# The 1995 Farm Bill – Some Impending Issues

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The current farm program is delicately balanced around a set of interlinked objectives. These include adequate income for crop and livestock producers, adequate food supplies at reasonable prices, maintaining a variable export market, maintaining adequate stocks in the event of short crops, protecting the input industry, encouraging conservation and environmentally sound practices and the economic enhancement of rural areas.

All of this is to be achieved at the least cost to the government. Traditionally meeting these objectives required CCC outlays of around $10 billion to $14 billion per year. Managing this type of program significantly below these levels will not achieve all of the above objectives. Budget pressures are beginning to unravel the management options necessary for achieving this set of objectives. Several red flags are beginning to emerge.

***Has the time really come to consider the abandonment of the current farm programs?***

Food and Agricultural Policy Research Institute (FAPRI) analysis suggest that additional budget cuts in the $5 billion range will signal the end of traditional farm programs. Incentives for remaining in farm programs will be extremely low and government stock activity for food security will be non-existent.

These risks, and their implications, represent tough questions to be dealt with during the 1995 farm bill debate.

Several options already are on the drawing board that attempt to circumvent these anticipated problems. Among the leading contenders are:

- Staying the course and attempting to stop the slide in government support
- Green farm programs that provide incentives for conservation and environmen-

tal objectives

• Revenue Assurance Program – a decoupled strategy that basically guarantees a minimum income support. The program is primarily government supported, but allows complete flexibility in producer production decisions.

• Revenue Insurance Program – also a decoupled option that relies heavily on an insurance program as the primary vehicle for minimum income protection. This program also provides producer flexibility in planting decisions.

Has the time really come to consider the abandonment of the current farm programs? One axiom comes to mind: farm programs generally follow the path of evolution, not necessarily resolution. If so, patching up the current farm program becomes a prime contender.

It is currently very favorably regarded by both the crops and livestock sectors. Why? From the crop producer standpoint, returns per acres are at or near record levels for program participants, why? Low set-aside requirements. In the 1994-95 crop year all major feed grains, wheat and rice were planted in a tight stock environment with zero set asides. It seems a contradiction that major cuts in farm support accompany near record returns for program participants. A major factor is the 36 million acres in the conservation reserve program. More than any other factor this has contributed to the higher returns associated with low set-aside requirements.

Looking ahead, the crop sector is heavily conditioned to what happens to the CRP program. Slight definition changes for extending qualifying land could result in significant shifts away from current regional patterns. Regional issues will certainly receive a good amount of attention.

Another factor associated with CRP extension is the possibility of continuing this fairly tight land and stock situation. It calls to attention the issue of buffer stocks and food security. Recent computer runs by FAPRI suggest this may indeed be the case. A full extension may tighten the supply situation to the point that a major drought would be exceedingly difficult to overcome.

Low stocks as a buffer would result in long-term damages to the livestock industry, raise food prices and damage our trade position in world markets. All of this is simply to point out that more care must be taken this time around on the level of lands that can be spared in the CRP program and at the same time ensure food and feed price stability. Least we forget, remember price freezes of the 1970s.

Livestock producers have also fared reasonably well. Lower loan rates and up to this point, adequate supplies have resulted in a fairly complementary program for this industry. In fact since the enactment of the 1985 farm bill, feed grain and high protein prices have been a stimulant for the current strong supplies on the market.

Can this farm program survive in the current budget environment? The key to this answer is the level of additional cuts. If in 1995 those are in the $2 billion range, then expected returns to crop farmers will

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make this a strong contender. Set-aside levels are likely to be low, helping to cushion these cuts. So it is likely that a variation of the current program will be the outcome.

But our analysis suggests that this may be short lived. Additional cuts in the $2 billion to $3 billion range simply pull the payment levels down to the point that by 1998-1999 little difference could be expected from program participation.

Finally this voluntary program unravels and not enough monies to hold farmers carries other serious ramifications. In fact it places the farm program on a direct collision course with the environmental and conservation thrust. Conservation compliance, for example, is a direct requirement for program participation. Little or no participation implies very little leverage for this critical component of farm programs.

The unfortunate characteristics of farm programs – they tend to perpetuate the current situation and hence lag major structural changes. We may in fact do the same in 1995, only to find that the program no longer works by the 1998-99 period.

A midcourse revision is very likely – an exercise that has been going on since enactment of the 1981 farm bill. That particular program was put together in an expanding world trade environment with high rates of inflation. Anticipating these trends resulted in target price escalators and relatively high loan rates. By 1983 these factors had reversed and the farm program went through a major downward adjustment, its actual shelf life was less than two years.

If we stay with this farm program, then budget cuts will have to be stopped. If not, we're on a new path and revenue insurance as a decoupling mechanism stands as good a chance as any other option currently on the books. But revenue insurance alone will not balance the books on all expectations associated with farm program management. Consideration will be necessary for several other components. Debates will be necessary for vital thrusts associated with conservation and environment, rural development, food reserves – adequate stocks, trade buffers in the event of unfair practices, and other factors. These items cost money also.

So the debate may well be lead by budget cuts. If continued at current rates, this current program will finally be dismantled. Putting together other options, however, may not result in less monies for farm program management and operations.

Several of these program objectives spread far beyond the farm gate and all cost monies to achieve. Targeting these objectives may be more productive, but in final analysis we may be surprised to find that other decoupled options require similar costs when all components are considered.

We may be near the bottom of the barrel as far as farm program costs are concerned. We may push the budget theme too far only to find that critical issues, not covered, are simply too costly to be left out. Then we have to revisit – implying several rounds of activities before the sun goes down on the 1995 farm bill version. ▲