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Can Farm Policy Be Reformed?

Challenge of the Freedom to Farm Act

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Critics long have argued that structural changes in the farm sector make existing agricultural policies anachronistic. Last year, in 1995, immediate circumstances finally seemed favorable for reform. International agreements had placed modest constraints on policy interventions worldwide, export markets strengthened, and the political impetus toward deregulation and smaller government intensified, driven by budget pressure and the election of Republican majorities to Congress. Advocates of agriculture in both political parties seeking to deliver policy benefits to the farm community appeared to be at a disadvantage.

In this setting, and after a wild legislative process, Congress adopted a set of policies for agriculture in late November as Title I of its omnibus Balanced Budget Act. The president vetoed the entire budget bill as part of the broader political struggle over the size and role of the federal government. Two historic government shutdowns followed, but when public opinion shifted against the Republicans they acknowledged (in mid-January 1996) that they would have to abandon the effort to force presidential compliance with their budget and policy objectives.

Caught up in this larger political struggle was Title I, which had at its core what is better-known as the Freedom to Farm Act (FFA), a remarkable Republican proposal to replace traditional coupled price supports with decoupled lump-sum payments. The Republican congressional leadership had counted on the budget act as a mechanism for moving this new policy into law without open floor debate. When this strategy collapsed, along with the budget bill, a vice tightened on agricultural policy, with a new crop year imminent, expiration

of programs authorized in 1990, and reversion to untenable 1949 permanent legislation technically in the offing.

FFA was introduced in the House on August 4, where Representative Pat Roberts (Kans.), the chairman of the agriculture committee, became its principal champion. To insure what he termed an investment in agriculture's transition toward greater market orientation, the original FFA presented a simple alternative to existing programs for the feedgrains, wheat, rice, and cotton. Acreage set asides (ARPs) were to be eliminated, and farmers were to receive transition payments over a seven-year period that, while based on past payment histories, were completely decoupled from production decisions and market prices. The transition payments were to be made out of fixed Commodity Credit Corporation (CCC) expenditures of \$43.2 billion—the full spending level of \$56.6 billion projected under continuation of existing legislation in a February 1995 Congressional Budget Office (CBO) baseline, less a \$13.4 billion spending reduction stipulated in the Republican's June 1995 congressional budget resolution. Annual expenditures on transition payments were to fall by one-third between 1996 and 2002, from \$6 billion to \$4 billion, with a strict \$50,000 annual payment limitation per individual. A low-level safety net for producers was to be retained through nonrecourse loans set at 70 percent of a moving average of past prices. Permanent farm legislation from 1949 would be suspended for seven years but not nullified, and a national commission established to evaluate the role of the government in agriculture after 2002.

Did subsequent versions of FFA adopted in Title I and other bills represent progress by the 104th



Congress toward liberalizing economic policy for agriculture? FFA's inclusion in the budget act is sometimes presented as a political victory for the idea of market-oriented farming (and hence, indirectly, as a victory for those economists and policy analysts—the present authors included—who have long advocated reform). Alternatively, FFA has been characterized as a pragmatic response to budget constraints, and hence as a victory for those who have hoped that budget pressure will bring an end to lavish farm programs.

These two explanations for inclusion of FFA in the budget legislation last November are incomplete and misleading. Inside the 104th Congress, the move toward FFA came neither from committed reformers nor from budget cutters, but instead from traditional agriculturalists who have always favored generous support for farmers. When commodity prices began a steep rise, the best way to maximize this support in the short run under the congressional budget process was to make a switch in policy instruments away from traditional deficiency payments and toward guaranteed decoupled payments. FFA's adoption by Congress last November resulted more from accounting quirks and suddenly favorable market conditions than from either budget pressure or the dominance of a new policy reform consensus.

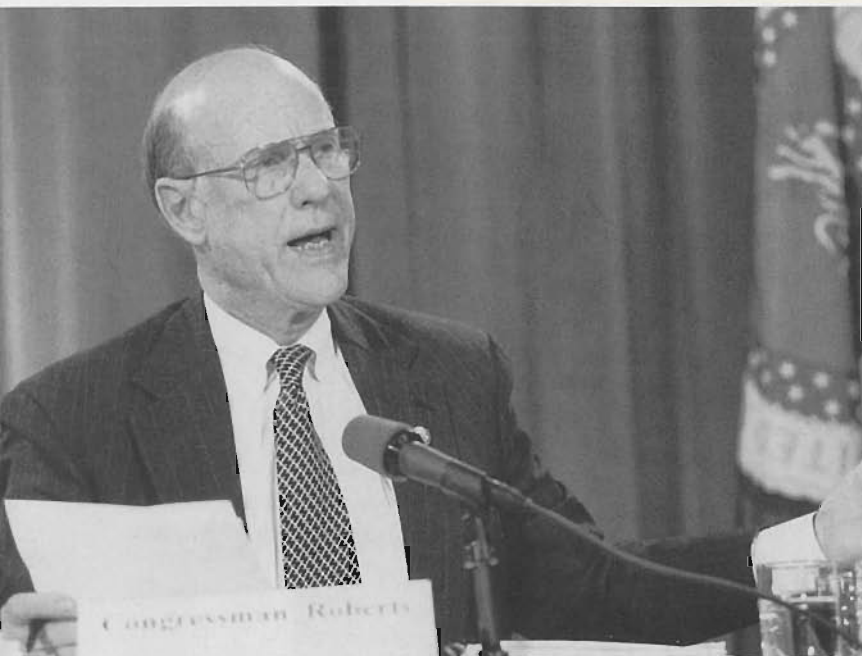
The collapse of the budget act in January 1996 left the new Republican farm policy denuded of its original political cover. As we went to press on

February 8, pressure was building for a more traditional bipartisan end game. A newly modified version of Title I, the Agricultural Market Transition Act, had been passed by the House Agriculture Committee, but efforts to bring it to a quick floor vote had failed. The Republican leadership in the Senate had been less committed to FFA than in the House during the previous year, and Senate Democrats opposed to elimination of the traditional safety net of price supports had threatened a filibuster. Nevertheless, in early February 1996, a 64-32 Senate majority approved free-standing legislation that included a version of Title I plus reauthorization of nutrition and conservation programs, and other spending.

The Senate vote boosted the prospects that new farm policy legislation, incorporating FFA, would be signed into law before the 1996 spring planting season. The House was scheduled to consider its version of the bill in late February. There remained some uncertainty about the full farm policy outcome, but enough was known to pass preliminary judgment on how far reform had been advanced.

A victory for reform ideas?

To some extent, FFA was a victory for the idea of liberal policy reform. Early in 1995, reformers made numerous recommendations for deregulation of agriculture and a cap on farm entitlement spending. These commitments to liberalization resonated with suppliers, processors, and some producers. Elimination of



Pat Roberts, new House agriculture chair, was all alone last fall as he championed the Freedom to Farm Act. Here he accepted a bipartisan invitation and presented a spirited defense of his bill at USDA's October farm policy hearings.

nation of ARPs and increased planting flexibility were endorsed as key policy objectives by Republican agricultural leaders in both the House and Senate.

Even so, the reach of FFA's ideological foundations was quite limited. Increased planting flexibility and elimination of ARPs at a time when stocks were low and export demand strong was suggestive of a momentary and selective act of political convenience rather than a clear ideological commitment. Many commodities (including dairy, sugar, peanuts, and tobacco) remained heavily regulated and protected under Title I. Farm groups expressed concerns about the direction being set for policy, but FFA never embodied either a firm deadline for elimination of commodity support payments, or the substantial spending cuts of a proposal to lower nominal target prices made by Richard Lugar (Ind.), chairman of the Senate Agriculture Committee, earlier in the year. Nothing was done in FFA to rationalize CRP enrollments or rental rates or to end the Export Enhancement Program.

What explains the incomplete agricultural reforms offered by the Republican congressional majorities in 1995, even in the midst of their self-described revolution, with its energetic attacks on other government programs? The ideological fire from the 1994 elections raged most intensely in the House, where Roberts faced mandates both for budget constraint and policy reform. His balancing act was to convince the Republican leadership that FFA represented a bold step toward deregulation—an argument endorsed by editorials in the *Washington Post*, the *Wall Street Journal*, and other major newspa-

pers—while simultaneously putting together a coalition inside his committee to pass Title I.

The Republican leadership bought the argument that FFA represented real reform, partly on the basis of the production deregulation it allowed and partly because of the budget certainty it provided after years of farm program cost overruns. Roberts then tried to orchestrate a coalition of reformers with midwestern grain and dairy interests (who saw benefits from his bill) and with southern sugar and peanut interests (who were brought on by lesser changes in their programs). This ideologically inconsistent coalition failed in committee when passage of Title I was blocked in September on a 22-27 vote. Roberts was opposed unanimously by Democrats, portraying themselves as defending farmers against the onslaught of Republican budget cuts, and by four dissident Republicans. The Republicans, led by committee vice-chairman Bill Emerson (Mo.) and Representative Larry Combest (Tex.), represented cotton and rice interests that had done particularly well under existing support programs.

Failure to win committee approval for his bill forced Roberts to seek its endorsement directly from the Republican leadership—one of only three times since 1974 that *any* chairman had attempted to circumvent a committee vote under House budget rules. Such a maneuver was technically infeasible for Lugar, who acquiesced to a compromise bill that was more traditional than FFA when the Republicans on his Senate committee, backed by the Democrats, rejected the reform proposals he had advanced.

By the time Congress subsequently adopted FFA and the other Title I agricultural provisions in November, the annual levels and formulae for distribution of the decoupled FFA payments had been fine-tuned to satisfy various commodity groups. Roberts's bill also had been stripped of a number of its initial reforms. Cotton and rice interests insisted on higher loan rates (raised to 85 percent of a moving average of past prices but with a nominal cap imposed) and the "three-entity" rule was restored to ease payment limitations per individual. A deadlock on dairy policy left an incomplete agreement. Representatives Steve Gunderson (R-Wis.) had added to the committee bill, at least for bargaining leverage, the complete elimination of both milk price supports and marketing orders. This draconic deregulation met uncompromising opposition from the chairman of the House Rules Committee, Gerald Solomon (R-N.Y.), despite his reputation as an outspoken advocate of small government. The immediate consequence of the impasse was that the House leadership abandoned efforts to change dairy policy in 1995 and relaxed budget discipline accordingly.

In one potentially important respect, Title I, as passed by Congress in the budget act, was strengthened as a reform measure. Permanent 1949 farm program legislation was to be nullified and the national commission proposed earlier was dropped. Because this left no authority for commodity support payments in place after 2002, it strengthened the prospect that FFA might serve as a transition out of such payments.

Outside the new Republican majority in Congress, those traditionally suspicious of deregulation, full production, or ending farm programs remained so in 1995. Northern Plains Senate Democrats promoted an alternative scheme built around payments targeted to mid-sized producers and more intrusive (coupled) marketing loans. The Democrats were not able to have their views written into legislation. But the high profile of their spokesman, Senate Minority Leader Tom Daschle (S.Dak.), in the post-veto budget and farm policy negotiations belied any notion that FFA represented a bipartisan reform consensus.

A result of budget pressures?

A second explanation that has been offered for FFA's emergence in 1995 is federal budget stringency. Roberts originally presented decoupled fixed payments under FFA as a way his committee could eliminate ARPs while avoiding an added \$6 billion of deficiency-payments spending. But there are strong reasons to question the supposed link between tight spending limitations and Roberts's switch to decoupled payments.

First, Roberts did not really begin advocating decoupled payments because he lost the 1995 budget battle. He and his colleagues spent the first six months of 1995 fighting, with considerable success, against cuts in CCC spending. The cuts proposed by House Republicans were lowered by 40 percent over five years, from \$16 billion to \$9 bil-

lion, and to \$17 billion over seven years—a substantial reduction and backloading of the budget pain. House-Senate negotiations then reduced the spending cuts mandated for agriculture even further, to only \$13.4 billion over seven years.

Once the modest size of the required spending reductions became known, it was clear that existing farm support programs would not have to be decimated to meet the budget constraint. The Republican dissidents on the House Agriculture Committee introduced a bill that achieved most of the required savings by the modest step of raising nonpayment acres (on which deficiency payments are not made) from 15 to 30 percent. Their bill, and various Democratic alternatives, offered some degree of increased planting flexibility, but without the elimination of ARPs or certainty about the total cost of support programs. The Republican Senate compromise, which eliminated ARPs but provided substantial planting flexibility only for feedgrains and wheat, achieved the mandated budget savings by raising nonpayment acres to 30 percent and capping deficiency-payment rates. Roberts's choice of FFA therefore cannot be attributed to budget pressure alone.

The opportunity created by rising prices

When Roberts switched, in July 1995, from defending traditional farm programs against proposed spending cuts to fighting for nontraditional decoupled payments, he was responding not to a budget baseline constraint but instead to a remarkable new budget baseline opportunity. A rapid escalation of commodity prices during the year had begun to change expectations about the future generosity of traditional support programs. Moreover, some of Roberts's constituents began to complain that despite local crop failures they would be

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Table 1. Projected CCC spending under existing (1990) legislation versus Title I

Fiscal Year	1995 CBO Baseline Projections		Title I Compared to February 1995 CBO Baseline	Title I Compared to December 1995 CBO Baseline
	February 1995	December 1995		
Billion Dollars				
1996	8.6	3.8	-1.3	+2.8
1997	8.5	5.6	-1.5	+1.1
1998	8.4	8.1	-1.4	-1.0
1999	8.2	8.2	-1.5	-1.4
2000	7.9	7.8	-1.6	-1.5
2001	7.5	7.7	-2.5	-2.2
2002	7.5	7.6	-2.4	-2.4
Seven years	56.6	48.8	-12.2	-4.6

Note: Baseline spending projected by CBO includes CCC spending for price supports and related programs (primarily the Export Enhancement Program) assuming continuation of 1990 law as modified through 1995. Proposed Title I cuts include savings in non-CCC agricultural programs of nearly \$1.0 billion.

(*Farm Policy, continued from page 7*)

obliged, because of higher market prices, to pay back advance deficiency payments they had received (and already spent!). If the spending level projected in the now out-of-date February 1995 CBO baseline could be "captured," these constituents could be spared a financial burden. They and many other farmers would benefit from continuation of sizeable payments from the government *on top of* the higher market prices, plus enhanced profitability from the efficiency gains brought about by deregulation.

Most participants in the farm bill debate were slower than the agriculture committee chairman to appreciate the short-run financial gains that could be obtained for farmers from the change in policy instruments to decoupled support payments. Senate Democrats belatedly tried to exploit the February CBO baseline by using the out-of-date projected spending levels to raise loan rates as high as possible. The administration and most House Democrats found it more difficult to adjust. They were already committed to seeking a continuation of deficiency payments coupled to market prices, and as those prices went up, the generosity of their position went down correspondingly.

As the year progressed, the short-term program payment advantage associated with decoupling became so large that it actually allowed Roberts to make the sizeable Republican-mandated cuts in projected farm program spending (cuts still calculated from the February 1995 CBO baseline), and yet promise more payments to farmers for the first two years than were projected in a partially updated CBO baseline in December. The new baseline showed spending of \$7.8 billion less on deficiency payments during 1996-97 under existing legislation than had been projected by CBO in February (see the accompanying table). Using the partially updated December projections, Roberts delivered more than a backloading of budget pain; he delivered a frontloading of \$3.8 billion in budget gains!

The individual farm commodity

groups that would be most affected by FFA played a cool hand as all of this unfolded. They expressed wariness about the decoupled payments and withheld endorsements until FFA had been modified to their satisfaction. Vocal opposition diminished and expressions of support increased, as reform provisions were negotiated away and market prices continued to rise.

Why did the Republican leadership, committed as it was to budget austerity, permit Roberts and his supporters to lock in farm payments that would be larger than the payments expected under existing legislation? Several factors worked to produce this result. One was the subordinate position of farm program spending to the overall congressional budget process, and another was the heightened partisanship that had been introduced into that process. The Republican leadership knew it would need almost every rank-and-file vote to enact its controversial seven-year budget in the face of near unanimous Democratic opposition. This gave Republican agricultural district members the leverage they needed to make special requests to their own leadership not to be too hard on farm programs. The leadership, in turn, could afford to give in to these requests because the total savings it sought from agriculture was such a small part of the spending pool.

Collapse of the budget talks

As Roberts's strategic FFA coup became apparent but the budget deadlock slowed his progress, Democrats scrambled to offer new alternatives that were just as generous. An administration budget proposal on 6 January 1996 contained no cuts at all for agriculture from the December CBO baseline, hence beating Title I on expected spending over the full seven years despite Roberts's short-term gain. In the course of the year-long budget debate, the situation for agricultural interests had gone, remarkably, from one of fending off spending cuts, in the aftermath of the 1994 mid-term elections, to one of being the target, in the prelude to the 1996 elections, for who could promise the most support.

The collapse of the budget negotiations later in January shifted the farm bill debate even more to the favor of agricultural interests. Roberts had introduced most of Title I as a free-standing bill on January 5, cosponsored this time by the former dissident agriculture committee Republicans Emerson and Combest. In late January, he reconvened his committee. Roberts's bill now included new regulations negotiated among regional dairy interests in place of the earlier dairy market deregulation, and the commission on future policy was resurrected, with permanent 1949 law still to be nullified. It also appeared that weakened budget constraints would enable Roberts to logroll bipartisan farm-district support for his bill with additional funding of \$2.5 billion for rural development programs sought by Democrats. When House Republican leaders refused to make these funds available, the agriculture committee approved Roberts's bill, but the debate was acrimonious and the vote again fell primarily along party lines.

Failure to broaden its base of support with the added rural development funds left the Roberts bill vulnerable on the House floor. Under the pretext of the urgent need to pass new farm legislation before the spring planting season, Roberts hoped to obtain a closed rule for floor debate that would limit its duration and choke off amendments. But the inconsistencies arising from his need to build a committee coalition among reformers, mid-westerners, southerners and, now, dairy interests were glaring. The dairy compromise drew vocal opposition, and enough Republicans, including adamant critics of the sugar and peanut programs, indicated that they were against the closed rule to block floor action. A quick effort to rally offsetting Democratic support was unsuccessful under the circumstances, and the House recessed in early February without considering farm policy.

After Roberts had announced his committee meeting, Lugar and seven cosponsors introduced Title I (without the House dairy compromise) as free-standing Senate legislation. To pass this

legislation, a bipartisan coalition had to emerge to isolate the most ardent Democratic opponents of FFA. The opponents pushed for a modified version of decoupling that would provide increased planting flexibility but guarantee payments to farmers only one-half as large as promised by Roberts. The savings would be used for higher loan rates, additional support payments tied to market prices, or other rural spending. Permanent 1949 legislation would be retained to authorize continued support programs, but suspended for the new policies for a period of two or three years.

The bid for an alternative to FFA was lost when the Republican Senate leadership worked out a deal with Senator Leahy (Vt.) and other Democrats in February. This deal retained the full FFA payments scheme for seven years but did not terminate the 1949 law. It added reauthorization of food stamps and other nutrition programs, reauthorization of conservation programs, some of the pilot support measures proposed by the administration, and trade, conservation, research, and credit bills adopted earlier by the Senate Agriculture Committee. This second attempt to logroll FFA in a bipartisan fashion succeeded when the amended Lugar bill was passed by a nearly veto-proof majority.

The February compromise gave Senate Republicans a chance to put farm policy behind them before the Iowa caucuses and upcoming presidential campaign. They could claim victory in providing their rural constituents with lucrative FFA payments and extension of other farm programs for seven years. Democrats could claim that they had preserved the long-term safety net for farmers (by guaranteeing that farm support programs would not go silently into the night in 2003), and that they had insured continuation of popular nutrition and environmental programs. With the reauthorization of nutrition programs and bipartisan support, both sides to the Senate deal insulated themselves from the criticism they invited by approval of a windfall for agriculture, while cuts to many other social programs remained under consideration.

Whither farm policy?

What does this somewhat sobering reconstruction of the political origins of Title I of the Balanced Budget Act and the subsequent farm policy bills tell us about the ability of the political processes to sustain reform in agriculture? Title I was originally sold to the reform-minded Republican House leadership during the highly partisan budget debate because FFA deregulated a large part of agricultural production and disciplined farm entitlement spending. Ironically, without the spending constraint and legislative cover the budget act provided, a weakened version of the original FFA reforms was approved by the Senate in 1996 because of bipartisan support for the windfall FFA payments, continuation of other farm policy interventions, reauthorization with full funding of nutrition and environmental programs, and other added spending. For FFA and the rest of the agricultural bill to succeed in the House, a similar coalition would have to coalesce around it. That is, in the end, FFA's political support would have to come, as part of a farm bill package, over the objections of Republican (and other) reformers and opponents of lavish farm spending! Much of farm policy was proving impervious to reform once again, despite the favorable circumstances that had existed.

Whether or not it becomes farm policy this year, for FFA to be counted as reform, the deregulation of production and payment limits it provides for the feedgrains and wheat, rice, and cotton will have to stick when market prices fall. Reform skeptics may imagine that the generous FFA transition payments windfall, coming on top of currently high market prices, will encourage farmers to expand production capacity. If commodity prices subsequently fall, perhaps after 1997, the result could be a "hard landing" for crop producers, rather than a smooth transition toward market orientation. Rather than a weakening of demands for public support by the farm lobby, those demands could be strengthened.

Hopeful reformers must imagine a different result wherein the transition

payments windfall guaranteed by FFA becomes an effective buyout of a substantial component of the farm coalition, despite its political origins from within this coalition. Perhaps farmers who find unexpected benefits from planting flexibility will resist new regulation. Or perhaps, having accepted the generous (and decoupled) FFA transition payments, producers of field crops will weaken the political foundation from which to demand a return to traditional supports or, despite retention of the permanent law, from which to demand any support at all after 2002. Were crop producers to be bought out of the farm coalition, it could eventually prove more difficult, in contrast to events of the past thirteen months, to logroll continued protection for dairy, sugar, peanuts, and tobacco. Under this scenario, hopeful reformers can imagine FFA serving as a golden parachute, easing agriculture into an era of greater market orientation. ■

■ For more information

This article is based on research supported by a USDA National Research Initiative Competitive Grant Program project on international and domestic farm policies. Source materials include press reports and briefings, congressional hearings, draft legislation, and interviews. A more complete description of the farm policy debate is provided in a March 1996 International Agricultural Trade Research Consortium Working Paper, "What is Happening to U.S. Farm Policy?" Further analysis will be presented at the AAEA annual meeting in July 1996 and published in the *American Journal of Agricultural Economics* in December.

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