
- In addition, the FAIR Act introduced Production Flexibility Contracts, or Agricultural Market Transition Act Transition Payments (AMTAPs).

- The AMTAPs were a series of seven declining annual market transition payments that replaced the deficiency payments included in earlier programs. Farmers received a declining percentage of historical deficiency payments regardless of either market prices or planting decisions.
- Hence, it was claimed that AMTAPs would have been decoupled. This implied:
  (1) a more market-oriented agricultural policy and
  (2) an agricultural policy more in tune with WTO-mandated non-distortionary agricultural policies (high commodity prices in the mid-1990s undoubtedly contributed to the political feasibility of the AMTAPs).

- One innovation introduced in the 1990s which bears development is the Loan Deficiency Payment – no more stocks.
- The Loan Deficiency Payment is the difference between the Loan Rate and the Market Year Price as determined by the USDA times the amount of output produced.
- The second concept is a modified version of the Deficiency Payment called the Countercyclical Payment (CCP)

Payments Under 2002 FSRI