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Future Directions for the Government in Agriculture

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The 1996 Farm Bill marks a new direction for the government in agriculture. By decoupling payments from price levels for crops, it undermines long-run political support for programs. Dairy price supports will end in 2000, and nutrition programs will be on a separate reauthorization schedule from farm programs. Together, these actions should weaken the farm bill coalition, making the remaining programs much more difficult to reauthorize than in earlier years. The 1996 Farm Bill may be the last farm bill of its kind and the beginning of the end to active government involvement in agricultural markets.

The Federal Agricultural Improvement and Reform Act of 1996 (the FAIR Act, but called the Farm Bill hereafter) marks a new direction for the government in agriculture. Like its predecessors, this Farm Bill is a piece of omnibus legislation that includes the laws regulating agricultural commodity programs and federal programs for farm credit, rural development, agricultural trade, agricultural research, and many other topics important to rural America. It also has laws of less obvious relevance to farming. Most important among these are several federal nutrition programs, such as Food Stamps, the School Lunch Program, and the WIC (Women, Infants, and Children) Program. The bill also contains many conservation and environmental laws, especially those relating to farming. These other topics help to broaden the support for the Farm Bill in order to offset the declining political power of agriculture.

Congress approached the 1996 Farm Bill much differently than it approached earlier farm bills mainly because of the commitment by Congressional Republicans to balance the budget in seven years. As in the past, only budgetary pressure causes Congress to seriously consider cutting a popular program. The cuts for this Farm Bill were much greater and more partisan. The Democratic members of the House and Senate agriculture committees decided to let the Republicans take the leadership in making these unpopular changes, and presumably take any blame that resulted.

In recent Farm Bill deliberations, the business of the Senate Agriculture Committee has been carried out by consensus. In both the House and the Sen-

ate, members seek to join agriculture committees because certain commodity programs are important to their states. As such, the members view their role as enhancing the programs to the benefit of their farmers whenever possible, given the money available. No one on the committee wants to tell his/her farmers any bad news. The unwillingness to be responsible for bad news, when combined with the consensus approach, means a goal of no pain for anyone and, therefore, no cuts in any farm program, if possible. Previous farm bills were always bipartisan efforts. The only tough decisions made were budget driven and generally occurred when a program supported prices at a level so far above the natural market price that the government had to buy more commodities than it knew how to use. A number of programs to help dispose of these surplus commodities developed, including PL 480, which provides for international food aid, either for free or at a discount. The nutrition programs have similar origins. The entire process has considerable bias toward maintaining the status quo.

For the current Farm Bill many decisions were entirely partisan. Although still budget driven, the budget effort of this Congress was so partisan that the Republicans excluded Democratic staffers from any deliberations on the content of the commodity program portion of the bill. This exclusion changed the distribution of power on the committees, dramatically decreasing the importance of seniority and increasing the importance of party. Also, the leaders of the committees, Senator Richard Lugar and Representative Pat Roberts, both advocated dramatic departures from past programs rather than simply tinkering with the details to get the required savings.

General Background

The government's active involvement in agricultural markets began with the Agricultural Adjustment Act of 1933. Over time the rules have changed often but the commodity programs have not provided any long-term solution to the problems they were designed to solve. The initial goals were to raise farm prices and farm incomes, and thus to introduce greater stability to agriculture. Ideally the programs would eliminate the waves of farm bankruptcies that accompany periods of excess production. In reality, the programs have failed because of two shortcomings.

First, if prices are effectively raised, these higher prices are taken in consideration by any buyers of land, and the benefits of the programs get capitalized into land values. Landowners become wealthier, but farm incomes, whether for tenants or buyers who pay the higher land prices, are just as low as before. Instead of raising incomes, the programs raise wealth in a one-shot payoff to whoever happens to own the land when the program becomes law. Sometimes this is the farmer, but often it is not.

A second problem with the commodity programs is that the only ways to raise prices without substantial government purchases are controls on production. For products like sugar, which the United States does not produce in sufficient quantity to satisfy our needs, restricting imports is adequate control. For most products, however, we produce a surplus and export rather than import these products. In order to raise prices, farmers must be induced to produce fewer bushels than they would otherwise. Allocating these reductions among farmers is difficult, and, moreover, government intervention in the operations of individual farms is antithetical to our capitalist tradition. If a farmer has the ability, land, and equipment to grow 200 acres of corn, forcing him to grow 175 acres underutilizes his capacity and wastes valuable resources. It also leads to an inefficient use of our agricultural capacity. Furthermore, if the price support program works, U.S. prices are raised relative to world prices, either reducing our competitiveness in export markets or even making us an importer of something we should export. If the trade flows reverse, import restrictions are required to keep from exporting most of the benefits of the programs as the programs try to support the prices for the entire world.

Prentice and Bruning (1994) suggest that regulation is a tradeoff between stability and efficiency. Figure 1 illustrates the basic situation. An increase in regulation decreases efficiency and in-

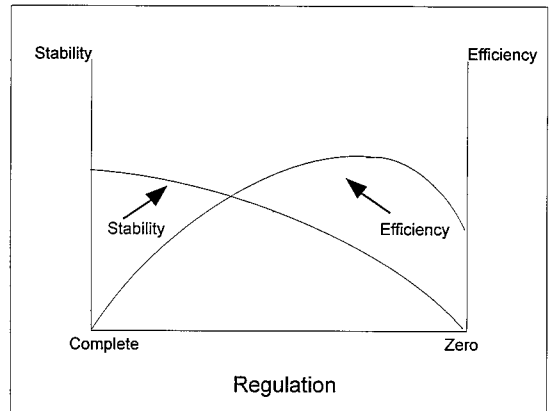


Figure 1. Stability/Efficiency Regulatory Tradeoff.

SOURCE: Prentice and Bruning 1994, p. 45.

creases stability. There may be levels of regulation so low that the instability also lowers efficiency, as seen on the far right in the figure. This information can be recast into a stability/efficiency frontier, as seen in figure 2. This frontier, when combined with social indifference curves, can be used to determine the optimal combination of stability and efficiency. The optimal combination can be taken back to figure 1 to find the related amount of regulation.

In periods of much instability, such as the 1930s, the public and the farmers were willing to sacrifice some efficiency to gain some stability. In periods like the past decade, society placed more value on efficiency than on stability. Recently, the United States has deregulated airlines, telecommunications, banking, and many other industries. American society apparently now believes that some instability is worth accepting in order to get

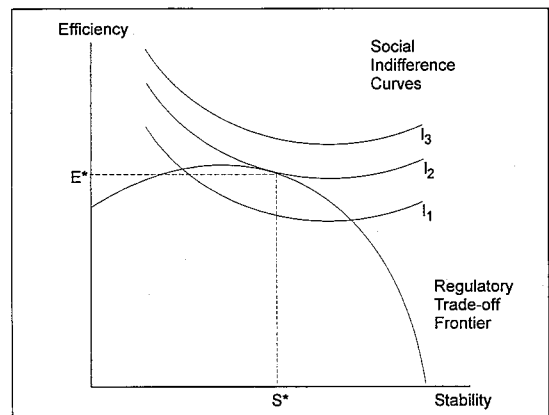


Figure 2. Determination of the Optimal Level of Regulation.

lower prices. The changes in agricultural policy are comparable. Having said this, we note that the interest in greater efficiency is dictated by the shape of the frontier. Since commodity programs have never been able to achieve much stability, the cost of the forgone efficiency in pursuit of negligible stability gains is a problem even to the direct beneficiaries of some programs, let alone to society overall.

Commodity Programs

The centerpiece of this Farm Bill is called "Freedom to Farm." It is essentially a buyout of grain farmers from the program. It decouples the payments from prices, and instead provides transition payments that will decrease through 2002. Freedom to Farm is largely farmer driven, with farmers interested in gaining greater planting flexibility, especially in the corn belt.

It is ironic that the highest grain prices in decades should occur in the first year of decoupled payments. These high prices have eliminated most of the budget savings the program was designed to create and, for the 1996 crop, Freedom to Farm will cost more than an extension of its predecessor would have. During a briefing on Freedom to Farm, the chairman of the House Agriculture Committee, Representative Pat Roberts, in response to a question about whether this buyout would make the commodity programs undisguised welfare to farmers, said, "Do you think it is very well disguised now?" (July 1995). This year, the payments will offend even the most forgiving program supporters. Many wheat farmers, clinging to the patina of respectability, state that they are interested not in welfare, but only in a safety net. Given recent levels of deficiency payments, the use of the Conservation Reserve Program as an indirect method of idling wheat acreage, and the importance of the subsidies to wheat under the Export Enhancement Program, this safety net argument does not bear much scrutiny.

Regional divisions about marketing orders made dairy policy controversial this year, especially in the House. What finally occurred was a phase-out of the price support program, with support levels dropping by 15 cents per hundred weight per year until 1999, after which the price support program ends. Consolidation of milk marketing orders from 33 to a range of 10 to 14 is required in the next three years. Whether this consolidation will also eliminate base-point pricing remains to be seen.

Southern program commodities have fared better as programs have been reformed over the years,

in part because of the disproportionate political power of the South, and in part because these programs for southern commodities have had less budget impact than the wheat or feed grain programs. The tobacco, peanuts, and sugar programs are consumer financed rather than government financed and have been able to escape reforms for this reason. Senator Robert Dole, in his floor statement about the 1990 Farm Bill noted that lack of equity was perhaps "the biggest problem with the 1990 Farm Bill":

I realize that equity means different things to different people, and is measured in different ways. But the inequity between what "federally funded" commodities are contributing to deficit reduction and what "consumer funded" commodities are providing is obvious. Wheat, feed grains, cotton, and rice are bearing the lion's share of the pain, although we have punished to the tune of 1 percent those producers of sugar, honey, and tobacco. And for peanut growers and wool and mohair growers, we have decided that they should retain a cost of production escalator which will increase their support price annually over the next 5 years. (Dole 1990, p. S16675)

Despite this statement, in 1996 Senator Dole led the Senate opposition to reforms in the peanut and sugar programs comparable to the reforms in the grain and dairy programs. The timing of this action shortly before the "Super Tuesday" southern primaries was no coincidence.

In order to gain Democratic approval, the Republicans had to abandon their efforts to repeal the 1949 permanent law that is temporarily set aside with each Farm Bill. This law forced Congress to act this year, and will again in 2002, unless it is repealed before then. It contains very high support prices and many controls, all of which would be extremely expensive and disruptive should they take effect.

Conservation Programs

Conservation is the big growth area of the 1996 Farm Bill. Unlike other programs in the bill, conservation programs had increased funding, and some new programs were created. Both the Conservation Reserve Program and the Wetlands Reserve Program lease acreage and idle the acres. Although the Conservation Reserve Program has largely become a set-aside program for wheat, it defines a federal role in guiding farmer decisions for conservation reasons. The Environmental Quality Incentive Program (EQIP) combines several existing programs and is designed to create government technical assistance and cost sharing

for certain environmentally beneficial actions on livestock operations. This program is path-breaking since livestock other than dairy has traditionally not received Farm Bill largesse.

Other Parts of the Farm Bill

The 1996 Farm Bill takes the first step in what is a broader effort to move programs to the states in rural development. In a program called the Rural Community Advancement Program, block grants will be used to allow the states to identify their problems and develop appropriate solutions. This effort is consistent with comments by Stephen Smith (1995), who stated that one-size-fits-all solutions are not the best approach for rural development.

The Farm Bill addresses many other issues, including credit, crop disaster assistance, and trade. In these categories are specific programs that are frequently criticized. However, the dollar amounts are less and the programs are less controversial than the commodity programs, so the changes in these programs are less significant in the broader context of the Farm Bill.

The Farm Bill coalition has been broadened by the inclusion of the nutrition programs in the bill. This year's bill reauthorized the Food Stamp Program and all other discretionary parts of the bill only until September 30, 1997. This deadline was set for two reasons. First, the Republican members of the House of Representatives want to have another chance to change some of these programs. Second, they want to break up the coalition. Although it was vetoed, the 1995 Welfare Reform package included the nutrition programs from the Farm Bill. Another attempt at welfare reform will be made this year. If it succeeds, then future nutrition programs will be on a different schedule from the Farm Bill, and the urban portion of the coalition will be split away.

Is the Coalition Breaking Apart?

The commodity programs have been able to survive for decades, despite dramatic changes in rural America and mounting evidence that they have outlived their usefulness. Tweeten (1995) outlined twelve invalid arguments that have been used to justify farm programs. These arguments have had questionable validity for years. Yet the programs have not only survived; in some cases they have survived intact for decades despite some blatantly

ridiculous features. For example, even the supporters of the peanut program do not justify it on its merits. Instead they argue that the money is important to poor rural areas. The tobacco program is defended with the argument that it would be counterproductive to make cigarettes cheaper. Of course, elimination of the program and an offsetting tax would keep cigarettes expensive without the market-distorting characteristics of the tobacco program. The holders of tobacco and peanut quotas are disingenuous in these arguments, since their true goal is to retain their quota rents, which depend on the programs for their existence. As with any market distortion, the beneficiaries can afford to spend an enormous amount to defend it, while the costs of the program are spread thinly, and the opposition is less organized and less entrenched.

The Farm Bill coalition is breaking up, however. Those of us who worked on this year's bill all believed it would be the last Farm Bill as we know it. Future farm bills will not be all-encompassing, and the most egregious parts of past farm bills will be harder to renew without reform, if at all. If the nutrition programs are separated from future bills, then representatives from urban areas will have no stake in the bill passing, and supporters of the peanut, sugar, and tobacco programs will have considerably less leverage than they do now. The end of dairy price supports removes all northeastern interest in commodity programs, which is important in both the House and the Senate. (With its many small states, the Northeast is heavily represented in the Senate. The few populous states in the region give it comparable impact in the House.)

If Freedom to Farm achieves its goal, the wheat and feed grain programs will end in 2002. With decoupling, the payments are undisguised welfare. Although the citizenry generally views farmers positively, its goodwill be taxed with transition payments of thousands of dollars to farmers in years of record prices. The end of the wheat and feed grain programs will eliminate much of the midwestern interest in commodity programs.

What seems likely to happen is that in 2002, only the South will have a major interest in commodity programs. The reforms to the cotton and rice programs were less than those to the wheat and feed grain programs. With the exception of the sugar beet areas and the corn syrup coalition, support for the sugar, peanut, and tobacco programs is entirely in the South. Nonetheless, the political skills of the supporters of these programs should not be discounted. For example, both senators from Alaska have voted with the peanut interests

during any attempts to amend the program during the last four farm bills (*Congressional Record* 1977, 1981, 1985, 1990). Despite the political savvy of the defenders of these programs, however, the survival of the sugar, peanut, and tobacco programs without significant reform will be much harder in 2002 than it was in 1996.

The wild card in these arguments is the failure to repeal the 1949 permanent law. In 2002, if the farm economy is in chaos, the opposition to reviving the wheat and feed grain programs or continuing the transition payments for another five years will be less. The pendulum of public sentiment may have shifted back toward more stability. The specter of having the 1949 legislation take effect could be used to stop a filibuster or other attempts to block passage of the bill. But between now and then, continued efforts will be made to repeal the permanent law, beginning with the current round of agricultural appropriations.

What Does This Mean?

Assuming that the coalition breaks up and that the grain and dairy programs end, what does this mean? It does not mean that there will be no future agricultural programs. It does mean that outrageous programs will be harder to renew each time.

For farms, the area of program growth is conservation and the environment. Farmers do better than other businesses at keeping Congress aware of the costs of unfunded mandates. For example, as water quality expectations for farms rise, Congress appears to be willing to share the costs of compliance.

The Farm Credit System is trying to broaden its areas of responsibility. However, opinions about the performance of the Farm Credit System vary considerably, often depending on the state's banking laws. And although credit was considered to be noncontroversial portion of the 1996 Farm Bill, expanding the classes of borrowers was the exception. Crop insurance is a business that many feel should be provided by the private sector. Finally, federal relief from weather-related crop failures is certainly criticized, especially when farmers have not taken normal precautions.

This Congress is inclined to transfer many government functions to the private sector. Parts of agribusiness should benefit thereby. Banking and insurance are the obvious examples. Also matching funds for conservation investments help sellers of those products or services. More broadly, ending planting restrictions and fewer acres in the

Conservation Reserve Program will help the farm supply sector. Of course, any increase in economic activity has multipliers. Senator Kent Conrad from North Dakota repeatedly spoke in hearings of the adverse effect of the idled acres from the Conservation Reserve Program on businesses in North Dakota. The farmers had money but they did not need farm supplies.

The effort to transfer many rural development programs to the state through block grants should help rural America. Also, the Fund for Rural America is a new source of funding that will be available.

For land grant universities, this Farm Bill may be a watershed. If it is the beginning of the end for commodity programs, it signals the end of a long-standing research area. This may be one of the few times economists have worked themselves out of a job.

The Fund for Rural America and the Agricultural Competitiveness Initiative offer competitive research funds that may offset the shrinkage of formula funds. Agricultural research is a sacred theme in Congress, in that everyone says that it is important. However, it does not have the grassroots support of many of the competing uses for the money, and, as a result, research funding is always vulnerable. The National Research Initiatives were never funded at their authorized level. Other programs are probably subject to the same underfunding.

The future direction of farm programs, in my opinion, will be much more heavily weighted toward the environment. The rest of society is going to demand greater environmental accountability from agriculture, and farmers will look to the government to help them meet these challenges without compromising our food supply. Unlike commodity programs, well-designed conservation programs can produce a long-run difference in meeting the country's environmental goals.

With Freedom to Farm, the feed grains and wheat programs should end in 2002. Dairy price supports are ending, and the nutrition programs may not be part of future farm bills. The southern commodities will have the only remaining commodity programs but will lack the ability to swap votes with other regions and with their urban colleagues. Continuation of the few remaining commodity programs is therefore doubtful. After sixty years, the presence of the government in the agricultural marketplace should finally end. The experiment to try to assure long-run stability in agriculture through government intervention will be over.

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