1995 FARM BILL

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In times of substantially reduced spending, it is unlikely that there will be many farm program participants who are better off as a result of the 1995 Farm Bill. Even farmers and ranchers who do not participate in the farm program will be affected by the farm bill, as acreage reduction requirements are modified, and reduced benefits create the potential for marginal lands being converted to grazing, entered into a reduced CRP program, or simply returned to their natural state. The critical point is that, whereas some farmers and ranchers in the past looked to farm bills to solve financial problems or stabilize prices, this is not a reasonable expectation for the 1995 Farm Bill.

Reconciliation in the past has played an important role in the development of farm policy. Recall that in the 1990 Farm Bill the flexibility/nonpaid acreage provision was enacted as a part of farm policy by the budget reconciliation process. In addition, annual adjustments have been made in farm programs to bring expenditures within the budget reconciliation guidelines. The 1995 Farm Bill, however, will likely expand the role of the reconciliation process in agricultural policy development even further.

What is new and different about the 1995 Farm Bill is that reconciliation appears to be the driving force of the farm bill process—at least so far as mandatory spending related to the major crops and dairy are concerned. Moreover, ideological mandates from the majority leadership, particularly in the House, appear to be driving the process, as opposed to traditional debate and compromise procedures. In the process, authorizing committees appear to be more partisan, and, therefore, relatively less important in farm policy development.

Farm organizations do not appear to have anticipated/adjusted to these changes nearly as well as agribusiness organizations. In fact, agribusiness did its homework early and appeared to be in a position to capitalize on the realities of change itself. This certainly seemed to be true of organizations such as the National Grain and Feed Dealers Association and the International Dairy Foods Association.

Illustrative of the relative lack of preparation and homework by farm organizations is the overwhelming perception that agriculture is prospering and that government payments to large farmers are simply bankrolled as profits. Lobbyists, such as Ken Cook, may not have been as effective in pursuing an expanded environmental objective. However, Cook certainly framed farm subsidies as strictly wealth transfers to the unneeded, counterproductive, and purely political pork.

To date, in the 1995 Farm Bill debate, the objectives of farm policy appear to be less clearly in focus. However, Congress has never been very good at defining multiple objectives for farm policy, nor, for that matter, policy in general. In 1995, the deficit reduction objective has overwhelmed the farm bill development process. Policymakers and special interests alike seem to have lost sight of other priorities and what it takes to maintain an effective, but economically viable, program. Arguably, the primary House objective was to eliminate government subsidies to farmers. Even then, the House Agriculture Committee Chair denied that the Freedom-to-Farm (FTFA) provisions were transition payments to a substantially scaled-down role for the federal government in traditional program commodities.

House and Senate Farm Bill Options

Tables 1 and 2 indicate the policy proposals that were on the table at the time of the initial FTFA votes in the House of Representatives in late September. They are instructive, because they indicate the very different views on the appropriate policy direction, even as the Committees were scheduled to mark up and vote.

On the House side, the leadership choice was FTFA, a proposal that completely decoupled prices from payments by basing payments on historical levels, and allowing farmers full flexibility to produce any program crops. In the process, the target price, milk price supports and federal milk marketing orders would be eliminated.

The proposal was designed to reach the House budget reconciliation objective of $13.4 billion over seven years. For larger producers, the proposal had the potential for being even more restrictive by eliminating the three-entity rule, and by attributing payments to uniquely individualized social security numbers. Large farms may have feared these payment limitation changes more than other features of FTFA. Rice and cotton producers were particularly adamant against FTFA because of the elimination of target prices and marketing loan provisions, which have unified cotton and rice producers, and affiliated agribusinesses. The alignment of the entire cotton and rice sectors from input suppliers, to producers, to processors, to community has so far proved a powerful force in slowing the FTFA bandwagon.

Congressmen Emerson (R-MO) and Combest (R-TX) represented their southern commodity constituencies by adapting the Agricultural Competitiveness Act (ACA), introduced by Senator Cochrane to the House budget requirements. This required an increase in the nonpaid acreage (NFA) provisions to 30 percent, while giving farmers flexibility to plant alternative program crops if they gave up payments (OFA). Otherwise, program provisions remained essentially the same as under the 1990 Farm Bill. Even then, it was not clear that the Congressional Budget Office (CBO) would score this proposal as saving the requisite $13.4 billion.

The Democratic alternative on the House side was designed to achieve only $4.2 billion in cuts, largely reflecting their and the administration's position against the proposed Republican tax cuts. This proposal was not much different than that of Emerson and Combest, except that it increased the NFA to only 21 percent, from 15 percent under the 1990 Farm Bill.

On the Senate side, Senator Cochran had crafted his ACA early in the debate. It had an initially lower $5.4 billion spending reduction and 25 percent NFA. This was subsequently increased to 30 percent NFA, once it was clear that the Senate leadership was buying into the Republican tax cut and the $13.4 billion reconciliation package. This made the proposal initially developed by Senator Cochran essentially the same as that promoted by Congressmen Emerson and Combest.

Although providing public rhetoric in favor of FTFA, it became clear to the Senate Chair that he could not get this type of program out of Committee. He then attempted to pacify the cotton and rice interests by developing a blend of FTFA with 35 percent NFA cotton and rice provisions. While it was never completely clear as to how/whether acreage movements would occur among wheat/feed grains and cotton/rice, this option appeared to die a rapid political death for lack of Committee support.

While the majority was trying to arrive at a consensus, Senate Democrats had been working on a targeted marketing loan proposal. It would eliminate the target price, while setting the marketing loan rate higher for the first level of production, and lower for larger quantities. This was designed to provide differentially higher benefits to smaller producers. Regionally, the Democrats had trouble getting together on this proposal.

A few points regarding the economic impacts of these proposals merit mention:

• With the exception of cotton under FTFA, most representative crop farms that the Agricultural and Food Policy Center analyzed were found to be worse off under these proposals than under an extension of the 1990 Farm Bill. Even with cotton, if the price path projected in baseline analysis declined by as little as 10 percent, FTFA income would run lower than the baseline, as would other alternatives involving increased NFA options.

• Whether, during the period of analysis, FTFA was better off than the ACA depended on price expectations and the ability to take advantage of flex opportunities. If market prices were expected to be relatively high (presumably reflecting strong export demand), participating crop farmers would be better off with FTFA. If crop prices were expected to be relatively low, farmers would be better off with the ACA proposals.

• Program impacts are always dependent on assumptions regarding implementation. These assumptions are never spelled out in the proposals themselves. For example, the level of CRP generally was stated as a range, making impact analysis difficult and less precise.

• New analytical challenges were presented by options that involve program combinations, such as FTFA/35 percent Flex Blend. One such option, not previously discussed in this article, involves giving farmers a choice between FTFA and ACA provisions. This so-called "People's Choice" option was an analytical nightmare. If it happens to become law, this option will be a farmer's decision nightmare, as well as for those other agribusinesses in the food and fiber system.

• With large changes in policies, acreages that would be expected to go out of production are virtually impossible to predict. Such shifts could materially affect beef prices (cows, calves, stockers and feeders) as well as crop prices.

Reflections on the Contributions of Policy Educators

Despite the difficulties and uncertainties of analysis, it is clear that economists had more input into the political process for the 1995 Farm Bill than on any previous legislation. For example, the AFPC/FAPRI system completed 18 requested studies/reports by late September 1995—more than double previous farm bills. Economists from the University of California at Davis, the University of Maryland, Kansas State University and Louisiana State University are also known to have provided higher levels of analytical input than had been the case in the previous farm bills. Moreover, efforts to conceptualize and crystallize alternatives and consequences involving less spending and government involvement received more than the usual amount of analytical attention.

TABLE 1. HOUSE 1995 FARM BILL POLICY OPTIONS

PROVISIONS	FREEDOM -TO-FARM	HOUSE AG COMPETITIVENESS ACT	HOUSE DEMOCRATIC RECONCILIATION ALTERNATIVE
Target Price	None	No change	No change
CCC Loan	Nonrecourse at 70% of 5-year average or lower to clear market	Nonrecourse at 85% of 5-year average	No change
Flexibility	Full within Total Acre Base (TAB)	30% NFA/ 75% OFA within TAB	21% NFA/ 79% OFA within TAB & Secretary approval
ARP Authority	None	Retained	Retained
CRP	25 - 36 M acres	17 M acres in 2002	32 M acres in 2002
Marketing Loan	None	Retained	Retained
Soybeans	Included in TAB but no support other than loan	$5.50/bu. loan rate may be reduced to $5, 25% two-way flex	No change
Payment Limit	Eliminate 3 entity Social Security Number attribution	No change	Reduced from $50,000 to $47,000
Transition Payments	Yes	None	. None
Budget Savings	$13.4 B over 7 years	$13.4 B over 7 years	$4.2 B over 7 years $6.4 B over 10 years

TABLE 2. SENATE 1995 FARM BILL POLICY OPTIONS

PROVISIONS	FREEDOM -TO-FARM/ 35% FLEX BLEND	SENATE AG COMPETITIVENESS ACT	SENATE TARGETED MARKETING LOAN
Target Price	Eliminated for wheat & feed grain Retained for cotton & rice	No change	None
CCC Loan	Loan rates lowered to generate $1B savings over 7 years	Nonrecourse at 85% of 5-year average	See marketing loan
Flexibility	Full for wheat & feed grains Cotton & rice 35% NFA 100% OFA	25% NFA 75% OFA	Transition to full within (TAB)
ARP Authority	Eliminated for wheat & feed grains Retained for cotton & rice	Retained	Retained
CRP	17 M acres in 2002?	17 M acres in 2002	Up to 36 M acres
Marketing Loan	Retained for cotton & rice	Retained but sets wheat repayment to be world market competitive	Two tier, higher for first level of production
Soybeans	25% two-way flex applied to cotton & rice	$5.50/bu. loan rate may be reduced to $5, 25% two-way flex	Provides marketing loan
Payment Limit	$100,000 per person in wheat & feed grain contracts	No change	Repeal 3 entity, resident labor & management, SSN, $50,000 payment limit, $100,000 off farm
Transition Payments	Wheat & feed grains	None	None
Budget Savings	$16.5 B over 7 years	$5.4 B over 7 years	$4.2 B over 7 years

Sustainability and Industrialization: Conflicting or Complementary