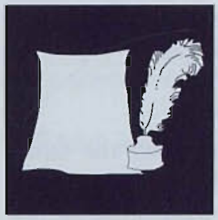
The 1995 Farm Bill

Issues and Options

by John G. Stovall and Dale E. Hathaway



Getting better information about the consequences of alternative policy options into the chaotic, hard-ball politics dominating the farm bill debate every five years has been an elusive goal for public policy professionals and agricultural economists. Since its formation in 1984, the National Center for Food and Agricultural Policy has prepared special research and educational material for each farm bill season, but this time around the center took a different approach.

Discussions with members of Congress and their staffs in 1993 and 1994 indicated that the environment for the 1995 farm bill would be quite different from the others. First, the number of members familiar with farm bill issues has dwindled because of high turnover. Second, the pressures to reduce federal spending would likely lead to an intense scrutiny of spending on all federal programs. In addition, the food and fiber industry has changed so drastically over the last few decades that many of the programs no longer appear relevant.

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The Farm Bill Project

Through these discussions the center concluded that it could help most by (1) identifying the key issues relevant to the 1995 farm bill debate, (2) sorting out the practical options for dealing with the issues, and (3) examining the implication of these options. In mid 1994 the Hubert H. Humphrey Institute of Public Affairs of the University of Minnesota became a cosponsor of this Farm Bill Project.

At the heart of the project are six working groups, each composed of informed individuals, many of whom represent stakeholders in the system. We asked each working group to focus on issues, options, and consequences for a subset of farm bill topics, and to find areas of agreement and disagreement. In all, about eighty persons representing farm organizations, agribusiness firms, cooperatives, academics, and others interested in agricultural policy served on working groups. Members included a former secretary of agriculture, six former assistant secretaries, presidents of eleven state farm organizations, and more than twenty-five university faculty. The Economic Research Service provided a resource person to work with each group.

To help provide a setting for working-group activities, two day-long seminars were held in Washington and Minneapolis. Speakers from Congress, the food and fiber sector, and universities discussed the implications of changes in political balances, in budget constraints, in the structure of the sector, and in commodity markets.

From the start, the project was coordinated closely with both majority and minority staff of the Senate Committee on Agriculture, Nutrition and Forestry. When the 1994 elections brought Republicans into the majority in both the House and Senate (with the promise to balance the federal budget in seven years), it became clear that the farm bill debate would pose new questions and possibly produce major policy changes. This development gave additional urgency to the working groups' activities and increased their potential impact.

As the groups met and discussed the issues, three points in particular became clear. First, traditional farm interests, which have tended to take farm programs for granted, are concerned when others demand sound reasons for the programs. Second, the stakeholders are spending more time defending the

current programs than searching for new concepts and approaches. Third, and most important, farm groups expressed substantial uncertainty about the survival of programs and the direction programs will take if they do survive. This uncertainty appears to be a reflection of the state of mind of the groups themselves. The discussions suggest that most groups probably do not have a fallback position, or if they do they are unwilling to discuss it until it is clear that they must accept change.

Here, we focus on the work of the six working groups, their deliberations and conclusions.

Price and income

At one time, some people may have thought that negotiating the 1995 farm bill would be a cake walk. Surely not many think that today. All of those who observed the deliberations of the price and income working group expect conflict to reign over the 1995 farm bill.

To a large extent, members of this working group reflected the diversity of perspectives about commodity policies that has emerged in the debate over farm price and income policies in the 104th Congress. Four perspectives characterize the debate in both fora:

- The Keepers: "U.S. consumers have never had it so good—all because of the farm programs. And besides, budgets for farm programs have already been reduced dramatically."
- The Rescuers: "U.S. farmers have an opportunity to save their federal income transfers by embracing another banner—the environment. However, that involves replacing the current farm commodity regulatory system for distributing program monies with another system of regulations and related paperwork."
- The Needers: "Don't change the programs. Admittedly, most of the subsidies go to well-off producers and landowners. However, there are innumerable families on farms trying to make ends meet. To them a $10,000 USDA check is a godsend. Don't take it away even if it means sending multithousand dollar checks to people worth millions."
- The Spoilers: "These programs are a dead weight on the economy which we can't afford, and they make our food and fiber sector less competitive. It is time to stop taking tax money from average Americans and giving it to farm operators and farm landowners, especially those with large incomes and substantial wealth."

The thinking of these four hypothetical groups was reflected, although perhaps unevenly, in the discussions of this working group as they defined the important price and income issues, the alternative approaches to these issues, and then, their implications.

The working group did agree on six priority issues: (1) the purposes price and income policies should serve, (2) the role of environmental programs in the farm bill, (3) the role of crop acreage retirement and other supply control measures, (4) targeting of farm program benefits, (5) minimizing the adverse impact of spending cuts, and (6) reducing the uncertainty about the cost of price and income programs.

As the hypothetical perspectives foretell, major differences divided the group on alternative solutions and consequences. However, some areas of consensus developed: (1) farm programs can no longer be justified as necessary to bring the income of poor farmers up to nonfarm levels, (2) environmental programs should form an important part of a farm bill, (3) acreage retirement and supply controls harm the competitive position of the sector, and (4) targeting farm programs cannot be economically justified.

Opinion on how spending on programs should be cut, or indeed if spending should be cut, varied widely. So did the opinion on whether the entitlement status of the programs should be changed. The group could not agree on how the sector should be looking at the future role of federal support.

Price and Income Working Group
Lynn Daft, Abel, Daft, Earley & Ward, Chair
Norman A. Berg, Soil Conservation Society
Gaylon Booker, National Cotton Council
Perry Dixon, Archer Daniels Midland
Robert Frederick, The National Grange
Richard L. Gady, ConAgra, Inc.
Bruce L. Gardner, University of Maryland
Robbin Johnson, Cargill, Inc.
John E. Lee, Mississippi St. University
Tom Little, Mid America Dairymen
Judy Olson, Association of Wheat Growers
Bob Stallman, Texas Farm Bureau
Leland Swenson, National Farmers Union
Luther Tweeten, The Ohio State University
Bob Young, University of Missouri

International trade and marketing

Five key international trade and marketing issues were proposed for attention in the farm bill: (1) the rationale for federal export assistance, (2) foreign competition in U.S. domestic markets arising from trade liberalizing agreements, (3) closed markets and unfair competition abroad, (4) U.S. competitiveness in foreign markets, and (5) effectiveness of various forms of assistance.

Distortions in world markets for food and fiber products and the inability of private firms operating in competitive markets to capture benefits of export programs justify federal intervention and financial support for international trade and marketing activities. In the group's view, a complete withdrawal of the federal government from these activities would cause losses to the national economy.

The group was divided on the form of export assistance and who should receive it. Those representing producers of commodities currently receiving direct export subsidies opposed reductions beyond GATT requirements—as long as other countries use such programs. On the other side, a significant number believe that direct export subsidies have a low benefit-cost ratio and mainly assist producers of the specific commodity by raising domestic prices without really increasing exports. They suggested that the direct export subsidies be scaled back and more resources put into market development activities with higher benefit-cost ratios and longer-term impacts. However, the use of government funds to promote private brand-name products received mixed support.

The group generally agreed that U.S. export assistance puts too much emphasis on short-run objectives and neglects a long-term strategy for market development. Foreign aid programs, in particular, can play a more important long-term role in developing countries and emerging market economies.

Because the working group focused on export expansion, it did not consider new protectionist measures as a serious alternative to help domestic producers compete against imports. Members suggested that the trade rules be vigorously enforced, and that some of the restrictions on domestic producers to meet food safety and environmental concerns be reexamined.

Strong government action was endorsed to open foreign markets, including vigorous implementation of the new GATT rules, multilateral action in the form of new trade agreements, and, if necessary, unilateral action to remove unfair competition and open markets. Government-sanctioned monopoly systems for importing and exporting agricultural products disrupt our exports, and GATT rules fail to enforce codes of conduct. Recent experience with the Canadian Wheat Board and the New Zealand Dairy Board provide examples of trade practices which create problems in both domestic and international markets.

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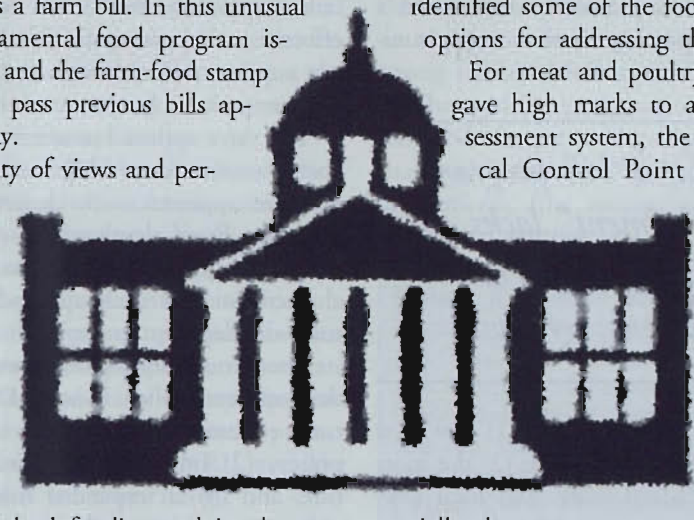
The government could and should take action to help U.S. producers be more competitive in world markets. Experience shows that excessively high internal supports prevent competition; members suggested that existing supports should be reduced. However, the producers of, for example, dairy products believe they would lose their domestic supports without compensating income protection. The group strongly supported elimination of set-asides and other program restrictions, such as individual crop bases, that reduce producer flexibility and increase costs.

The effectiveness of the existing export assistance programs, some several decades old, should be reviewed to see if they still meet the needs of today's markets. In particular, some of the export credit programs should be reexamined, and special attention given to export assistance programs not restricted by the new GATT rules. Finally, the group suggested that there might be a considerable payoff to research on international marketing problems.

International Trade and Marketing Working Group
Roger Baccigaluppi, RB International, Chair
Wayne A. Boutwell, Natl. Council of Farmer Coops.
Gail L. Cramer, University of Arkansas
Stewart Huber, Farmers Union Milk Marketing
Robert Paarlberg, Wellesley College
Jim Phippard, Agric. Coop. Development Int'l
Merlin D. Plagge, Iowa Farm Bureau
C. Ford Runge, Univ. of Minnesota
Phillip Seng, U.S. Meat Export Federation
Jack Silzel, WA Assoc. of Wheat Growers
James Starkey, Universal Corporation
Daniel A. Sumner, Univ. of California at Davis

Food and consumer issues

Although food programs account for about two-thirds of the USDA budget, they have not typically been center stage in farm bill debates. Food stamp supporters often form a key component of the coalition necessary to pass a farm bill. In this unusual year, however, fundamental food program issues are on the table, and the farm-food stamp coalition that helped pass previous bills appears to be in disarray.



Despite the diversity of views and perspectives among group members, they agreed that federal programs should insure food safety and provide a minimal level of nutritional assistance. In general, they accepted the traditional rationale for federal funding and involvement in these programs, even if they differed on just how much flexibility could be given to state and local governments. Federal food safety standards help everyone—a win-win situation for consumers, farmers, processors, and retailers. The premise that there should be no starving amidst plenty, a view widely shared by the American public, was also accepted by the group as the basic rationale for food and nutrition assistance programs.

One of the more contentious issues surrounding the congressional debate over food assistance programs is the degree of control to retain at the federal level and the related question of how much flexibility to allow states in deciding on funding levels and eligibility standards. The group did not endorse any of the several block grant options examined, but noted several problems with reduced federal government involvement in the food stamp program: (1) more children and poor people may be at nutritional risk because of a lack of minimum standards, (2) less money may be available for food programs, (3) the loss of "entitlement" would negate the counter-cyclical benefits of the safety net in times of high unemployment, and (4) total food sales would probably decline.

The group saw fewer problems in "block granting" the Special Supplemental Program for Women, Infants and Children (WIC) because local governments already administer this program and it is not an entitlement program. The group viewed WIC as one of the more successful nutrition programs and warned against cutting the program to save money, citing studies showing that every dollar reduction in WIC would increase Medicaid costs by $2.00 to $3.00.

Hot button food safety legislation like the Delaney Clause and meat and poultry inspection are not a part of the 1990 farm bill, but the issues are closely related to food and agricultural policy and may be debated in 1995. The working group identified some of the food safety issues and the options for addressing them.

For meat and poultry inspection, the group gave high marks to a science-based risk assessment system, the Hazard Analysis Critical Control Point (HACCP), an option proposed by the administration and many in the food industry. Originally a tool developed by the food industry for quality control, if adopted by the government, HACCP could potentially decrease government costs, enhance food safety, and place more responsibility on the food industry. On the other hand, HACCP would not completely eliminate risk, it could disadvantage small plants, and the system is untried as a regulatory tool.

The working group outlined two options to the current zero tolerance Delaney Clause: (1) adopt a "negligible risk" standard for pesticide residues, or (2) define a higher tolerance standard.

One of the problems of implementing a comprehensive policy for food safety is that responsibility is divided among agencies and congressional committees. A single, independent food safety agency might decrease duplication and save money.

Food and Consumer Issues Working Group
Jean Kinsey, Univ. of Minnesota, Co-Chair
Benjamin Senauer, Univ. of Minnesota, Co-Chair
Dave Carter, Rocky Mtn. Farmers Union
Julie Caswell, Univ. of Massachusetts
Caroline DeWaal, Ctr. for Science Public Interest
Keith W. Eckel, PA Farmers Association
Carol Foreman, Foreman & Heidepriem
Steve Heimstra, Purdue University
Beth Lautner, Natl. Pork Producers Council
Gale Prince, The Kroger Company

Rural development

Farm bills usually say a lot about rural development, even though the appropriations committees do not fund authorized programs. Rural development programs authorized by the farm bill (Title XXIII, Rural Development) have budget authority in FY 1995 for $2.4 billion. Rural utilities, housing and community development, and business and cooperative development receive most of these funds.

Unlike other farm bill programs, "Rural Development" lacks a strong political lobby or powerful interest groups. Yet, many grass roots organizations, business interests, and committed professionals support programs that benefit rural areas. The composition of the working group reflected this diversity and shared a common interest in improving economic opportunities and the quality of life in rural America.

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The group focused on three issues: (1) how best to accomplish rural development goals; (2) the most effective roles for the federal, state, and local government; and (3) how governmental units and the private sector could work together to accomplish these goals. The group agreed that to be effective, all three levels of government must share program involvement and costs. Effective development programs require "substantial local autonomy" because of the diversity of conditions in rural America. But some worried that too much local autonomy could perpetuate local power structures that may have hampered progress in the past.

The group advanced three alternative policy approaches to rural development: (1) continuation of categorical programs, (2) block grants for planning and project development, and (3) a free market, nonintervention approach.

The first alternative, a "streamlined status quo," would consolidate, improve, and focus existing programs, and give USDA increased coordination responsibility. This would permit better integration of federal, state, and local government activities, but not provide enough local autonomy nor guarantee access to knowledge and information considered vital to successful rural development.

Block grants, a major departure from existing categorical grants, would provide greater opportunity for federal, state, and local partnerships and permit local flexibility to adapt to the diversity of rural America. Unrestricted block grants would provide money to governors to reallocate to state and local units. Competitive block grants would be allocated by a federal agency (USDA) directly to a local entity on a competitive basis. Both types of grants emphasize local flexibility, and no state or local government would be required to participate, but those that did would share the cost. Their success may depend on the availability of information and education services.

The free market, or nonintervention, approach makes rural development a local matter with no federal funds or intervention. Advocates of this approach grant that rural areas fall short of their potential but they doubt that federal intervention is effective or appropriate. The working group did not support this approach, but considered it useful for comparative purposes.

The three approaches often overlap. For example, "performance partnerships" combines a categorical program approach with elements of a block grant program. Rural development policy would be improved if policy makers considered the principal characteristics of each approach when formulating rural development policy.

The group highlighted three overarching rural development policy issues: (1) more emphasis on rural education and research in rural development policy, (2) improved communications infrastructure, and (3) an expanded role for USDA to provide not only rural development funds but also more research and information. To better reflect its role in rural development, the working group suggested that Rural Affairs be incorporated into a new name for USDA.

Rural Development Working Group
Emery Castle, Oregon State Univ., Chair
Paul Barkley, Washington State University
Bob Bergland, Former Sec. of Agriculture
William Bynum, Enterprise Corp of the Delta
Will Erwin, Indiana Farmer
Cornelia Flora, Iowa State University
DeWitt John, Natl. Acad. of Public Admin.
Mel Omeg, Oregon Fruit Grower
Harry L. Pearson, Indiana Farm Bureau
Glen Pulver, University of Wisconsin
Lou Swanson, University of Kentucky
Dennis Wiese, SD Farmers Union

Research and education

Authorizing legislation for research and education programs usually does not produce profound changes in the agricultural Research, Education, and Extension (REE) system. The appropriation bill has a more direct impact, but the farm bill provides a useful forum for a national debate about agricultural science and education policy.

The working group identified four critical issues for the farm bill debate: (1) the federal role, and the rationale for it in agricultural research, education, and extension; (2) the effect of different levels of federal funding on REE; (3) the unique federal, state, local, and private sector partnership, and planning and coordination in the system; and (4) the effectiveness and efficiency of the REE system.

Several arguments support a strong federal role:

(1) documented high rates of return on investments in REE (typically 30–50 percent), (2) evidence that states and the private sector cannot capture enough of the benefits of research to justify funding at the level that would be optimal for the nation, and (3) critical national issues need national support and leadership. The block grant option under consideration for many programs would likely cause a decline in total REE investment and weaken research on important national issues.

A 30 percent decline ($600 million) in federal funds for REE, according to a scenario outlined by the working group, would cause a sharp reduction in federal in-house research, and sharp cuts in formula funds for land-grant universities, resulting in staff and faculty layoffs. For example, one state estimated the loss of sixty positions and another state the loss of forty faculty and thirty county extension staff positions. The working group would protect the National Research Initiative (NRI) and the higher education grants at current levels.

A 30 percent increase in federal funds should be allocated, according to the working group, to fully fund the NRI ($500 million), upgrade critical scientific equipment, create "virtual centers of excellence" to focus on selected research and education problems, and provide funding to land-grant universities to serve "new constituencies," such as sustainable agriculture, food safety, consumer issues, and environmental concerns.

One option to improve planning and coordination links the 3,000 units of local government that work with Cooperative Extension with the USDA research agencies.

The working group suggested that the commission be patterned after the Military Base Closure Commission to more effectively close excess research facilities.

To help better prepare the REE system for the twenty-first century, the group suggests an independent Commission on Research and Extension. The commission would clarify the federal role in the system, review the ability of the REE system to meet the challenges expected in the next century, and recommend remedial actions. The commission would identify federal activities and associated facilities that should be shifted to the states or left to the private sector, and focus particularly on the federal facilities and laboratories not essential to the federal mission.

The working group suggested that the commission be patterned after the Military Base Closure Commission to more effectively close excess research facilities. This would enable the administration and Congress to deal more fairly and decisively with the unusually difficult process of closing unneeded or obsolete federal laboratories, which often have strong local political interests to protect them.

The working group concluded that the REE system and the partnership that holds it together remain sound—not "broke." However, it needs adjustments, fine tuning, and a strong USDA as the federal partner.

Research & Education Working Group
Thomas Urban, Pioneer Hi-Bred Int'l, Chair
Tom Geary, Idaho Farm Bureau
John K. Hansen, NE Farmers Union
Charles Hess, Univ. of California at Davis
Gale Imig, Michigan State Univ.
Victor Lechtenberg, Purdue University
Elizabeth Owens, ISK Biosciences
Vernon Ruttan, Univ. of Minnesota
Marty Strauss, Monsanto Co.
Melvin Walker, Jr., Ft. Valley St. College
Garth Youngberg, Henry A. Wallace Inst.

Land use, conservation, and the environment

Resource conservation and environmental quality, integral components of farm policy since the 1930s when the Soil Conservation Act became law, emerged as central issues in recent decades, their elevated status symbolized when "conservation" was included in the title of the 1990 farm bill. Over the years the focus has broadened from conservation to encompass water quality, wetlands conservation, wildlife habitat, and biodiversity. The new political climate virtually guarantees that these issues will be especially conspicuous in the 1995 farm bill debate.

Although the makeup of the working group included members whose organizations held opposing positions on some of these issues, they generally agreed on the rationale for federal intervention in agricultural resource and environmental policy: common property resources and environmental quality are clearly public goods and agricultural activities that adversely affect them are legitimate public concerns, warranting federal intervention. The food security implications of the quality and productivity of the natural resource base provides another rationale for federal concern. Finally, there is the important federal role of integrating agroenvironmental concerns with other farm policy goals.

Six critical farm bill issues were identified, around which options and impacts were examined: (1) cost efficiency of programs, (2) ground and surface water quality, (3) environmental standards, (4) farmer burdens associated with programs, (5) role of technology, and (6) the complimentarity of other programs.

The group also advanced the idea of using the farm credit system to leverage (and reward) natural resource stewardship.

In identifying policy options that simultaneously address a number of the issues, farm resource planning was emphasized as a basis for achieving program goals and for involving state and local leaders.

The eight policy options assessed included some unique and particularly innovative approaches. One would offer farmers an important nonmonetary incentive for adopting (at their own cost) specified stewardship behaviors—their exemption from or automatic compliance with environmental regulations or requirements. This approach would obviously require close interagency (especially USDA and EPA) and federal-state planning and coordination, but could appeal greatly to farmers, regulators, and budget-cutters alike.

The group also advanced the idea of using the farm credit system to leverage (and reward) natural resource stewardship. Under the Agricultural Production Loan Stewardship Interest Incentive program outlined by the working group, the federal government would underwrite a system of farm credit rate discrimination, giving more favorable terms to farm borrowers who exhibit specified stewardship practices.

A state Matching Funds Option would transfer virtually all agricultural conservation and environmental program funds to states and give them responsibility for designing and implementing programs under broad federal guidelines. One concern is that some states may not be able or willing to implement these programs effectively.

Abolishing and consolidating the funding from nineteen current farm-bill-authorized conservation programs is seen as the key to creating both a no-net-cost State Matching Fund, and for financing another proposed option—a broad-scale, federally implemented incentives program (sometimes called "green payments"), which would fully cover farmers' costs of adopting otherwise unprofitable practices for limited periods of time.

Commodity program reforms proposed by the working group include a process for using environmental criteria as a basis for annual, supply-reducing acreage set-asides; and a program offering increased acreage flexibility to commodity program participants who use base acreage for resource conserving crops.

The working group concluded that most of the short-term program options it proposed would be unnecessary if profitable practices, technologies, and systems were available for farmers to independently pursue stewardship goals. Thus, the group strongly supported an option to consolidate funding from among multiple agencies, as well as to more finely target and direct, and change the structure for, allocation of agricultural research and extension funds for conservation and environmental purposes. ◼

John Stovall and Dale Hathaway are with the National Center for Food and Agricultural Policy.

Land Use, Conservation & Environment Working Group
Katherine Smith , Henry A. Wallace Inst., Chair
Dave Ervin, OTA, U.S. Congress
Kenneth Farrell, Univ. of California
Ferd Hoefner, Sustainable Agric. Coalition
Dennis Keeney, Leopold Ctr Sustainable Agriculture
Phillip Klutts, Oklahoma Farmers Union
James R. Moseley, Purdue University
Max Schnepf, Soil & Water Conserv. Soc.
Stuart Smith, University of Maine
William Sprague, Kentucky Farm Bureau
Tom Van Arsdall, Natl. Council of Farmer Coops.
Timothy Warman, American Farmland Trust
Leroy Watson, National Grange
Robert D. Wilbur, American Cyanamid Co.

■ For more information

Farm Bill Project reports are available on the Internet World Wide Web and can be found at: http://www.hillnet.com/farmbill. Hard copies of individual reports are available for $5.00 each or $30.00 for a set of seven through the National Center for Food and Agricultural Policy (NCFAP), 1616 P St., N.W., Fourth Floor, Washington, D.C. 20036, fax: (202) 939-3460.

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