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THE 1990 FARM BILL IN THE CONTEXT OF FARM POLICY

Carl R. Zulauf
Ag Economist, Ohio State University

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Department of Agricultural Economics and Rural Sociology
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210

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THE 1990 FOOD AND AGRICULTURAL BILL

Excluding some conservation and soybean provisions as well as the likely increase in nonrecourse loan rates, the 1990 food and agricultural bill (FAB) is essentially a non-event, i.e., continued current legislation.

This is not a surprise. The major factors in FAB remain farm income and food security. Total real net farm income has increased 30% since 1985. Food reserves are smaller, but good weather in 1990 postponed food security as an issue. Thus, there is little pressure for change.

Environmental issues, which received major press coverage, had a relatively minor impact. Environmental groups kept most of the 1985 environmental provisions intact. This in and of itself is important, and clearly establishes environmental groups as continuing actors in FAB. However, new provisions were ultimately stifled by a lack of verified data. Hence, the emphasis on research, pilot studies, etc., in the 1990 FAB as regards environmental issues.

THE BROADER SETTING

There are three farm policy bills in 1990: (1) the so-called farm bill, better termed the authorization farm bill because it authorizes the existence of farm programs, (2) the federal budget, and (3) the GATT negotiations.

> While it is presumptuous to make predictions about GATT, I venture that an agreement will be reached to effectively reduce farm trade distorting subsidies by 15%-40%, backdated to 1985-87.

While some farmers have financial problems, it is difficult for the farm sector to argue economic disparity. In 1988, average total farm household income, defined as farm business plus non-farm income, equaled $33,535. In comparison, average U.S. household income was $34,017. Probably the only other time this has happened was the mid-1970s. Current evidence suggests farm household income will remain comparable to aggregate U.S. household income in 1989 and 1990.

While a respectable-to-good harvest in 1990 will allow some stock rebuilding, commodity stocks remain at/below average.By 1995, the information base regarding the environmental impact of various farming practices should be substantial.

The first biotechnology effects on farming should be felt by the mid-1990s. The first impacts will come from animal growth hormones, which will reduce the need for feed. However, biotechnology will make an impact on crop production by 2000. The initial impact will be on crop yields, but eventually biotechnology will substitute in part for chemicals.

LONG TERM FOOD AND AGRICULTURAL POLICY TRENDS

Farm price and income support policy has seen a gradual but continuing shift away from price supports to direct income supports. This trend accelerated with the 1985 Food Security Act, as loan rates were substantially reduced and marketing loans were adopted.

The movement away from nonrecourse loan rates and other means of price support has occurred because of the increasing importance of consumer surplus to the farm policy debate. In other words, the indirect cost of price supports to consumers have increasingly become part of farm policy consideration. This has been reinforced by the growing influence of post-farm gate agribusinesses, especially as they relate to farm exports.

While loan rates have been substantially reduced or marketing loans have been adopted, market prices are being held above the loan rate not by market demand, but by land set-asides. In other words, effective loan rates are being set by the land retirement program.

FUTURE OF FOOD AND AGRICULTURAL POLICY: SHORT TERM

Given the federal budget deficit and history of farm program cuts during recent budget deliberations, and as long as farm income does not decline substantially, farm support programs authorized by the 1990 farm bill will likely be reduced on an annual basis over the next few years.

A 10-20% cut in effective nominal target prices would not be unexpected. This could occur through either a direct cut in target prices or a reduction in the payment base acreage (the so-called triple base plan).

Unless commodity stocks rebuild more than is currently expected in 1990/1991, a drought of even moderate proportions in the next two or three years could put substantial upward pressure on food prices. A drought will happen; the only questions are where and when. When it happens, food security, not farm income, will be the key policy factor.

FUTURE OF FOOD POLICY: LONG TERM

In the 1985 farm bill, farmers agreed to tie income and price support eligibility to stewardship of the soil as defined by sodbuster, sampbuster, and conservation compliance. By 1995, increased scientific information concerning farming practices and the environment will intensify the debate over what restrictions society can place on farmers' use of resources.

It is time for the phrase "farm bill" to be put on the political heap -- replaced by "food policy." Such a change is needed because consumers, through food security, are an equal partner in "farm policy." Of immediate concern, food security needs to be integrated into income and price support instruments.

Increasingly, the public is becoming aware that farmers are not economically disadvantaged. It is in the farm sector's interest to provide leadership in asking the fundamental question: what is the role of farm price and income support programs if income parity exists?

What farmers really want is protection against low farm income. Thus, "insurance" will replace "price and income support" as the key operative food and agricultural policy term during the 1990s.

Low farm income comes for two reasons:

(1) Technological change or shifts in market demand causes quantity supplied to exceed quantity demanded at a break-even price. Because demand for farm commodities is very inelastic, price declines substantially below the break-even price. The likelihood of such an event will increase during the 1990s, as biotechnology increases output and reduces costs of production.

(2) an individual farmer could experience disastrous weather or other events which cause his/her output to decline more than the output of farmers in general.

Farm policy in the future will need to provide insurance against both types of occurrence.