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WHAT IS HAPPENING TO U.S. FARM POLICY: A CHRONOLOGY AND ANALYSIS OF THE 1995-96 FARM BILL DEBATE

by

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Abstract

This paper presents a chronology of the 1995-96 farm bill debate, which was historic in several dimensions. Victories in the 1994 mid-term elections gave Republican majorities control of Congress for the first time in forty years. An omnibus budget reconciliation bill became the principal vehicle around which the Republicans organized their political agenda. In the highly-partisan atmosphere that followed, the debate on farm policy centered on the level of spending, the structure of the main commodity programs, and the programs for dairy, sugar and peanuts.

The initial challenge faced by the new agriculture chairman in the House of Representatives was to find policies consistent with the election-year Republican rhetoric, while simultaneously putting together the committee votes to pass a farm bill. A "Freedom to Farm" plan to eliminate annual acreage set asides and provide fixed income transfers decoupled from production decisions and market prices became the centerpiece of his proposals.

Proponents of the traditional commodity programs seemed to hold a strategic advantage against the proposed decoupled payments through September 1995. The Clinton administration had endorsed the traditional programs, and the Senate agriculture committee approved a bill that extended existing support mechanisms (with larger budget cuts than sought by the Democrats) after a reform initiative to lower target prices lacked Republican support. Meanwhile, opposition to Freedom to Farm from cotton and rice interests created an historic deadlock. The House agriculture committee did not pass *any* bill for inclusion in the budget legislation.

The strategic balance in the farm bill debate shifted when market prices increased sharply in late 1995. The existing policy equilibrium continued to lose adherents and Congress passed the Freedom to Farm legislation in November. When the Republican budget initiative (including the new farm policies) subsequently collapsed (in January 1996), a bipartisan coalition emerged to enact the Federal Agriculture Reform and Improvement (FAIR) Act, again including Freedom to Farm. Notwithstanding the intervening steps, this may be the first time ever that legislation included in a budget reconciliation bill without approval from an authorizing committee has become law.

The budget reconciliation bill passed by Congress in November 1995 but vetoed by the president was credited rhetorically with reducing farm program expenditures by $12 billion over seven years. But rising market prices by the time the bill passed implied that income transfers to farmers would be at least $3-5 billion *more* over the first two years under the new legislation than they would have been with the 1990 law. The strong bipartisan coalition in favor of the FAIR Act emerged only when it was clear that a net short-term windfall for farmers was involved, and with continuation of other farm policy interventions and reauthorization of environmental programs with new funding. When the president signed the FAIR Act in April 1996, the short-term benefits of decoupled payments for farmers were larger than estimated the previous November. Permanent legislation for support programs based on supply controls is maintained in the FAIR Act, and there is no guarantee that a transition to lower support costs has been initiated. The dairy, sugar and peanut programs escaped significant deregulation. Thus, regardless of claims that the FAIR Act brings an end to farm programs that have existed since the Great Depression, the amount of reform may well prove less than historic.

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The recently completed debate over the 1996 Federal Agriculture Improvement and Reform (FAIR) Act has raised the question of whether farm policy is impervious to liberal market-reform more than sixty years after the enactment of the Agricultural Adjustment Act of 1933. Critics have long argued that structural changes in the farm sector--decreased rural population, technological innovations, capital-intensive production systems, integration of the farm and nonfarm economies, and rising per-capita average net incomes of farm operators--have made existing agricultural policies anachronistic. The prospects for agricultural policy reform seemed to be strengthened by the recent political imperative toward streamlining government, driven by pressure on the budget from medical and retirement entitlements. In the 1994 mid-term elections, Republicans won control of both the House of Representatives and the Senate, making the first time in 40 years that the Grand Old Party enjoyed such power. The Republican (now majority) leadership expressed commitments to devolution, fiscal discipline, and lower taxes. Cuts in federal programs were implied by these commitments, and 73 freshman legislators converged on Washington with zeal for the mandates of their Contract with America, a broad agenda that the Republican House candidates had endorsed prior to the elections. Their philosophy of governance encompassed an expanded role for the private economy and aversion to failures of the welfare state, principles that seemed to put the farm programs under scrutiny.

Immediate farm-sector circumstances also seemed favorable for reform. International agreements placed modest constraints on agricultural market interventions worldwide, supplies were tight, export markets had strengthened, and further negotiations to liberalize trade were in the offing. The strengthening of world market prices induced by short supplies and strong demand during 1995 made reform relatively painless for the main commodities (feedgrains, wheat, cotton, and rice). The high market prices created a pool of billions of dollars once budgeted for deficiency payments that would not be made under policies in the 1990 farm bill.

This created an incentive for budget chicanery. To recapture the anticipated expenditures for income transfers to agriculture would require a change in the structure of the payment programs.

Taking all of this into account, one might conclude that unless farm policy is essentially impervious to change, the confluence of long-term structural factors, the prevailing political climate, and proximate circumstances of the farm sector in 1995 would lead to some reforms. But what *did* happen to farm policy and why and how did it happened?

This paper presents a detailed chronology of the 1995-96 farm policy debate and some preliminary conclusions that can be inferred from the outcome. Although some important reforms are incorporated in the new farm legislation, the results are not entirely heartening from the perspective of reforming agricultural programs to lower federal expenditures or deregulate markets. Only in the case of deficiency payments and crop program bases has substantive reform survived the political process.

Rhetorically, under the farm policy provisions of the November 1995 Balanced Budget Act that was passed by Congress but vetoed by the president, farm program expenditures were to be reduced by $12 billion from projected levels near $56 billion (about 21 percent) over the next seven years.[1] Short-term acreage set-asides were to be abandoned as a key instrument of policy, planting decisions deregulated, and income payments decoupled from production decisions.

The elimination of acreage set-asides and increased planting flexibility the new legislation provided were sensible reactions to strong market conditions, and generate efficiency gains on the order of 2-4 percent of net farm income. But, rhetoric aside, by the time the budget act was passed rising market prices implied that income transfers to farmers over the next two years might be as much as $3-5 billion *more* under the new legislation than they would have been were 1990 farm program mechanisms left intact. When the president signed the agricultural

[1] Agricultural spending falls broadly into three categories, with expected spending over the next seven years of $56 billion for commodity and export programs, $10 billion for conservation programs, and $11 billion for crop insurance subsidies. The budget and farm bill debates focused mostly on potential cuts to expenditures on the commodity and export programs. Budget cuts of $12 billion would be about 15 percent of the combined agricultural spending.

legislation of the FAIR Act in April 1996, the short-term financial benefit of the new policies for farmers were even larger.

If the prevailing strong market conditions continue, support payment levels under the 1996 legislation might remain higher than under the previous deficiency-payments programs even in the outlying years. This would further enhance the relative benefit farmers receive from the new agricultural policies. If market conditions weaken, as is equally likely, one has to speculate whether or not the production reforms in the 1996 legislation will stick--they might not in an era in which congressional majorities will be contested and Democratic opponents of the new policies, who bemoaned the elimination of what they termed the "safety net" for farmers, may regain power. If prices fall and the reforms are rescinded, the extra payments farmers received in 1996 and (likely) 1997 will amount to a pure windfall, for which taxpayers receive no offsetting savings. If prices fall and the reforms stick, the new legislation could signal less government intervention than equivalent market circumstances have in the past, with reduced future farm payments. The reforms will be more substantive in these circumstances, but it still might be many years before taxpayers recouped the extra up-front outlays mandated for farmers by the 104th Congress. Other reforms designed to increase the market orientation of farm policy mostly fell by the wayside in the process of enacting the new farm bill.

Chronology of the Farm Policy Debate

The 1994-1996 debate over farm policy was historic in a number of dimensions. After the mid-term elections in November 1994, farm programs were to be determined by a Republican-dominated Congress. An omnibus bill to constrain government spending and balance the federal budget became the principal vehicle around which the Republicans organized their political and legislative agenda for 1995. The highly-partisan policy debates in which the two parties inevitably were to engage in this political setting played out in a microcosm on farm policy. The newly-elected Republican majorities were not necessarily going to extend old Democratic farm programs unquestioningly, and Democrats rallied around defense of the past interventions. Never before had the budget process played so prominent a role from such an early point in farm policy deliberations.

The farm policy debate during 1994-95 centered on the level of farm program spending, the structure of the main commodity support programs, and the policies for dairy, sugar and peanuts. Some Republican leaders promised initially that the farm sector would be cushioned from reductions in direct government spending by lower taxes and less regulation, and Republicans and Democrats spared over contentious legislation on a variety of environmental policies. But consideration of environmental components of the farm bill lagged the budget process and came before the full Congress in quite a different form when the Republican budget initiative collapsed in January 1996.

The key events related to the debate on the budget and the structure of farm support programs can be divided into four phases. These four phases are characterized by: 1) concessions to agricultural interests in the GATT implementing legislation and the initial agenda of the Republican Congress (October 1994-June 1995); 2) emergence of budget-savings proposals and spending-level proposals (June-September 1995); 3) rising market prices drive the congressional farm policy outcome (September-November 1995); and 4) collapse of the Republican budget initiative (November 1995-January 1996). Subsequently, with a new crop year imminent, expiration of many farm programs authorized in 1990, and reversion to untenable 1949 permanent legislation technically in the offing, a bipartisan coalition emerged in 1996 to push farm legislation through Congress independent of the budget act (January-April 1996). A chronology of the principal events of the farm bill debate is shown in Table 1.

GATT Concessions and a Republican Congress

Once the election results were known, the political repositioning in preparation for convening the 104th Congress began in earnest. With the Republicans having taken control of the House of Representative and the Senate, the Clinton administration quickly backed away from a

Table 1. Chronology of Principal Farm Bill Events

	GATT Concessions and a Republican Congress
October-December 1994:	GATT Implementing Legislation Agreements Election of Republican Congressional Majorities
February 1995:	Administration's FY96 Budget; Lugar's Reform Proposals
May:	Administration's Farm Policy Guidelines
June:	Senate and House Budget Resolutions; Conference Budget Resolution
	Budget-Savings and Spending-Level Proposals
May:	Domestic Sugar Market Deregulation (Miller-Schumer)
June:	Farm Freedom Act (Zimmer-Schumer)
July:	Freedom to Farm Act (unsigned outline)
August:	Freedom to Farm Act (Roberts) Agricultural Competitiveness Act (Cochrane and others) Farm Security Act (Senate Democrats)
	Rising Prices Drive the Congressional Outcome
September:	Minimal Conditions (Lugar's press conference); Lugar's First Markup Bill Robert's Markup Bill Agricultural Competitiveness Act (Emerson-Combest) House Committee Deadlock
October:	Senate and House Reconciliation Bills
November:	Conference Budget Reconciliation Bill; First Partial Government Shutdown
	Collapse of the Republican Budget Initiative
December:	Veto of Balanced Budget Act Second Partial Government Shutdown
January 1996:	Republicans Acknowledge Budget Gridlock
	Emergence of a Bipartisan Coalition
January 1996:	Agricultural Market Transition Act (Roberts)
February:	Senate Agricultural Reform and Improvement Act Agricultural Regulatory Relief and Trade Act (Roberts) Amended Agricultural Market Transition Act
March:	The Federal Agriculture Improvement and Reform (FAIR) Act
April:	FAIR Act signed into law

proposal (floated by its budget director in October 1994) to reduce support payments to agriculture by as much as $16 billion over five years. Instead, during the negotiations surrounding passage of implementing legislation for the 1994 GATT Agreement (during a special lame-duck session of Congress in December) the administration committed to seeking funding for export programs at the GATT-maximum levels and to minimizing future budget cuts for agricultural support programs.

Consistent with these commitments, the president's February 1995 budget was supportive of agriculture. Declining expenditures on deficiency payments were anticipated from strong demand and administrative actions to extend the Conservation Reserve Program (CRP), but the only budget discipline was inclusion of unspecified changes in policy to reduce Commodity Credit Corporation (CCC) outlays by $1.5 billion in the out years 1998-2000. These administration positions were reiterated by the new Secretary of Agriculture, Dan Glickman, in his March confirmation hearings. An eighteen year veteran of Congress from Kansas, Glickman promised to be "an advocate for agriculture."

The administration followed up in May with guidelines for farm policy. The guideline called for maintaining the traditional program structure of target prices and loan rates, modified by a phase-in of flexibility that would allow farmers to plant their base acreages to alternative crops without losing program benefits. In a concession to the prospect of fiscal pressure beyond the president's budget proposals, the guidelines acknowledged that "needed reductions in outlays" could be achieved by increasing the percentage of nonpayment acres beyond the 15 percent stipulated in the 1990 farm bill. The administration also endorsed extension of the CRP, with additional enrollments through 2000 of the "most environmentally sensitive land." With these and other commitments to maintaining projected farm spending and the traditional program structures, the administration precluded itself from taking a leadership role in seeking fundamental change in the commodity programs, although it did endorse a range of proposals for modest reforms.

A much more aggressive reform agenda was espoused by the new chairman of the Senate Committee on Agriculture, Nutrition and Forestry, Richard Lugar (R-IN). After the November 1994 election, Senator Lugar signaled his intent to take a hard look at farm policy. Lugar followed with a proposal for substantial reform. He recommended that $15 billion be saved from anticipated expenditures by lowering target prices three-percent per year for five years and eliminating the Export Enhancement Program (EEP). Lugar held a series of hearings in February and March 1995 to highlight his critical views. The hearings, however, served just as much to demonstrate the lack of support for his proposals among members of his committee from either party.

The dispute about agricultural policy spilled over into the Senate budget committee, which took up the Republican's omnibus balanced budget legislation as a basis for turning their election victory into a functioning policy agenda. A Senate budget resolution in May set broad spending objectives to balance the budget in seven years based on February 1995 baseline projections by the Congressional Budget Office (CBO). The Senate budget resolution called for elimination of the federal deficit without raising taxes; nor were taxes lowered. For agriculture, Lugar's proposed budget cuts were rejected as too severe. Recommended reductions of spending for agricultural programs were $8.8 billion over five years and $11.8 billion over seven years.

The new chairman of the House Committee on Agriculture, Pat Roberts (R-KS), was a longtime defender of support programs for agriculture. Drawing a contrast to Lugar, whose proposal for a substantial reduction in expenditures was coupled with his call for a thorough reevaluation of the program's objectives and structure, Roberts indicated that he wanted to "take a look at what works and build from there" (*Agricultural Law Letter*, January-February, 1995).

Roberts' defense of existing programs rested in part on the argument that agricultural budgets had been reduced more than proportionately compared to other government outlays since

1985.[2] Acknowledging the conservative momentum in the House of Representatives after the November elections, he cautioned farm interests that they should nevertheless anticipate further budget cuts. He also articulated the potential benefits for farmers from the full Republican agenda. The negative effects of agricultural budget cuts would be offset within an overall package of deficit reduction by lower taxes and interest rates, and by regulatory and tax reform that would be targeted toward farmers specifically.

At the annual meeting of the American Farm Bureau Federation in January 1995, Roberts outlined his objectives within the framework of the Republican agenda: first, to ensure that commodity programs were not singled out for disproportionate cuts; second, to ensure that the spending cuts went toward deficit reduction not other programs; and, third, to seek relief for farmers from the "tidal wave of environmental mandates." Roberts developed these three objectives into a "policy ledger" for agriculture. On the negative side were less federal support expenditures and, possibly, reform of domestic supply restrictions for import-protected commodities such as sugar and peanuts. Offsetting these "negatives" would be beneficial farm program reforms (elimination of annual acreage reduction program (ARP) set-asides, increased planting flexibility), continuation of the CRP, regulatory reforms (wetlands, endangered species, coastal management, private property protection, cost/benefit analysis applied to regulations, elimination of unfunded mandates, science-based risk assessments), and tax reforms (lower capital gains taxes and health-care deductions for farmers and other self-employed persons).

Despite his endorsement of the Republican agenda, Roberts led efforts in Congress to defend existing programs under the jurisdiction of the House agriculture committee. His first success was to insulate the federal food stamp program from the commitment in the Contract with America to turn many federal welfare programs over to the states in the form of block grants. In late February, after a contentious 14-hour session to mark up legislation, Roberts

[2] In making this argument, Roberts and other defenders of farm programs ignored the fact that expenditures for farm support were particularly high in the mid 1980s--partly due to stocks accumulated when loan rates were too high as the U.S. dollar appreciated from 1981 to 1985.

announced agreement with the House leadership to retain food stamps as a federal entitlement program.

Roberts also did some homework in political calculus. He concluded that 33 of the 76 freshman Republican members of the House, including 24 who had defeated Democratic incumbents, came from districts with significant agricultural activity. Reminding his colleagues of past election defeats when the Republicans had not supported farm spending, he prepared a strategy to convince the Republican leadership that its hold on a House majority could depend on taking a supportive approach to agriculture.[3]

While the Clinton administration had positioned itself after the mid-term elections to support only marginal changes to the budget and structure of existing programs for agriculture (and more broadly), and Senate Republicans emphasized budget discipline, the new Republican majority in the House of Representatives sought to make good on its campaign pledge to enact major portions of the Contract with America during the first one hundred days of the Congress. To fulfill part of this commitment, the House Republicans approved tax cuts of $353 billion in their balanced budget resolution. With the tax cuts, greater reductions in aggregate expenditures were required to balance the House budget than in the Senate. The House budget committee originally targeted agricultural spending for the substantial level of cuts Senator Lugar had proposed. Roberts attempts to defend farm program spending faced potentially strident budget-committee and floor opposition. On his own committee, Representative John Boehner (R-OH), chairman of the House Republican Conference, also represented the party leadership and led a group of reform-oriented members.

Despite the opposition, Roberts and others had whittled the proposed agricultural cuts down from $16 billion to $12 billion over five years by May 4 when House budget committee chairman John Kasich (R-OH) called a Republican retreat to review his proposals before a public

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[3] Historically, Republicans attributed election losses in the 1940s and 1950s to opposition to their farm policies.

markup session. Agricultural representatives missed the opening meeting of the retreat to hold their own caucus. In subsequent negotiations, Roberts and Kasich bantered around a figure between the budget committee proposal and cuts of only $5 billion. They settled on a cut of $9 billion over five years and a much larger cut of $17 billion over seven years.[4] By the time the budget resolution was passed on the House floor, Roberts had also obtained a nonbinding amendment providing an escape clause from the budget cuts.[5]

The differing Senate and House budget resolutions went to a conference committee on June 8, 1995 and a joint resolution was completed by late June. The conference committee compromised on tax cuts, agreeing to lower taxes by $245 billion once the CBO certified that Congress had produced a legislative package projected to achieve a balanced budget by 2002. The joint resolution did not fully resolve the level of the spending mandates for farm programs because different instructions were provided to the House and Senate agriculture committees. The House adopted targets that implied a reduction of budgeted expenditures on agriculture of $8.5 billion over five years and $13.4 over seven years. In the Senate, only aggregate savings by the agricultural committee from farm and nutrition programs were specified ($29.2 billion over five years and $48.4 billion over seven years).

The joint budget resolution also provided only initial guidelines for farm policy because no details were included about how the mandated budget cuts would be obtained. Within the

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[4] David Maraniss and Michael Weisskopf give a detailed account of negotiations during the Republican retreat in their article "Aggies and the Road Gang Crunch the Numbers" (*Washington Post*, 5/26).

[5] The amendment stated that reductions for agricultural programs for fiscal years 1999 and 2000 would be "re-examined" if land values on January 1, 1998 were less than 95 percent of their values on the date of adoption of the resolution, relief in the areas of wetlands regulation, the Endangered Species Act, private property rights, and cost-benefit analysis of proposed regulations were not enacted into law, new legislation had not been enacted providing capital gains tax reductions, increased estate tax exemptions, and mechanisms for averaging income for tax purposes, or if there had been any U.S. government interference in international markets or NAFTA, GATT and other international trade agreements had not lowered export subsidies and reduced import barriers of foreign governments.

budget parameters, attention would now turn to policy specifics. The near unanimity with which agricultural constituency groups had petitioned Congress to minimize the aggregate budget reduction would break down as various competing interests were pursued. Moreover, unlike the budget resolution, the subsequent budget reconciliation bill with its detailed policies to meet the spending mandates would require a presidential signature to become law. For the Republicans to succeed on their budget plan and policy reforms would eventually necessitate some accommodation of the priorities of the Clinton administration and the Democrats in Congress.

Budget-Savings and Spending-Level Proposals

The early tone of the agricultural policy debate was set partly by legislation introduced by severe critics of the existing programs. Representatives Dan Miller (R-FL) and Charles Schumer (D-NY) organized almost 100 cosponsors for a bill to terminate the domestic sugar support program. During negotiations over the 1995 agricultural appropriations bill, they obtained a promise from Roberts to allow a vote on their proposal when the farm bill reached the House floor.

In June, Representatives Dick Zimmer (R-NJ) and Schumer introduced legislation titled the Farm Freedom Act. It phased out deficiency payments by lowering target prices five-percent per year for five years (a similar approach to Lugar's proposal). Aggregate outlays for deficiency payments were capped during the transition period and eliminated in the sixth year. The sponsors claimed that over five years their proposal would save $29 billion and end income transfers to farmers.

The spending mandates of the Senate and House agriculture committees lay between the extremes of the Clinton administration's budget and the Zimmer-Schumer bill. Republican and Democratic members of the committees began work on proposals within this scope.

The Freedom to Farm Act

One option that circulated around the House agriculture committee in early June was an unsigned three-page outline of a reform proposal titled the "Freedom to Farm Act." Compared to all of the previous discussion and proposals, which scaled back existing programs to achieve some level of budget savings, the Freedom to Farm Act stood the budget process on its head. It focused on insuring that farmers *received* the full level of spending projected in the CBO budget baseline of February 1995, less the mandated budget cuts.

The outline of the Freedom to Farm Act presented a simple alternative to existing support programs for the feedgrains, wheat, cotton, and rice. Over a seven-year period, farmers would receive a capped entitlement totaling $43 billion, which was the CBO baseline spending projection less the $13.4 billion reduction stipulated in the budget resolution. A portion of this entitlement would be spent on EEP, and the remainder would be paid to individual farmers based on their participation in support programs over the past five years. To remain eligible, farmers would have to comply with the conservation compliance provisions of previous law. But the Freedom to Farm payments would be made regardless of market prices and independent of production decisions; they would be decoupled from economic activity on the farm. Farmers would be free to make production decision based on market price signals, without concern about maintaining a program base or fulfilling ARP requirements. The payment contracts would last for a seven year "transition" period, with the aggregate annual expenditure cap falling one-third from $7.6 billion in 1996 to $4.96 billion in 2002. A minimal safety net would be provided by retaining nonrecourse loans at 70 percent of the Olympic (dropping the highest and lowest years) moving average of past prices (instead of 85 percent under the 1990 farm bill). A national commission was proposed that would evaluate the effects of these reforms by 1998 and make recommendations about the appropriate long-term role of the government in agriculture.

The simplicity of the Freedom to Farm outline allowed its advantages and shortcomings to be readily identified. Like Zimmer and Schumer's similarly titled Farm Freedom Act, the Freedom to Farm Act provided budget disciplinarians with a firm cap on future farm program expenditures.

Beyond imposing a budget cap, the Freedom to Farm Act was more generous to farmers and provided more immediate production flexibility. The decoupled payments guaranteed under the Freedom to Farm Act insured producers of a seven-year contractual income stream. Market prices had strengthened throughout 1995 and carryover stocks were projected to be at nearly historic low levels at the end of the year, implying prices would remain strong for at least another year. This made the guaranteed payments under the Freedom to Farm Act lucrative in the short run compared to deficiency payments, which were likely to be smaller under existing law or similar legislation continuing the deficiency payment mechanisms than had been projected by the CBO four months earlier.

The windfall payments under the Freedom to Farm Act were particularly appealing to the chairman of the House agriculture committee. In July, 1995, his Kansas constituents faced the prospect of having to repay advance disbursements of deficiency payments because of high market prices, but they had suffered fairly extensive crop losses which lowered their expected income. Revised projections since the February CBO baseline also suggested strong farm exports and future prices in the outlying years. This compounded the potential short-term windfall, although with less certainty.

Decoupling of support payments from market prices under the Freedom to Farm proposal also finessed a budget-process obstacle to eliminating the annual ARPs, as favored by many farmers, processors, and other critics of supply controls under existing farm programs. As long as farm payments remained tied to production, the CBO scored eliminating the set-asides as raising government costs because more acres became eligible for payments and market prices might be lowered. Since the CBO included ARPs for corn and cotton in its baseline projections, the agriculture committees were informed that eliminating set-asides would be evaluated as increasing the cost of farm support programs by nearly $6.5 billion--an additional 50 percent of the budget savings required from farm programs by the budget resolution. Under budget rules, this additional cost would have to be offset by other savings if the set asides were eliminated under existing program mechanisms. Most analysts considered the CBO set-aside projections unrealistic given the strong market outlook that had developed by July. But the budget scoring issue remained a tangible obstacle to achieving production-enhancing reform by eliminating the authority for ARPs. The Freedom to Farm Act finessed this constraint by decoupling payments from production and prices.

Given its producer and budget-process advantages, the Freedom to Farm outline received some interest as a budget reconciliation proposal, despite its radical break with past policies. The unsigned proposal appeared to have been circulated by the staff of the House Republican Policy Group, a leadership group that included Roberts. Widely viewed at first as a trial balloon, by late July the proposal seemed to have staying power. On August 4, 1995, Roberts formally introduced the Freedom to Farm Act, co-sponsored by Representatives Boehner, Bill Barrett (R-NE), chairman of the General Farm Commodities Subcommittee, and Michigan agriculture committee members Hostettler and Smith. Roberts indicated he would spend the congressional break advocating his legislative proposal and gauging reactions from producers before holding a formal markup session of the agriculture committee in September.

The August version of the Freedom to Farm Act stipulated that the capped total expenditures (less EEP funding) would be distributed as transferable individual contractual payments that would presumably be insulated from future budget decisions by Congress. The payments would be proportioned among the program commodities on the basis of shares of previous payments for "deficiency payments, loan deficiency payments and gains realized from repaying loans at a level less than the original level, and marketing certificates." Individual farmers would receive payments based on their 1995 program yields and base acreage for three of the years 1991-1995. Payments were to be limited to $50,000 per person, a more stringent limit than existed, with tightened regulations to prevent circumvention. Planting flexibility provided on base acres excluded fruits and vegetables, unless designated specifically by the secretary of agriculture, and gave the secretary authority to prohibit planting of other commodities in specific years. The traditional program commodities grown on land subject to a contract would be eligible for nonrecourse loans, as would oilseeds and rye grown by any producer. The Freedom to Farm Act ended the voluntary annual set-aside programs (0/92,85 and 50/92,85), terminated the authority for the existing cotton and rice programs (that had been extended through 1997 in the 1993 budget reconciliation legislation), and suspended, but did not revoke, relevant sections of the 1938 and 1949 agricultural legislation for the 1996-2002 period. No provisions were included for the CRP, nor were provisions included for dairy, sugar or peanuts.

Senate Bills

In the Senate, the agricultural policy proposals moved in quite a different direction. Lugar did not reassert his early budget-saving reform proposals and hinted that only modest changes in existing programs might be required. While the chairman delayed, Senator Cochrane (R-MS) and 14 cosponsors--including Helms (R-NC), Warner (R-VA) and Craig (R-ID) and Prior (D-AK) from the agriculture committee--introduced a traditional farm bill titled the Agricultural Competitiveness Act of 1995. The Cochrane bill (as it came to be known) characterized policy as being at a crossroads of "whether the U.S. agricultural economy will be offered up to satisfy ideology, leaving U.S. farmers to compete on their own against the treasuries of foreign governments." Even so, its sponsors reluctantly acknowledged the necessity for reduced spending on agriculture.

To achieve budget savings, the Cochrane bill increased nonpayment acres from 15 percent to 25 percent for the supported program crops. In most other ways, the Cochrane bill extended existing law. The support programs remained an uncapped entitlement and the mechanism of deficiency payments tied to production of specific crops on established base acreages was retained. The Cochrane bill addressed the interests of some farmers in increased planting flexibility by allowing farmers to plant up to 100 percent of their base acres to alternative crops and to plant program crops on 25 percent of their historic soybean acres.

Farmers would be ineligible for deficiency payments for the alternative commodities they produced but they would not be penalized by a reduction in eligible base acreage. Any output of program crops would be eligible for nonrecourse loans.

The Cochrane bill also included traditional provisions for sugar and peanuts. The support price was maintained at its 1995 level of $0.18/lb for raw cane sugar. In place of marketing allotments, producers were required to implement a surplus stocks program that would insure that the U.S. minimum import commitments under GATT were met and domestic prices were supported at no cost to taxpayers. The peanut price support level was also maintained, with the secretary of agriculture given latitude to lower the national poundage quota receiving the domestic price support in order to reduce government program costs. These modest reforms were accepted by sugar and peanut producers as minimal steps necessary to forestall the more dramatic reforms--particularly reduced support price levels--called for by critics of the programs.

With its comprehensive provisions for maintaining existing programs, the Cochrane bill became a rallying point for producers of the southern commodities (cotton, rice, sugar and peanuts) and others interested in maintaining the traditional program structures and minimizing budget reductions in agriculture. The budget savings of the Cochrane bill were estimated to be less than $5 billion over seven years. The sponsors hoped to shift some of the remaining budget reduction requirements of the Senate agriculture committee onto nutrition programs, but acknowledged that agricultural programs might need to be further modified "as necessary to comply with applicable budget reconciliation instructions." The future of the CRP and dairy policy were not addressed in the initial Cochrane bill.

Senate Democrats on the agriculture committee, led by the Minority Leader Tom Daschle (D-SD) also outlined a farm policy proposal before the August 1995 congressional break. Their Farm Security Act of 1995 established a two-tier payments mechanism for wheat and feedgrains. Increased planting flexibility was incorporated by combining separate commodity acreages into a single farm base. Payments were targeted to mid-sized farms by limiting the quantity of output that would be eligible for deficiency payments. Additional output from base acreage would be eligible for CCC loans at a rate raised to 95 percent of the five-year Olympic moving average of market prices. Total expenditures on farm programs would be restricted to $7 billion per year, resulting in a saving of $4 billion from the CBO baseline projections.

The policy proposals of the Senate Democrats differed from those of the Clinton administration, but the president had revised his budget proposal in June to counter the Republican congressional agenda. His June budget also endorsed savings of $4 billion from agricultural programs--using projections from the administration's Office of Management and Budget (OMB) instead of the CBO.

By raising the loan rate, the Senate Democrat's bill recoupled support payments to production, a policy change diametrically opposite to the decoupled payments of the Freedom to Farm Act. If market prices fell, higher loan rates could potentially lead to unanticipated levels of CCC expenditures since loans could be repaid at the loan rate or the prevailing market price level. The Democrat's bill gave the secretary of agriculture the authority to impose acreage set-asides or otherwise modify program parameters if projected expenditures exceeded the authorization, so it retained a strong element of supply management.

Rising Prices Drive the Congressional Outcome

As Congress left Washington for its August recess, the farm policy options had come into focus around the initial proposals. It was now clear that the partisan character of the budget debate would cast a heavy shadow on the farm bill deliberations. Despite the differences in their policy prescriptions, House and Senate Democrats positioned themselves behind the Clinton administration's gradualist approach to reducing the budget deficit. This put the burden on Republican leaders to pass farm policies fitting their budget mandates on essentially party lines. The Republicans had only a 10-8 majority on the Senate agriculture committee, so unanimity would be required to pass a bill over Democratic opposition. In the House, the Republicans held a 27-22 advantage on the agriculture committee.

Agriculture Committee Votes

Negotiations on farm policy among the Republicans on the Senate agricultural committee were unsuccessful through August and early September. As a September 29 deadline for meeting the instructions for the budget reconciliation bill approached, Lugar held a press conference to announce that no consensus had been achieved. He declared that he would insist on four reforms in agriculture. These reforms were that budget savings would have to reach a minimum level of $13.4 billion, authority for ARPs would have to be eliminated (or at least their use projected to be negligible), increased planting flexibility would have to be provided, and support for sugar and peanuts would have to be reduced commensurate with the reductions faced by other commodities.

House Gridlock

In the House, Roberts had hoped to return to Washington with momentum in support of the Freedom to Farm Act. He won praise from national and regional newspapers and an endorsement from the Kansas Farm Bureau but other organizations remained noncommittal. Neither the American Farm Bureau Federation nor any of the national commodity associations endorsed his proposals.

Roberts also met with stiff opposition, particularly from cotton and rice producers and processors. On September 15, Representatives Bill Emerson (R-MO) and Larry Combest (R-TX) introduced a farm bill modeled closely on the Cochrane bill in the Senate. The Emerson-Combest bill retained existing support mechanisms tied to production of specific crops and included program modifications supported by sugar and peanut producers. Emerson and Combest acknowledged the imperative of achieving the $13.4 billion budget savings the committee had been assigned. In their bill, they proposed raising nonpayment acres from 15 to 30 percent to achieve savings of $8.9 billion. Additional savings of $2.5 billion were claimed from reforms to the voluntary annual set-asides, dairy supports, and the peanut program. Savings of another $2.1 billion were claimed from changes to EEP, the CRP, and federal crop insurance similar to proposals expected from Roberts.

Introduction of the Emerson-Combest bill potentially gave a strategic advantage to supporters of the existing commodity programs. The Clinton administration's farm bill guidelines, the Cochrane bill in the Senate, and the Emerson-Combest bill in the House all extended the existing support mechanisms, albeit with different levels of budget savings. The three proposals also had similar provisions for sugar and peanuts, essentially precluding substantial price reforms.

The Emerson-Combest bill raised the possibility that the House agriculture committee would not vote to endorse Roberts' Freedom to Farm Act. In response, Roberts emphasized that the House Republican leadership was unwilling to reauthorize farm support programs without significant reforms--particularly a cap on future payments and deregulation of production. On September 17, three days before the House agriculture committee's markup of budget reconciliation legislation, the chairman played his leadership card publicly. In a widely-circulated letter, Speaker Newt Gingrich (R-GA), Majority Leader Richard Armey (R-TX), and Majority Whip Tom DeLay (R-TX) wrote that unless the agriculture committee reported sweeping reforms they might be compelled to intervene on the budget reconciliation provisions. The threat by the three party leaders to impose agricultural policy reform through their control of the budget process rested on a little-used provision of the Congressional Budget Act of 1974. The provision stipulated that the House rules committee could allow floor amendments to achieve changes specified in a budget resolution if any committee failed to submit conforming legislation. In the 20 years prior to the 1995 budget debate, there had been only one instance (in 1981) in which a House committee had failed to meet its budget reconciliation obligations and the leadership had intervened using this rule.

The House agriculture committee held its markup session on budget reconciliation on September 20. Roberts introduced a bill with four main subtitles to replace his August Freedom to Farm Act. His pending efforts received endorsement from a morning *Wall Street Journal* editorial.

The first subtitle of Roberts' bill incorporated the Freedom to Farm provisions for the feedgrains, wheat, cotton, and rice. A total of $38.4 was allocated to contract payments over seven fiscal years (declining from $6.0 billion in 1996 to $4.4 billion in 2002). The language was strengthened to protect "the interests of operators who were tenants and sharecroppers." Other provisions of the Freedom to Farm Act were essentially unchanged.

The second subtitle of Roberts' bill deregulated the dairy industry. Marketing orders and the dairy support program were eliminated. Producer assessments were repealed and decoupled contractual payments were offered to dairy farmers based on historical production levels. A recourse loan program was retained at 90 percent of market prices. The Dairy Export Incentive Program (DEIP) was fully funded at GATT-maximum levels, a new dairy re-export program was authorized, and the secretary of agriculture was empowered to assist the dairy industry to establish an export trading company. This subtitle of Roberts' bill was proposed by Representative Steve Gunderson (R-WI) after he failed to win consensus for a complicated dairy program that retained regional marketing orders but provided some inter-regional compensation for milk price differentials.

The third subtitle of Roberts' bill extended the sugar and peanut programs through 2002. Roberts had largely conceded to sugar and peanuts interests and only modest changes to their programs were proposed. The concessions on sugar and peanuts were made to win committee approval of the Freedom to Farm Act over the objections of the rice and cotton industries by enticing *some* southern members of the agriculture committee into a coalition with midwestern representative (whose constituents would benefit from the high levels of support payments while world market prices were strong) and policy reformers (who applauded the cap on the farm support entitlement, the decoupling of payments from future production decisions, and the elimination of ARPs). For sugar, the support prices were maintained at the 1995 levels.

Marketing quotas and allotments were repealed and assessments raised to 2 percent of the loan rate for cane processors and 2.16 percent of beet processors. Loans were provided on a recourse basis when imports were below the average of three previous years but reverted to nonrecourse loans at higher levels of imports. For peanuts, the support price was lowered from $673 to $610 beginning with the 1996 crop and an automatic cost-of-production adjustment that pushed support levels up was eliminated. The minimum national production quota was also eliminated, some restrictions were relaxed on the sale or lease of quotas across county lines within a state, and a system of priorities was established for allocating quota reductions.

The fourth subtitle of Roberts' bill addressed other agricultural program provisions. The CRP was reauthorized up to 36.4 million acres. Rental rates on extended contracts were restricted to 75 percent of the previous level. Expenditures for export subsidies were reduced below the GATT limits for the years 1996-2000, achieving budget savings of $2.9 billion, but retained at GATT-maximums for 2001 and 2002. The crop insurance program was converted to a voluntary basis, with the condition that nonparticipating farmers agreed in writing to waive eligibility for emergency crop loss assistance, and the national commission on the future role of government in agriculture was established.

The morning of the House agriculture committee markup session was devoted to debate on a Democratic alternative to Roberts' bill. The Democrat's alternative maintained existing support programs for the feedgrains, wheat, cotton, and rice, with budget savings achieved primarily by raising nonpayment acres to 21 percent. Representative Charles Stenholm (D-TX), a standard setter among the Democrats on the committee, defended supply management as a tool of farm policy. Other Democrats hammered at Roberts for what they claimed was a lack of public hearings on his Freedom to Farm proposal. They criticized the proposed decoupled payments for destroying the "safety net" that traditional farm programs had provided against market price instability, and for establishing indefensible "welfare" payments for farmers. But the Democrat's substitute bill achieved less than one-third of the agriculture committee's budget-reduction target, and was doomed to defeat on a party-line vote.

The discussion became more serious when it turned to the Emerson-Combest bill. Representative Emerson, the vice-chairman of the committee, introduced this substitute. He asserted that it was fiscally responsible, gave farmers desired flexibility, and avoided sending "shock waves" through agriculture by decoupling payments from market prices and production. The Emerson substitute met the committee's budget obligations and could be used to thwart Roberts' proposals.

Despite his opposition to the extent of the budget cuts, Stenholm indicated that he would vote for the Emerson bill. The substitute was, he said, "a better way (than Roberts) to proceed."

Although the debate raged over supply management and deficiency payments versus planting flexibility and decoupled payments, the fate of the Emerson substitute rested on Roberts' generous provisions for sugar and the inclusion by Emerson of dairy provisions opposed by midwestern producers. Representative Gunderson explained that by lowering support prices for manufactured milk (on which midwestern producers were relatively dependent) without any inter-regional compensation, the Emerson substitute included a "declaration of war" that had caused the collapse of his earlier attempts to build a regional dairy consensus. Representative Collin Peterson (D-MN), who had worked closely with Gunderson on behalf of midwestern dairy interests, indicated he would oppose Emerson because of the dairy provisions.

When the vote on the Emerson substitute was taken late in the afternoon, three southern Republicans (Richard Baker (LA), Ed Bryant (TN), and Saxby Chambliss (GA)) voted with Emerson and Combest. Had only Peterson defected from the Democrat's support for the Emerson substitute, it would have replaced Roberts' bill as the budget reconciliation legislation under committee consideration. But Peterson was joined in voting against Emerson by three other Democrats--Tim Johnson (SD), David Minge (MN), and Earl Pomeroy (ND). These three

Democrats attributed their opposition to the deep budget cuts proposed by Emerson. Off the record, the influence of directed lobbying by sugar beet and dairy interests in their districts was acknowledged.

With the Emerson substitute defeated, the agriculture committee turned to the Roberts bill. Although he had predicted victory during a dinner break, Roberts was impatient when the committee reconvened.

The vote was called on Roberts' bill late in the evening. Emerson and Combest opposed Roberts, as expected. Representatives Baker and Chambliss again broke party ranks to join them, so Roberts did not have the support he needed. The Democrats--lamenting (in Stenholm's words) that the committee use to work together but now was forced to have "policy written by Mr. Gingrich or none at all"--voted *en masse* against Roberts. Facing defeat, he banged down the chairman's gavel and announced suspension of the markup session until ten o'clock. A few moments later Roberts banged the gavel again, his voice boomed out, "I mean ten o'clock *tonight*," and he pulled his party into caucus. Forty-five minutes later he returned and announced tersely that the members had not been able to resolve their differences.

Lugar's Senate Compromise

With the House markup session dissolved in deadlock, the process again took a different turn in the Senate. An agriculture committee markup that Lugar had initially scheduled for September 19th was postponed because he did not have unanimous Republican support for a bill that included a Freedom to Farm program for feedgrains and wheat together with traditional support programs for cotton and rice. Rumors that a further Republican compromise was being crafted proved accurate and early the next week Lugar again called his committee into session.

The revised markup bill Lugar offered included numerous concessions to supporters of traditional farm programs. Deficiency payments and individual crop acreage bases were retained, with nonpayment acres increased to 30 percent to achieve budget savings. The authority for annual set-asides was eliminated. Since this raised projected budget costs, maximum caps were set on per-unit deficiency payments to help insure that the required budget targets were achieved. The caps were set on an annual basis at the payment levels projected for each year from 1996 to 2002 in the February 1995 CBO budget baseline. Loan rates were retained at 85 percent of the Olympic moving average of past prices, the existing minimum nominal loan rate levels were retained for cotton and rice, and the marketing loan authority was extended. Feedgrain and wheat producers gained increased planting flexibility, with more restrictive provisions for cotton and rice. For sugar and peanuts, the revised markup bill included language along the lines of Cochrane. The Lugar bill also included a cap on CRP expenditures and a dairy proposal that maintained milk marketing orders and regional price differentials. Price supports on milk powder and butter were eliminated to allow these products to enter world markets without subsidies, but the support price mechanism for cheese was maintained.

The Senate agriculture committee met to consider the Lugar bill on September 27. Opposition to the sugar and peanut provisions by Senator Santorum (R-PA) delayed its approval, but modest changes led to his acquiescence and the committee approved a revised bill the next day. The defenders of traditional farm price support mechanisms now had the advantage of a legislative proposal that had been approved by an authorizing committee. Within the constraint of the budget resolution, it gave them much of what they sought.

The House Budget Reconciliation Bill

In the House of Representatives, renewed maneuvering to see whether the agriculture committee could pass legislation for inclusion in the budget reconciliation bill began after Roberts' defeat. The four Republican defectors defended their position. They argued that the traditional farm programs tied to market prices were working well and, like many Democrats, questioned the wisdom of decoupled Freedom to Farm payments as welfare for farmers. Representatives Emerson and Combest sought a hearing with the Republican leadership. Reform-minded members of the agriculture committee also mobilized. Freshman members, led by John Hostettler (R-IN), circulated a letter to the Speaker imploring him to "present the task of writing agricultural reconciliation to the House Budget Committee" in order to avoid the bill being "watered down to appease certain commodity groups opposed to reform."

Throughout the following week, the issue remained whether Roberts and the House leadership would try to force consent to the chairman's bill by the dissenting Republicans or seek a compromise with them. Internal negotiations broke into public view when a staff memo from the office of Majority Whip DeLay slipped into circulation. The memo described a September 22 meeting at which the leadership gave Roberts "carte blanche to do what he needs to do." The memo also suggested that a compromise was taking shape on farm policy across the Capitol and that there would be nothing to gain from being too hard on the House "Aggies" because "you will get no real reform through the Senate."

After a week of maneuvering and negotiations, the Republicans on the agriculture committee had not reached a resolution of their differences. On September 27, while the Senate committee was recessed, Roberts announced that his committee would abrogate its responsibility. This passed the responsibility about farm policy for the budget reconciliation bill to the leadership of the House of Representatives.

Immediately following his decision, Roberts insisted he would win inclusion of his proposals with House leadership backing. It became apparent, however, that the leadership would not discipline the dissidents from the agriculture committee. Emerson and Combest were assured there would be no reprisals for their votes. On September 29, Emerson and Combest made their case to House Speaker Gingrich. The Republican conference chairman Boehner, a cosponsor of the Roberts bill, acknowledged that a compromise might be necessary in light of the "fragile" Republican majority in the House and eventual need to "deal with the Senate" (*Congressional Quarterly Weekly Report*, 9/30).

The Republican's budget reconciliation legislative process was far behind schedule in late September. With the 1996 fiscal year about to begin, the leadership was increasingly at risk from the accusation that they had lost control of the agenda of the Congress. Floor votes on the budget reconciliation bill were scheduled for October 26-27. Important missing pieces of the budget package fell into place as House and Senate committees passed proposals on Medicaid, Medicare, and taxes. Meanwhile, behind the scenes maneuvering continued on the House agriculture provisions.

Representative Gunderson's characterization of the dairy policies included in the Emerson bill as a declaration of war proved right, just as his own proposal for deregulation split regional interests. Senator Jim Jeffords (R-VT), representing the northeastern dairy industry, requested an evaluation of whether eliminating milk marketing orders as proposed by Gunderson would violate the Senate's Byrd rule, which excludes extraneous measures lacking budget implications from the reconciliation process. The Senate parliamentarian ruled that elimination of marketing orders would be a violation, and Jeffords announced he would invoke the Byrd rule were the Gunderson proposal brought to the Senate. Jeffords' threat essentially precluded the prospect of deregulating the domestic milk market through budget reconciliation, since a 60 vote majority would be required to overcome a rules objection.

House opponents of deregulation of the dairy industry were also vocal. A group of 30 dairy-state members pressed for legislation along the lines of the Emerson-Combest bill. Within the House leadership, support for retaining the milk marketing orders came from the chairman of the rules committee, Gerald Solomon (R-NY), who represented an upstate dairy district. Yet, just weeks before taking on the dairy cause, Solomon had espoused the view that the "historical" changes the Republicans were attempting to bring about required that the leadership "pick up the slack" from committees that fell "behind the revolutionary curve" (***Washington Post***, 10/09).

As the House moved toward its scheduled vote on the budget reconciliation bill, it was inevitable that the leadership would make concessions to obtain the votes needed to insure it passed. The internal dissension persisted for agriculture and, as Roberts dryly observed, the leadership was afforded "the joy of listening to every commodity group." Emerson and Combest rallied 14 rural southern representatives to indicate they would have trouble supporting reconciliation if it contained the Freedom to Farm Act. They were joined by opponents to Gunderson's dairy deregulation. Facing this persistent opposition in agriculture, Gingrich acknowledged that he lacked the votes he needed for reconciliation. Representative David Hobson (R-OH), a member of the Republican leadership group, told the press that "the big thing" was getting the farm issues resolved (*Washington Post*, 10/25).

The afternoon before the floor vote, Gingrich met with the farm-district representatives. Bending to party unity, the dissenters acquiesced to the Speaker's request to set aside parochial issues. Roberts' Freedom to Farm Act and the other subtitles of his markup proposal would be incorporated in the House budget reconciliation bill. In return, the dairy, cotton and rice interests opposed to the Roberts bill were assured that their concerns would be addressed during the House-Senate budget conference.

The House of Representatives passed the budget reconciliation bill on October 26--essentially on a disciplined party-line vote. The 14 rural southern Republicans organized by Emerson and the 30 Republicans opposed to deregulation of the dairy industry joined the majority of 227-203. Emerson insisted that no final deal had been brokered but many observers concluded that Roberts had agreed that the House would largely recede to the Senate on farm policy in the budget conference committee. A few others insisted that Roberts remained serious about moving Freedom to Farm. Roberts' staff claimed he was committed to the contract payments but would compromise in other areas.

The Democrat's Options

As the Republicans labored feverishly to conclude the budget reconciliation process, congressional Democrats kept up their attacks on the size of the proposed agricultural budget cuts and the proposed change in policy toward decoupled payments. In late October, the four Democratic congressmen who had provided the crucial votes to defeat the Emerson substitute in the agriculture committee introduced a bill similar to the Senate Democrat's Farm Security Act. Their "Family Empowerment Act" proposed raising loan rates to 115 percent of the five-year moving average of past prices, while achieving an expected budget savings of $4.4 billion. Again criticizing the Freedom to Farm Act as doling out "welfare payments for seven years" then leaving farmers "without any safety net," Representative Peterson argued that "After the president vetoes the budget--which he's going to do-we'll be players at the table."

While details of a Clinton administration negotiating position on agriculture could not be hammered out until the reconciliation bill was completed, three broad options could be identified. If the Senate provisions for the deficiency-payment commodities (feedgrains, wheat, cotton, rice) prevailed in conference, then the administration could pursue its argument that the budget cuts were "too deep" and try to negotiate for fewer nonpayment acres. Pushing for continuation of existing deficiency payment support mechanisms would prove less effective if the conference agreed to the Freedom to Farm Act. The Democrats could still argue rhetorically that the budget cuts were too deep. But they would be caught on the horns of a dilemma created by Roberts' skillful exploitation of the budget process. The administration's own analysis would show that with high market prices spending on farm programs would be as much as $8 billion *less* under its proposals than under the Freedom to Farm provisions of the congressional reconciliation bill. While the administration could attack the Republicans for "smoke and mirrors" in the budget process, a claim that the Republican's budget cuts were too deep would hardly provide a plausible argument for substituting continuation of the existing programs.

A second strategy for the administration was to pursue the program structure of higher loan rates as proposed by Senate Democrats. The argument would be that the Republican policies weakened (the Senate bill) or devastated (the House bill) the safety net for farmers against falling prices. But many Democrats opposed the recoupling of support payments to production through higher loan rates. Use of marketing loans that could be repaid at prevailing price levels might avoid the problem of stock accumulation by the government that had arisen from loan rates that were too high in the past, but it would not avoid potentially large expenditures or the distortionary effects on production in years when loan rates were above market prices. High loan rates might be subject to challenges either under the Uruguay Round GATT agreement, which imposed a cap on the aggregate measure of support for open-ended payments linked to production, or in bilateral anti-dumping petitions. Moreover, whatever the outcome of the budget reconciliation conference, it was evident that the Republicans would not accept substitution of a loan-rate based policy for their recommended program structure.

A third strategy for the administration was to seek increased funding for conservation programs or other priorities that it might argue were under funded in the Republican proposals. If the Republicans put forward the Senate bill, this would mean arguing for greater cuts in commodity spending or for allocating any additional funds made available in the budget negotiations to the Democrat's priorities. If the Republicans put forward the Freedom to Farm Act, the administration might argue that some of the windfall that Roberts had directed toward payments to farmers should be redirected toward other goals. The problem with this strategy for the Democrats was that they would abandon their assertion that the Republican proposals cut too deeply into farm support programs.

The Conference Budget Reconciliation Bill

The significantly different agricultural provisions in the House and Senate budget reconciliation bills left room for wide-ranging negotiations in early November. One option for the commodity programs was to revive a proposal floated earlier by Lugar to provide planting flexibility and decoupled contractual payments for feedgrains and wheat, while retaining traditional deficiency payments linked to production and prices for cotton and rice. An alternative of choice between the two programs for individual farmers had also been considered and could be resurrected.

As the House-Senate budget reconciliation conference convened, recognition of the short-run windfall farmers would receive under the Freedom to Farm Act came to increasingly dominate the discussion of the alternatives for the commodity programs. Market prices had continued to rise (see Figure 1) and a study by the Food & Agricultural Policy Research Institute

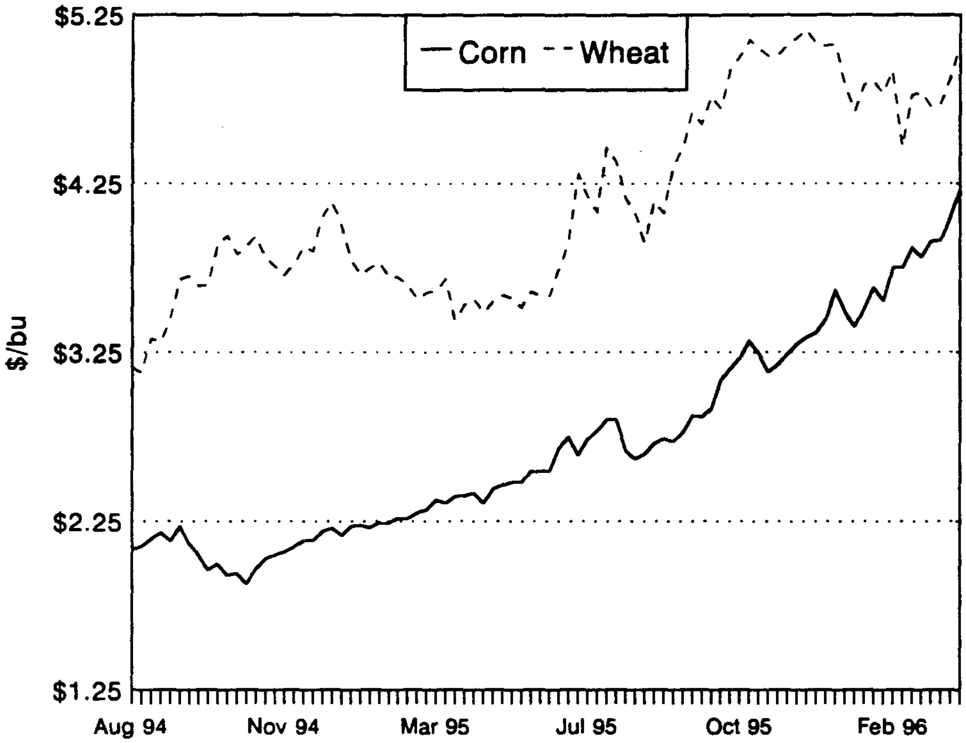

Figure 1. Rising Prices for Corn and Wheat, August 1994-April 1996.

(FAPRI) concluded that commodity program payments to farmers would be $5.6 billion greater in 1996 and $2.0 billion greater in 1997 under the House bill than under the Senate bill, while payments were projected to be similar in outlying years (FAPRI Policy Working Paper 15-95, 10/26). This windfall from decoupled payments was exactly the "investment" in agriculture that Roberts had argued the Freedom to Farm Act would secure. In the budget reconciliation conference, his staff made the case that *only* the fixed contractual Freedom to Farm payments would ensure that the expenditures projected in the February 1995 CBO baseline were captured by agricultural programs. One by one, the various alternative support-payment schemes were rejected by the negotiators as infeasible. The conferees were also assured that the CBO would not automatically eliminate expenditures for decoupled payments from its baselines for years after

Table 2. Conference Budget Reconciliation Bill (Summary of Agricultural Provisions)

Support Payments:	Permanent Law Annulled; ARP Authority Terminated Deficiency Payments Eliminated Fixed Contractual Payments Provided for Seven Years Full Projected Expenditures Captured from February 1995 CBO Baseline Annual Payments Decline to $4 Billion in 2002
Planting Flexibility:	Any "Program" or Approved Crop Can Be Planted on Base Acreage "Program" Crops Can Be Planted on Additional Acreage Fruits/Vegetables and Unrestricted Grazing Allowed on 15 Percent of Contract Base Acreage
Loan Rates:	Current "85-Percent" Formula and Marketing Loans Retained Minimum Cotton and Rice Loan Rates Maximum Loan Rates Established (Wheat: $2.96; Corn: $1.94; Cotton: 0.52; Rice: $6.50)
Sugar, Peanuts, and Dairy:	Cane Sugar Loan Rate Retained at $0.18/lb With $0.01 Forfeiture Penalty When Sugar Imports Exceed 1.5 Million Tons Sugar Marketing Allotments Eliminated and Marketing Assessments Raised Peanut Support Price Reduced from $678 to $610 Peanut Cost-of-Production Price Support Adjustments and Minimum National Quota Eliminated Waiver on Dairy Policy
CRP, EEP, Other:	CRP Capped at 36.4 Million Acres With Re-Enrollment and Early-out Provisions EEP Expenditures Cut, but Rise to GATT-Maximum in 2001

2002, even though the budget reconciliation legislation would expire. Agricultural provisions of the final congressional conference budget reconciliation bill are summarized in Table 2. The final bill eliminated authority for mandatory and voluntary annual acreage set-asides and repealed the Agricultural Act of 1949 as the "permanent" legislation for farm programs. Cotton and rice accepted decoupled contractual payments "established at levels derived from the February 1995 CBO budget baseline." Aggregate annual contract payments for all crops would total $5.5 billion in 1996 and $5.8 billion in 1997, then decline to $4 billion by 2002.

In the conference negotiations, planting flexibility equivalent to that provided for the feedgrains and wheat was also provided for cotton and rice. Flexibility was increased for all support-program crops by allowing production of fruits and vegetables and unrestricted grazing and haying on 15 percent of contract base acreage. The payment-limitation reform in the Freedom to Farm Act was eliminated by retaining the existing "three-entity" rule for payments to individuals. Cotton also retained special "Step-2 payments" for processors, with the existing payment trigger and an aggregate spending cap of $701 million over 1996-2002.

While the conference budget reconciliation bill provided fully decoupled payments and more planting flexibility than had been incorporated in the Senate bill, cotton and rice representatives insisted on retaining minimum nominal loan rates, formulas for determining annual rates at higher levels than proposed in the initial Freedom to Farm Act, and marketing loans. To accommodate their demands, a deal was struck in which the loan rates were maintained at 85 percent of the five-year Olympic moving average of past market prices, with minimum nominal rates of $0.50 per pound for cotton and $6.50 per hundredweight for rice. To limit the budgetary cost projected by the CBO for these loan rate provisions, caps on the maximum levels of loan rates were established at their 1995 values. The deal on loan rates reduced the pool of money available for contractual Freedom to Farm payments for the benefit primarily of the cotton and rice sectors. To compensate other producers, the base for calculating the percentage of the contractual payments received by each commodity was shifted from the historic payments during 1990-1995 to the projected payments for 1996-2000. This reduced the share going to cotton from 17.8 percent to 11.7 percent.

Since the cotton and rice sectors moderated their earlier opposition to decoupled payments and planting flexibility, the congressional conference budget reconciliation bill ended up with commodity policies much closer to the Freedom to Farm Act than many observers had expected. Policy for the CRP was also resolved by the conferees along the lines of the House bill The CRP was reauthorized at 36.4 million acres and an option for early termination of contracts without penalties was included. The Senate bill had achieved some budget savings by imposing nominal spending caps on the CRP. These caps were dropped in anticipation of a larger CBO spending baseline for CRP expenditures in 1996. A new livestock environment assistance program sought by Senator Lugar was retained with funding authorized up to $100 million per year.

The conference negotiations over sugar were more contentious. Lugar pressed a proposal for a tax on Florida sugar producers to pay for restoration of the everglades. A second proposal, imposing a broader tax on domestic and imported sugar, was floated as an alternative. Defenders of the sugar program eventually beat back these challenges. Sugar support prices were maintained, as in the House and Senate bills, marketing allotments were eliminated, and marketing assessments were raised to the levels specified in the Senate bill (less than proposed by the House). Modest concessions to critics of the sugar program were to keep the level of imports triggering nonrecourse loans at 1.5 million metric tons and to retain a $0.01/lb forfeiture penalty, as Santorum had negotiated in the Senate bill.

The peanut program was also maintained with only modest reforms in the conference budget reconciliation bill. The support price was reduced to $610 per ton, as in the House bill, and the price support cost-of-production adjustment formula and minimum national quota were eliminated. The peanut program was reauthorized through 2002, in contrast to a limited reauthorization through 2000 negotiated in the Senate.

The most contentious conference negotiations were on dairy policy, which remained torn by regional differences. A deadlock between Gunderson, on behalf of midwestern producers, and Solomon, on behalf of northeastern producers, forced the conferees to drop both the deregulation proposal from the House bill and the Senate dairy provisions. This left the budget conference without an agreement about how to achieve savings on dairy. Gunderson threatened to impose changes in the dairy program in subsequent legislation, Roberts warned that the intransigence of the dairy interests would bring "trouble down the road," and House Speaker

Gingrich railed that "It is unfair for one part of agriculture to block reform in its programs as we are pursuing change across the rest." Nevertheless, the immediate consequence of the impasse was that the House and Senate leadership agreed to lower the mandated budget savings from agricultural programs from the original $13.4 billion to $12.3 billion, largely because the $800 million anticipated from dairy reform had not materialized. Not only was reform of the structure of dairy programs thwarted, but budget discipline was relaxed on behalf of agriculture.

Collapse of the Republican Budget Initiative

The congressional budget reconciliation bill was approved by the House and Senate on November 18. Failure of Congress and the administration even to agree on a "continuing resolution" to provide temporary funding had already shut down parts of the government for a record six days. A promised presidential veto of the budget reconciliation bill loomed ahead.

On November 19, a compromise was reached to fund government operations through December 15. The president agreed to enact legislation to balance the budget in seven years using scoring by the CBO (which projected larger future deficits than the administration's OMB and therefore required more savings to attain budget balance). In exchange for this basic commitment, the Republicans agreed that the budget would provide "adequate funding" for programs in the president's priority areas of "Medicare, welfare, Medicaid, education, agriculture, national defense, veterans, and the environment."

Negotiations over the budget resumed when Congress returned from the Thanksgiving break. What had been agreed upon immediately became contentious. The Republican leadership claimed the president had committed to a balanced budget in seven years and demanded that he provide a precise plan around which negotiations could proceed. On December 7, President Clinton vetoed the congressional budget reconciliation bill. The administration argued that protecting the president's priorities was equally important to the November 19 agreement, and called on the Republicans to be forthcoming with concessions on Medicare and other spending.

As the administration and congressional leaders jockeyed for position in the budget negotiations, both sides also waited for completion of updated CBO budget projections. When the new projections were released, on December 11, fiscal deficits were projected to be $135 billion smaller over seven years than had been anticipated when Congress developed its balanced budget plans (using CBO's February 1995 baseline). The revised CBO budget projections significantly narrowed the $400 billion gap between what the administration claimed was necessary to balance the budget, based on OMB projections, and what the Republican congressional leadership claimed was required, using CBO. The Republicans modified their budget plan, using this windfall to expand spending in the hope of striking a deal with the president. But when the continuing resolution expired on December 15, they concluded that the Clinton administration had not been forthcoming with a balanced budget proposal. Arguing that the administration had negotiated in bad faith, the Republicans refused to extend the temporary government spending authority, forcing some government agencies to shut down for an unprecedented second time. The administration argued that it was the Republicans who were intransigent, and were using the government shutdown to force cuts that it would not accept in Medicare, Medicaid, and other spending.

While the Republican's budget initiative had brought the president closer to endorsing a balanced budget than his posture at the beginning of the year, the standing of the Republican Congress with the public seemed tenuous at the outset of the second disruption of government services. The second partial shutdown affected only a fraction of the civilian government workforce, but some highly visible services were interrupted. The confrontation did not play well in public opinion. Heated exchanges between the two sides continued through the Christmas holidays without substantial progress. Yielding to the unpopularity of the shutdown, which opinion polls showed was blamed mostly on the Republicans, agreement for another temporary spending resolution was reached on January 5, 1996. The Republicans still hoped to force acceptance of a seven-year balanced budget plan, so the temporary spending measure set yet another short-term deadline of January 26.

With the government back at work and public opinion badly against them, the Republicans now found much of the momentum gone from their year-long effort to craft a political agenda around their omnibus budget reconciliation bill. The president had successfully positioning himself as the defender of popular spending programs, while usurping some of the Republican's rhetoric. Declaring in his state of the union address that "the era of big government is over," the president outlined an administration budget to achieve fiscal balance in 2002 using CBO forecasts. The next day, the Republicans conceded that they would not be able to force their agenda on the administration, and announced they would work with the president on mutually acceptable measures to extend authority for government spending and borrowing. By the January 26 deadline, spending resolutions were approved by large bipartisan majorities that continued short-term spending through March 15, albeit at restricted levels below those that the Democrats continued to seek.

The Revised Agricultural Budget

As had been widely anticipated, the revised December CBO baseline lowered projected spending on agriculture under existing programs from \$56.6 to \$48.8, contributing almost \$8 billion to the \$135 billion reduction in the projected size of the deficit. The farm-program savings in the new CBO baseline were derived primarily from higher market price expectations, and hence lower expected deficiency payments, during 1996-97. A continued Republican commitment to *policy redesign* that would save \$13.4 billion from agriculture would leave spending at only \$35.4 billion using the revised CBO projections, and would allow the market-price related savings from agricultural programs to be used for other purposes.

With the new budget figures, the proposed spending with decoupled Freedom to Farm payments now exceeded expected deficiency payments and other expenditures under 1990 law by \$3.4 billion during the first two years (see Table 3). This windfall further demonstrated the

Table 3. Projected CCC Spending, Baseline (1990 Farm Bill) versus Decoupled Payments

Fiscal Year	1995 CBO Baseline Projections		Decoupled Payments Compared to February 1995 CBO Baseline	Decoupled Payments Compared to December 1995 CBO Baseline
	February 1995	December 1995		
		Billion Dollars		
1996	8.6	3.8	-1.3	+2.8
1997	8.5	5.6	-1.5	+1.1
1998	8.4	8.1	-1.4	-1.0
1999	8.2	8.2	-1.5	-1.4
2000	7.9	7.8	-1.6	-1.5
2001	7.5	7.7	-2.5	-2.2
2002	7.5	7.6	-2.4	-2.4
Seven Years	56.6	48.8	-12.2	-4.6

Baseline spending projected by CBO includes CCC spending for price supports and related programs (primarily the Export Enhancement Program) assuming continuation of 1990 law as modified through 1995. Budget changes with Decoupled Payments include savings in non-CCC agricultural programs of nearly $1.0 billion.

appeal of the contracts to Roberts. He campaigned to insure that agriculture was given credit for the market price driven savings in the revised CBO projections. This would allow him to retain the carefully orchestrated *spending targets* he had negotiated among agricultural interests for the budget reconciliation bill, but would leave an estimated budget savings of only $4.5 billion compared to the original $13.4 billion. Roberts received assurances from the House leadership that the initial spending would be maintained.

The Democrats continued to criticize the Republicans for making cuts in agricultural programs that were too deep, but the new budget numbers also affected their negotiating positions. In early December, the administration had released a farm bill proposal that still calledfor an increase of nonpayment acres to 21 percent to achieve budget savings on deficiency payments.[6] The OMB projected farm program expenditures at $42.4 billion during 1996-2002 under existing law, and credited the administration's proposals with a savings of $5.0 billion. Thus, at this point, it appeared there were not irreconcilable difference in the *budget* implications of the Democratic and Republican farm policy proposals. The OMB projections implied less spending under the administration's proposal, while congressional Democrats continued to call for cuts of $4 billion using CBO projections, the same level of cuts that were now projected under Freedom to Farm and the conference budget reconciliation bill.

There remained substantial policy differences between the Republican and Democratic proposals, however. The administration used the veto of the budget bill on December 7 to press various arguments against decoupled payments. The Republican agricultural proposal, the president asserted, "eliminates the safety net that farm programs provide for U.S. agriculture, provides windfall payments to producers when prices are high but does not protect family farm income when prices are low, slashes spending for agricultural export assistance, and reduces the environmental benefits of the Conservation Reserve Program." A subsequent administration budget proposal in mid December included no changes in farm spending, thus beating its own earlier recommendations and the congressional budget reconciliation bill, and allowing the Democrats to resurrect their argument that the Republicans were cutting agricultural spending by too much.

[6] Among its other provisions, the administration proposal also called for planting flexibility without loss of program benefits, continuation of loan rates (without minimum nominal levels for cotton and rice), and acreage set-aside authority.

Emergence of a Bipartisan Coalition

With new farm legislation caught up in the collapsing budget negotiations, the 104th Congress failed to update the 1990 farm bill before it expired in 1995. At the end of the calendar year, commodity programs for wheat and feedgrains reverted back to "permanent"` legislation from 1949, which had been continuously suspended under various subsequent farm bills. Under the permanent law, USDA was required to offer loan rates of from $6.52 to $7.82 for wheat and up to $5.30 for corn to farmers holding required production allotments.

The reversion to untenable permanent law that was technically pending kept a dull pressure on the legislative processes for farm policy. Not only would farmers need to know what farm programs would be operational as the spring crop season approached, but proponents of farm support legislation could decry the dire consequences of failure to enact a new law. Adding to the agriculturalists sense of urgency was the prospect that a fully updated CBO budget baseline, usually released in February of each year, was likely to show even less spending anticipated under the recent (but now expired) farm programs.

The House Agricultural Market Transition Act

In anticipation of the possibility that the budget talks would fail, Roberts had introduced the main provisions of his farm policies from the budget reconciliation bill as free-standing legislation, the Agricultural Market Transition Act, on January 5, 1996. The increasingly lucrative payments under the Freedom to Farm contracts, compared to deficiency payments, together with the numerous concessions that had been made as the original bill worked its way through the budget process, had quieted much of the initial opposition Roberts had faced among commodity groups. Cotton producers and processors had withdrawn their once adamant opposition. Consequently, Roberts' bill was now cosponsored by the former dissident Republican agriculture committee members Emerson and Combest. The American Farm Bureau Federation had endorsed Roberts' capped and decoupled farm payments in December--assuming they were part of the Republican budget package that also included capital gains and inheritance tax relief and deductibility of health insurance premiums for the self-employed. The National

Corn Growers Association also gave a limited endorsement to the decoupled payments. They cited the benefits from increased planting flexibility but objected to the cap on loan rates. The Corn Growers called for a policy of marketing loans as a new permanent law, and for additional funding for export and conservation programs.[7]

Opposition to the Roberts bill, which continued to be voiced by Democrats, did not crystallize into a cohesive alternative. Majority Leader Daschle and his supporters remained opposed to elimination of the farm safety net and pressed for higher loan rates. Daschle insisted that Roberts' proposals were a "deal breaker" in the budget talks, a proposition that was never tested since the negotiations broke down over so many other issues. The administration and House Democrats continued to object to the large payments to farmers when market prices were high. The secretary of agriculture raised extension of existing law for one or more years as a possible solution. Alternatively, he and some of the House Democrats proposed that permanent legislation be retained to insure a safety net--at least by putting pressure on Congress to pass new farm legislation in the future. They also proposed that some of the money designated for contract payments--or, at least, some additional funds--be redirected to purposes such as higher loan rates and spending for rural development, research, and conservation. Supporters of these programs coalesced around the concept of a "Fund for Rural America" to augment "Freedom to Farm."

When it became apparent by mid January that no budget compromise would be reached between the Republicans and the administration, Roberts sought other vehicles to move his farm policies forward. Citing the pressure created by the forthcoming spring planting season and pending reversion to permanent law, he proposed that the commodity provisions from the budget

[7] Among other commodities, rice processors continued to object to the elimination of base acreage and planting requirements for specific commodities, fearing that rice production would fall leaving under-utilized processing capacity in some parts of the country. The National Association of Wheat Growers, and the National Farmers Union continued to oppose Roberts, citing elimination of the safety net for farmers, and the American Soybean Association opposed the decoupling of payments from production without compensation from higher loan rates to protect soybeans producers.

reconciliation bill be attached to the continuing resolution enacted to keep the government operational through March 15. This was rejected by Daschle, who essentially held veto power once the Republicans conceded that they wanted to avoid a third government shutdown. Roberts then seemed poised to wait until after a congressional recess during February to try to move his bill forward. But when the Senate scheduled a farm bill debate for just before the break, Roberts reversed himself and called the House agriculture committee back into session.

Roberts' committee met on January 30. Between the budget conference and late January, negotiations had continued among regional dairy interests. A compromise agreement similar to the regulatory package Gunderson had initially tried to negotiate had been agreed upon by many of the dairy representatives. Under this complicated agreement, a floor would be set under fluid milk prices, higher standards for nonfat milk solids used in California would be imposed nationally, and support prices would be retained for cheese but withdrawn from butter and powdered milk. Marketing-order price differentials would be maintained, but part of the differential revenue would be pooled among the regions over a two-year transition period. Revenue for processed products would also be pooled, with each farmer receiving an average of the returns. Within two years, the secretary of agriculture would be required to amend the marketing orders, reducing the number from 34 to no more than 13. Failure to revise the marketing order system would trigger a cessation of all federal dairy programs. Gunderson argued this agreement would lead to deregulation of the dairy industry, but acknowledged that its many compromise provisions were also designed to raise the total revenue of dairy producers.

Last minute negotiations had also proceeded in other areas. Planting flexibility under the Freedom to Farm payments was reduced at the behest of fruit and vegetable producers to prohibit production of these commodities on contract acreage. Efforts of grain processors to allow early termination of CRP contracts were turned back when the congressional sportsman's caucus voiced opposition. Roberts reintroduced his commission on the future of agricultural policy but also adopted the budget conference agreement to nullify the 1949 permanent law. With these modifications in place, Roberts had lined up unanimous if begrudging support among the Republican committee majority, insuring that he would not fail to pass a bill for a second time.

In the negotiations proceeding the agriculture committee meeting, Roberts had also hoped to broaden his base of support to include a block of Democrats. To gain their allegiance, he sought to make as much as $2.5 billion dollars available for the Fund for Rural America. The possibility of including these additional funds had originated in compromise discussions around an overall budget package. As late as the night before the agriculture committee meeting, the Democrats thought the funds could be incorporated in Roberts' farm bill, for which he would then still be able to claim budget savings relative to the December 1995 CBO baseline of about $2 billion.

Roberts' conciliatory efforts were thwarted in the end when the Republican leadership would not endorse funding for the Democrat's priorities outside of the framework of a broad budget compromise. This forced Roberts to withdraw his tentative offer and led to another acrimonious and partisan committee debate. In a letter to Roberts, Secretary of Agriculture Glickman reiterated the administration's many objections to his bill. The Democrats decried their exclusion from the process and the intransigence of the Republican leadership. They offered numerous amendments, including a substitute bill that forgave repayment of advanced deficiency payments for farmers suffering crop losses in 1995 but reduced the Freedom to Farm contract payments in half, redirecting the savings to higher loan rates and other spending programs. Another Democratic amendment would have committed $3.5 billion of CCC funds to rural water and sewage projects. These and other Democratic alternatives were defeated, and Roberts' Agricultural Market Transition Act was approved by the committee. Assured of passing, his bill now received three Democratic votes.

Following the committee victory, Roberts sought to bring his bill to the House floor before the February recess. He argued that the proximity of the pending planting season created an emergency situation requiring that the farm bill be considered under a "closed rule" limiting debate and precluding floor amendments. The House rules committee scheduled a hearing to determine the conditions of the floor debate, but the acrimonious atmosphere of the committee session cost Roberts the cooperation he needed from the Democrats. They refused to waive their right to a three-day grace period for filing the minority's views. This pushed the earliest possible date for consideration of the farm bill by the House onto a weekend it was scheduled to adjourn.

Roberts' farm bill also faced pockets of strong opposition within his own party. Representative Dan Miller circulated a letter among the Republicans reminding them of the promise that critics of the sugar and peanut programs would have an opportunity to offer amendments. His letter indicated that he expected Roberts to live up to this commitment.

The dairy provisions of Roberts' bill also remained contentious. The chairman of the rules committee and other Republicans protecting upstate New York interests opposed the Gunderson compromise, with its pooling of fluid-milk price differentials. The dairy provisions also drew strong opposition from dairy processors and consumer groups, who objected to the higher prices they argued would result. The dairy processors gained the attention of CBS news, where Dan Rather warned after the agriculture committee vote that he had been alerted by a "major Republican financial contributor" to a "secret deal" that would raise milk prices.

In light of the bipartisan dissension and negative media publicity, Roberts was forced to abandon his request for prompt consideration of the farm bill. The House adjourned through late February without a floor debate.

The Senate Agricultural Reform and Improvement Act

The farm policy situation in the Senate was much more fluid than in the House of Representatives. In late January, Senator Lugar introduced the Freedom to Farm bill, essentially as it had been included in the budget act. Lugar, who was engaged in a longshot campaign for the Republican presidential nomination, was eager for the Senate to approve some farm bill before the Iowa Republican caucuses in early February--a view shared by Senate Majority Leader Robert Dole (R-KS), the primary campaign front runner. At the opposite extreme, Daschle was potentially going to filibuster against legislation incorporating any form of Freedom to Farm contracts. To move a bill through the Senate, Lugar and Dole seemed willing to accept a variety of alternatives. Options that ranged from extension of the 1990 farm programs to redirecting part of the contract payments were under consideration.

The Senate debate on the farm bill began on Thursday, January 30. A motion for cloture on the Lugar bill failed 53-45 the following day.

In anticipation of this defeat, Lugar had also cosponsored a bipartisan substitute bill with Senator Patrick Leahy (D-VT), who had been willing to break ranks with other Democratic leaders. The Lugar-Leahy bill retained the Freedom to Farm payments provisions, but broadened the scope of the legislation to include conservation titles and reauthorization of the food stamp and other nutrition programs. At Leahy's insistence, it also included a "Northeast Dairy Compact," a controversial authority to raise regional milk prices above the level authorized by the existing federal marketing order. An increase in the contract payments to rice producers of over $200 million had been added to secure the support of Louisiana's Democratic Senators.

After the Lugar bill failed to win cloture, a vote on the Lugar-Leahy bill was delayed while Democrats drafted a "Freedom to Farm" alternative that Daschle might support. Splitting the contract payments was proposed, with 40 percent guaranteed to farmers and the remaining 60 percent retained for payments coupled to market prices and other uses. Willingness of Lugar and Dole to accept such an alternative scheme may have been based on the calculation that any such provisions would eventually be dropped in a conference with the House, since similar alternatives had been floated and abandoned earlier during negotiations of the budget reconciliation conference committee. In any case, immediate bipartisan agreement was postponed over a weekend recess.

Postponing the vote on a scheme of split-payments led to its demise when 14 Senate Republicans signaled their objections to scaling back the direct payments to farmers. The following week, the Senate approved a bill along the lines of Lugar-Leahy by a nearly veto-proof 64-32 majority. To gain this majority, the Republican's accepted retention of the permanent law, which Daschle and other Democrats claimed as a key victory for maintaining a safety net for farmers. Additional concessions to insure passage of the Senate bill included higher loan rates for soybeans and $300 million for the Fund for Rural America. An expenditure of $200 million was authorized for preservation of the Everglades, without a tax on Florida sugar producers. Research, trade, rural development and credit provisions passed earlier in the year by the Senate agriculture committee were also incorporated in the Senate bill, but the Northeast Dairy Compact was deleted on a floor amendment.

The House Agricultural Regulatory Relief and Trade Act

The Lugar-Leahy alliance preserved the Freedom to Farm proposal for commodity payments but also dramatically expanded the scope of the farm bill, turning it from Roberts' narrow commodity program focus toward a more traditional comprehensive coverage of farm, conservation and nutrition programs. This opened several potentially divisive fissures among Republicans. Roberts' staff estimated that the Senate bill would cost $5.4 billion more than the House bill, thus exceeding the projected expenditures in the December CBO budget baseline. This level of expenditure was likely to be opposed by budget-disciplinarians in the House.

Of the additional spending in the Senate bill, almost $4 billion was attributed to various conservation and environmental initiatives. The added funding for these programs and, more importantly, an explicit emphasis on using the CRP to protect water quality, brought regional disputes to a head (specifically by shifting future CRP eligibility from the wheat regions that included Roberts' Kansas district to the more heavily populated midwestern states). It also exacerbated a simmering difference between Republicans who were proponents of an expanded government role in conservation and those calling for fewer mandates and less government intervention. The environmental deregulators had prevailed in the House through adoption of the Contract with America in the spring of 1995. But their momentum had withered under the crush of the budget debate. By February 1996, the perception was that the public was wary of the Republican's commitment to maintaining environmental quality.

Conflicting Republican positions on reform of the nutrition programs were also brought into the farm bill debate by the Lugar-Leahy bill. Structural changes in the nutrition programs were an integral part of separate Republican welfare reform proposals. Welfare reform had once been part of the budget reconciliation bill, with reduced expenditures on the nutrition programs to account for $34 billion of the proposed savings. The Republicans were still engaged in high-stakes maneuvering to pass a welfare reform bill on its own and have it signed into law, and much of the proposed budget savings remained under consideration. To reauthorize the existing nutrition programs in the farm bill would be at least a symbolic blow to the Republican's broader commitments. Even though it could be argued that nutrition program reforms and budget savings would be addressed in subsequent legislation, the farm bill was being trumpeted as having a certain urgency, while the welfare reform bill and efforts to balance the budget were bogged down in partisan dispute.

From the time that the commodity programs became emerged in the budget reconciliation process in early 1995, Roberts' strategy had been to hold other aspects of farm policy for consideration in a second later bill, which came to referred to commonly as "farm bill two". This second farm bill was intended to deliver on many of the promises Roberts had made in his "policy ledger," with its benefits to farmers from lower interest rates, lower taxes, and regulatory relief that would offset lower commodity payments under the Republican agenda.

Given the Senate compromise, Roberts was forced to hurry the preparation of his remaining legislation. He announced that an Agricultural Regulatory Relief and Trade Act would be introduced in the House in late February. While continuing to argue for a separate bill, Roberts conceded that its rushed introduction would at least strengthen the negotiating position of the House Republicans in dealing with their Senate counterparts.

When the Agricultural Regulatory Relief and Trade Act was introduced, Roberts emphasized that it "fulfilled a promise we made ... to reduce the government's involvement in farmer's lives." Among its provisions, the bill provided farmers with greater flexibility to choose conservation compliance practices, exempted wetlands of less than one acre from regulation, and extended authority for the CRP without modifications to the enrollment criteria. Paralleling the coverage of the Senate legislation, the bill included reform of federal agricultural lending programs, block-grants of rural development funds to the states, reauthorization of international food aid programs, protection of agricultural producers from detrimental impacts of export embargoes, extension of research and extension programs, and other provisions. He again proposed that this legislation remain separate from the commodity bill he was about to take to the floor, and claimed to have been assured by the Speaker of the House that time would be available for floor debate on the second farm bill during the spring. Reauthorization of food stamps and other nutrition programs was not included in Roberts' second bill.

The Amended Agricultural Market Transition Act

Over the February break, Roberts also engaged in negotiations over the rules under which the Agricultural Market Transition Act would be debated on the House floor. He failed to obtain the closed rule he had sought. Instead, the leadership decided that a limited number of floor amendments would be considered.

When the House rules committee met on February 27, Democrats pressed their usual complaint that the farm bill had been designed without the benefit of sufficient public hearings. They argued for an open rule allowing unlimited floor amendments. Roberts acknowledged that he would not be granted the closed rule he had sought at the end of January, but argued for a "modified" closed rule which would limit amendments and the length of the debate. He argued again that the restricted process was warranted by the "time sensitivity" of the farm policy situation. Rules committee chairman Solomon acknowledged the need to move the legislation forward expeditiously but reiterated that controversial issues would be addressed by allowing some amendments.

Of 75 amendments for which time was requested, 16 were ruled in order. The limited amendments allowed a single alternative to the entire bill, one challenge to each of the controversial commodity programs (cotton, peanuts, sugar, dairy), and challenges to the mandatory funding the bill provided for conservation and other purposes. It also allowed amendments to increase the mandatory expenditures for conservation, to reauthorize international food aid programs, and a block Democratic amendment that added rural development funding, higher soybean loan rates, and retention of permanent law.

If the floor amendments offered on the commodity programs were passed, they had the potential to wreck support for the bill among House agriculturalists by disrupting the carefully constructed balance of gains among commodities negotiated in the committee legislation. The conservation, food aid, and Democratic modifications blurred the distinction between Roberts' two bills and would bring the House legislation closer to the Senate bill. Since the House bill did not address nutrition programs, and amendments to do so would have been ruled out of order, an obvious gap was left between the bills that would emerge from the two sides of Congress.

At the start of the House floor debate, it was widely recognized, as Representative Stenholm put it, that the argument over the structure of the commodity support programs had been settled. The supporters of decoupled Freedom to Farm payments, now titled Production Flexibility Contract (PFC) payments, had won. A proforma amendment to end traditional deficiency payments by lowering target prices over a five-year period was offered by farm spending critics, but a recorded roll call vote was not requested when the amendment was ruled defeated on a voice vote. The Democrats continued to assail the fixed Freedom to Farm payments as a palliative windfall in the short run that left no safety net in the long run. But none of the amendments offering plausible alternatives that had been under discussion (continuation of the 1990 law, splitting the decoupled payments between guaranteed and price-dependent components, or higher marketing loans) were ruled in order. A last-ditch attempt to reduce the contract payments to farmers by shifting almost $2 billion to agricultural research expenditures was easily defeated.

The long-heralded votes on the programs for sugar and peanuts were also somewhat anti-climatic. The stage was set when an amendment to eliminate the costly marketing loans for cotton lost by 253-167. Opponents of the cotton amendment argued that it was unreasonable to impose particularly punitive restrictions on a single commodity. The implication the agriculturalists sought to convey was that the amendments to phase out the sugar and peanut programs suffered from a similar flaw.

The opposition to the sugar and peanut programs was more substantial than the opposition to the cotton marketing loans. A coalition of processing and user industries, market-oriented reformers, consumer groups, and environmentalists that had been active throughout the farm bill debate was pitted against the entrenched beneficiaries of the sugar and peanut marketing quotas and price supports. In both cases, the opponents rallied for a valiant showing in the final debate but the producers had expressed confidence that they would defeat the amendments. That confidence proved to be well-founded, with the Republican leadership apparently working behind the scenes to insure the outcomes (*Wall Street Journal*, 4/1). The recorded votes showed the peanut amendment failing 209-212 and the sugar amendment defeated 208-217. The outcomes were not as close as recorded, since several token votes were shifted in favor of each amendment once it was clear it would not pass. After the sugar vote, Roberts, who had made his accommodation with the producers much earlier, turned and gave the victory "thumbs up" to lobbyists who had filled the House gallery.

The amendment on dairy had a different outcome. The chairman of the rules committee, who had fought staunchly against any weakening of the regional milk marketing orders, used his power to thwart the Gunderson compromise. Under the modified closed rules of debate, midwestern opponents of the marketing orders were denied a chance to offer an amendment to substitute full deregulation for the Gunderson compromise. Instead, the only dairy amendment allowed was provided by the rules committee chairman himself. Solomon's amendment eliminated the assessments collected from dairy producers, then phased out the support program for all manufactured milk products over five years. The number of marketing orders was to be reduced to 10-14 but existing price differentials were not to be modified until the new marketing orders were in place. Solomon argued that his amendment would end government involvement in dairy support programs, consistent with the Republican commitment to reduced government intervention in the economy (he conveniently ignored intervention through the marketing orders and external tariff protection). Solomon also capitalized on the negative publicity the Gunderson compromise had received, claiming his bill would save taxpayers and consumers nearly $4 billion, while the Gunderson compromise would raise their costs by more than $3 billion. The Solomon amendment passed overwhelmingly after Gunderson, caught in the contradiction of trying to both raise producer income and achieve deregulation in his compromise proposal, agreed with Solomon's cost figures but argued that dairy farmers deserved a "raise" as part of the process leading toward more market orientation.

The dairy amendment was the only defeat Roberts and the agriculture committee would suffer on commodity programs. They were less successful, however, in maintaining the narrow commodity focus of its bill.

The conservation provisions of the House bill were broadened by an amendment offered by Representative Sherwood Boehlert (R-NY). His amendment reauthorized the CRP and Wetland Reserve Program with provisions for both new enrollments and an early-out option for the least environmentally sensitive land enrolled for five years or more. The Boehlert amendment also doubled expenditures on conservation cost-sharing programs from $100 million to $200 million annually, a level of funding consistent with the Senate bill. A second conservation amendment, offered by Representative Mark Foley (R-FL), added the Senate's $200 million for restoration of the Everglades. International food aid authorities were also extended by an amendment.

The conservation and food aid measures had political support among the Republican leadership. The leadership's interest was signaled publicly when Speaker Gingrich made an unusual floor speech in favor of Foley's Everglades expenditures. The chairman of the appropriations committee, Robert Livingston (R-LA), had opposed the creation of new mandatory entitlement programs. Citing aggregate discretionary expenditures as the one place in which the Republican-dominated Congress "had achieved its goal of lowering government spending," he implored his colleagues not to circumvent the discipline imposed in appropriations by authorizing mandatory conservation spending using CCC funds. Gingrich acknowledged the merit of the budgetary argument, but took the floor to reply that circumstances dictated an exception for the sake of conservation objectives. Budget-disciplinarians lost the vote on the Boehlert amendment 373-37. The Foley amendment also passed, and food aid was reauthorized.

The final challenge to the House version of the farm bill was the amendment from the Democratic members of the agriculture committee . It added $3.5 billion for the Fund for Rural America, raised the maximum loan rate for soybeans, and retained the permanent law from 1949. These provisions shifted the bill along the lines of the Senate compromise. Roberts, who had supported the Boehlert conservation amendment, turned the budget argument on mandatory rural development funding, and opposed permanent law as unworkable. The Democratic amendment was defeated, then the House passed the farm bill with 54 Democratic votes by 270-155. The cost of the bill had increased by $3.5 billion.

<u>End Game on the Farm Bill</u>

Despite remaining differences in both scope and detail between the House and Senate bills, there was a sense of convergence to the farm policy debate once the House had passed its version of the legislation. It took a few weeks to set the stage for the House-Senate conference committee, but the wild uncertainty that had characterized the debate through 1995 was dissipated. The conference committee met in mid March and proceeded quickly to agreement.

Barring a presidential veto, there was widespread support for, or at least acquiescence to, the basic restructuring of the commodity programs into PFC payments. The veto threat gave the administration some bargaining power as the conference committee convened. The secretary of agriculture continued to fault fixed payments decoupled from market prices, and Senate Democrats sought an opinion on whether the permanent law gave the secretary authority to extend the programs in place since 1990. They received a favorable assessment (from the Congressional Research Service) but were admonished that renewal of legislation by Congress was a more desirable outcome. Secretary Glickman then acknowledged that the president would not veto the farm bill on the basis of the PFC payments alone, but reiterated the administration's concerns for a strengthened safety net and inclusion of programs for conservation, nutrition, and rural development.

The timing of a compromise on the breadth of the farm bill rested on a decision by House and Senate Republicans to forego using it as an opportunity to press the rest of their reform agenda in favor of their victory on commodity programs. The initial posturing around these issues was contentious rhetorically, but it appeared that enough Democratic concerns would be accommodated to ensure enactment of the farm bill. Billions of dollars of PFC contract payments for a key constituent group were at stake, and the Republicans were badly in need of legislative successes a year after their historic 1994 election victory.

The House-Senate compromise among Republicans involved abandoning Roberts' strategy for a second farm bill and acceptance of provisions on conservation and nutrition that postponed the most controversial Republican attempts at structural reform and budget savings. The conference committee agreed to reauthorize the CRP with an early-out option for some acreage, but the radical departure from previous wetlands policy of exempting areas of less than one acre from regulation was rejected. A related deal was struck to drop a western water provision that the administration had indicated was unacceptable in the Senate bill. Agreement was reached to reauthorize the food stamp program for two years while the welfare reform process proceeded--a compromise which Democrats accepted. The Fund for Rural America was retained with $300 million authorized over three years. With these compromises, common ground was found to ensure bipartisan support for the breadth of the legislation.

There remanded a long list of details about the commodity programs that could, in principle, derail the final agreement. Last-hour bargaining continued around these details. One issue involved planting flexibility. On this issue, proponents of reform scored two small victories. A proposal to allow the secretary of agriculture to require that 50 percent of historical rice acreage of contract recipients be retained in rice production was defeated. The planting flexibility allowed on contract acreage was enhanced compared to the earlier bills when a decision was made to allow haying and grazing on all contract acreage. Market conditions again were key in determining the second outcome. High crop prices were putting upward pressure on hay prices, ameliorating some of the initial opposition by cattlemen to use of the contract land for production of livestock feed.

Farm policy reformers also defeated a last-ditch proposal by commodity groups (and supported by the administration) to remove the caps imposed on loan rates for corn and wheat. The commodity groups had concluded that CBO was miscalculating the expected savings from imposing the loan-rate caps. They were willing to forgo almost $500 million of guaranteed contract payments in exchange for possible increased marketing loan payments that they calculated might turn out as much as ten times as valuable.

The final issues that confronted the conference committee were dairy policy and the extension of permanent law. Leahy had indicated he would insist on inclusion of authority for the Northeast Dairy Compact. Roberts continued to insist on nullification of the outdated permanent law, a concession to reformers in the House of Representatives that had not been in his initial bill the previous August. Opponents of decoupled payments continued to argue that extension of permanent law was essential to provide a safety net for farmers.

The conference committee recessed at 1:00AM on March 21 with the final issues unresolved after a marathon 15-hour session. Roberts offered an extension of the PFC contracts through 2003 or continuation of the 1949 act through 2004 in lieu of the permanent law. Neither offer was acceptable to proponents of retaining the 1949 legislation.

The committee reconvened later the morning of the 21st. Roberts received a short note from the secretary of agriculture stating simply that "we need permanent law." Shortly after, he accepted the Senate provision to extend the 1949 act, while Leahy accepted authority for the secretary to establish the Northeast Dairy Compact if there was "a compelling public interest in the region." The farm bill deal had been struck.

The conference farm bill was titled the Federal Agriculture Improvement and Reform (FAIR) Act (see the appendix for a summary of the final act). It was scored as saving $2 billion from the December CBO budget baseline. The Republican leadership now claimed this savings as an indication that they were imposing budget discipline. The final bill passed in the House

318-89 and in the Senate 74-26. It was signed by the president on April 4, 1996. Even as he signed the FAIR Act, the president promised he would introduce subsequent legislation in 1997 to improve the safety net for farmers.

Summary and Conclusions: Whither Farm Policy?[8]

The recent debate over farm policy has been historic in a number of dimensions. For the first time in forty years, farm programs were determined by a Republican-dominated Congress. An omnibus bill to constrain government spending and balance the federal budget became the principle vehicle around which the Republicans organized their overall legislative agenda. The highly-partisan debates in which the political parties inevitably were to engage in this setting were played out on farm policy as elsewhere.

In the House of Representatives, the agriculture committee chairman, Pat Roberts, was a staunch defender of farm supports but faced intense ideological fire from the new Republican majority. His challenge was to find a policy agenda that satisfied the rhetorical mandate both for budget constraint and policy reform, while simultaneously putting together a coalition inside his committee to pass a farm bill. The "Freedom to Farm" proposal turned this trick. It became the centerpiece of his proposals when rising market prices created a situation in which the old policy mechanisms would fail to deliver support-payment transfers to farmers while the decoupled contract payments became relatively lucrative.

Most participants in the farm bill debate were slower than Roberts to appreciate the short-term financial gains that could be obtained for farmers from the change in policy instruments to decoupled support payments. Lacking committee support, Senate agriculture committee chairman Richard Lugar soon abandoned his early initiative to achieve budget savings to

[8] For a summary of the farm bill debate and further interpretation of the outcome see our papers "Can Farm Policy Be Reformed? Challenge of the Freedom to Farm Act" (*Choices*, First Quarter 1996), "A Farm Bill for Booming Commodity Markets," (*Choices*, Second Quarter 1996) and "Explaining U.S. Farm Policy in 1996 and Beyond: Changes of Party Control and Changing Market Conditions" (*American Journal of Agricultural Economics*, December 1996).

compromises demanded by more traditional members of his own party. Cotton and rice interests posed sustained challenges to the reform proposals in the House as well. In the partisan atmosphere after the 1994 elections, the opposition Roberts faced from the Republican vice-chairman of his committee created an historic gridlock on agricultural policy in September 1995. Notwithstanding the many intervening steps, the ultimate success of the FAIR Act in April 1996 marks the first time ever that legislation included in a budget reconciliation bill without approval from an authorizing committee of jurisdiction subsequently has become law. This is a remarkable tribute to Roberts' perceptive assessment of the policy environment of the farm bill debate and his skill in designing instruments to suite the prevailing opportunities.

While the process of the recent farm bill debate has been historic, the final outcome brings only limited market-oriented reform. The elimination of acreage set-asides and increased planting flexibility the FAIR Act provides are sensible reactions to strong market conditions. The efficiency gains they provide (estimated at about 2-4 percent of farm income or $1-2 billion per year) yield economic benefits for producers and consumers. In addition, capping the level of expenditures on future farm programs is a plausible response to continuing budget pressure. Full decoupling of support payments from prices and production on a unilateral basis may also enhance the bargaining position of the United States as it seeks more open markets in future international trade negotiations.

Despite these accomplishments, many reforms fell by the wayside in the process of enacting the 1996 farm bill. Sugar and peanuts mostly escaped price reform. The effort to deregulate the dairy sector largely collapsed. The initial loan-rate and payment-limitation reforms included in the House version of the budget reconciliation legislation were rescinded. Moreover, budget discipline broke down. Decoupled payments and planting flexibility are offered to farmers with a net short-term fiscal *cost*. Permanent legislation for farm support programs based on supply controls is maintained, and there is no guarantee that a transition to lower support for farmers has been initiated. Thus, regardless of the widely-used expressions about the new farm bill bringing the end of farm programs that have existed since the Great Depression, the amount of reform entailed seems less than historic.

The outcome might, however, have been worse. At one point, as market prices moved up, the expected cost of continuing the existing deficiency payment programs for the next few years equaled the capped expenditures to be guaranteed by the PFC contracts. Extending the old programs under such circumstances, even without ARPs, would have given farmers less production flexibility and would have failed to provide even the presumption of a cap on future expenditures. Worse yet, shifting to higher loan rates, as proposed by some Democrats, would have recoupled farm support interventions to production.

Perhaps market-oriented reformers should count it lucky that the windfall payments that only the decoupled contract payments seemed to insure kept these other options from prevailing. However, by the time the FAIR Act finally passed, the budget projections suggested that it would have been substantially less costly to taxpayers in the short run to continue deficiency payments (especially with a doubling of nonpayment acres, as once proposed). PFC contract payments to farmers over the next two years are likely to exceed what payments would have been with continuation of 1990 law by $5-10 billion. Perhaps the planting flexibility and elimination of set-asides that some farmers sought (others opposed) could have been achieved without such a windfall transfer.

High market prices created an opportune time to end past farm program interventions costlessly, as would have resulted from the initial Lugar and Farm Freedom Act proposals. These proposals lacked serious political support. One might argue that some windfall payments to farmers are a reasonable buyout for termination of sixty years of intervention policy. But for the levels of windfall gains now projected the likely payoff period for taxpayers is quite long if commodity prices remain high. This raises the question of whether "Roberts' billions" are too high a price for some good farm policy.

Indeed, it is ironic that the initial Freedom to Farm Act was originally sold to the reform-minded Republican House leadership during the highly-partisan budget debate because it deregulated a large part of agricultural production and disciplined farm entitlement spending. When the Republican budget initiative collapsed, a weakened version of the original reforms was approved first by the Senate because of bipartisan support for windfall payments, continuation of other farm policy interventions, reauthorization with full funding of nutrition and environmental programs, and other added spending. The FAIR Act succeeded in the House when a similar coalition involving farm and conservation interests coalesced around it. Thus, in the end, political support for decoupled PFC payments came over the objections of Republican (and other) reformers and opponents of lavish farm spending. The 104th Congress simply did not impose either the reduced expenditures or reform of domestic supply control programs once included as "negatives" on one side of Roberts' policy ledger for the Republican agenda.

What does this somewhat sobering reconstruction of the political origins of the FAIR Act tell us about the ability of the political processes to sustain reform in agriculture? One conclusion is that farm legislation remains largely in the purview of commodity groups. They were able to extract numerous concessions from the new reform-oriented Republican leadership despite its supposed commitments to budget discipline, streamlined government, and deregulation.

To pass farm legislation, commodity groups have traditionally formed an alliance with supporters of conservation and nutrition programs. Under a Republican-dominated Congress, the nutrition constituencies have diminished clout, but extension of the CRP and increased mandatory expenditures for conservation were easily approved over objections on grounds of budget discipline.[9] Nor could Roberts deliver the relief from environmental mandates and deregulation he had once promised on the "positive" side of his policy ledger.

Before the Republicans captured control of Congress in 1994, there was substantial discussion of the 1995 farm bill marking an advance for environmentally-justified programs of

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[9] In August 1996, Congress passed a welfare reform bill that cut projected funding for food stamps and other nutrition programs substantially. The president signed the welfare bill over objections of many Democrats.

"green payments". Speculation that the election results doomed such a new policy orientation have proven over stated. Beneath the market-oriented rhetoric of the new Republican majority, and even in the context of strong world markets, supply control justified on environmental grounds and transfer payments based on environmental practices are percolating as rationales for retaining a "social contract" of government involvement in agriculture. A transition may be occurring to the era of "green payments," with a one-time delay for pure income transfers the temporary "Freedom to Farm" legacy.

A related and crucial observation to make from the 1994-1996 farm policy debate is the extent to which policy outcomes are dependent on short-term market conditions. In the early stages of the debate, continuation of past support programs in some form seemed the most likely policy outcome. At one point, the Senate agriculture committee had approved such a bill, the administration supported the traditional approach, and the House agriculture committee was deadlocked over the Freedom to Farm alternative. The perception that past policies would be continued began to falter as market prices increased. This led to the decision by the House-Senate budget conference committee to endorse decoupled payments over the deficiency payments in the Senate bill--a decision that surprised many observers. The existing policy equilibrium continued to lose adherents, and Freedom to Farm payments continued to gain momentum, as the short-term advantage they offered grew and was increasingly recognized. By the end, the debate over the decoupled PFC payments was essentially settled, while the details of what "add-ons" would be needed to insure their approval continued to be negotiated.

The point, of course, is that policy being driven by market conditions is by no means the same as policy being driven by market liberalization. It is hard to imagine any policy having been endorsed in 1996 that did not respond to low commodity stocks and high prices by giving farmers full production capacity and flexibility in the short run. The corn ARP imposed in 1995, and the advance deficiency payments made on the basis of low price projections were policy mistakes, *ex post*, that were not to be immediately repeated.

This is not necessarily reassuring from the perspective of the ability of the political process to *sustain* reform of agricultural policy. For the FAIR Act to be counted as reform the deregulation of production and payment limits it provides for the feedgrains, wheat, rice and cotton will have to stick when market prices fall. Reform skeptics may imagine that the generous transition payments windfall, coming on top of high market prices, will encourage farmers to expand production capacity. If commodity prices subsequently fall, perhaps after 1997, the result could be a "hard landing" for crop producers, rather than a smooth transition toward market orientation. Rather than a weakening of demands for public support by the farm lobby, those demands could be strengthened. The Democratic proponents of a long-term safety net for farmers were vociferous in their objections to the lack of price-risk insurance under decoupled payments. They are poised to jump back into the farm policy debate if market conditions turn sour. Agricultural interests, who have now proven adept at obtaining benefits from Congress under either party, will find willing defenders of renewed intervention should prices fall. Even if the Republican leadership were to resist (assuming it still is the leadership), defections among Republican agriculturalists could easily create a bipartisan juggernaut.

Hopeful reformers must imagine quite a different result. If the reforms stick even if prices were to fall, the new legislation could signal less government intervention than equivalent market circumstances have in the past, with reduced future farm payments. The reforms will be more substantive in these circumstances, even if it is still many years before taxpayers recouped the extra up-front outlays mandated for farmers by the 104th Congress. Moreover, the transition payments windfall guaranteed by the new farm bill may becomes an effective buyout of a substantial component of the farm coalition, despite its political origins from within this coalition. Perhaps farmers who find unexpected benefits from planting flexibility will resist new regulation. Or perhaps having accepted the generous (and decoupled) PFC contract payments, producers of field crops will weaken the political foundation from which to demand a return to traditional supports, or (despite retention of the permanent law) from which to demand any support at all after 2002. Were crop producers to be bought out of the farm coalition, it could eventually prove more difficult, in contrast to events of 1995-96, to logroll continued protection for dairy, sugar and peanuts. Under this scenario, hopeful reformers can imagine the FAIR Act easing agriculture into an era of greater market orientation.

Appendix: Provisions of the 1996 FAIR Act

TITLE I-AGRICULTURAL MARKET TRANSITION ACT	Income support is no longer related to market prices. Restrictions on acreage and crops planted are substantially reduced. The nonrecourse loan program with marketing loan provisions continues, subject to maximum loan rates. Permanent law of the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 is retained but temporarily suspended. A commission is established to make recommendations about the appropriate future role of the Federal government in production agriculture.
Income support for feed grains, wheat, cotton and rice	Farmers who have participated in the support programs in any one of the past 5 years can enter into 7-year production flexibility contracts (PFCs) for 1996-2002. Total PFC payment levels for each fiscal year are fixed at: \$5.6 billion in 1996, \$5.4 billion in 1997, \$5.8 billion in 1998, \$5.6 billion in 1999, \$5.1 billion in 2000, \$4.1 billion in 2001, and \$4.0 billion in 2002. Allocations of the payments are: 26.26% for wheat, 46.22% for corn, 5.11% for sorghum, 2.16% for barley, 0.15% for oats, 11.63% for upland cotton, and 8.47% for rice. Land eligible for PFCs is equal to a farm's base acreage for 1996 calculated under the previous support programs, plus any returning Conservation Reserve Program (CRP) base and less any CRP enrollment. Program payment yields are frozen at 1995 levels. Sign-up for PFCs was restricted to one period in 1996, except that land from expiring CRP contracts can be enrolled later. A per-unit payment rate for each contract commodity will be determined annually by dividing the total annual contract payment level for each commodity by the total of all contract program payment production.
Planting flexibility and restrictions	Land must be maintained in agricultural use. Participants may plant 100 percent of their total contract acreage to any crop, except planting of fruits and vegetables (excluding mung beans, lentils, and dry peas) is restricted. Unlimited haying and grazing and planting and harvesting of alfalfa and other forage crops are permitted with no reduction in payments. Authority for ARP's is eliminated. The 0/85/92 and 50/85/92 programs are also eliminated.
Price Support (Loan Rates)	Nonrecourse loans are extended. Any production of a contract commodity by a producer who has entered into a PFC is eligible for loans. Marketing loan provisions are continued allowing repayment of loans at less than full principal plus interest when prices are below loan rates. Loan deficiency payments are available for all loan commodities except extra long staple (ELS) cotton. Authority for the Farmer-Owned Reserve (FOR) is suspended.
Feed grains and Wheat	Loan rates are set at 85% of the 5-year Olympic average of farm prices, subject to a maximum of \$1.89/bu for corn and \$2.58/bu for wheat. The Secretary retains authority to decrease feed grain and wheat loan rates up to 10 percent based on the projected stocks-to-use ratio but authority for an additional 10% discretionary adjustment is repealed. Loan rates for grain sorghum, barley, and oats are set based on the feed value relative to corn. Rye is no longer eligible for price support.

Cotton	The loan rate for upland cotton is set at the lesser of 85% of the 5-year Olympic average of spot market prices, or 90% of the Northern Europe-based average price, subject to a maximum of $0.5192/lb and a minimum of $0.50/lb. Provisions for various adjustment mechanisms and import quotas are maintained but certain reforms are made to the cotton loan program, including elimination of the 8-month cottong loan extension. Total expenditures for upland cotton user marketing certificates (Step 2 payments) cannot exceed $701 million over FY 1995-2002.
Rice	The rice loan rate is $6.50 per cwt.
Oilseeds and Soybeans	The soybean loan rate is set at not less than 85% of the 5-year Olympic average of farm prices, subject to a maximum of $5.26/bu and a minimum of $ $4.92/bu. The loan rates for sunflower seed, canola, rapeseed, safflower, mustard seed, and flaxseed cannot be less than 85 percent of the Olympic average of farm prices for sunflower seed, subject to a maximum of $0.093/lb and a minimum of $0.87/lb.
Conservation compliance	Participants must continue to maintain conservation plans including compliance with highly erodible land conservation provisions and wetland conservation provisions (swampbuster) to receive contract payments.
Payment limitations	Individual farmers can receive up to $80,000 per year in total contract payments on 3 separate farming operations ($40,000 on the first operation and $20,000 each on 2 additional entities). Limits on marketing loan gains continue at $75,000 on the first farm and $37,500 each on 2 additional entities.
Crop insurance	Purchase of crop insurance is no longer required to be eligible for farm program benefits if producers waive all emergency crop loss assistance.
Revenue Insurance Pilot Program	Requires a revenue insurance pilot program for crop years 1997-2000. Also authorizes research through pilot programs to determine if futures and options contracts can provide protection from financial risks.
Dairy Price support	The minimum support price for milk maintained through government purchases of butter, nonfat dry milk, and cheese declines from $10.35/cwt in 1996 to $9.90 in 1999, then is eliminated. Budget assessment on dairy producers are eliminated immediately. Starting in 2000, a recourse loan program is implemented for butter, nonfat fry milk, and cheese at loan rates equivalent to $9.90/cwt. Retains import tariff-rate quotas (TRQs) with no change.
Federal milk marketing orders	Federal milk marketing orders are to be consolidated from 33 into 10-14. Multiple basing points for the pricing of milk are authorized, California may maintain its own fluik milk standards, and the Secretary may, upon the finding of a compelling public interest in the area, grant the New England region the authority to enter into a dairy compact to terminate with the implementation of Federal order reforms.

Peanuts Price support	The peanut program is revised to operate at "no-net-cost" to taxpayers. The quota support rate for domestic sales is frozen at $610/ton, reduced from $678 in 1995.
Domestic Quota	The minimum national quota and provisions for carryover of under-marketings are eliminated. Out-of-state nonfarmers cannot hold quotas, but limited sale, lease, and transfer of quota is permitted across county lines within a state.
Sugar Price support	No-net-cost provisions and its associated TRQ for imports are retained. The raw cane and refined beet sugar loan rate remain fixed at the 1995 levels of $0.18/lb and $0.229/lb, respectively. Loans are recourse when the level of the TRQ is at or below 1.5 million short tons (raw value); if the TRQ is raised above that level, loans become nonrecourse.
Marketing allotments	Authority for domestic marketing allotments is eliminated.
TITLE II-AGRICULTURAL TRADE	
Food Aid	Extends the authority for P.L. 480 and Food for Progress (FFP) agreements.
Food Security Commodity Reserve	Amends the Agricultural Act of 1980 to establish a 4-million-ton Food Security Commodity Reserve expanded to include corn, grain, sorghum, and rice in addition to wheat.
Export Credit Guarantee (GSM) Programs	Mandates GSM-102 and GSM-103 at $5.5 billion annually. Allows credit guarantees for high-value products with at least 90% U.S. content (by weight).
Emerging Markets Program	Requires that CCC make available not less than $1 billion of direct credit or credit guarantees to emerging markets during FY 1996-2002.
The Market Promotion Program (MPP)	Authorizes funding for the program at $90 million annually and changes the name Market Access Program (MAP).
Export Subsidies	The Export Enhancement Program (EEP) expenditures are capped at $350 million in FY 1996, $250 million in 1997, $500 million in 1998, $550 million in 1999, $579 million in 2000, and $478 million in 2001 and 2002. The 1996-99 values total $1.6 billion less than UR-GATT commitments. The Dairy Export Incentive Program (DEIP) is extended to 2002. The Secretary must authorize subsidies sufficient to export the maximum volume of dairy products allowable subject to UR-GATT limits.
Embargo compensation	Assures producers of compensation if a future export embargo is imposed on any country for national security or foreign policy reasons, and if no other country with an agricultural economic interest joins the U.S. sanctions within 90 days.

TITLE III- CONSERVATION	
Highly erodible land	Conservation compliance provisions are retained. Producers are allowed to modify their practices if the modifications will provide greater erosion control.
Swampbuster	USDA's Natural Resources Conservation Service is designated the lead agency in wetlands delineation (as well as regulation of grazing lands). Existing wetland delineations remain valid unless a producer requests a review.
Conservation Reserve Program (CRP)	Maximum CRP area is capped at 36.4 million acres. The Secretary can enroll new land in the CRP to replace expiring acreage. New acreage will have to meet higher criteria regarding environment and conservation benefits to be accepted. With 60 days' notice, farmers can remove land enrolled for 5 years from the CRP prior to contract expiration. Wetlands, highly erodible land, and other environmentally sensitive areas are not eligible for early release.
Wetlands Reserve Program (WRP)	WRP area is maintained at 975,000 acres, to be split equally among permanent easements, 30-year easements, and restoration cost-share agreements.
Environmental Quality Incentives Program (EQIP)	EQIP is authorized at $1.3 billion over 7 years to assist producers with environmental and conservation improvements, with at least half of the funding is for environmental concerns associated with livestock production. The program awards 5- to 10-year cost-share or incentive payment contracts.
Other Programs	Conservation farm option contracts, National Natural Resources Conservation Foundation (NNRCF), Grazing Lands Conservation Initiative (GLCI), Flood Risk Reduction Program, Wildlife Habitat Incentives Program, and a Farmland Protection Program are established. The Secretary may designate watersheds or regions of special environmental sensitivity as conservation priority areas eligible for enhanced assistance.
Everglades Agricultural Area	Provides $200 million from the U.S. Treasury (not CCC funds) to the Secretary of Interior to conduct restoration activities, which may include land acquisition, in the Everglades ecosystem. An additional $100 million worth of Federal land in Florida may be sold or swapped for land in the Everglades.
TITLE IV-NUTRITION ASSISTANCE	The Food Stamp Program is reauthorizes for 2 years. The commodity distribution programs, and Temporary Emergency Food Assistance Program (TEFAP) are reauthorized.
TITLE V-AGRICULTURAL PROMOTIONS	Authorizes producer-funded research and promotion programs for canola and rapeseed, kiwifruit, and popcorn. Extends existing promotion program for fluid milk.

TITLE VI-CREDIT	Farm loan programs administered by USDA's Farm Service Agency are reauthorized. Authority to make loans for most nonagricultural purposes is repealed, and new restrictions on emergency loans are invoked. Borrowers with delinquent accounts face tighter rules. The Farm Credit System Reform Act of February 1996 streamlines the regulation of the FCS and reforms the Federal Agricultural Mortgage Corporation. Under the FAIR Act, the Secretary is required to conduct a study for Congress on rural credit.
TITLE VII-RURAL DEVELOPMENT	Existing programs are consolidated. A new Rural Community Advancement Program (RCAP), is authorized. The renamed Alternative Agricultural Research and Commercialization Corporation has enhanced abilities to finance new industrial uses for agricultural products, funding authorized for water and waste facility grants is increased to $590 million, and programs for telemedicine and distance learning services are reauthorized. A new Fund for Rural America is established to augment existing resources for agricultural research and rural development. Funding is authorized from the CCC for $50 million in FY 1996, $100 million in FY 1997, and $150 million in FY 1998.
TITLE VIII-RESEARCH, EXTENSION, AND EDUCATION	Provides specific authorizations in FY 1996 and 1997 for Federal agricultural research, extension, and education programs. Broad authorization for all programs is provided subject to appropriations for fiscal years 1998-2002. A task force is authorized to consider the development and consolidation of federally supported agricultural research facilities, and a National Agricultural Research, Extension, Education, and Economics Advisory Board is established (replaces 3 separate advisory committees).

Source: Condensed from Economic Research Service, U.S. Department of Agriculture. *Agricultural Outlook: Special Farm Bill Supplement*, April 1996.