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The 1996 Farm Bill: Impacts for Consumers

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Good morning! I'm John M. Schnittker, senior economist at Public Voice for Food and Health Policy. For those of you not familiar with Public Voice, it is a national and nonprofit research, education and advocacy organization that promotes a safer, healthier and more affordable food supply for all Americans. Founded in 1982, Public Voice advances the interest of consumers in connection with the broad spectrum of food policy issues.

Undoubtedly, U.S. farm policy has changed dramatically this year with passage of the Federal Agricultural Improvement and Reform (FAIR) Act. Regrettably, this new legislation does not adequately address consumer concerns. Specifically, food security and food price stability were not part of the debate. The march toward market orientation begun in 1985 still continues. But family farms, food security and the impact of food price instability on consumers—long-standing, traditional rationales for farm programs—have been abandoned.

From the consumer perspective, the "aura" of food security has been diminished by the demise of the farmer-owned reserve and acreage reduction programs. Recent commodity shortages and price instability cannot be laid at the door of the new farm bill, because reserve stocks were depleted under old farm programs. Nonetheless, the FAIR Act has retained the marketing loan provisions of past legislation, creating a situation in which surplus production, if it develops, will not be used to rebuild reserves, but rather will flood the market and depress prices.

The Food Security Commodity Reserve of 4 million tons is for emergency overseas humanitarian purposes. It will have little impact as a domestic or world market stabilizer.

The outlook for reestablishing stable levels of stocks is not bright. Recent USDA production and use estimates suggest that corn and wheat carryover levels will not be significantly rebuilt this year and that soybean stocks actually will fall. Stock levels for these basic food-ingredient commodities will remain at one-third to one-half the levels needed to maintain relative price stability.

The U.S. agricultural/food system has seemingly adopted a "just in time" inventory strategy. This type of strategy may work in the manufacturing sector, but it is unwise when applied to basic agricultural commodities. The agricultural production process is seasonal, and a crop shortfall can set off shocks to the entire food system—shocks that may persist for two years or even longer.

Regrettably, 12 months from now the United States and the world will once again have whittled down the available grain supply to negligible levels, leaving ourselves completely dependant on the success of the current season's crop.

This season's price shocks already are being translated into higher food prices. Consumers in recent years have seen modest food price increases, averaging about 2.5 percent annually. This year, however, the rise will be more than 4 percent, and the outlook for 1997 is for increases of 4 to 6 percent. While these projections are not shocking, they will represent close to a doubling of the rate of food price increases.

The perspective at Public Voice is that consumers are facing too great of a risk. When coupled with the modest probability of moderate to severe crop shortfalls, the current level of grain stocks in the United States could set off a chain of events that results in sharply higher food prices for an extended period.

Farmers, agribusiness and consumers will all face greater risk under the 1996 legislation. Producers are being compensated for the additional risk they must assume (transition payments) and are in a position to manage that risk, if they choose. Agribusiness also is well-positioned and experienced in risk-management strategies. Thus, it is the consumer who is being assigned risk without receiving compensation and without an effective means of mitigating that risk.

The cost of the current "grain shortage" is borne by consumers, farmers and the environment. Consumers are faced with rising food budgets, as prices rise sharply and add billions to the nation's grocery bill. While receiving higher prices, farmers still have to contend with lower yields for most of the major field crops, because weather-related problems continue to plague U.S. agricultural production. Unfortunately, higher prices and lower production also can translate into lower exports, creating a situation that may result in tougher competition from foreign grain exporters. In addition, the environment is partly at risk, for higher crop prices send the agricultural sector the signal to farm more intensively.

The 1996 farm bill also failed to reform the sugar and peanut programs in any meaningful way, and it authorized a potentially costly dairy program for the Northeast. Congress surely will have to revisit these programs in coming years, for there still is momentum to end or reform the peanut and sugar programs.

There are two widely divergent views of the long-range prospects for agricultural producers, input suppliers, food processors and consumers:

- **The Conventional View**. *Everything will turn out all right. Crop yields will rise. Weather will improve. Land will be reclaimed or new land plowed. Population growth rates will taper off from 1.7 percent to around 1.4 percent annually. And, food prices will remain stable. World grain production will increase by 2 percent yearly. U.S. production was up only 11 percent* *in 1992-95, as compared to 1977-80 levels. But, it will surge with the new farm bill's policies and with more land in crops.*

- **The Pessimistic View**. *Irreversible forces already have undermined the world food system. The backlog of conventional technology has declined. Biotechnology has been a disappointment. Rising incomes in Asia continue to increase the demand for grains and oilseeds. Rising populations will reduce land and water availability worldwide. Thus, demand for grains will rise to impossibly high levels within 10 years.*

The middle ground between these two positions leans more toward the pessimistic view than to the "feel good" position. Yield-increasing technology offers little short-term promise. Around the world, however, there is available land that could be planted to grains—albeit bringing environmental tradeoffs. Asian economies probably will continue to grow rapidly, but high grain prices should slow the rise in demand for meats. Under this scenario, food price increases become a permanent feature facing consumers.

My assessment of the FAIR Act from a consumer perspective has been generally negative.

Nonetheless, we live in a world where demand for food is increasing rapidly and where questions loom about the potential for increased grain production in both the short and long runs. New strategies will be needed to guide the food system in a positive manner over the next decade. And, in a positive manner the role of public, private and nonprofit institutions will remain important.