by Carl Zulauf ■ **In Short**

U.S. farm and food policy: Evolution of a new covenant

History reveals that U.S. farm and food policy is evolutionary, not revolutionary. Four long-term trends in farm and food policy can be identified, indicating that a new policy covenant is evolving, anzd suggesting implications for the 1995 policy debate.

Trend 1

Direct income payments to producers have largely replaced farm commodity price supports as the policy instrument used to protect against low and variable farm income.

Prior to 1960, the government's primary mechanism to protect against periodic low farm income was the accumulation of stocks whenever market price declined below the support price (that is, nonrecourse loan rate). Because the nonrecourse loan rate tended to be higher than the market clearing price, price supports encouraged production while discouraging both domestic consumption and exports.

During the late 1950s/early 1960s, public stocks became large, sharply increasing federal outlays for farm programs. A policy debate ensued which showed that (1) farmers wanted to maintain their freedom in making planting decisions, (2) farmers and policy makers wanted to expand exports, and (3) consumers and policy makers felt price supports taxed consumers by increasing the price of food. As a result, the government lowered nonrecourse loan rates and partially replaced them with direct income payments provided through paid land diversions.

During the 1970s, deficiency payments based on national target prices became the primary mechanism to provide direct income support to farmers. The Food Security Act of 1985, driven in part by a desire to stimulate demand to reduce excess stocks, further increased the role of deficiency payments by reducing price support loan rates below market clearing price levels. Furthermore, the act instituted marketing loans for rice and cotton, in essence converting their nonrecourse loans to direct income payments by eliminating the price support effect of nonrecourse loans. Marketing loans now also exist for feed grains, soybeans, and wheat.

Trend 2

Domestic feeding programs, notably food stamps, partially replaced public stocks as the policy mechanism to provide food security.

In the late 1940s, the U.S. farm value of food accounted for approximately 12 percent of expenditures by U.S. consumers. Because of increases in farm productivity and per capita income, the U.S. farm value of food now accounts for only 3 percent of total expenditures by U.S. consumers and only 22 percent of expenditures on food. Furthermore, psychographic studies reveal that price and income dominate food purchase decisions for only about 10 percent of Americans. Lifestyle is a more important determinant for the remaining 90 percent. Consequently, food security (that is, assured access to food) is a pervasive problem only for low-income consumers. Furthermore, weather-related declines in U.S. production can be largely offset through reductions in exports and domestic livestock feed use, or through imports in a freer trade environment often imposed on U.S. agriculture via bilateral and multilateral trade negotiations.

These considerations helped stimulate policy changes which ensure food security through income transfers to low-income consumers, rather than through the accumulation of public stocks. This trend began with the initiation of the present food stamp program during the early 1960s. As of 1994, one in ten Americans receives food stamps, and food programs account for approximately half of the U.S. Department of Agriculture's budget. Both are the highest shares ever.

Trend 3

Environmental requirements are replacing acreage set-asides as farm program entitlement criteria.

Because farm price and income support programs are entitlements, anyone who meets the program qualifying criteria can receive benefits. Traditionally, the farmer limited acreage planted to the program commodity to meet the entitlement criteria. Policy makers chose an acreage-limitation criteria largely to reduce the chronic excess production capacity which has periodically occurred in the U.S. farm sector since the 1930s. Because demand was inelastic (or relatively unresponsive to change in price), acreage limitations enhanced farm income and reduced farm program costs.

As farm exports expanded during the prosperous years of the early 1970s, exposure to the more elastic (or more price responsive) international demand increased. Thus, acreage diversion became a less effective way to enhance farm income. Furthermore, the increasing use of crop production inputs purchased annually, such as fertilizer and pesticides, made the land input less important in determining total production, also reducing the effectiveness of acreage set-asides.

Additionally, massive out-migration of farm labor and growth in part-time farming altered the income and wealth situation of farmers. During recent years, farm households have an average income (from farm and nonfarm sources) much closer to the average income of nonfarm households, and have a highly visible and growing average net worth. Thus, enhancing farm income is increasingly difficult to defend as a policy objective.

Finally, society's view of farming has changed. Growing environmental awareness during the 1970s and 1980s resulted in a desire among the general public for farm operators to become better environmental stewards. In addition, since 1970 an increasing number of laws reveal that society no longer considers farming a unique industry and therefore exempt from regulations imposed upon nonfarm industries. An example is the adoption of farm labor laws.

The confluence of these trends laid the foundation for replacing acreage set-asides with environmentally-related land use mandates as the farm program entitlement criteria. Bellwether requirements signaling this change were the Conservation Reserve (CRP) and Conservation Compliance (CCP) Programs enacted in the Food Security Act of 1985. Note that these two programs also control supply, since CRP removes land from production while CCP has caused some farmers to change crop rotations and/or take land out of production. In addition, flex acres, which were initiated with the 1991 crops, not only limit budget exposure but also allow farmers to plant environmentally enhancing rotations, such as those that contain hay and pasture, without losing program base acres. Thus, environmental entitlement criteria do not supplant supply control, but they do alter the rationale and transfers that induce it.

Trend 4

Disaster assistance for farmers, including crop insurance, is growing in importance relative to farm income enhancement.

Since their inception, farm price and income support programs have been concerned with stabilizing as well as enhancing farm income. As discussed previously, enhancing farm income is increasingly difficult to defend as a policy objective. Furthermore, the decline in public stocks reduces their role in stabilizing farm income. On the other hand, U.S. crop yields have become more variable since 1970. For example, between 1950 and 1969, standard deviation around trend-line aggregate yield for major U.S. cereal crops equaled 4.6 percent of average aggregate yield. Since 1970, this ratio has doubled to 9.5 percent.

Additionally, farm policy must be compatible with prevailing national policy themes. A current theme holds that government should compensate citizens for damage caused by widespread, uncontrollable events. Examples include long-term unemployment insurance, the savings and loan bailout, and federal disaster assistance for major droughts and floods.

For these reasons, disaster assistance has grown in importance. The government first offered crop insurance in 1938, but it was not until the 1980s that it became a significant, continuing claimant on the federal budget. Similarly, disaster assistance was first offered in the 1970s, but it did not become a significant, continuing cost until the late 1980s. From fiscal year 1989 through fiscal year 1993, cost of crop insurance and ad hoc disaster assistance averaged approximately $2.5 billion a year, or approximately 35 percent of average annual deficiency payments over this period.

Implications of trends for the 1995 policy debate

Evolutionary trends suggest that farm and food policy is moving toward a policy covenant centered on (1) a safety net for farm operators provided through crop insurance and/or disaster assistance, (2) income transfers to low-income Americans to ensure food security, and (3) environmental requirements as the farm program entitlement criteria. These components differ from the earlier covenant centered on (1) enhancement of farm operator income, (2) accumulation of public stocks to ensure food security, and (3) acreage limitations as the farm program entitlement criteria.

Although these evolutionary trends are not perfect predictors, they provide insights into the likely resolution of policy issues and help pinpoint key questions regarding new policy options. For example, the declining role of set-asides in farm programs suggests the reauthorization of CRP will probably rest more on its environmental impact. As such, a key consideration may be that the full implementation of conservation compliance in 1995 reduces the soil erosion role for CRP. Hence, CRP or its budgetary equivalent could (1) be used to meet other environmental concerns or (2) be reduced. Thus, CRP could be redesigned to be "meaner and leaner" as fewer enrolled acres yield more environmental returns.

Turning to new policy options, disaster assistance does not imply revenue assurance for all causes of income variation, such as unexpected changes in foreign and domestic demand. Therefore, supporters of revenue assurance will need to explain why farmers should be protected against causes of income variation which can be offset by using privately available mechanisms such as futures and options.

Finally, eliminating set-asides while maintaining target prices and conservation compliance effectively converts deficiency payments to green payments. Furthermore, because federal crop insurance and disaster assistance are available for most crops at present, policy makers could make access to them dependent on meeting environmental criteria and thereby extend environmental compliance beyond current farm program crops. These two observations illustrate the ease of converting traditional supply control entitlement criteria to environmental criteria. ■

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