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HAVE YOU READ . . . The Dilemmas of Choice

. . . the first annual policy review published by the Resources for the Future's National Center for Food and Agricultural Policy? It deals with a wide range of topics related to food, agriculture and resources. It is useful because it documents what several different experts were talking about 12 to 15 months previous to the passage of the 1985 Farm Bill. More importantly it is useful because the authors of the seven chapters discuss several forces that will inevitably shape conditions and policies of the future. For as Ken Farrell, Director of RFF's National Center, writes, "Whatever the outcome in 1985, future agricultural policies are likely to be driven by immutable long-term economic and political forces."

For a copy of the 1985 annual policy review, send $11.50 to: Resources for the Future, Box APR 185, 1616 P Street, NW., Washington, DC 20036.

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. . . a 40-page pamphlet reporting on a June 1985 conference sponsored by the Stanley Foundation? Approximately 20 representatives to the United Nations participated along with international economists. It is not the final answer to problems among

Continued on next page

DISEQUILIBRIA

. . . when things don't fit and other thoughts

Lynn Daft on
The 1985 Farm Bill

by Lynn M. Daft

President Reagan's late December signing of a new farm bill, The Food Security Act of 1985, culminates a long debate that started as early as mid-1983.

It was not a straight road from the early debates to the farm bill that was signed by the President some two years later. It started with many people calling for landmark changes in policy. Proposals for change often dominated the discussions. At times it appeared that there could be a significant chance for a sharp turn toward new policies.

However, by the end of 1984 it was clear that Congress would not turn away from existing programs. The government would continue to provide price and income support programs similar to those used in the past.

By the time Congress formally convened the debate there was little interest on the Hill and among farm groups in experimenting with new approaches. There was still concern about budget costs, however. But in the end anxiety for the deteriorating farm economy steamrolled over concerns about the cost of farm programs.

Time for a Change

The debate went through several phases. It is hard to pinpoint the beginning. However, by early 1983 the prospect of a new farm policy was attracting a great deal of attention. And most of the discussion pointed to the need for a landmark change in farm policy. Nothing seemed to be going right. In nearly every respect existing policy was deemed a failure:

—Those charged with administering the related programs were critical.

—Farm prices were weak and incomes stagnant, if not falling.

—Exports were slipping.

—Farm asset values were in their second year of decline.

—Lender confidence was eroding rapidly.

—Farm program costs were going through the ceiling.

—The Reagan Administration abandoned its free-market approach and initiated the most extensive acreage diversion program in U.S. farm program history.

This set the stage for casting the initial debate in terms of a sweeping change in policy direction. Policy suggestions covered most of the ideological spectrum. They ranged from a pure free market approach on one end, to centrally directed mandatory supply control on the other. To the extent any threads of agreement could be identified, they formed around the following assertions:

1. The American farmer was in need of economic help;
2. The cost of farm programs had become exhorbitant and must be reduced;
3. Restoring health to American agriculture required that the United States become more competitive in world markets;
4. Market forces should be more influential in the determination of price support levels and, ultimately, in the determination of market clearing prices.

However, the simultaneous achievement of these objectives and others was clearly going to be difficult, if not impossible. Thus, the number and diversity of proposals offered in papers at conferences and seminars multiplied. Many of them threw conventional program approaches to the wind.

Yes . . . But

The tone began to change in 1984, as the more traditional farmer interests—the general farm organizations and the commodity groups—began developing their organizational positions for the coming debate. It was during this period that most of the established

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rich and poor countries. But if you want an easy-to-comprehend annotated list of current issues, send for a copy. They are free. Write to the Stanley Foundation, 420 East Third Street, Muscatine, ID, 57261.

HAVE YOU READ . . . Social Policy and the Rural Setting

. . . by Julia M. and Dennis A. Watkins? The authors, have written a book to be read by those who seriously want to think about the social dimensions of rural America and the policies that affect these conditions. It is not a book that you'll read in one evening but you can easily do it in two. Reading it will help you recognize the social dimension of issues and facilitate you making choices among alternative policy approaches to these issues.

Copies are available for $22.95 from Springer Publishing Company, 536 Broadway, New York, NY 10002.

HAVE YOU READ . . . Bancroft and Young's conclusions

. . . as to what will happen to Vermont milk production if price supports are lowered?

Based on responses by dairy farmers to a survey that was sent to 12 percent of Vermont's dairy farmers, the economists conclude that:

• A slight lowering of price supports will tend to increase total production in the short run. Some producers will decrease output while most, including the relatively larger farmers, will increase production.

• Total production will not decline unless the price supports are lowered

farm groups began coming to the conclusion that yes, past farm policy has not functioned very well. But we do not want a reduced role for government in the near-term. Nor do we want major changes in the program tools used by government.

There was surprising unanimity within the farm community on this general position, though they differed on the details. Some organizations that had traditionally opposed direct governmental involvement in farm markets came instead to be proponents of such involvement, arguing that such assistance was required, at least for the near-term.

There were other groups outside this camp—some representatives of agribusiness, consumers, and academics—that continued to call for sweeping changes. But these groups have historically exercised limited political influence over the outcome of farm legislation. And, though their influence might have been somewhat enhanced by the unusual circumstances of the mid-1980's, it was unlikely that they would prevail over the farm and commodity groups when push came to shove. Furthermore, many of these interests were internally divided over what position to take.

Thus, by late 1984 those who counted most did not support a major departure from existing policy. The big question at this point related more to the level of price and income support that would be forthcoming than to the choice of programs that would be employed in providing it.

The Deteriorating Farm Economy

In late 1984, it appeared that the Federal cost of the farm programs could be the deciding factor. The Federal deficit was at a record high level and growing. Farm program costs that had average $4 billion during fiscal years 1978-81 had skyrocketed to $18.9 billion by FY 1983, not counting the value of commodities used as payment-in-kind. This level of expenditure was small in relation to a Federal budget of nearly $800 billion. However, the appearance that farm program costs were out of control was cause for alarm.

Concern for the costs of farm programs was a powerful force. However, it proved to be no match for the impact on the debate stemming from the continued deterioration of the farm economy was to have on the course of the debate.

Until mid-1984, the economic problems of agriculture had been viewed by many observers (including many Washington policymakers) as transitory. By late 1984 any basis for optimism was growing faint.

No relief was in sight, despite record high Federal expenditures. Grain stocks were building again and prices were falling. Even though the PIK program of the year before, combined with a Midwest drought, had temporarily deflated feedgrain supplies, creditors were nearing an end of their capacity to stretch out repayment schedules for farmers who were experiencing the greatest financial difficulty. The number of farm foreclosures, though not large in an absolute sense, increased to the point that most farmers were either affected or knew neighbors who were. Furthermore, many of the same lending institutions went too far in helping their farmer borrowers, resulting in their own failure.

Most of the farm input industries—fertilizer, farm machinery, chemicals, seeds—had been badly hurt by the massive idling of acreage in 1983. Plant layoffs were occurring throughout the Midwest. Local businesses came under the same pressure.

By this time, the economic problems of agriculture had attained such a scale that they attracted the attention of the national news media. For a period of 4 to 6 weeks, the "farm crisis" was subjected to saturation coverage. Cover stories by the major papers and the national weeklies. Evening television coverage two or three times per week. All of this helped ensure that the problem was viewed as a national problem with a strong human dimension and not as a sectional economic problem.

Congressional Action

Thus, by the time the 99th Congress convened in January 1985 and began holding hearings, farm policy was headed down a familiar roadway with few exits. Most farm interests were calling for the continued use of current farm policy tools. There was little interest on their part in experimenting with new approaches.

Furthermore, members of Congress from farm districts had just returned from having seen and heard firsthand about the economic problems of farmers and businesses in their districts and states. And those who represented urban constituencies were soon to hear about them through the national media.

Three features of the Congressional situation, more than any others, established the framework for the farm bill debate from this point on. First there was the farm bill proposal submitted by the Administration. Given the vast array of political and analytic resources that the Federal Executive can bring to bear on legislative issues, an Administration has the opportunity to play a pivotal leadership role on most legislative issues if it chooses to do so and exercises its authority wisely.

Of course this can be a big "if." In recent times administrations have been prone to position themselves so far from the mainstream of congressional thinking that they have found themselves observing rather than participating

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enough to cause a significant number of farmers to leave dairying altogether. Exits would be mostly by producers with some combination of these characteristics: young, high debt loads with cash flow squeeze, older, and opportunities off the farm. Bancroft and Young did not estimate the combinations of price supports that would cause large production decreases.

For a copy, write to the Agricultural Experiment Station at the University of Vermont, Burlington, Vermont 05401-3594, and ask for Vermont Dairy Farmers: Anticipated Responses to the Lowering of Federal Milk Price Supports, RR 46, by Robert Bancroft and Cecelia E. Young.

HAVE YOU READ . . . the Second Draft

. . . of the U.S. Bishop's Pastoral Letter on Catholic Social Teaching and the U.S. Economy? It discusses a wide range of economic issues confronting Americans including "Food and Agriculture." Available for $3.00 from National Catholic News Service, 1312 Massachusetts Avenue, N.W., Washington, D.C. 20005.

HAVE YOU READ . . . Consequences of Elimination of the Tobacco Program

. . . Bulletin 469 of the North Carolina Agricultural Research Service?

Its authors, Daniel Sumner of North Carolina State University and Julian Alston of Australia (a former graduate student at North Carolina State University) found that deregulating tobacco production in the United States would have

in farm bill deliberations. This happened to some extent in 1977 and 1981 and it happened again in 1985.

The Administration's proposal called for a sharp reduction in producer benefits, with most programs to be phased out over a transition period. This approach was at such extreme variance with the conventional view that it was quickly dismissed by members of Congress from both parties as irrelevant, not to mention political suicide. Thus, the opportunity for the executive to play a unifying role was once again foregone.

A second key determinant was the Senatorial lineup for the 1986 election. Of the 34 incumbent Senators whose terms expire in 1986, 22 are Republican and at least half of these are from states with important agricultural constituencies. With Republican control of the Senate (and the many legislative advantages that accompany that control) presently dependent on a bare 6-seat advantage, much is at stake in this election. And not only are the stakes high for the individual members who will be running, but they are high for the Administration too since its ability to work effectively with Congress after 1986 will depend in no small way on the outcome.

With an important reelection campaign looming, these Republican Senators became acutely sensitive to the near universal condemnation of the Administration's farm policy and the austere course it sought to chart for the future. As a result, most of these Senators quickly distanced themselves from the Administration.

They did this in a variety of ways. Some developed their own farm bill proposals. Others aligned themselves with the Democratic minority. As a result, many features of the bill that were ultimately reported out of the Senate Agriculture Committee were developed by the Democratic members, with the support of dissident Republicans.

The third element that was instrumental in the evolution of the bill flowed from the first two. Having adopted a position that had so little political support on the Hill or among the principal contending interests, the Administration appeared to be headed for a major confrontation with the Congress. It was equally evident that members of the President's own party in the Senate would have to line up against him, not just on farm policy but on many other issues as well.

Thus, the Democratic leadership of the House of Representatives made a tactical decision to allow proceedings in the Senate to proceed in advance of those in the House. House Democrats figured the Republican-led Senate would not deviate far from the Democrats' position. And, of course the Senate Republicans stood a better chance of reaching a compromise with the White House.

Furthermore, if the Senate failed to reach such a compromise, the resulting policies could be laid at the Republican doorstep. But mostly the House leadership was counting on the incentive of reelection to inspire Senate Republicans in their negotiations with the White House. Thus, most of the early action took place in the Senate.

When the Administration failed to offer a satisfactory basis for marking up a farm bill, the Chairmen of both Agriculture Committees introduced draft bills. Both bills would undergo substantial change before being reported out of their respective Committees. This was not to be a year in which a concensus would rapidly form around any one particular measure. Quite the opposite; over a dozen separate measures were offered. The bill that would ultimately be adopted would have to be a composite of many different proposals.

Perhaps the most critical turning point in the evolution of the bill occurred outside the farm bill debate itself. As noted before, in early 1985 the key unknown affecting the outcome of the debate was how much money the Congress and the President would be willing to spend on farm programs. In effect, this would determine the level of price and income support that would be forthcoming.

There was never much doubt how the majority of members from farm districts would vote on this issue, but what about the far larger number who come from urban and suburban areas? As part of its deliberation over the FY 1986 Budget Resolution, the Senate was forced to address this question. Here too the House had deferred to the Senate, recognizing that a confrontation with the President was all but inevitable.

Following several weeks of debate by the Senate Budget Committee and a number of negotiating sessions with the White House, a budget resolution was agreed to in late July that included a modest reduction in farm program costs for fiscal years 1986-1988. However, in comparison with the budgetary alternatives that had been discussed to this point, the reduction was surprisingly small.

Acceptance of this resolution signaled two important things: (1) That the U.S. Senate (and, therefore, the entire Congress) was extremely reluctant to reduce farm program expenditures in the near future, despite serious problems with the deficit. (2) By agreeing to this resolution, the Administration had abandoned both its farm bill proposal and any hope for realizing major budget savings from the farm programs.

Now that the constraint of budget cost had been largely relaxed, Congress could adopt

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reduced the annual income of quota owners by $800 million in the early 1980's. Although some of these quota owners are farm operators, most of the quotas are owned by non-operators. Over half of the burly quotas and nearly three-fourths of the flue-cured quotas, were leased out or rented out with land. Sumner now estimates if deregulation occurred now, the reduction would be about $400 million instead of $800 million. This lower estimate flows primarily from the lower prices for tobacco. For a copy of the report discussing these and other findings, write to: North Carolina Agricultural Research Service, North Carolina State University, Raleigh, North Carolina 27695-8109.

You may also be interested in obtaining a more detailed report by these same authors. If so, send $8.00 to NPA, 1616 P Street, NW, Suite 400, Washington, D.C. 20036, for a copy of The Removal of Price Supports and Supply Controls for U.S. Tobacco, FAC Report No. 5/NPA Report No. 220.

HAVE YOU READ . . . Agricultural Change and Rural Poverty

. . . edited by John Mellor and Gunvant Desai? This book focuses on poverty among rural people in lower-income countries with heavy emphasis on India and its experience. Most of the chapters are authored by natives of India and many of the other authors have had extensive experience in India.

If you are serious about wanting to understand the economics of poor people in other countries, concerned about the implica-

provisions that satisfied the other objectives around which general agreement had formed.

Most viewed a lowering of price support levels, coupled with expanded funding for various forms of export assistance, as moving the U.S. toward a more competitive position in world trade. Farm income was to be protected from the effect of lower farm prices by substituting higher cash payments for the reduced price support levels.

As a means of giving farm policy a greater market orientation, future price supports were linked to historical price trends. And, in recognition that the current overcapacity problem was likely to remain for some time to come, the authority to idle acreage on a year-to-year basis was supplemented with authority to enroll acreage in a long-term conservation reserve.

Attempts to impose mandatory supply control as a means of protecting farm income were defeated.

Arguments over the period for which cash payments to farmers were to be frozen at present levels were among the bitterest of the debate, but were eventually resolved by splitting-the-difference and adopting a 2-year freeze. Differences between the House and Senate over dairy policy remained to the end but were eventually settled by adopting parts of each approach.

Finally on December 18, 1985, the Congress passed a compromise measure and the bill was sent to the White House where the President signed it a few days later.

Implications of the New Bill

As it has for the past few years, farm policy will play a major role in shaping the farm economy into the foreseeable future. The new farm bill can be expected to move policy in the following directions:

—Lower farm prices. As the levels of price support for the major field crops are reduced for the 1986 crop, followed by a reduction of the milk price support level in early 1987, farm prices will drop rather significantly. Although this alone will not result in a sudden and dramatic reversal in the declining sale of U.S. farm products abroad, it should set the stage for a recovery of market share over the next few years.

—Continued farm income protection. Larger cash payments have been substituted for lower price supports in the new Farm Bill. While these larger payments will not solve the more serious financial problems that now confront many farmers, they will stabilize the situation and help many other farmers avoid slipping into trouble. On balance, the increased cash payments should offset the effects of lower prices, holding cash income near present levels.

—Continued use of acreage diversion. The principal means of holding the supply of farm output in line with demand will continue to be voluntary acreage diversion. Provisions in the new Bill will permit this to be done more efficiently in the future than it has been done in the past, while also placing greater emphasis on conservation objectives.

Unfinished Business

Despite the substantial progress represented by the 1985 Farm Bill, farm policy cannot be considered to have reached any lasting state of equilibrium. Farm bills rarely do settle things for long. And, the situation now is even more uncertain than usual. It is highly uncertain for three principal reasons:

1. The role of farm program administration. Farm bills have traditionally granted the Secretary of Agriculture substantial discretion in the administration of program authorities. There is little choice, after all; commodity programs must be tailored to fit constantly changing circumstances that no legislative body will ever have the foresight to fully anticipate.

But the 1985 Farm Bill goes somewhat further than past bills in the degree of authority it vests in the Secretary. Thus, the outcome will depend on a number of important administrative decisions, most of which still lie ahead.

2. The farm financial problems remain largely unresolved. At about the same time that the Congress finished work on the Farm Bill, it also approved a measure that will restructure the Farm Credit System and provide a means for Federal assistance to it. This will help but it is only one piece of a complicated puzzle, with several of the pieces still missing.

The painful process of sorting out those borrowers capable of reaching solvency from those who are not and of distributing the losses are tasks that remain largely ahead. Although additional legislation appears likely, most of the sorting out will probably have to take place locally.

3. The problem of the Federal deficit. Most important of all is the problem of the Federal deficit. Though most of the last Session of Congress was devoted to debate over what to do about the deficit, they adjourned just before Christmas with very little to show for their effort. In effect, they deferred taking actions until this year. But eventually the Congress and the President must confront this issue and all the difficult political tradeoffs it entails.

When they do, nearly all aspects of Federal policy, including farm policy, will come under the microscope. Even with an increase in taxes, which now appears likely, most programs will have their budgets cut, some severely. Until these issues are addressed, and particularly the deficit issue, the 1985 Farm Bill must be viewed as a temporary roadmap for U.S. farm policy.