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The 1995 Farm Bill: Opportunities and Challenges for Economists

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ABSTRACT

The 1994 congressional elections brought expectations of policy reform that extended to agriculture. This paper examines the role of economic analysis and how policymakers made use of it in developing the policies of the Agricultural Reconciliation Act, also known as the Freedom to Farm Act. Budget reduction pressures, other/secondary policy objectives, and a closed debate led to the system of fixed, declining payments to farmers that characterize an economist's solution, without the direct participation of economists, to interventionist government policy. Left unanswered are questions of political stability of the policy and whether the direct payments themselves are adequate or excessive.

Key Words: 1995 Farm Bill, agricultural policy, commodity policy, economic analysis, federal budget, freedom to farm.

Expectations for the usual debate of the 1995 Farm Bill were stood on their heads with the 1994 congressional elections that returned a Republican majority to both the House and Senate. Critics of farm commodity programs, such as House Majority Leader Dick Armey, were in control of the overall political agenda. Rather than marginal changes, forced more by the demand for deficit reduction than specific policy changes, the farm policy debate appeared likely to broaden.

A month after the election, Senate Agriculture Committee Chairman Richard Lugar issued a list of 53 questions for comprehensive committee hearings. These hearings would question both the analytical and public policy justifications for quinquennial farm policy legislation. Programs for commodity markets, export enhancement, conservation, farm credit, nutrition, and rural development were to receive thorough scrutiny. It would be a debate that would present opportunities and chal-

lenges to economists. Economists seemed limited in their contributions to the specific policy decisions, however. Even in the analysis of broad questions, there was analytical disagreement about the effects of key policy changes on basic variables, such as changes in total crop production.

The purpose of this paper is to examine the role of economic analysis and how policymakers made use of it. While it is impossible to divorce such a discussion from the political environment in which it took place, the focus of this paper will be the formation of policy and the role of economists. It will describe the broad evolution of 1995 farm legislation policy, discuss the opportunities missed, and examine the policy outcome of the Agricultural Reconciliation Act (ARA) of 1995—prominently characterized by the fixed market transition payments originally proposed under the so-called Freedom to Farm Act.

The ARA has been approved by Congress and vetoed by the President, as a part of larger deficit reduction legislation. Most recently, the policies of the ARA were approved by the House Agriculture Committee, which was seeking floor consideration under a closed rule that would permit only a single

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amendment. The House recessed February 2, before the bill could be brought up for consideration. The Senate passed farm legislation the following week. The Senate bill largely retained the fixed direct payment structure of ARA, but added over \$4 billion in expenditures, primarily on conservation programs. In addition, eight new, noncommodity titles were added on nutrition, trade, credit, rural development, conservation, research and extension, and agricultural commodity promotion, as well as a miscellaneous title. No dairy title was included.

The Role of Economic Analysis

In general, policymakers hear the thoughts of economists through the committee hearing and legislative drafting process. Broad policy ideas in general hearings may prick the interest of legislators, and comments and analysis at specific policy hearings and legislative drafting sessions may force legislators to reconcile their own inconsistencies or reorder policy objectives. Typically, analysis of impact on the federal budget and farm income force the greatest changes in policy at the committee level. Often, analysis will provide distinctions between short- and long-term effects. This is important because a multi-year farm bill should provide a stable policy environment so that producers can make long-term planning and investment decisions with some certainty about policy.

Broad policy issues were raised early in the process by economists such as Gardner and Tweeten, questioning the justifications for existing farm policy. Often, the effect of such criticism is to force consideration of more far-reaching changes than politics will likely provide. Yet, on the specific issues which Congress considered in the 1995 (and now 1996) Farm Bill debate, economists were noticeably small in number in providing analysis that would encourage examination of the tradeoffs implicit in the policy alternatives.

Senator Lugar's questions early on initiated analysis of having no farm programs whatsoever. This is a fundamental policy question, and while it may have been adequately addressed, only two analyses were made public: one prepared by the Food and Agricultural Policy Research Institute (FAPRI 1995d), and the other through the Heritage Foundation (Frydenlund). These two reports were not exactly comparable in analytical framework.

The FAPRI analysis eliminated programs immediately. Frydenlund phased price and income support elements out by 2001, while eliminating all planting restrictions immediately. This made it difficult to resolve some fundamental questions from the analysis. Even so, evaluation of the basic question of supply response in 2002, when no programs would be in effect in either analysis, produced widely differing answers.

FAPRI reported a net reduction of 1.9% in eight-crop (wheat, feed grains, soybeans, cotton, and rice) planted acreage by 2002, relative to continuing 1990 Farm Bill commodity programs, even with 30.4 million previously idled acres available for cultivation—16.5 million acres unplanted under acreage reduction programs (ARPs) and the 0/85 program, and 13.9 million acres from expiring Conservation Reserve Program (CRP) contracts. Cash receipts from crop sales were projected to decline \$1.73 billion, about 1.7%, from projections of continued commodity programs.

By contrast, Frydenlund's analysis, which did not report acreage levels or make comparisons to continued commodity programs, indicated that a national total of each state's gross income would increase \$8.4 billion in 2002. Frydenlund explicitly assumed that 63% of CRP acres and 95% of all other idled acreage would return to production. While there were references to Frydenlund's publication in the popular media, as indications of the benefits of curtailing farm commodity programs, the public could have little confidence in these expectations given the wide differences with the FAPRI analysis.

Analysts, in conversations, would disagree over questions of whether the absence of planting restrictions (such as acreage reduction programs and crop base planting limitations) without production incentives (such as direct payments, crop loan rates, and export subsidies) would result in a net increase or decrease in planted acreage. To what degree would land idled under the various forms of the 0/85 program be planted? Would the same acreage that was eligible for payments, but was unplanted at prevailing prices, be returned to cultivation with no government transfers at the same prices? Or would the need for cash income to pay such fixed expenses as property taxes lead to its cultivation? Would average crop yields decline as producers faced increased market and income risk without

government programs, and what would be the effect on total output?

Who would benefit from the elimination of such price support programs as those for sugar and peanuts? Would it really be retail consumers, or would industry concentration result in rents being captured at the processor level? If so, was there any social benefit in the producer economic rents being transferred instead to food processing corporations? Would sugar be available to consumers at prevailing world prices, as claimed according to some assertions, if producing countries who sell into protected markets under quota arrangements no longer had a two-tier market to enhance their returns?

One should not expect economists to speak with one voice on matters of policy analysis. However, it is critical that they challenge and regularly peer review the adequacy of their analytical frameworks. Such reviews affect the confidence of policymakers in the estimates derived by policy analysis models. Further, for analysis to be useful to policymakers, it is important that economists compare projections with and without the particular policy being analyzed, clarify short- versus long-term comparisons, and provide calculations of the policy tradeoffs and transition costs. For example, economic projections under alternative policies tell us that the future will be different, but not why. Such projections confuse the effects of the future outcome of prevailing trends and the alternative policies.

Economists must provide comparative projections—with and without the policy alternatives—for policymakers to understand the separate effects of the policy. Economists will continue analytical disagreements with one another, but making those disagreements explicit, such as in methodology or policy assumption, will allow policymakers to interpret the results, to know when the policy conclusions overwhelm the technical disagreements, and when the policy conclusions are undermined by those disagreements.

The absence of the formal policy-making process greatly reduced the opportunities for analysis on these and other specific issues to be presented and defended. The committee process and open floor debate were bypassed in the House and limited in the Senate. The focus on negotiations for reductions in agricultural spending led agriculture

committees to forego the formal multi-title farm bill consideration and legislation drafting meetings. Once the spending reduction number was finalized, the debate shifted to drafting commodity policy to meet both the deficit reduction requirements and deadlines, rather than the open, free-ranging debate that usually characterizes farm bills. These commodity provisions were to be included in so-called reconciliation legislation that was considered under special rules, protecting it from filibuster in the Senate and amendments in the House.

While debate in committee typically uses economic analysis that focuses on specifics of immediate concern to agriculture, such as commodity prices and farm income, indicators of public good and equity concerns are not completely disregarded. They raise issues that will likely be addressed during floor debate when the entire House and Senate are able to participate. Consequently, they help committee members to be mindful of the criticisms that agreements on policy reached in committee may face and to be prepared to respond to these criticisms on the floor. The threat of attacks on the floor may lead to policy compromises to deflect such criticism. Reforms in limitations on direct producer payments in 1989 and 1990 legislation are examples of such compromise. In 1995, the threat of open floor debate forced some commodity programs, such as sugar and peanuts, to accept changes for fear of total elimination. The closed debate process, however, excused all commodity interests from justifying farm policy to nonagricultural interests—thus avoiding consumer and equity issues altogether.

Evolution of Policy

Two clear objectives were established early on: (a) an increase in producer planting flexibility, and (b) the elimination of ARP and other acreage reduction requirements. Planting flexibility was an objective that had been sought in 1990 farm legislation. It was proposed in the Bush Administration's so-called "Green Book" [U.S. Department of Agriculture (USDA) 1990], and was partially accomplished in 1990 farm and deficit reduction legislation by restricting government payments to 85% of a producer's permitted planted acreage while allowing the cultivation of any crop (with certain restrictions) on the remaining 15%. The Clinton

Administration also sought to increase planting flexibility through a total acreage base proposal contained in the "Blue Book" (USDA 1995a).

The question of eliminating acreage reduction programs has been as much a matter of philosophy as analysis. The Reagan Administration's inclination to not use planting restrictions ran headlong into deflationary world commodity markets and high commodity price support levels. The resulting explosion in government commodity program spending led to vigorous use of acreage reduction programs to control government spending by reducing payment acreage and attempting to raise market prices.

Elimination of acreage reduction authority was raised as an issue for the 1995 Farm Bill debate in an analysis by Abel, Daft, and Earley, prepared for the National Grain and Feed Foundation. It argued that land retirement programs had cost the U.S. export market share without accomplishing the objective of raising prices. In testimony before a House agriculture subcommittee, Abel told members that without the use of ARPs and the 0/85 program, allowing acreage, suitable for cultivation, from expiring CRP contracts to return to production—and assuming some form of continued income protection such as deficiency payments and non-market-distorting loan and grain reserve programs—acreage planted to wheat, feed grains, and soybeans would increase more than 16% over 1993 levels to almost 270 million acres by 2002. Net farm income would be increased by \$4 billion. A group of other commodity processors and exporters then joined the grain and feed interests as the Coalition for a Competitive Food and Agricultural System to champion the elimination of acreage idling, including reduced acreage enrolled in the CRP, and increased planting flexibility to meet the growth in export demand stimulated by adoption of trade liberalizing measures under the Uruguay Round of the GATT.

A third objective for farm legislation arose as a political and policy goal, in part from Senator Lugar's question of how to avoid a repeat of farm commodity program overspending from wiping out the farm bill's intended spending reductions. This suggested that farm spending should be a "capped" entitlement—that farm spending should not exceed current projected levels less the required deficit reduction. Still another objective was articulated, this

time on the House side, in the course of the limited debate on the market transition payments. Direct producer payments should protect farmers from lost income resulting from poor yields. Deficiency payments failed in this regard, it was argued, as did federal crop insurance.

These objectives were affected by the evolution of the Congressional Budget Office's (CBO's) cost estimating to include a measure of "probabilistic scoring." The CBO developed this methodology to address past congressional tendencies to avoid budget discipline by selectively choosing policies that reflected CBO-projected commodity supply and demand baseline projections specifics. For example, a proposal might apply a specific stocks-to-use level in the baseline projections to determine future acreage reduction requirements that would reduce expenditures. If, in reality, the stocks-to-use levels were not met, then increased acreage reduction would not be required and spending would not be reduced by the enacted policy.

The probabilistic scoring methodology examined a particular policy to determine if it affected the distribution of error around outlay projections. If the policy reduced the likelihood that spending could be lower than estimated—without reducing the likelihood it could be higher than estimated, the CBO-estimated cost of the policy was increased to reflect that probability. Conversely, if the proposal reduced the likelihood that spending could be higher than estimated—without reducing the likelihood it could be lower than estimated, the CBO-estimated cost was decreased.

Probabilistic scoring increased the outlay estimates of policies that removed restrictions on government spending, such as acreage reduction programs, which reduce payment acreage, limit payment eligibility, and, at least in the short run, strengthen prices by holding back supplies. While frustrating initial efforts to prohibit planting restrictions, this CBO methodology led legislators to adopt restrictions on income and price support variability, such as capped deficiency payment rates in the Senate-passed bill or the sharply reduced commodity loan rates, to no more than 70% of average prices from current levels of about 83%, in the House-passed bill. The additional savings gained from these restrictions were \$7 billion from capping deficiency payment rates. In the case of reduced loan rates, the estimate under probabilistic

scoring was \$2.9 billion, six times the nearly \$.5 billion projected for the seven-year total of commodity loan expenditures.

Capping payment rates and reducing payment acreage (in the Senate proposal) and specifying the market transition payment rates that could not vary (in the House proposal) accomplished the objective of keeping government farm transfer payment expenditures to a maximum, if not a constant level. These limitations on commodity program outlays permitted the end of acreage reduction authority and the provision of total producer planting flexibility without concern for the budget impact of the increased individual costs of these two provisions. The effect, of course, is also to transfer the cost of price variability from the government to the producer. The policy argument about this, supplied by the House Agriculture Committee Majority, was that deficiency payments failed to protect farm incomes in times of high prices and failed crops. This was the current situation in parts of the winter wheat and cotton belts in 1995.

The evolution of dairy policy is not finally determined, but may be characterized as the inability of competing regional interests to resolve a market-sharing arrangement, through increased regulation of milk and milk products in the federal milk marketing order system, while at the same time attempting to remove the price floors on certain milk products so as to better compete in a world dairy market—newly liberalized under the Uruguay Round.

Inability to resolve a market-sharing arrangement led to a complete reversal, with the House passing a total deregulation of the dairy program, eliminating all price support and federal milk marketing orders. The deregulation proposal was largely a negotiating tactic, “to get their attention and bring them to the table,” as acknowledged by Rep. Gunderson (R-Wisconsin) in the House Committee on Agriculture legislative business meeting of September 20, 1995 (U.S. House of Representatives). It was itself reversed. In reaching the conference agreement on agriculture reconciliation provisions between House and Senate, all provisions to amend dairy policy were deleted because no common ground could be found.

An agreement on dairy policy was added to the bill that the House Committee on Agriculture approved before recessing. It would place a floor un-

der fluid milk prices and share a portion of the revenues among all fluid milk producers for two years. It would also eliminate price support for nonfat dried milk and butter and require, for two years, sharing a portion of the revenue loss of milk sold to butter-powder processing plants, relative milk sold to cheese plants, under a so-called class IV scheme. In addition, it would gradually lower the support price for milk used to make cheese by 50¢ over the 1997–2001 period. It would also set minimum standards for fluid milk (similar to those of California) by requiring higher levels of nonfat solids. Opposition from dairy processors and nutrition concerns, such as state directors of the Women, Infants, and Children (WIC) program, began to appear after the bill was approved in committee.

The dairy debate was almost a completely closed process. The House dairy subcommittee never met publicly to consider any legislation. Consequently, while economists were involved in the discussion, it was almost exclusively in a “black curtain” capacity, save a single May 1995 hearing on federal milk marketing orders. Much of the economic analysis of dairy policy revolved around the effects of the elimination of price support for dairy products and of federal milk marketing orders.

While most analyses indicated that dairy farmers would be worse off without a price support program (FAPRI 1995b; USDA 1995c), there were differences over which regions would be most disadvantaged with the additional elimination of federal milk marketing orders (FAPRI 1995b, c; Cox). Again, the analyses are not directly comparable. The FAPRI analysis examines the elimination of the dairy price support system and export subsidies along with the federal milk marketing order system; the Cox analysis examines elimination of marketing orders only. The belief that upper midwest dairy farmers would fare less poorly, supported by the Cox analysis, perhaps led to the total deregulation proposal.

Another perspective on the marketing order system was provided by economists of the Dairy Market and Policy Education Committee of the National Institute for Livestock and Dairy Policy. Their paper responded to Senator Lugar’s farm policy questions. The paper also described the implications of eliminating federal orders, pointing to previous order elimination in Chicago and Mississippi and experience of differing prices paid to pro-

ducers by milk handlers, processor pressure to hold down prices (born out of competitive fears), and increased volatility in consumer milk prices.

The limited debate on farm policy in 1995 reduced the opportunities to articulate policy objectives at the outset and then allow the debate to establish which objectives would be sacrificed to achieve others. The public was provided with objectives largely from a farmer perspective: program simplification, ending government intrusion on production decisions, and the concept of "capturing the baseline" for federal spending on agricultural commodities. This meant ensuring that all federal outlays projected by the CBO, less the required deficit reduction, would be spent over the next seven years, and that such spending would be protected by contract from any future deficit reduction needs. In the House Committee on Agriculture legislative business meeting of September 20, 1995, the argument was given by Rep. Roberts (R-Kansas) that it would "lock up \$43.2 billion in investment in agriculture. More than any other policy . . . [i]t is a payment certain, and farmers wanted . . . consistency and predictability, and they and their bankers know . . . exactly what they are going to get for the next seven years" (U.S. House of Representatives). Though capturing the baseline and guaranteeing transition contract payments was likely to be a high priority for farmers, it may not have been one for nonfarm interests.

It also became apparent, as the debate proceeded into the fall and farm commodity markets continued to strengthen, that market transition payments would actually provide producers more income transfer in some years than a continuation of the 1990 Farm Bill's commodity programs. The CBO's December baseline, updated for tighter supply and demand conditions than existed at the time the previous CBO February baseline was calculated, indicated that rather than reducing income transfers \$2.5 billion over fiscal years 1996 through 1998, the market transition contracts would increase producer income transfers by \$4.8 billion—because rising market prices would reduce expected deficiency payments and necessitate repayment of advance deficiency payments that had already been received by farmers for the 1995 crops.

Larger welfare considerations and questions of equity were not discussed in the farm bill debate. In the House, farm policy amendments that were

postponed from the agriculture and rural development appropriations bill were not later debated or discussed in committee. Appropriations amendments, such as discontinuing sugar price support operations and effectively reducing the peanut price support loan below ARA-provided levels, suggest that the full House had not satisfied itself in debating farm policy.

In a general debate, arguments presented by advocates of welfare reform to remove disincentives to work were likely to be visited upon proponents of market transition payments for farmers, who will receive payments even when prices are high or whether they plant or not. In its recent action (February 7, 1996), the Senate defeated, on a tie vote of 48 to 48, an amendment offered by Sen. Dorgan (D-North Dakota) (*Congressional Record*) that would limit market transition payments to actual planted acreage, rather than planting history. This suggests that the congressional debate on the policies contained in the ARA has only been postponed, not bypassed. Farm commodity policy may remain without the long-term stability that is traditionally sought in farm bill debate.

Opportunities Missed

The closed debate eliminated careful examination of several alternative and complementary policies for which economists may have had useful comments. Many of the stated objectives of 1995 farm policy could have been achieved with other policies that had received considerable interest. Most notable is a farm revenue assurance plan, put forward by the Iowa Farm Bill Study Team. Revenue assurance had received considerable producer and policymaker interest, and yet was not the subject of any hearings or debate. Such a program was conceived to be operated without acreage controls or crop base planting restrictions, thus meeting key objectives. One of the primary attractions of revenue assurance was the prospect for reduced federal outlays. Earlier USDA/Economic Research Service analysis suggested that a revenue assurance program, like that of the Iowa Farm Bill Study Team, would spend \$4 to \$5 billion less each year than projected outlays, fiscal years 1995 through 1999, of continued 1990 Farm Bill commodity and disaster assistance programs.

The CBO's probabilistic cost estimating meth-

odology provided the opportunity for congressional examination of risk-based systems that might have received favorable consideration because of reduced outlay variability. A system such as a target revenue program (Miranda and Glauber) could achieve a number of objectives, including reduced spending, and could be adjusted to increase planting flexibility. A county target revenue program could reduce the variability of government expenditures by a factor of 2.6 and provide for more stable gross revenue by paying when total income fell (as a result of either price or yield reductions), reducing county revenue variability by a factor of 65 compared to the current deficiency payment system, and by a factor of 42 compared to no program at all (Miranda and Glauber, p. 1239). It might have been useful for such well thought out proposals to have had a chance to be aired in the farm bill debate.

Other, private market risk management tools, such as crop insurance market value protection, yield options, and private revenue insurance, might provide a complement to fixed transition payments. Hansen found that producers had a strong incentive to substitute government programs for the use of these private market tools. Would the market transition payments, invariant with price, be neutral with regard to the use of market-based risk management? Or would the amount of income transfer and liquidity offered by the payments still discourage the use of such tools? If the objective of transition payments, as the name implies, is to provide farmers a transition to undisrupted markets, then perhaps the transition payments might have been adjusted to subsidize the use of a risk management system. Again, one might think these issues would have been aired.

A net income saving account (NISA), proposed in the USDA's (1995a) "Blue Book," could provide a useful complement to transition payments. Policy concern has been expressed over the distribution of transition payments, i.e., that the largest payments would be made in the near term when prices were expected to be high and would be smaller in the later years when prices were more uncertain. Reducing the payments to capitalize a NISA program could have provided a source of income stability which promoters of the market transition payments criticized deficiency payments for failure to provide.

The Policy Outcome: Irony upon Irony

The farm policy produced thus far in the 1995 and 1996 debate, in the form of the conference report on the Agricultural Reconciliation Act and its continuation in subsequent House committee and Senate action, is remarkable in that it represents an economist's solution to interventionist, redistributive government policies: Eliminate the distorting mechanisms, compensate the affected parties for their losses, and there will be a net gain for society. The irony is that this was accomplished without the usual open debate; there have been no hearings and no discussion of analysis of this particular policy. Economists have not played their usual role of raising questions and issues and explicitly identifying tradeoffs for the political process to resolve.

It is more than a passing irony that the process that produced an economist's solution without economists did not apply it to the programs that are often criticized for needing it the most. These are the programs that impose the highest costs on consumers—quota-restricted programs with high economic rents for peanuts and tobacco and import-protected industries of sugar and dairy. The policy solutions for these commodities have been to reduce the transfers from consumers by lowering the peanut support price. In the case of sugar, the level of import protection has been reduced by substituting recourse loans for nonrecourse loans when imports reached levels 20% above the GATT minimum access requirement. This effectively reduces support prices at a higher import level than required by the GATT. Dairy markets have not been liberalized for the consumer's benefit. In House committee legislation, import barriers and export subsidies remain at GATT-permitted levels, and higher levels of nonfat solids are required in fluid milk. Dairy price support and milk marketing order changes will likely result in regional price and production realignments. In the case of tobacco, the program has been left unchanged.

The policy to increase supply availability through increased planted acreage, so that U.S. agriculture could meet market opportunities, appears only marginally improved. The proposals to bring more acreage under cultivation were the elimination of acreage reduction and 0/85 programs and reducing the land idled in the CRP. Though focusing on ARPs, crop base planting restrictions, and

programs that provide an incentive not to plant, the ARA does not address the Conservation Reserve Program, which the USDA (1995b) has projected will continue—with nearly 33 million acres enrolled for the long term under the Secretary of Agriculture's December 1994 announcement (USDA 1994). Senate-passed legislation permits new enrollments of acreage in the CRP as existing contracts expire. Newly enrolled acreage is expected to emphasize water quality concerns rather than soil erosion.

The transition payment program, rather than eliminating the 0/85 feature of the current crop programs, has effectively increased it to a 0/100 level: Producers may forego all planting while receiving 100% of market transition payments. The question of the use of acreage idled under the current 0/85 program is not resolved in the published analyses of proposals that end planting restrictions. FAPRI (1995b, c), in its analysis of eliminating commodity programs, assumed 25% would return to production of wheat, feed grains, soybeans, cotton, and rice (the eight major crops), or approximately 3.8 million acres. Rather than making a particular assumption, Dicks et al., in an analysis of the House-passed version of the ARA, examined four alternative responses to planting 0/85 acreage: 0%, 25%, 50%, and 75%. Under these alternatives, a seven-year average of zero to 11.25 million acres previously idled under the 0/85 program could be cultivated.

It is the expectation of increased planting, as a response to growing demand, that was in part the reasoning to discontinue planting restrictions. Abel, Daft, and Earley argued that to meet that demand, planted acreage for crops of wheat, feed grains, and soybeans (the six major crops) would increase 38.3 million acres from 1993 levels to 269.4 million in 2002. This was an amount necessary to maintain U.S. world grain trade share in projected growing demand for agricultural commodities. Of the additional cultivated acreage, 19.4 million acres would come from expiring CRP contracts and another 22.2 million from acres idled under ARP requirements and the 0/85 program. These projections were made assuming continuation of some unspecified income support, loan rates, and 1993 level market prices.

By contrast, the FAPRI (1995a) analysis projected 237.5 million planted acres for the same six

major crops under the policies of ARA—an increase of only 6.4 million acres over 1993 levels. This represents a significant difference from the increase of 38.3 million planted acres in 2002 for the six major crops projected by Abel, Daft, and Earley (p. IV-9). FAPRI assumed that 25.4 million acres would remain enrolled in the CRP, freeing 7.9 million acres for cultivation of the six major crops. Another 22.2 million acres would be available from ending ARP restrictions and 0/85 provisions. With market transition contract payments available whether acreage is planted or not, market prices would dictate the use of previously idled acreage. FAPRI projected fewer of these available acres being seeded in 2002 than did Abel, Daft, and Earley. In the FAPRI analysis, wheat, corn, and soybean prices are projected nearly equal to or slightly less (by 9% to 10% for corn and soybeans) than 1993 levels. Higher, more normal stock-to-use ratios than occurred in 1993 for corn and soybeans explain the weaker prices.

Implicit in the FAPRI analysis is greater growth in farm land productivity, as projected output for the six major crops is less than 4% below the Abel, Daft, and Earley projection of 21 billion bushels—suggesting that restrictions on planted acreage is not a meaningful constraint on meeting increased market demand. Note that the 6.4 million acres of increased planting estimated by FAPRI might be achieved through expiring CRP contracts alone, without radical overhaul of existing annual set-aside programs. Instead, the ARA eliminates unpaid annual set-aside provisions but retains CRP.

One of the criticisms of the current programs levied by production agriculture (producers and agribusiness) is the level of political uncertainty. There are annual statutory administrative decisions on acreage reduction levels, loan rate levels, export subsidy awards, and so on, not to mention the occasional political programmatic accommodation during a production and marketing cycle. One of the objectives of policymakers in 1995 was to remove as much political uncertainty as possible so that agriculture, as an industry, could respond to market signals and make its long-term investment decisions without fear of interruptions.

Under the ARA and recent House committee and Senate action, the irony is that political uncertainty may only be increased. Without open policy debate in committee and on the floor, the fixed tran-

sition payments have not had to be justified in concept or amount. The criticisms of current welfare programs that can also be applied to farmer payments have not had to be rebutted. The amounts of total transition payments have not been analyzed to determine if they are adequate or excessive compensation for reduction in price support programs and asset values. Consequently, these questions are likely to be raised repeatedly in the future—on every agriculture appropriations bill, for example, when farm prices are high. The result may be that rather than providing farmers and businesses with a long planning horizon, annual referendums on these payments may disrupt farmers' ability to plan. The supply of financing may also be affected if subsequent congressional action reduces transition contract payments. Lenders, who may feel secure in farmers' ability to repay operating loans when prices are high, may not have such confidence about longer term credit should the transition contract payments prove not to be guaranteed.

It remains an open question whether a more open policy process, with economists providing their views and analysis to the debate, would have produced a superior policy outcome. Debate on equity and general welfare issues may have led to an examination of the value of transition contract payments, for instance, that would suggest a different level for appropriate compensation. Without this analysis, given the range of estimates of impact on land values, economists may write seven years hence that of the nearly \$36 billion provided, \$33 billion was an excessive transfer of economic rents from taxpayers to farmers.

Alternatively, the analysis may reveal that if only the payments were 50% larger, farm and lending institution financial stress may have been avoided, as well as costly taxpayer assistance to those institutions. Time will tell, and it may very well be the case that the effects of sufficient change in the exogenous factors of agricultural policy analysis, such as world demand and supply shifts, will turn out to overwhelm the most carefully constructed analysis. Nonetheless, it would have been useful to have had estimates of efficiency, welfare, and planted acreage impacts of the ARA more fully articulated during the debate.

An additional irony is that when policymakers appeared ready to make fundamental changes in farm policy, economists provided the least specifics

to delineate the policy choices. Past economic analysis of farm policy certainly provided guidance for policymakers. Current estimates of the policies considered in 1995 farm legislation, however, would have been useful to temper the expectations for a particular policy success.

Economists, as the profession is best able to do, might have provided estimates of the taxpayer and consumer transfers to producers and what level of payments would have adequately compensated producers if those transfers were withdrawn. Such estimates could have an important effect on the political decisions and thus may have made them more politically durable. These kinds of analysis would have provided balance to a debate devoted to meeting farmer-oriented policy objectives and unchallenged assertions of "reform." The final policy outcome, perhaps little different, might provide a more stable policy environment for production agriculture for the next seven years.

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