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Economic Analysis and the Shaping of Public Policy: A 1995 Farm Bill Perspective

Patrick O'Brien

ABSTRACT

The 1995 Farm Bill debate proved different than many economists expected. It was overwhelmingly budget-driven. Few early concerns about the role of government, efficiency, equity, competitiveness, environment, rural development, and food were addressed. Economic analysis played a different role than anticipated. Models of who and how farm policy is made proved misleading; the debate circumvented the traditional process. Economic models were used more to perform budget accounting than substantive analysis. And their substantive analyses often failed to capture the attention of policymakers. Hence, while a reformist economist's dream, the bill leaves as many issues unanswered as it addresses.

Key Words: economic analysis of public policy, economic modeling, farm policy making, policy reform.

The 1995 Farm Bill debate began with considerable talk of change. A survey of government, industry, and university concerns conducted for the Senate Agriculture Committee in late 1994 showed widespread interest in modifying the core commodity components of the 1990 legislation, but little agreement on the direction or magnitude of change. This same theme surfaced at conferences held by commodity organizations, farm bureaus, agribusiness groups, and think tanks in 1994 and 1995. But again, there was little consensus on the general shape of future farm policy or on program details beyond easing planting restrictions to take advantage of an expanding export market.

Most of the proponents of change in farm policy used similar reformist language, but advocated very different alternatives—ranging all the way from more direct government intervention to complete government withdrawal. While still a minority, a centrist group emerged that favored reform—defined as moving farm policy toward significantly less government intervention and more market orientation, but with a transition period and a residual role for public institutions.

Many economists would like to think that this reformist interest related to their analysis questioning farm policy from both a narrow sector-performance perspective and a broader public policy perspective. Much of their modeling work suggested that farm policy could be redesigned to meet producer, taxpayer, and consumer interests at less cost and greater benefit to the agricultural sector and the general economy.[1]

The author is director of the Commercial Agriculture Division, U.S. Department of Agriculture, Economic Research Service, Washington, DC.

[1] The models in question included traditional economic models—formal quantitative "micro" models that used econometrics, mathematical programming, and computer simulation to describe farm operations, commodity markets, and overall sector performance, as well as more "macro" models that describe agriculture's interaction with the rest of the economy. The analysis also drew on policy-making

As the 1995–96 debate hopefully draws to a close, the new farm bill is likely to be fundamentally reformist—in appearance at least, the most reformist bill since the 1930s and far more reformist than most observers would have guessed at the start. Even a temporary extension of current legislation agreed on as an interim alternative would only delay, rather than forestall, the centrists' move toward less government and more market in the day-to-day operation of the sector.

But the debate ultimately has proven to be very different than many economists had expected. The debate has been overwhelmingly budget-driven. Few of the reformers' initial concerns about the general role of government and sector-specific concerns about efficiency and equity, competitiveness, the environment, rural development, and food quality and safety have been addressed. And many program details are being designed not so much to improve sector performance as to ensure that farm interests make the smallest cuts in government support possible while still meeting Senate and House mandates for budget cuts and reformist labels.

The role that economic analysis played has also proven very different than anticipated. Traditional models of who and how farm policy is made proved the most misleading. This latest round of farm legislation is more a product of circumventing the process than working through it. Players at either end of the policy-making continuum dominated—hardline production-agriculture interests at the one end and budget cutters with little interest in agriculture at the other. Many players—even those willing to move well beyond the status quo—found themselves either excluded from the process or in a reactive role debating program detail rather than setting policy direction. This is particularly true of the public interest groups concerned with food, environment, and rural development interests who had looked to the 1995 debate to reinforce their expanding role in shaping farm policy.

Moreover, the more formal economic models have been more in demand to conduct budget accounting than the substantive analysis they were originally designed to do. This reflects not only what became the overriding importance of budget, but analytic shortcomings as well. Many of the economic analyses focused on aggregate commodity supply, demand, price, income, and cost indicators that left more substantive reform questions and adjustment alternatives only partially explored. Much of the analysis simply failed to capture and hold the attention of policymakers concerned with either the shorter term budget issues or the longer term issues facing agriculture in the 21st century.

Hence, while economists had much to say during the 1995 Farm Bill debate, few key policymakers seemed to be listening. While in many ways an economist's dream, the farm bill being passed in both houses—but yet to be agreed to by the Administration—is largely externally imposed and leaves many issues to be resolved in future farm bill debates. And many economists in both the government and the university community will have difficulty explaining the large investments made in economic modeling and analysis in the name of shaping enlightened public agricultural policy.

Pressure for Policy Reform

A number of developments combined in 1995 to raise the possibility of fundamental change in farm policy. At the risk of oversimplification, these developments can be broken down into longer term forces at work within the sector and more proximate developments in the general economy. Economists have played a major role in identifying them and getting the debate started.

Reform Pressures Within Agriculture

By 1995, six decades of structural change had made the farm programs established in the 1930s and fine-tuned more than a dozen times in the interim anachronistic. The sector bore little resemblance to the agricultural economy of the Depression and many, if not most, of the policy problems of the 1930s had been resolved or were no longer relevant.

The farm sector of the inter-war period and much of the post-war period was largely synonymous with the rural economy and employed almost

models—less formal, more qualitative models that combined political science and economics to describe how the farm policy-making process works, the major players, and their respective roles.

two-fifths of the population. Household incomes in this farm/rural economy had plummeted with the Depression, averaged about a third of nonfarm household income, and were more variable both during the year and from year-to-year. Family farms—generally small, owner-operated units that depended on family labor, owned land and machinery, and limited borrowed capital—dominated the sector. Concentration was minimal, both in the sense that there were few large farms and most farms produced at least some of the same key crops and livestock products.

In this setting, boosting/stabilizing farm incomes was a critical component of a national economic recovery/development strategy. And tying farm income support to the prices of a few key commodities and linking payments to production was a simple, attractive vehicle for delivering assistance. Tying support to a few key commodities that were produced on a large number of farms ensured that program benefits were not skewed to one region or group of producers. With the very large overlap between landowners and farm operators, it made little difference how much support was ultimately captured by operators as income or by landowners as rents or higher asset values. Moreover, linking price and income support to output eventually made supply management an option for minimizing costs in what was essentially a closed agricultural economy.

By 1995, "farm" was no longer synonymous with "rural"; agriculture accounted for less than a fifth of economic activity in the majority of rural counties. Roughly 2% of the population was engaged in agriculture. Agriculture was dominated by the much larger corporate farm—generally a capital- and technology-intensive operation that often rented more land than it owned and depended heavily on hired labor and management expertise. Average farm household incomes grew to exceed nonfarm household incomes, but the distinction became increasingly meaningless. Over half of all farm operators reported off-farm jobs as their major occupation and, on average, the source of two-thirds of their household incomes.

Production was also much more specialized and concentrated, with 20% of operators producing 80% of output. Over half of the farm sector was involved in producing commodities that did not qualify for support, either directly through income supports (i.e., grains, cotton) or through price supports (i.e., sugar, tobacco, peanuts, dairy). Moreover, the agricultural economy was an open economy; farm operators competed directly with operators in other sectors of the economy for inputs such as capital. They also competed directly with producers in other agricultural sectors abroad; over 25% of agricultural production was exported and the equivalent of 15% was imported.

In short, farm policy had shifted from being a progressive transfer of income to the rural two-fifths of the population to being a regressive transfer to the less than 2% of the population who happened to be involved in producing selected commodities. The harshest critics saw farm programs as a vehicle for an increasingly small minority to extract excess rent from the rest of the economy. And if farm program benefits are largely capitalized into asset values as critics contended, much of this regressive transfer goes to absentee landlords and corporations who own and lease out farmland but are not otherwise involved in agriculture.

If lagging public recognition of this anachronism had muffled earlier interest in reform, public awareness increased sharply in the early 1990s. Critical studies conducted in forums as varied as the U.S. Department of Agriculture (USDA), the land grant universities, the Natural Resource Defense Council, and the American Enterprise Institute moved farm policy from the back-burner to the center of the public policy reform debate.

External Pressures for Reform

Outside of agriculture, increased concern about the budget deficit and the election of Republican majorities to both houses in 1994 strengthened pressure for reform. Agricultural reform attracted attention even among Republicans who had traditionally supported farm sector interests and depended on farm support for their seats.

Farm program costs were high—particularly given the few, geographically concentrated constituents benefiting from the programs. In an era of growing concern about government spending, the concentration of farm program spending on large-scale producers of selected commodities increased pressure for reform.

Farm program costs were also variable; spending could swing widely from year to year and confound budget forecasters. Critics were quick to point out that actual farm program costs for the last five-year farm bill cycle proved to be $57.7 billion, compared to the $40.7 billion projected during the 1990 debate. This led critics to see many farm programs as open-ended entitlements no different from Social Security or Medicare—but with more variation and a far smaller constituency. This contributed to widening demand for reform.

Philosophically, agricultural policy was also viewed as a particularly intrusive example of bad public policy. Government involvement affected day-to-day operations ranging from allocating resources to marketing final products. In an era of policy liberalization marked by GATT and NAFTA agreements, interventionist farm policy was viewed by many as a dinosaur. Hence, the political imperative to streamline government and to balance the budget translated into added pressure to reform farm policy.

Ironically, the 1995–96 market setting also added to support for reform as the debate progressed. Rising commodity prices in mid- and late 1995 weakened the case for supports outside the sector and led some within the sector to call for change. Many called for less government intervention that would not entail foregoing price and income supports but that would free producers from government regulation. The bullish commodity market also meant that the Administration and Congress could cut support in 1996, and possibly in 1997, with fewer political repercussions in farm-dependent areas and with a sense that much of the sector was in an unusually strong financial position to weather the adjustment.

It is difficult to weigh the relative importance of these internal and external pressures. But it is clear that they worked in combination in 1995 to rule out the traditional bipartisan defense of the farm policy status quo by a small, tightly-knit core in the agriculture committees and to push the debate at least initially toward the centrists' reform agenda.

Reform Proposals

The early farm bill debate reflected this widespread interest in change and an increasingly dominant reformist theme. Proposals were made by a number of groups. Some were "partial" in that they looked only at a particular program or issue. But many were comprehensive in that they called for a complete overhaul of the commodity, trade, conservation, rural development, food, and research components of farm policy. Most of these comprehensive proposals fell somewhere in the ball park outlined by the debate in the Administration, the Senate Committee on Agriculture, Nutrition, and Forestry, and the House Agriculture Committee.

Administration Proposal

Initial consideration of farm policy reform within the Administration dated to mid-1994 and originated with an internal Office of Management and Budget (OMB) effort to identify general budget savings across a wide range of government programs. The agricultural component of the in-house OMB effort focused on the commodity and trade programs and called for large-scale reform to save $16 billion out of the $51.8 billion included in the President's February 1994 budget to fund farm programs (Commodity Credit Corporation support and related activities, as well as Public Law 480) from FY 1995 to FY 1999.

This first cut had been changed dramatically by May 1995 when the Administration went on record with the "Blue Book" proposal to stay the gradualist course laid out in the expiring 1990 Food, Agriculture, Conservation, and Trade Act (FACTA). In the interim, a White House Task Force including USDA had been formed and the Administration had been forced to compromise on several fundamentals to win farm votes for passage of the GATT Uruguay Round and the NAFTA agreements.

Before reform got seriously underway, the Administration had agreed to fund the Export Enhancement Program (EEP) at the maximum and cut domestic supports the minimum allowable under the GATT and NAFTA agreements, as well as to extend the Conservation Reserve Program (CRP). The Blue Book reflected these commitments and kept the fundamentals of supply management in place—the "coupling" link between production and support, loan rates, target prices, deficiency payments, and annual set-asides for the income-supported commodities and import restrictions and production or marketing quotas for the price-supported commodities.

This call for limited reduction in FY 1996–99 spending—an estimated $1.5 billion—and marginal reforms put the Administration squarely in favor of the status quo and ruled out reform leadership. But even status quo proponents within the Administration recognized that the Blue Book proposal would continue government withdrawal. The 1990 act froze nominal target prices and effectively reduced real supports at the 2–4% per year pace of inflation. This, combined with nonpayment acres and frozen program yields, forced producers to look more and more to the open market in making production and marketing decisions. The more reformist-minded called for accelerated withdrawal—picking up the pace provided for in the 1990 legislation. But there was little serious discussion of reversing the 1990 direction or even slowing the pace implied in the expiring 1990 legislation.

The Administration would revamp its proposal as the debate progressed and looked to higher commodity prices and program refinements to generate added savings. The Administration eventually added adjustments in nonpayment acres, means testing, and increased producer flexibility, and estimated total savings at $4.2 from the $49.3 billion cost of continuing FACTA for FY 1995–99 estimated in February 1995.

Senate Committee Discussions

Initial discussion of reform in the Senate started in late 1994 with a call for "fundamental change" by Agriculture Committee Chairman Lugar. He announced his intention in early December, shortly after becoming chairman, to keep much of the traditional support structure in place but to make the programs largely moot by the end of a five-year transition period. He committed to at least four principles: (*a*) eliminating annual acreage programs and increasing planting flexibility to free up agriculture's production potential, (*b*) reducing support levels to push the sector toward more market-based decision making, (*c*) treating the price- and income-supported commodities the same to ensure equity, and (*d*) ensuring real budget savings by capping outlays.

Senator Lugar called for a 3% annual reduction in the nominal target prices underpinning income supports compared to the constant nominal target prices built into the 1990 legislation and the Administration's proposal. This would eventually make supports irrelevant nine years out of 10—possibly well before the end of the transition period. This would double the pace of government withdrawal, but leave a minimum safety net in place at the end of the transition. The EEP program was to be abolished immediately and the CRP program was to be scaled back. Sugar, tobacco, and peanut programs were also to be reformed by liberalizing quotas and lowering price support levels enough to effectively eliminate the programs over the same period. This Lugar proposal would save $15 billion from the Congressional Budget Office's (CBO's) early 1995 estimate of $41.6 billion for continuing current legislation over the FY 1996 to FY 2000 period.

Senator Lugar's proposal proved to be more radical than the rest of the committee could support, regardless of party lines. The committee would eventually consider several other alternatives. Most of them focused on slower-paced change couched in reformist language. They included Senator Cochran's Agricultural Competitiveness Act and the Farm Security Act introduced by a coalition of Democratic senators. While many members of the Senate and House continued to talk of reform, Senator Lugar's proposal stood out as advocating the most change despite its use of traditional program language and the absence of reformist labels.

The Senate Agriculture Committee's decision to allocate more than half of the savings called for by the Senate Budget Committee in the programs under its purview to cuts in food programs reflected this same concern about "undercutting agriculture with a precipitous withdrawal of support." But a committee majority was unable to support any of the alternative proposals and remained deadlocked. Leadership in the congressional debate eventually passed to the House, where general reformist pressures proved stronger.

House Committee Discussions

Debate in the House Agriculture Committee focused initially on rejecting the Lugar proposal as too radical for a majority of even Republican members to support. However, most committee members also recognized that a status quo proposal would not win support from the Budget Committee, the Speaker, or the full House.

Ultimately, Chairman Roberts introduced a Freedom to Farm Bill that provided for the appearance of dramatic reform by eliminating the price and income support and the supply management programs. Roberts' proposal essentially took House leadership's mandate to find $13 billion in savings from the $44 billion that the CBO estimated current legislation would cost for FY 1996–2002 as given, and "got the best possible deal for agriculture."

The bill provided for decoupling, flexibility, and guaranteed budget savings. Freedom to Farm would decouple farm programs by breaking the link between production and payments as well as the link between prices and payments. It proposed ending acreage programs and provided full producer flexibility in making land use and production decisions. It also guaranteed spending would not move above—or drop below—the spending targets implied by applying the Budget Committee's mandated savings to the CBO's February 1995 estimates of the cost of continuing the current program. It did so by providing for capped annual transition payments to producers eligible for support.

The CRP and EEP programs were maintained, but with less funding and a modified mandate designed to provide farmers with more acreage management options and to keep export program spending well below the Uruguay cap. Much slower-paced changes were designated for the price-supported commodities.

As the year progressed and the market environment improved, it became clear that Freedom to Farm conceded little and gained much for traditional production-agriculture interests, possibly more than a continuation of current legislation. Commodity prices had risen sharply by the fall of 1995; with prices up, many producers faced having to repay $1.7 billion in advanced 1995 deficiency payments as well as foregoing the deficiency payments projected under current legislation for their 1996 and 1997 crops. Incorporating the fall's higher commodity prices into the CBO's current legislation baseline would have lowered projected farm program costs $8 billion.

Crediting this $8 billion in "savings" to farm program reform would mean that two-thirds of the cuts called for by the Budget Committee had already been realized. Not crediting this savings to reform would have meant even more draconian change, since the original $13 billion in savings would have to be extracted from a $36 billion pot rather than a $44 billion pot.

In this fall setting, Roberts' proposal would deliver reformist language and guaranteed savings—but in return for locking in the higher spring spending target ($44 billion minus $13 billion, rather than $36 billion minus $13 billion). This would essentially "capture the baseline" and afford the sector roughly as much taxpayer support—possibly more when added commodity prices gains over November–January are taken into account—than under a continuation of current programs.

Several other House initiatives were advanced, but with more emphasis on reform than in the Senate. The Farm Freedom Act introduced by Representative Zimmer called for the strongest reforms and would have saved approximately $29 billion in a six-year phaseout of programs. Representative Emerson introduced the equivalent of Senator Cochran's Agricultural Competitiveness Act which called for far slower paced reforms. But the House Agriculture Committee remained deadlocked and was unable to report out a bill.

What happened at this point is unclear. Either Chairman Roberts appealed to House leadership and won their agreement to threaten to write their own farm bill in the Budget Committee or on the floor if the Agriculture Committee failed to agree on "sweeping reforms." Or House leadership intervened on their own behalf and threatened Chairman Roberts with Budget Committee writing of the farm bill if he failed to get a reformist proposal agreed on and read out of the committee. In either case, Chairman Roberts had the leverage he needed. He used a provision included in the Budget Act of 1974 that allowed him to bypass his fellow committee members "if a committee . . . failed to submit recommended changes to its Committee on the Budget pursuant to its instructions." And the Freedom to Farm Bill moved forward to the full House without majority support in the committee.

Without similar reformist pressure from their Budget Committee and leadership, the Senate Agriculture Committee deadlock ended with Senator Cochran's more traditionalist proposal winning majority support. Cochran's Agricultural Competitiveness Act was reported out of committee to the full Senate. This forced Senate and House leadership into a conference dominated by their respective budget committees' drive for savings and their agriculture committees' interest in reformist labels that left as much support for the sector in place as possible.

Conference Resolution

The Senate and House ultimately resolved their differences in November 1995, with conference agreement on the Agricultural Reconciliation Act (ARA). The ARA draws heavily on the Freedom to Farm Bill, but leaves many issues for future resolution—either in a "Farm Bill II" later in 1996 or in what could become annual farm bills or reconciliation legislation. These unsettled items range from commodity program specifics (such as dairy supports) to broader issues (such as the agricultural research and conservation titles).

While at first reading ARA is the most reformist of the major proposals, critics contend that it uses Roberts' spending language to "capture the baseline." The ARA would save $12.3 billion from the CBO's February 1995 baseline projection of $56.6 billion for the next five years, but only $4.5 billion from the December 1995 CBO baseline. The conference bill provides for the following:

- Repealing permanent legislation—the 1938 Agricultural Adjustment Act and the 1949 Agricultural Act. This frees up future farm policy debates from the threat of policy defaulting to even more outdated programs, such as parity pricing.
- Breaking the link (decoupling) between farm production and income support as well as income support and commodity prices. Income support over a seven-year transition period is to be based on "transition payments" calculated independent of current production levels and market prices. These transition payments over the 1996–2002 period essentially "buy out" farm interests in longstanding support programs that are abolished with the start of the 1996 crop years.
- Eliminating supply management and increasing planting flexibility by abolishing annual acreage reduction programs (ARPs) and making it easier to withdraw from the CRP. Market prices, rather than ARPs and target prices, drive resource allocation and marketing decisions.
- Shifting the risk-management burden from taxpayers toward producers. Ups and downs in the commodity markets have no effect on transition payments; crop insurance, as opposed to conservation cross-compliance, becomes optional. A modified loan program is kept to provide a minimum safety net, but with provisions to ensure that loan rates are well below market prices. The Farmer-Owned Reserve is also abolished.
- Capping transition payments over the 1996–2002 period at no more or less than $35 billion, with annual caps declining to $4.5 billion in 2002. But what happens to payments in 2003 and beyond is not specified. Transition payments are limited to $40,000 per person, but the three-entity rule is left in place.
- Limiting changes in production/marketing quotas and import restrictions for sugar, tobacco, and peanuts, and ensuring that they are operated as "no net-cost" programs.
- Capping the CRP at 36.4 million acres and EEP expenditures at $1 billion less than the maximum provided in the Uruguay Agreement and committed to by the Administration.

This ARA language was sent to the President but was vetoed as part of a larger package of deficit-reducing legislation. At least two outcomes are possible at this time. Current law could be extended for one year or longer to ensure that programs are in place to meet the Secretary's mid-February deadline linked to announcing 1996 programs. Or the Administration and Congress could agree on ARA changes that make it acceptable to both parties. But given the tenuous nature of the ARA compromise within Congress, large-scale changes seem unlikely to win support in both houses. While much less probable, the debate could break down altogether and lead to a reversion to the permanent legislation included in the 1938 and 1949 agricultural acts.

Analytic Support for Reform

All of the comprehensive reform proposals drew on a bevy of agricultural economists and model results to support their initiatives. While details differed and differences were emphasized, these analyses pointed to many of the same basic conclusions about the operation of the sector and the impact of reform.

The tools used included several large-scale modeling systems and teams of analysts including:

- The USDA's system of "micro" and "macro" models, subject specialists, and interagency committees used to produce the current legislation baseline and assess the impact of alternative reform scenarios for a largely Executive Branch clientele. The USDA's analysis generally emphasized farm operator-level analysis and sector-level performance measures such as commodity supply, demand, and prices; farm income and finance; food supplies and prices; budget costs; and resource use. Much of this analysis was done using the Food and Agricultural Policy Simulation Model (FAPSIM), the Farm Cost and Returns Survey System (FCRS), the U.S. Computable General Equilibrium Model (USCGE), country projections and policy analysis (CPPA) models, and smaller individual commodity and resource models.
- The CBO's system of staff experts, commodity spreadsheets, and more detailed budget models for the price- and income-supported commodities and the conservation and trade programs. The CBO generated a current legislation baseline and analyzed the major Senate and House alternatives for a largely Legislative Branch clientele. While less comprehensive than the USDA analysis, the CBO's evaluation proved critical initially in setting budget savings targets and later in the debate when both Congress and the Administration agreed to use CBO estimates as the basis for budget arithmetic.
- The Food and Agricultural Policy Research Institute (FAPRI) system of staff experts and linked commodity and farm models housed at the University of Missouri, Iowa State University, and Texas A&M University. The FAPRI system provided a range of analyses roughly comparable to that of the USDA for Legislative Branch clients and the general public. The FAPRI system produced a current legislation baseline and assessed alternative reform scenarios, with the analysis focusing on national supply, demand, price, income, and cost analysis, and including representative farm results.
- The Policy Simulation Model (POLYSIM) system built and operated by a consortium of schools including the University of Tennessee and Oklahoma State University. The POLYSIM system depended more heavily on a formal large-scale model and less on staff expertise because of the limited personnel associated with the initiative. However, the system provided some of the most detailed modeling of supply response and included regional detail.

Several other "analytic frameworks" were used to develop and evaluate farm bill proposals. The Heritage Foundation study and World Resource Institute studies of conservation issues, for example, all drew heavily on their own models of the agricultural sector. The tools used also included more detailed single-commodity models and specialized models focusing on resource use and land values. In short, few policy discussions have ever started with as impressive an array of tools and as many practitioners committed to the debate.

Common Conclusions

While their results were often interpreted and described very differently, these modeling systems pointed to several common conclusions.

- The analyses projected little change in the production of the major commodities under the reform scenarios. Market prices and domestic and foreign demand also changed little with reform. This was particularly true for the half of the sector that has not received support. However, it also proved true of the major income-supported commodities and, to a lesser extent, the price-supported commodities.

  The analyses indicate that there would be little added acreage (possibly less) planted to grains, oilseeds, and cotton with reform. This suggests that much of the land idled at taxpayer expense would not come back into production even with planting restrictions eliminated. This contradicts conventional wisdom that farmers pay at least part of the cost of support programs by limiting plantings and boosting prices in response to the USDA's supply management directives. Acreage and production of the price-supported commodities change more, but not to the extent many analysts expected with liberalization or elimination of quotas.

- The models suggested that farm income would fall below baseline levels projected with a continuation of current legislation in the short and medium term of five–seven years, with the reduction concentrated in the supported commodities. The incomes of program commodity producers would fall almost dollar-for-dollar with the drop in government payments for grains and cotton, and with reductions in price supports for tobacco, peanuts, and sugar.

  While few of the studies drew the conclusion explicitly, this combination of supply, demand, price, and income outcomes lends credibility to critics' claims that government transfers through the farm programs are excess rents that have little to do with what the sector contributes to the general economy.

- For the longer term, analyses suggested that reform would spark structural change that would push income back up toward baseline levels by the end of a five- to seven-year transition period. Several factors are at work. Virtually all of the analyses suggested that many of the benefits of the income and price support programs have been capitalized into asset values—particularly land values. With support withdrawn, asset values would be substantially lower than with current legislation continued and income payments tied to the land. In most of the analyses, land values fell in real terms, and in several cases in nominal terms as well. In turn, this would work to lower production costs and boost returns, since market prices would change little between scenarios.

  While not generally highlighted, this suggests that much of the adjustment burden associated with reform would be borne by landowners who leased out over two-fifths of the acreage in field crop production and an even higher share of acreage in crops such as peanuts, tobacco, and wheat.

- Analyses also suggested that adjustment burdens would be unevenly distributed geographically if serious reform of the nature proposed by Senator Lugar were undertaken. Reform impact would depend heavily on commodity concentration, size and type of farm, location, on-farm adjustment options, and off-farm employment opportunities. Smaller regions that heavily depend on tobacco, peanuts, sugar, and rice, and larger regions that depend on wheat would feel the most impact. The impact of reform would be particularly pronounced, for example, in the Northern Great Plains. Reductions in the EEP and changes in the size and nature of the CRP would exacerbate the income drop associated with lower price and income supports. Moreover, alternatives for cutting costs or changing commodity concentration to recoup income losses are very limited, along with off-farm employment opportunities.

  While generally not emphasized, this skew reinforces reformist claims that the current program weakens and distorts the agricultural economy by undermining the natural comparative advantage of regions such as the Corn Belt and by creating costly, artificial policy-based advantages in areas such as the Northern Great Plains.

- While not all of the modeling systems had the capacity to gauge it, results also suggested that the impact of farm program reform would be substantially smaller if done as part of a broader effort to balance the budget. CBO and USDA analyses demonstrated that a balanced budget's impact on interest rates, inflation, and income growth in the general economy would offset much (eventually all) of the impact of reform on the farm sector. Income growth boosts demand, while lower interest rates and slower inflation work to keep down production costs. Moreover, lower interest rates and inflation, combined with lower production costs, increase U.S. competitiveness and foreign demand for farm products. In this setting, the sector fared as well several years into reform as under the baseline, provided that the broader effort to balance the budget was successful.

- While treatment was less detailed, analyses suggested that support is very uneven across commodities. The price-supported commodities generally are afforded more favorable treatment than the income-supported commodities. And rice and cotton are generally afforded more support under current programs than the other income-supported commodities. Hence, while reforming the price support programs does little to help the budget, and reforming rice and cotton programs could prove politically difficult, both are critical in an equity sense and from a market efficiency perspective.

- While incomplete at best, the analysis incorporating year-to-year fluctuation in yields and exports emphasized that reform amounts to the reallocation of risk. The traditional programs shared downside risk between farm producers and society by underwriting prices and incomes in bearish markets, but allocated all of the upside risk to producers to be captured through higher prices and incomes in bullish markets. The slower-paced reform proposals lowered the safety net and transferred much of the downside risks that had been borne by the taxpayer back to the producer. Proposals eliminating farm programs essentially transferred all of the downside risks associated with swings in commodity supply, demand, and prices back to producers.

Growing Irrelevance of Economic Analysis

Despite the considerable analysis underlying early reform proposals, both farm policy-making models and economic models grew less relevant as the debate progressed.

Remaking the Making of Farm Policy

The farm policy-making process and the mix of actors shaping it have been very different so far in the 1995 debate than past experience would have suggested. This worked to ensure budget savings and the inclusion of reformist language in the bill. But it also increases the probability of an early renewal of the debate. With any weakening in pressure on the budget, actors and issues lost in the shuffle are likely to resurface.

The farm policy-making cycle traditionally started with informal debate in a small circle of commodity groups, farm operators, agribusinesses, and other public interest groups 12–18 months before existing legislation expires. The Administration has typically drawn on this debate and its own experience in operating farm programs to develop a sense of how current law has performed and what modifications would improve operation over the next four-year round. While the USDA plays a lead role in developing this perspective, it also reflects broader Executive Branch concerns. This package essentially serves as the Administration's "mark" when formal debate begins in Congress.

Several forces worked in 1995 to downplay the role of this Administration mark. There were conflicting demands for attention within the Executive Branch and differences in opinion about policy direction across agencies and within the USDA itself. Most important, however, the Republican majorities in both houses emphasized their leadership role and commitment to more far-reaching changes than suggested in the Blue Book.

The actual writing of legislation typically starts with Senate and House Agriculture Committee hearings. Initial hearings generally focus on overall policy performance, but the agenda quickly moves to title-specific sessions designed to provide the committees with a forum to elicit comment/support for specific changes in the legislation. The committees' legislative drafting sessions provide yet another opportunity for debate with representatives from the Administration in attendance.

Several checks and balances work to keep agriculture committee members from focusing too narrowly on sector interests. The committees' proposals must be approved by a majority of their members, the full Senate or House, possibly a conference committee, and ultimately the President. If the committees manage the process effectively, their farm bills go for a floor vote on a closed rule. But too parochial a package could face filibustering or an amendment fight, a negative floor vote, or presidential veto.

The year's congressional debate short-circuited much of this process. The committees minimized investment in hearings—particularly title-specific hearings—as well as legislative drafting sessions. Early debate included wide-ranging discussion of broad reform options and policy objectives. But once farm spending cuts were decided on in the budget committees and endorsed by Senate and House leadership, committee debate shifted to drafting policies—particularly commodity policies—to meet reduction goals. The committees were unable to agree even with this narrowing of the agenda. Senator Cochran's Agriculture Competitiveness Act was narrowly approved over Senator Lugar's objections. And the Freedom to Farm proposal was finally placed in the House Reconciliation Bill without Agriculture Committee approval through Chairman Roberts' appeals to the House leadership.

Moreover, the larger Reconciliation Bill, of which Freedom to Farm was a part, was considered on the floor under special rules that prohibited amendments and filibustering. And the final package went as part of the larger deficit reduction package approved in both houses and sent to the President.

This short-circuiting minimized substantive discussion and strengthened the role of two interest groups—traditional agricultural interests able to deadlock the committees, and budget interests able to force spending cuts through as part of the reconciliation legislation. This left many other public interest groups with less of a role in policy making than expected. While these "other interests" have had a difficult time wading into previous farm bill debates, many looked for the 1995 debate to be more inclusive.

This short-circuiting also reflected more than the strength of these two interest groups. Many of the other public interest groups thought likely to play a major role in the 1995 debate proved unable to attract and hold the interest of key policymakers. Environmental groups, for example, proved less powerful than many expected in the 12–18 months immediately preceding the debate. While work done by the Environmental Working Group, World Resources Institute, and the Natural Resources Defense Council contributed early on to strengthening demand for reform, debates about the CRP focused largely on budget cost—and the ARA is silent on key conservation provisions over and above the livestock initiative.

Food groups also recognized with greater clarity that their interests were increasingly at odds with traditional farm groups, but failed to stop a disproportionately large cut in food programs in the Senate. Many rural development interests also recognized with increased clarity that the presumed "common interest" that traditionally bound them to farm groups no longer applied; farm and rural interests found themselves competing for the same scarce dollars, and with increasingly adversarial rather than complementary interests.

Hence, the traditional policy-making model missed the mark both in suggesting where the ultimate decisions would be made and which actors would shape them. And while the aberrations in the process at work over the last four–six months may have been necessary to break the deadlock, the process bypassed actors and issues likely to resurface with any weakening in commitment to deficit reduction in the budget committees or among Senate and House leadership.

Shortcomings of Economic Models

Economic models and analyses also proved less helpful than anticipated as the debate progressed. Many of the models moved from being the substantive focus for debate to being accounting frameworks for estimating budget impacts. This represented a double failure. On the one hand, few of the models in question were well suited to estimating budget impacts—particularly the range of budget costs possible in very different market situations.

But this shift also reflected the analysts' inability to capture and hold the attention of policymakers on key substantive issues. The models logically were built using historical data and focused on similar commodity supply, demand, prices, income, and cost variables. These characteristics limited their applicability in evaluating the more radical reform scenarios and in addressing many of the efficiency, equity, environment, rural development, food safety and quality, and research questions underlying the drive for reform.

Much of the analysis that was performed did little, even before the debate shifted to budget accounting, to address key questions such as:

- the tradeoffs between efficiency and equity within the agricultural sector, the linkage between the agricultural sector and the general economy, and the relationship between U.S. and foreign agriculture;
- the tradeoff between reducing support for the sector and increasing natural resource stewardship, as well as between environmental concerns and efficiency and private resource ownership;
- risk management—whether stated broadly in terms of what excess capacity the sector main-

tains to stabilize potentially volatile commodity markets at whose cost, or stated more narrowly in terms of producer and taxpayer sharing of the income impact of swings in yields and prices;

- the role of agricultural research and who ultimately gains and loses with the accelerated development and dissemination of new technology;
- other reform options designed to meet both budget goals and sector policy needs—such as revenue assurance and insurance programs, and income stabilization plans; and
- the national and regional adjustment burdens associated with reform and alternatives to facilitate adjustment while minimizing costs to taxpayers, producers, consumers, and farm communities. For example, despite the considerable analytic capacity available, ARA's transition payments are based on the maximum funding available after meeting savings mandates, rather than any assessment of sector adjustment needs.

Even had these models and economists interpreting them been able to address the more substantive issues, it is unclear what difference they would have made. Insistence in both houses that the farm bill meet budget targets and carry a reform label overshadowed all other considerations before the debate had proceeded far—and made Roberts, rather than Lugar, the more important policymaker.

Budget-Driven Reform

In the final round, the new farm bill is likely to be a reform landmark that moves the sector further away from government intervention toward more open-market operations. From an economist's perspective, this will eliminate a distortionist set of policies that misallocates resources, weakens both sector- and economy-wide performance, and transfers income and wealth regressively. It will also allow for a transition that should reduce adjustment costs, compensate losers, and leave society a net gainer even after transition costs are accounted for.

But these reform results are based on budget pressure and a unique political setting in the Senate and House rather than on a more substantive evaluation of the sector's policy needs and the general economy's interests in farm policy. In many cases, the reforms are likely to prove more apparent than real. Many of the basic questions that seemed likely to dominate discussion early in the debate and lead to reform will simply have to wait for future farm bill debates—hopefully more substantive debates in which budget concerns can play a less dominant role.