A Farm Bill for Booming Commodity Markets

In our article in First Quarter 1996 Choices, we argued that it was rising market prices during 1995-96 more than a new reform consensus or budget constraints that drove farm policy toward decoupled payments and less interference in field-crop production. We traced the origin of these reforms and their survival through both the highly partisan 1995 budget reconciliation process and subsequent emergence of a traditional bipartisan coalition to support a farm bill. Our coverage ended with Senate passage of new commodity policies (the Agricultural Market Transition Act, AMTA) in early February 1996, as one part of comprehensive legislation that also included conservation, rural development, nutrition, and other components. This article describes the House passage of similar legislation and final enactment of the Federal Agriculture Improvement and Reform Act (FAIR).

With billions of dollars of decoupled payments at stake for key constituent groups, and the Republican Party badly in need of legislative success more than a year after the 1994 mid-term elections, it seemed inevitable after the Senate vote that the congressional leadership would find a way to accommodate enough interests to enact a new farm-policy law. This required holding adherence among diverse agricultural groups, while addressing sufficient nonfarm concerns to insure bipartisan support. In a presidential election year, and absent an overall budget framework, logrolling behavior became pervasive as a means to establish a winning coalition.

The agreements reached by the bipartisan Senate alliance preserved the AMTA, but the more comprehensive provisions of the legislation opened several potential fissures among Republicans. The cost of the Senate bill over seven years was estimated to exceed the cost of the agricultural title of the vetoed 1995 Balanced Budget Act by more than $5 billion, a level of expenditures likely to be resisted in the fiscally conservative House. Of the additional spending, almost $4 billion was for conservation and environmental provisions that raised regional conflicts or aggravated simmering policy differences between Republican proponents of an expanded government conservation role versus those urging deregulation and less government intervention. Reauthorization of the food stamp and other nutrition programs was also likely to be resisted in the House. Changes to the nutrition programs had been pledged in the Republican’s welfare reform proposals, and reduced expenditures were to have accounted for $34 billion of the proposed budget act savings.

Managing these issues was complicated, and negotiations about the rules for House floor debate on the farm bill proceeded during the February congressional recess. The Agriculture Committee chairman, Pat Roberts (R-Kans.), argued that a restricted process with exclusive focus on commodity programs was warranted by the “time sensitivity” of the farm situation. The Democrats called for unlimited debate, as for past farm bills, and Republican critics of farm programs and advocates of broader legislation sought opportunities to offer amendments. The Republican leadership settled on a limited debate, with 16 of 75 proposed amendments ruled in order.

It was widely recognized when the floor debate began in late February that there was sufficient support to restructure the field crop commodity programs into the AMTA, with decoupled payments under production flexibility contracts (PFCs) that would be more generous than deficiency payments in the short run because of the continued strength of market prices. An amendment to retain the existing payments structure, with target prices lowered over a five-year period as in the early reform by David Orden, Robert Paarlberg, and Terry Roe
proposals by Senator Richard Lugar (R-Ind.), and a last-ditch attempt to reduce the PFC payments to farmers were easily defeated.

A similar consensus did not exist to support the phase-out of the peanut and sugar programs, for which no compensation could be offered. An unsuccessful coalition of processors, industrial users, market-oriented reformers, consumer groups, and environmentalists was pitted against the program’s entrenched beneficiaries (and their allies), and amendments to end the programs lost 209-212 and 208-217, respectively. The results were not as close as recorded, with the Republican leadership working behind the scenes to insure the outcomes and several votes switched to favor the amendments once it was certain they would fail. After the sugar vote, Roberts, who had made his accommodations with the sugar producers much earlier, turned and gave the victory “thumbs up” to lobbyists filling the House gallery.

The Agriculture Committee was less successful managing dairy policy, although the outcome was hardly liberal reform. The committee had voted for a costly dairy package that attempted to accommodate competing producer interests, after recommendations for deregulation (favored by midwestern producers) had been forced out of the budget act. The chairman of the House Rules Committee, a staunch defender of regional milk marketing orders, still opposed the Agriculture Committee’s package. He offered an amendment that phased out price supports for manufactured milk, eliminated technical regulations in the package that raised milk prices, and authorized consolidation of marketing orders without guarantee of interregional fluid-milk pricing reform. The chairman claimed that his amendment would save consumers and taxpayers nearly $7 billion compared to the proposed dairy bill and would avoid adverse effects on participation rates in discretionary federal nutrition programs such as WIC. The amendment passed overwhelmingly when supporters of the committee’s package, caught in the contradiction of trying to appease producers while also achieving some deregulation, agreed with the relative cost figures. It was the only defeat the Agriculture Committee would suffer on commodity programs.

Thus, the political competition remained focused on how to be generous to farm interests (and others), not on how to cut farm programs.

With field-crop producers, sugar, peanuts, and, now, key dairy interests placated, the House turned to crafting a bill with the breadth required for bipartisan coalition support. The conservation provisions reauthorized the CRP and Wetlands Reserve Program, doubled mandatory cost-sharing expenditures to $200 million annually, and added $200 million for restoration of the Florida Everglades, consistent with the Senate bill.

During the House floor debate, the chairman of the Appropriations Committee opposed augmentation of discretionary conservation programs by enhanced and mandatory entitlements, citing non-defense appropriations as one place where the Republican-dominated Congress had achieved its goal of lowering government expenditures. The budget-disciplinarians lost on mandatory conservation spending 373-37 when the leadership’s support for the conservation measures was signaled in an uncommon floor speech by the Speaker of the House. A Democratic amendment to add rural development funding, higher soybean loan rates, and retention of permanent law was defeated, and the House passed the farm bill with 54 Democratic votes by 270-155. The cost of the bill had increased by $3.5 billion.

End game
Despite the differences in scope and detail between the House and Senate bills, the emerging coalition supporting the farm bill reduced the uncertainty that had characterized the earlier policy debate. The administration acknowledged that the president would not veto the bill over decoupled PFC payments, and the House passed the farm bill with 54 Democratic votes by 270-155. The cost of the bill had increased by $3.5 billion.

Figure 1. Corn and wheat prices, August 1994–April 1996
trition. Thus, the political competition remained focused on how to be generous to farm interests (and others), not on how to cut farm programs.

Closure on a comprehensive farm bill rested on a decision by Republicans to forgo their most controversial attempts at reform and budget restraint on conservation and nutrition programs in favor of their victory on commodity policy. The CRP reauthorization included House language for an early-out option, but a radical House proposal to exempt areas of less than one acre from wetland regulations was rejected. The Food Stamp Program was reauthorized for two years—a modest concession acceptable to Democrats—and a development Fund for Rural America was authorized at $300 million over three years. With these agreements, grounds were found to insure bipartisan support for the breadth of the legislation.

There remained last-hour bargaining around details needed to complete the farm bill support coalition. Proponents of reform achieved victories when a final effort by the administration and commodity groups to remove the loan rate caps for corn and wheat was defeated and planting flexibility was enhanced to allow haying and grazing on AMTA contract acres. Market conditions again were a key factor—high crop prices had ameliorated earlier opposition to use of the contract land for production of livestock feed.

The final issues to be resolved included dairy policy and retention of permanent law. A modified version of the House dairy amendment was endorsed, but Senator Patrick Leahy (D-Vt.) also insisted on the Northeast Dairy Compact, which created further regional market fragmentation and had been defeated on a Senate floor vote. Roberts defended nullification of permanent law (a reform not in his bill the previous August), while his opponents argued that it provided the essential safety net for farmers. In the end, Roberts received a short note from the secretary of agriculture stating simply that "we need permanent law." Shortly after that, he accepted the Senate agreement to extend the 1949 act, while Leahy accepted authority for establishment of the Compact if there was "a compelling public interest in the region." The farm bill deal had been struck for the Federal Agriculture Improvement and Reform Act (FAIR) with the AMTA included as Title I.

Comment
The recent debate over farm policy has been unprecedented. For the first time in forty years, farm legislation was written under a Republican-dominated Congress, ideologically committed to reduced government spending and deregulation. It still appeared early on that existing support programs would be continued, only in a diminished form due to the budget pressure. That perception began to falter in late 1995 when commodity prices rose and an opportunity emerged to capture larger payments to farmers in the short run by decoupling them from market price levels.

A momentary deadlock was created last September when the Senate endorsed fairly traditional policies, and a handful of House Agriculture Committee Republicans, representing cotton and rice interests, joined Democrats unanimously opposed to a decoupling proposal. As market prices continued to strengthen, however, the benefits for producers of decoupled payments became increasingly persuasive. Mainstream farm-sector advocates succeeded in attaching a somewhat less reform-oriented version of the decoupled-payment scheme to the Republican's Balanced Budget Act, despite the relatively large short-term expenditures that were embodied. The decoupled payments then survived again when the budget initiative collapsed and a bipartisan coalition emerged to support farm policy. Notwithstanding the intervening steps, FAIR may be the first time that legislation included in a budget reconciliation bill after circumventing defeat in a committee of jurisdiction subsequently has become law—a tribute to the robustness of AMTA in a period of booming markets.

While the process of the recent farm bill debate has been unprecedented, policy being driven by market conditions is by no means the same as policy being driven by a market-liberalization consensus. It is hard to imagine any policy having been endorsed in 1996 that did not respond to low commodity stocks and high prices by giving farmers full
production capacity and flexibility in the short run. Under FAIR, the promise is that decoupled payments, elimination of supply constraints, production flexibility, and budget discipline are all to be secured in the out years as well in exchange for the net short-term fiscal payout to farmers. Market prices in 1996 created an opportunity to end past farm programs costlessly, but such proposals lacked political support. Republican control of Congress, the high market prices, and the workings of the congressional budget process yielded an otherwise unattainable change in farm policy. The incremental cost of farm programs is not raised by FAIR compared to the late-1995 CBO projections for traditional deficiency payment expenditures over seven years, but the short-run wildfall payments captured by the change in policy seem to have been necessary compensation for farmers to give up the old, interventionist instruments.

With farm policy recontracted just when existing programs were to have been relatively costless, taxpayers will bear the burden of larger decoupled payments as long as market prices remain high. Annual land set-asides would have been nil at high prices, and support program participation would have declined, even under continuation of 1990 law, so the efficiency gains from the new policies are limited with strong market conditions. It is hard to judge whether the new policies are long-term reform under these circumstances. Moreover, with 1949 permanent legislation maintained, Congress will have to revisit farm policy. The Clinton administration set a precedent that could be used to raise baseline spending in 2002 when it avoided a sequester of federal expenditures by claiming that FAIR reduced 1996-crop program costs versus permanent law that might have otherwise applied, even in the context of strong world markets. With such budget chicanery, taxpayers will bear the burden of larger decoupled expenditures were easily approved, and ethanol subsidies proved untouchable.

One test might come in two or three years if prices return to about such levels. At least two facets of the recent debate suggest some form of reintervention.

First, even the budget-conscious, reform-minded 104th Congress has proven responsive to agricultural interests. Allies to enact farm programs can still be found, and farm-sector advocates have now proven adept at obtaining benefits from Congress under either party. With Republican dominance, the nutrition constituents have diminished clout, but CRP reauthorization and conservation cost-sharing expenditures were easily approved, and ethanol subsidies proved untouchable. Behind the market-oriented and small-government rhetoric of the new Republican majority, supply-control, income-enhancing, and demand-augmenting policies justified on environmental grounds still percolate as rationales for a social contract of government involvement in agriculture, even in the context of strong world markets.

Other forces poised for reintervention are the Democratic proponents of a long-term safety net for farmers. They were vociferous in their objections to the lack of price-risk security under FAIR. The president, while signing the bill, announced he will continue to try to strengthen the safety net. The president, while signing the bill, announced he will continue to try to strengthen the safety net. Agricultural interests will find avid defenders of renewed intervention among the Democrats if market prices fall for corn, wheat, cotton, or rice. Even if reformers and budget disciplinarians resist, remembering in part the payments wildfall farmers are now poised to receive, defections among Republican agriculturalists could easily create a bipartisan intervention juggernaut.