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THE 1981 FOOD AND AGRICULTURE LEGISLATION

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INTRODUCTION

Early next year, the 97th Congress will begin the quadrennial ritual of writing a new "farm bill." The present legislation, the Food and Agriculture Act of 1977, expires with the harvest of the 1981 crops. Much more than just a "farm bill," the 1977 act is truly omnibus legislation, containing 19 broad titles encompassing most of the major public farm and food programs. Specifically, the authorizations expiring with the act include: The farm commodity programs (wheat, feed grains, cotton, soybeans, rice, peanuts, sugar, the dairy price support minimum level, and wool and mohair); the dairy and beekeeper indemnity programs; grain reserves; Public Law 480 programs, the food stamp program; rural development and conservation; and a variety of miscellaneous programs. (Research, extension and teaching funding expires in 1982, but may be considered in 1981.)

The 1977 legislation expires at a time when there is much uncertainty about the future economic environment for agriculture and when there will be many new participants in both the executive and legislative branches. This paper discusses this setting in which the new legislation will be developed and the issues that are likely to be considered.

CURRENT UNCERTAINTIES

The specific course of development and content that will characterize a new farm bill is presently shrouded in more than the usual uncertainty. This uncertainty derives from both the current political setting resulting from the recent national elections and the future economic environment for agriculture.

First, there will be a new administration, with the appointees who will be influential in determining future policy directions still unnamed at this time. While the party platform and a few campaign speeches provide some outline of the general policy directions the new administration may pursue, specific positions on major areas of the bill remain to be determined.

Second, the national election will bring significant changes in the composition and leadership of the Congress. These changes will be reflected in the agricultural committees, especially on the Senate side. Republican control of the Senate in the 97th Congress means the leadership of the Committee on Agriculture, Nutrition, and Forestry will change. The ranking Republican member, Senator Jesse Helms (North Carolina), is expected to become chairman of the committee, and Republicans will chair the subcommittees.

The Senate committee will largely be a new entity. Only 6 of the 18 members of the present committee were serving when the 1973 Farm Act was passed. Three of those six were defeated in their re-election bid (Talmadge and McGovern) or retired (Young), and two of the newer members were also defeated (Stone and Stewart). There will thus be at least five new members to be seated, making it possible that only three members of the new committee will have served through the writing of two farm bills and only eight will have been on the committee when the 1977 act was developed.

Changes in the House committee are unlikely to be as substantial. The Democratic leadership will change only slightly (unless, of course, Chairman Tom Foley (Democrat of Washington) moves to another post). Eight of the present fifty-two members either not reelected or retiring include three Democratic subcommittee chairmen: Baldus (Wisconsin)—Dairy; Mathis (Georgia)—Oilseeds and Rice; and Nolan (Minnesota)—Family Farms. Of the five departing House Republicans, two (Symms of Idaho and Grassley of Iowa) will be moving to the Senate. The House committee membership will be re-alined to reflect the membership of the House as a whole and the size could be changed, but the changes will likely be less wholesale than in the Senate committee.

The time path for writing the new legislation is largely dictated by the congressional budget process. The important dates including those required by the Budget Act are:

January 3: The 97th Congress convenes and begins to organize itself.

January 20: The President-elect is inaugurated; Senate confirmation hearings are conducted and new Cabinet officers sworn in.

February–March: Both Houses hold public hearings on the new legislation.

Mid-March: An administration bill, if there is one, must be submitted to the Congress to receive consideration.

Mid-March–May 15: Committee markup and bill provisions adopted.

May 15: Bills reported from committees to both Houses—first concurrent budget resolution adopted.

May 15–September 15: Bills considered and passed by both Houses, the conference committee completed, and enrolled bill sent to the White House.

September 1: Second concurrent budget resolution passed.

This schedule obviously means that development must move rather quickly. One immediate decision the new administration faces is how it will elect to make its input into the legislative process. The administration's options pertaining to the new legislation include:

> Writing its own bill for consideration by the Congress along with other proposed bills. This option places the greatest burden on the new administration simply because so little time is available for it to get organized and then write a bill;
>
> Working with the congressional committees in getting its preferred positions included in a committee-written bill; and
>
> Of course, the new administration could request a 1-year extension of the present law (perhaps with minor modifications) to provide time for developing positions and writing a bill.

There is no indication at this time as to which option the new administration might prefer. However, simple pragmatism would suggest a higher probability for either of the latter two.

Another major uncertainty at this time is the economic environment through the mideighties in which the new farm law will have to operate. An increasing number of analysts today are suggesting the future economic conditions for the farm sector will be essentially the opposite of those to which we have grown accustomed over the past 50 years of farm programs. These forecasts suggest that rather than overproduction, chronic surpluses, and low commodity prices and farm incomes, the typical conditions could well be frequent shortages, highly volatile prices, and unstable farm incomes. The policy concerns would then be allocation of available supplies between domestic and foreign consumers, encouraging production, wise use of production resources, and economic stability. Traditionally, national farm policies have tended to follow economic conditions rather than lead them. But, if these prognostications are to be believed, then the policy provisions meriting most attention for inclusion in the farm bill may well be quite different from those that have traditionally received the attention.

THE ISSUES

Regardless of whom the new policy officials will be, how the new administration makes its input, or the conclusion about the future economic environment, there are numerous issues which are almost certain to arise as the new legislation is framed.

The commodity programs

One of the most difficult issues in fashioning the commodity programs is the structure and level of the price and income supports (the loan rates and target prices). The search for an acceptable way to determine these has continued since passage of the 1977 act, with legislative changes in 1978, 1979, and early 1980.

Target prices.—The base levels established in the 1977 act were reached only after considerable debate and compromise. The act also included a year-to-year adjustment formula which incorporated changes in variable, machinery ownership, and overhead components of production costs. This was subsequently modified and now the annual target prices are determined by the Secretary after taking into account changes in production costs.

It is likely that target prices will again be a major issue. The debate will focus on the target price levels and the components of production costs on which to base and adjust them. It appears to be rather widely accepted that cost of production should be retained as the basis for setting target prices. But there is much less consensus on which cost components to include or which yields (trend, some average of actual yields, et cetera) to use in determining unit costs, or whether to use historical or prospective costs. In addition, we will see arguments for the target prices to be tied to total costs, including land.

There may be attempts to significantly change the target price system, and perhaps even proposals to scrap it altogether. The use of some type of regional support levels to account for the diversity in yields and costs is frequently mentioned. Some people would now argue that target prices are redundant, that income support can be guaranteed using a combination of the loan and farmer-owned reserve programs. Elements of this argument include reducing program costs, neutralizing the impact of programs on farm structure, and, more fundamentally that the farm sector has evolved to the point where direct payments are no longer necessary.

Price supports.—Undoubtedly, this will again be an issue, as both the levels and methods of adjusting loan rates will be called into question. We will again see proposals for "high" price supports, perhaps to cover total cost of production, and questions of whether these should be adjusted by some formula (for example, indexed to costs) or left to administrative discretion. The same pro and con arguments will ensue, with budget outlays and maintaining competitiveness in world markets being the critical ones. It is possible that there could be a serious review of the respective roles of the commodity loan program and the target price concept, when operating in conjunction with the reserve program.

Payment limits.—This has been a provision of the law since 1970. Efforts will again be made to both reduce and to increase the limit. Proponents of a lower limit will argue that this would prevent distribution of unneeded benefits to larger farmers. Proponents of higher limits will site inflation as the principal need.

This whole argument really centers on the distribution of program benefits—who should benefit from the payments—and how it affects the structure of the farm sector. The present distribution of payments is highly skewed to the larger farmers, since payments are based on volume of production. This debate could produce proposals for more carefully targeting the payments, with suggestions such as variable payment schemes and variable limits emerging.

Acreage bases.—The 1977 act suspended the acreage allotments, replacing them with a normal cropland acreage (NCA). The views on the suitability of the NCA vary widely. Proposals for alteration are likely, focusing on the number and types of crops to be included, the means for annual adjustment, and the extent of allowed adjustments. Another question will be whether farmers should be required to keep plantings within the NCA as a condition for eligibility for program benefits. (NCA's were established on the basis of 1977 plantings—farmers could ask for adjustments based on 1975 and 1976 plantings. Because of production shifts, some states are having difficulty staying within their NCA in order to be in compliance. This is especially true in the Southeast, where farmers exceeded their 1980 NCA's by 7 million acres.)

Cross compliance also appears to be an issue—with some groups favoring retention and others complete elimination. Soybean farmers are most likely to oppose cross compliance, perhaps joined by cotton farmers. And, some support might come from farmers on the "smaller, mixed operations."

Production controls.—Arguments have been advanced now for several years that we really no longer need production controls. But the statutory authority for them will likely be continued. The arguments may focus on the way in which need for production control is determined. Some farm groups now suggest that the set-aside decisions are too political, and that they are simply no longer effective. Some consideration could be given to determining when to have a set-aside by some specific carryover stock level or other formula.

Grain reserves.—The role of grain reserves in farm policy may well mark the most fundamental differences among participants in the 1981 debate. There is still mixed opinion about the efficacy of the farmer-owned reserve. The reserve, however, is politically attractive and has rather wide support among farmers, consumers, and taxpayers. Major debate will likely ensue around the extent of its role among the policy tools, and the mechanics of its operation—its size, release prices, call prices, incentives to farmers to participate, and the amount of administrative discretion in operating the reserve. Issues may include:

Whether to specify limits on the size of the grain reserve and, if so, what the size should be.

Whether to broaden the reserve to include additional commodities such as soybeans and cotton.

The appropriate level for the reserve release and call prices and how to establish such levels. Proposals will likely emerge calling for a much higher release price, a staggered call price, regional release and call prices, and perhaps some linkage of these to cost of production.

Whether to institute a special loan price that is much higher than the regular loan rate for grain entering the reserve.

Other commodities.—There may be some efforts to modify the programs for specific commodities for various reasons. The substantial losses from the drought this year may engender a movement to include soybeans in the "total" program, specifically to make them eligible for disaster payments. Yet, the implementation of the new crop insurance program and whether the disaster payments program is extended will affect any such move. Soybean interests are likely to continue to oppose a reserve, set-aside, and target price while seeking expanded assistance for international marketing and yield related research.

Proposals may also be advanced to modify the rice program to make it more closely conform to the programs for the other grains and cotton.

Historic allotments continue to be used as the basis for target price payments. Suspending the allotments would extend program benefits to all producers, making the program consistent with the other grain commodity programs.

The prevalence of cooperative pooling has raised questions about price determinations for program purposes. Basing deficiency payments on a season average price has been argued by some as overcoming the problem.

The loan rate is directly tied to target price adjustments, unlike other grain commodities.

The reserve release level is viewed by some as being too low.

The high concentration of production has raised questions about the payment limit. Efforts may be made to close loopholes and perhaps reduce the payment limit.

There will undoubtedly be major efforts to revise and modify the programs for dairy, peanuts, tobacco, and sugar, to bring these programs into closer accord with current economic reality and the mainstream of policy. Issues related to these programs are treated elsewhere (see the paper by Bill Motes in this session) and will not be further discussed here.

Conservation.—The loss of soil due to water and wind erosion continues as a serious problem affecting the present and future productive capacity of our resource base and agricultural plant. Approximately 126 million acres of cropland are subject to losses of more than 5 tons of top soil annually; 63 million acres lose more than 10 tons annually. These acreages are 31 and 15 percent, respectively, of the 413 million acres of cropland identified by the 1977 National Resources Inventory of the Soil Conservation Service. Erosion is also a serious problem on much pasture and rangeland where approximately 81 million acres lose more than 5 tons annually.

A controversial issue is whether conservation programs and incentives should be linked to the commodity programs, especially whether cross compliance—the required adoption of conservation measures to gain eligibility for other program benefits—should be adopted. Related issues concern the types of economic incentives that should be made available to farmers to encourage conservation. Again, the amount of Government regulation—involvement—in the affairs of the farm business lies beneath this.

Other commodity issues.—A few other agriculture-related issues might receive some consideration. These include internal transportation of commodities, especially as related to movement for export. This involves principally the railroads but extends to the waterway and highway systems.

The export promotion programs are also likely to figure prominently. Especial consideration will undoubtedly be given to safeguards for farmers against trade disruptions such as embargoes for whatever reason. Further, the recent trade agreement with China and the upcoming expiration of U.S.-U.S.S.R. grains agreement raise questions about bilateral agreements—their desirability and the role of the Congress (such as having veto power) in developing them.

Public Law 480

The Public Law 480 food aid legislation has undergone a number of substantial changes over the past 4 years affecting both its general organization and its day-to-day operation. Program supporters and critics alike agree, however, that further major changes in the law are unlikely in 1981.

There are a number of developments possible in related areas that could affect the food aid programs. These include initiatives to establish an international food security reserve, to define the role of the newly created International Development Coordination Agency, and more generally to minimize Government program expenditures.

Debate on an international food security reserve will impact directly on the food aid program. Common to most of the food security reserve and domestic grain reserve proposals now pending before Congress is the recognition that there must be a direct link with the food aid program. Several of the proposals made to date have been linked directly to the 4 million tons of wheat accumulated during the Soviet sales suspension and limit any reserve exclusively to humanitarian relief in developing countries. The size of any reserve and provisions for replenishing the reserve will also impact directly on the operation of the food aid program in periods of short supplies and high prices and on efforts to expand the program's planning horizon from 1 to possibly 3 to 5 years.

Given the general move toward more restrictive Federal and departmental budgets, program funding could become an issue. Funding for the past 4 years (fiscal 1977–80) has averaged $1.2 billion and is set at a record $1.4 billion for fiscal year 1981. Rising commodity prices, however, mean lower aid volume; and the products actually shipped in 1981 could slip to 5.2 million tons compared with the 5.7 million tons shipped in fiscal year 1980. An appropriation in the range of $1.6 to $1.7 billion would be required to insure fiscal year 1981 donations at the same volume as in fiscal year 1980.

The day-to-day operation of the program could be affected by changes in related legislation. Of particular concern is the relationship between USDA, the lead agency in administering the food aid program, and the new International Development Coordination Agency. Also, potentially of interest is the further refocusing of food aid toward humanitarian and developmental needs reflected in the agricultural committees' emphasis on the title III program, on a "needs" criteria for aid allocation, and on multiyear aid planning.

The food stamp program

The funding authorization for the food stamp program which now provides assistance to nearly 22 million people, making it the largest of the Federal public assistance programs, will expire on September 30, 1981. The outgoing administration was expected to propose only minor program changes. But, with a new administration and changed leadership in the Congress, proposals for major changes may be advanced and now meet with greater political acceptance.

The most major change to the program in recent years was the elimination of the purchase requirement in 1977. This feature was implemented in early 1979 and the number of participants rose from 15.5 million to the present 22 million. But, it is difficult to determine the unambiguous impact of that program change because economic conditions in 1979 and 1980 also influenced the program. Unemployment was rising, adding to the number of eligible participants while food costs were also rising, increasing the per-person benefit rates. The combination served to increase the program costs.

The rising program costs reached the funding cap, another program feature adopted in the 1977 farm bill. The cap was adopted as an attempt to control expenditures for this entitlement program (i.e., all qualifying individuals are entitled to benefits, regardless of number) and to exert pressure to reduce fraud and administrative costs. The cap had to be raised in fiscal 1979 by $620 million, and the Food Stamp Amendments of 1980 raised the cap for fiscal year 1980 from $6.19 to $9.49 billion and for fiscal year 1981 from $6.24 to $9.74 billion. It appears quite likely that the Senate Committee, at least, will carefully scrutinize the program with an eye to significantly reducing its costs. Several of the amendments proposed in this Congress during consideration of the funding cap will undoubtedly emerge again. Ranging from moderate changes to sweeping reform, these proposals include:

Reinstating the purchase requirement, perhaps with exemptions for a few select groups (such as households with members over age 60 or the blind or disabled).

Eliminating overlap of program benefits (for example, reducing food stamp benefits for households with children receiving federally subsidized school lunches).

Recoupment of benefits from recipients eligible for aid during the first part of a year but whose annual income exceeds the eligibility limit.

Conversion of the food stamp program into a block grant system giving States more authority to determine how funds are spent.

Reexamining the special deductions now allowed. Reducing the allowable deductions used in determining the net income level for eligibility would reduce the number of participants. Another approach, reducing the value of benefits (perhaps by raising the proportion of income which is subtracted from the cost of the thrifty food plan) would have the greatest dollar effect. Both such modifications would reduce program costs while still providing benefits to those most in need.