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1990 UNITED STATES OF AMERICA FARM BILL

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ABSTRACT

Every five years the United States rewrites its farm legislation. This will again be the case in 1990. Such is the importance of this action that it will set the trend for U.S. and world agriculture for the next five years. This is the case because the U.S. is the undisputed world leader in agriculture. The most important goals the U.S. Farm Bill will address this time are: the farm economy, the budget restrictions, government interference, stocks, U.S. competitiveness and environmental and food safety issues. Each of these goals will also probably affect world agriculture and South Africa to some degree. Furthermore, owing to the very important influence that the U.S. Farm Bill and the GATT negotiations have on each other and the importance of the GATT to South African agriculture South Africa has to analyse its own position. The U.S. Farm Bill will affect South African agriculture whether the changes concern general matters or specific industries.

1. INTRODUCTION

Every five years the United States rewrites its farm legislation, more commonly known as the Farm Bill (FB). Unlike our own legislative process, the U.S. process involves agricultural committee hearings and negotiations between the Administration, the various political parties and other interested groups before a bill is submitted to Congress. Negotiating a new FB is without doubt the most important event in U.S. agriculture and it sets the trend for the next five years for U.S. and even world agriculture.

Negotiations on the 1990 U.S. Farm Bill got off to a bumpy start when the Bush administration and Congress could not agree on whether or not the renewal of the Farm Bill (FB) should be postponed in order to wait for the completion of the GATT Uruguay Round at the end of 1990. U.S. Secretary for Agriculture Clayton Yeutter, who favoured the postponement, could not win this round. Had he succeeded, it would have been much easier for the Administration to implement locally any issues that had been agreed on during the GATT. Once the FB has been approved by Congress any important changes to the GATT negotiations would be difficult to implement since they might require legislation to be changed.

This clearly indicates that politics, as represented by Congress, will, as in the past, have a major if not a dominant influence over the outcome of the FB and may override sound agricultural economic decisions. Negotiations on the FB began in earnest on 5 July 1989, when the House Agricultural Committee under the chairmanship of Rep. Kika De la Garza began its hearings with testimony from Congress and state governors. Congressional farm leaders hope to pass a new long-term farm law by next summer.

Up to now there appears to be broad satisfaction with current U.S. farm policy. The 1985 Farm Bill had as its main goals (USDA, 1989a) to:

- Relieve the financial stress of producers
- Reduce programme costs
- Enhance export competitiveness
- Protect the environment

However, broad satisfaction does not imply that nobody is out to improve (or protect) his own position. The closer legislation gets to finalisation, the clearer it becomes that it is more realistic to say that everybody is satisfied with those parts of the legislation that do not directly affect him. USDA Under-Secretary for International Affairs and Commodity Programs Richard Crowder said (Agricultural Record, 1989a): "I don't think you should underestimate the amount of change that can take place over the next 18 months" and De la Garza stated that new factors will force changes. The debate on the new FB is expected to be as heated and serious as in the past.

2. THE NEW FARM BILL

What can be expected from the new FB, what will be the possible goals and what factors will influence the decisions to be taken? As stated proposals will be made and decisions taken against the assumption that owing to broad satisfaction no radical policy adjustments are necessary. In practical terms this would mean keeping the target price¹, the loan rate² and the acreage reduction programme³ (ARP) and also the acreage conservation reserve programme. The new goals themselves will not vary much from the 1985 FB goals and will probably be to:

- Protect the recovery of the farm economy.
- Yield savings in budget outlay.
- reduce interference by the government.
- Prevent accumulation of stocks.
- Maintain U.S. competitiveness.
- Satisfy demands regarding environmental and food safety issues.

However, the factors influencing these goals have changed dramatically and the emphasis has shifted considerably. De la Garza (1989a) stated that it is a different world than 1985. In the next section we take a closer look at the goals and the factors influencing them.

2.1 Farm economy

Net farm income is estimated (USDA, 1989b) to be a record \$52 billion in 1989, compared with \$32,2 billion in 1985. Almost all other agricultural financial figures have improved considerably, for example, delinquent farm loans as a percentage of overall loans from the Farm Credit System, the Commercial Banks and the Insurance companies, the exception being the Farmers Home Administration (FmHA) (The equivalent of the South African Agricultural Credit Board). With such figures it is doubtful whether this goal will receive any more attention than absolutely necessary.

2.2 Budget

The Gramm-Rudman-Hollings Act, which was passed by Congress in 1987, stipulates that the budget deficit must be reduced to zero in five years. In 1985, when negotiating the current FB, Congress did not have to deal with precise figures, which are now required. In Bush's 89/90 budget proposal 16% of the \$34 billion in cuts were to come from the USDA. Although this is as yet only a proposal and it has met with protests from, among others, De la Garza, and although the figure is expected to be less, it nevertheless illustrates just how serious is the financial framework within which the 1990 Farm Bill will have to be negotiated. Budget cuts in agriculture may range from \$1 billion to \$1,9 billion. By doing some paper transactions, part of this could be reduced or postponed. But the bottom line is that real cuts of about \$600 million are needed. In 1986 and

1987 the government cut market prices sharply while maintaining high income supports. Consequently, farm programs cost over \$20 billion annually. This will not be allowed again. A recent Congressional Budget Office report forecast reductions in spending to less than \$6 billion by 1994 as farm income supports continue to fall and economic conditions improve.

The following budget saving proposals are currently on the drawing board and will definitely influence the next Farm Bill.

- (i) Cut target prices an additional 2-5%. This option is simple, economical and realistic and will probably accomplish the best results, but it is politically unfeasible or least desirable.
- (ii) Reduce Farmers Home Administration (FmHA) direct loans, replacing them with loans from private lenders. This has a certain appeal because the FmHA is in desperate need of revision.
- (iii) Assess dairy producers 7c per cwt of milk marketed. The strength of the dairy lobby is already evident - an assessment of 25c was originally proposed. This is an example of efforts to protect personal interests.
- (iv) Increase the Acreage Reduction Programme (ARP). A rise would probably lead to lower production, higher prices and lower deficiency payments. This proposition is unlikely to be taken seriously, mainly for two reasons:

First, the current drought situation has depleted stocks of most of the major commodities. World wheat stocks as a percentage of utilisation are at the lowest level in three decades, namely 20,5% (end of 1989/90) and U.S. wheat stocks at an estimated 13,6 million tons (end of 1989/90) are the lowest since 1973/74. World coarse grain stocks as a percentage of utilisation, at 17,0%, are only just the third lowest in 14 years and U.S. coarse grain stocks, at 69,3 million tons (end of 1990/91), are also reaching relatively low levels (USDA, 1989c).

Secondly, a general feeling has developed among U.S. politicians and government officials that, while the U.S. was trying to reduce world stocks by taking cropland out of production through their ARP and acreage conservation reserve (ACR), other countries were not doing the same. In actual fact, they believe that through their own expensive programme, a relatively better agricultural outlook and world prices were created and were used by their main competitors and they have actually been subsidising the rest of the world. They started to question why they should hold a much larger share of world stocks than their share of global production. Corn is probably the best example. In 1986/87 the U.S. produced 43,8% of the world total, but held 76,9% of world stocks (USDA, 1989c). The figures look even worse than when viewed in terms of domestic consumption. It is agreed that in terms of potential production and domestic consumption the U.S. would probably never have to import commodities such as wheat or corn, but it has yet taken on itself the responsibility of acting as the food store of the world.

Many of the above assumptions may be right, wrong or partially right. However, the role of the ARP in conjunction with the export and stock policy will receive some serious attention.

- (v) A triple base option. Under this proposal producers would have the following categories of base acres.
 - (a) Permitted acres on which payments are made.

- (b) Permitted acres on which no payments are made. These acres are then no longer eligible for payments or loans, but could be planted to any programme crop or beans at the producers discretion. Furthermore, the farmer would not be penalised by a reduction in his base acres the following year.

- (c) Idle or ARP acres.

This proposal has a lot of support at the moment and stands an excellent chance as it is politically acceptable. Although the producer's income could be reduced as much as with a reduction in target prices, it does not have the same negative profile. It is much closer to a situation in which for example, the quota of sugar producers in South Africa for the A-pool is unilaterally cut by 10%.

- (vi) Decouple production from government payment. A disagreement between the Congressional Budget Office (CBO) and the USDA as to whether a real cut (savings more than increased spending) would be accomplished still has not been cleared up. Other uncertainties such as the close resemblance between decoupled payment and a welfare payment and whether producers will accept it have made this option unlikely for the time being.

2.3 Government interference

The Administration and many politicians have come to the conclusion that the higher the degree of government involvement in marketing decisions, the more expensive it becomes for the government and there is also the risk that you could actually be criticised more for what you do than for what you do not do. The South African Government is not unfamiliar with this experience. There is therefore a definite movement to get less involved in marketing decisions. Richard Crowder (Agricultural Record, 1989) confirmed this recently when he stated that "The market ought to make more decisions and we should be making fewer".

Farm groups, legislators and the USDA are all seeking ways for the next FB to increase farmers' planting choices under the government farm programme. They want to end what they regard as rules that have discouraged farmers from planting crops in demand world-wide. Oats and soybeans are such crops. William Leshner (Agricultural Record, 1989), an agriculture consultant, said "As far as I am concerned, flexibility is the most important issue that has got to be addressed. The U.S. is exporting an oilseed industry abroad by its own government's policy". Agricultural Secretary (Clayton Yeutter) also said that he favours loosening restrictions and reducing the use of annual acreage set-aside programme to control production (Doane's, 1989).

Disaster aid is another field where less government interference is an objective. Yeutter said that he opposes disaster aid that is handed out to producers at the first outcry about a disaster. He favours the use of the government crop insurance programme and said that unless the government refuses to assist producers for every minor disaster they will never learn to manage their risks responsibly. At the moment farming has become a low-risk business, he said. This view is shared by many politicians and even Senate Agricultural Chairman, Patrick Leahy, admits that it gets more difficult to obtain enough votes on the Senate floor to approve disaster legislation every year.

2.4 Accumulation of stocks

There is a general consensus among agricultural groups that any possible future accumulation of stocks should be prevented. The new FB will therefore definitely address this issue in some way. However, it will probably not receive the at-

tention it deserves. Not enough people realise that, with normal weather returning, together with the enormous production potential of the U.S., things could easily change for the worse again. Some of the reasons that caused the build-up in stocks, such as the relative ease with which producers forfeit their grain to the Commodity Credit Corporation and the inability of the USDA then to dispose of these stocks, will nevertheless be addressed. An elimination of the Export Enhancement Programme (EEP) will also change the situation negatively.

2.5 U.S. competitiveness

During the early 80s the U.S. share of world trade decreased dramatically, particularly in the grains, where it dropped from 50%-60% to 35% in 1985/86 (USDA, 1989c). This trend was reversed through the 1985 FB mainly by lower loan rates and by creating the Export Enhancement Programme (EEP). Today the U.S. share is back to acceptable levels, 54% of world trade in 1988/89.

There is little chance that loan rates will ever again rise to levels higher than the world market price. When the market price drops below the loan rate, farmers forfeit their loans and hand over their grain to the Commodity Credit Corporation (CCC) as collateral. In normal circumstances the CCC is not allowed to sell the grain at below the loan rate. This renders the U.S. unable to compete on the world market. Yeutter and USDA officials also confirmed on several occasions that they would oppose a rise in loan rates even if this had the benefit of reducing budget outlays on deficiency payments.

The EEP was created to win back markets, primarily those captured by the European Community (EC) through subsidised sales of wheat and other commodities. Although the EEP was very successful in the beginning and had a lot of support, things have changed since the U.S. drought. Stocks are down, budget pressure is being taken much more seriously and the U.S. has received a lot of criticism from competitors. It is also doing damage to the U.S. GATT proposals to eliminate all subsidies. Yeutter, a strong supporter of the EEP, has rightfully defended the EEP. However more important and crucial for the future existence of the EEP are the feelings that have developed in certain circles in Washington. It is said that under the current tight grain situation many countries would buy U.S. commodities anyway without subsidies offered. The EEP is therefore now wasting money. Neither is there consensus as to whether the U.S. taxpayer should subsidise sales to countries such as Russia and China.

If all of the above is taken into account, it is doubtful that the EEP will be accepted in the new FB without some changes and it might even be done away with completely. The only thing really in its favour and which will for now probably prevent total elimination is the leverage it is giving to U.S. negotiations on the GATT.

2.6 Environment

This is probably the one section in the upcoming FB that will contain the most changes. Circumstances have changed considerably in the few years compared with five years ago. Tremendous pressure is being applied to the agricultural industry by environmental groups. Where this might always have been present, the difference is that now those groups are finding ways of effectively damaging agricultural industries in order to get their goals implemented. The best example is the recent ALAR case in the apple industry. Environmental groups supported a ban on the chemical ALAR, which they said is causing cancer. They launched an affective boycott against the consumption of apples which cost the apple industry over \$100 million in lost sales. The chemical has now been taken off the market, but the industry still not fully recovered from the damage done. Another big potential threat to agriculture is the proposed Waxman Bill in Congress, which supports total elimination of all chemicals in food production. At this stage acceptance of the bill seems rather unlikely, at least not without some major changes. This is nevertheless the trend to the discussions about to take place in the next few months. If we add

the fact that President Bush has said that he wants to be the "Environmental President" and has already come up with a "Clean Air Act", we could expect that some very important decisions are going to be taken.

3. THE EFFECTS OF THE FARM BILL ON SOUTH AFRICAN AGRICULTURE

Few, if any, of the new developments would affect South Africa directly or in the short term. One must, however, also add immediately that no government organisation or person who believes in medium and long-term planning can ignore the U.S. Farm Bill. In agriculture the U.S. is still the undisputed world leader. Owing to its high volume of international agricultural trade (estimated exports of \$39 billion and imports of \$21 billion in 1989) (USDA, 1989b) most decisions taken by them sooner or later affect the international market, which is vital to South African agriculture. The best example was probably when the U.S. decided in 1985 to lower its loan rates and create the EEP. Probably no other decision has ever had such a big influence on the world grain market in such a short time.

For the purpose of this article the effects will be evaluated from three different perspectives: the government, the marketing boards (and other similar organisations) and the private sector.

3.1 The government

The biggest uncertainty at this stage is how the GATT is going to influence the FB and vice versa. These discussions have much in common, but are undertaken by two independent groups of people. It is clever of the Bush Administration and Mr Yeutter to say the U.S. must change its policy because that is what was agreed on during the GATT negotiations. However, it is the U.S. that was in the first place pressing for changes. It is clear that those industries that are expected to be influenced negatively (e.g. the dairy and sugar industries should the GATT proposals be accommodated in the FB will not ????) Taking the U.S. sugar policy as an example, there is no way that the current policy will be accepted under GATT rules. In actual fact the GATT has already ruled in favour of the Australian complaint against the U.S. The U.S. sugar policy not only favours its own sugar producers heavily (they receive almost twice the world price), but also favours the corn and sugar beet sweetener industry. It is only the high domestic sugar prices that enable them to compete successfully. Whether the agricultural sector is ready for the changes coming from the GATT will yet have to be seen. It is doubtful whether the FB will go far enough in creating an agricultural sector free of subsidies. This is even more unlikely if you take into account the fact that Clayton Yeutter had already said that he will find a way to legalise the sugar programme under GATT rules.

What does this mean for the South African Government? If the U.S. Congress is prepared to do away with import quotas, they will set an example to the rest of the world that cannot be ignored. Even if they replace it with import tariffs, which they would most likely do, South Africa will have great difficulty in justifying the import permit policy on several agricultural products. As Attie Swart (1989), Director of Marketing, S.A. Department of Agriculture said when commenting on the Uruguay Round "participants (including South Africa) have committed themselves to substantial reforms over an agreed period of time". Any change by the U.S. away from quotas to tariffs will probably be accompanied by a commitment also to phase out the tariffs. This will put further pressure on our own system to reform.

The FB will be an indication of how serious the U.S. is about reforming agriculture. It, and not the EC, will set the pace. However, as Michael Aho, U.S. Council of Foreign Relations, said: "The most important negotiation in agriculture is not between us and them but among us" (Webb *et al.* 1989). The Democratic controlled Congress complicates the issue further. The Democrats are not too concerned about reforming agricul-

ture. They agree with and support the President on opening foreign markets, but will think twice before reforming some of their own agricultural industries.

Also important to world agriculture are the general examples the U.S. sets through its FNB. In 1985 it set out to create a favourable climate for the recovery of the farm economy and succeeded. Today the farm economy is generally in good shape. South Africa's efforts do not compare very well and many farmers realise this and are dissatisfied. Fortunately our efforts to reduce Government interference are very much in line with the trend in the U.S. The United States' own efforts, although not yet very successful, could always be used as an example to justify our own efforts.

With regard to competitiveness in international trade, South Africa's agricultural export realisations have been favourably influenced by the declining exchange rate of the rand. Had this not been the case, South Africa might in some cases at least have had problems in competing overseas. Some commodities, such as wheat and corn, however, cannot compete, even with the weak exchange rate. The 1990 FB will set the U.S. domestic and export policies for the next five years. Although no drastic changes are expected compared with the 1985 FB, some very important policy instruments, for example the ARP and the EEP, will most likely change. This could have an important effect on world prices and South Africa's competitiveness.

Probably the most unstable factor, apart from the weather, that will influence world agriculture in the next five years is the environmental and food safety issue. The U.S. apple industry has seen what damage can be done when one is caught off-guard. The Chilean grape industry found out how sensitive the food safety issue is when two grapes injected with cyanide were discovered by the USDA. This led to the removal of \$200 million worth of grapes. If environmentalists are successful in the U.S., no chemical, unless it is 100% safe for human consumption, regardless of the quantity, will be allowed for agricultural use. South Africa, and especially its fruit industry, is exposed to all of these developments and could find itself in a situation where it will have to adjust very fast, not for political reasons, but for human safety. The Government has to make sure that its policies are in line with those of the rest of the world.

3.2 Marketing boards (and similar organisations)

The U.S. is, for political reasons, for the time being, lost as an export market for South African agricultural products. If this were not so, the FB would have been much more important. However, as mentioned earlier, owing due to the importance of the U.S. in world agriculture, the FB cannot be ignored. Depending on the products an organisation is marketing, it could be influenced differently. As much as it is the Government's responsibility to be informed on changes abroad and their effects, it is also the responsibility of each agricultural organisation to analyse its own position and consult with the Government should it be necessary to take collective action.

3.2 Private sector

The independent farmer will probably not be influenced directly or in the short term. However, it might be worthwhile for his long-term planning to keep up with the latest developments in agriculture internationally. Most farmers belong to a co-operative and some are even elected to the board of directors. At this level of decision making, knowledge or the lack of knowledge could make the difference between improving the welfare of their members or not.

A number of agricultural products are also marketed and exported or imported with no interference or very little from the Government e.g. avocados. Developments in the U.S. could influence marketing trends for these products in other countries. For example, the U.S. indicated it might not renew obligations under the international coffee marketing export quota system. The U.S. is the largest consumer importing country. Export quotas do not go down well with the new way of thinking of "reforming world agricultural trade". It might well be possible

that other restrictions or regulations which now apply to the above-mentioned products could be changed in the upcoming FB.

4. CONCLUSION

The importance of the 1990 Farm Bill to South Africa is probably underestimated by most people. One could argue that U.S. domestic policy decisions have nothing to do with South Africa since we do not export to the U.S. However, considering, on the one hand, the important influence the FB and the GATT negotiations have on each other and, on the other hand, the importance of the GATT to South Africa, it is clear South Africa will be affected. This is especially true of the U.S. use of the FB to make provisions for the reform of its own agricultural industry in anticipation of what might come out of the GATT negotiations. Furthermore, other issues, such as the farm economy, competitiveness, government interference, etc., are always important enough to be kept up to date with. Lastly, the issues regarding food safety, the environment, animal welfare, etc., will probably reach a climax in the next five years. It will be very important to see in what way the U.S. Farm Bill is going to accommodate these issues.

5. NOTES

1. This is the final price the producer receives for his commodity and is currently made up of the market price, which is less than the target price, and a deficiency payment which makes up the difference between the target price and the market price.
2. When the market price drops below the loan rate, farmers do not sell their commodities on the free market, but forfeit them as collateral to the Commodity Credit Corporation to pay back their loans.
3. In order to participate in an agricultural programme and receive the target price a farmer must agree to withhold a certain percentage of his land from production. This percentage varies between commodities and is announced every year.
4. This is a programme with the main goal of taking marginal land out of production and planting it to long-term vegetation.

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