



Preview and Background on the 1995 Farm Bill

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Why Do We Need a 1995 Farm Bill?

For over 20 years Congress has periodically updated, revised, expanded, and modified the farm legislation first passed during the Great Depression. The bills included in this legislation have become known as "Farm Bills" because they determine the basic nature of farm programs. Farm bills have similar broad goals: (1) providing the U.S. with a stable supply of quality food, (2) assisting farmers in achieving reasonable incomes, (3) expanding export markets, (4) providing food assistance to the poor, and (5) protecting the environment.

The last Farm Bill, passed in 1990, is officially known as the Food, Agriculture, Conservation, and Trade Act (FACTA). It is a long document (about 750 pages) divided into 25 titles (sections): Dairy, Wool, Wheat, Feed Grains, Cotton, Rice, Oilseeds, Peanuts, Sugar, Honey, General Commodity Provisions, Forestry, Fruit and Vegetable Marketing, Conservation, Trade, Research, Food Stamps, Credit, Agricultural Promotion, Grain Quality, Organic Certification, Crop Insurance, Rural Development, Global Climate Change, and Other Related Provisions.

Many of the provisions in FACTA expire on September 30, 1995. Congress must act before that date or authority for many commodity programs reverts to permanent legislation passed in 1938 as the Agricultural Adjustment Act. For example, permanent legislation, as amended, would require the Secretary of Agriculture to support the price of certain commodities at 75%-90% of parity. In January, parity prices were: corn, \$5.78/bu; burley tobacco, \$3.60/lb; and milk, \$27.10/cwt.

No one seriously believes Congress will allow farm programs to revert to parity-based price supports for basic commodities. This would disrupt agricultural markets and dramatically increase USDA spending. Thus, there will be some form of a farm bill passed in 1995.

But the political climate for this Farm Bill is dramatically different from all recent farm bills: Congress now has a Republican majority; all the agriculture, budget, and appropriations committees have new chairmen; there is a serious attempt underway to cut taxes and balance the federal budget through reduced federal spending; the old political alliances that produced FACTA will be strained and tested this year. This new political climate means predictions about the exact nature of the 1995 Farm Bill are risky indeed.

What Will Be In the 1995 Farm Bill?

Commodity Programs

The heart of every farm bill is commodity programs, the price and income support plans for the basic commodities. The most important for Kentucky are the wheat, feed grain, oil seeds, and dairy programs. Since USDA administers each program with different rules for participation and payments, each of these programs will be debated separately as a part of the 1995 Farm Bill.

Wheat, Feed Grains, and Oilseeds — There has been much recent talk and speculation about major changes for U.S. feed grain and wheat programs. The current law is based heavily on concepts that have existed since the 1973 farm legislation. Significant changes were introduced in both the 1985 and 1990 acts. Since 1973, the base of these programs has been an income and a price support function provided by the federal government.

Income support has been provided via a target price, deficiency payment mechanism based on a comparison of average market prices to target prices and loan rates. **Price support** has been provided by means of grain being eligible for non-recourse loans, if a farmer were eligible and chose to use the loan program. To qualify for both income and price support, farmers had to comply with annual production constraints and conservation practices.

Some of the major complaints about the basic program since its inception are high costs, benefits which seem to go primarily to large, well-off farmers, inflexible program rules for farmers, and price supports that are too high, thus allowing foreign competitors to capture market share at the expense of the U.S. The 1985 and 1990 Farm Bills addressed some of these complaints to varying degrees. Under current rules farmers have the option to “flex” portions of their feed grain and wheat bases to other crops, and marketing loans have been approved to allow U.S. prices to fall below loan rates in years of large excess supplies and thus protect the ability of the U.S. to compete in the world market.

Some political forces are calling for a complete elimination of the feed-grain and wheat programs. This does not seem likely to happen. It does appear, however, that changes will be made to these programs to lower their cost to the federal government. A possible change that seems very likely to occur is for an **increase in the un-paid, or normal flex acres**. Currently normal flex acres are 15% of the base acres for the farm for both feed-grains and wheat. These acres do not qualify for any deficiency payment, and farmers can plant almost any crop of their choice on this land. Another possibility that is receiving consideration is called **whole farm base acres instead of the current use of base acres being crop specific**. A third option calls for the replacement of the current program with a **revenue assurance type program**. Under this type of scheme deficiency payments and commodity loans would be replaced with a program that was very flexible in terms of what could be planted, and government payments would be triggered if projected farm revenue fell below a specified level.

Dairy — The major dairy policy changes of the 1980s (support price cap, dairy promotion assessment, and the dairy termination program) have had three major results: significantly lower product surpluses, increased price variability, and substantially fewer dairy farmers (farm numbers down 42% and cow numbers down 12% since 1982). However, during the same period total milk production has increased 11% as production per cow increased.

Thus, some of the same problems persist in the dairy industry: profitability, excess capacity, variable prices, surplus milk fat, and changing structure as the trend toward fewer but larger dairies continues. Policy options likely to be discussed this year include: (1) **Continuation of the current dairy program** with a \$10.10/cwt support price level. Structural changes would continue and price variability might adversely affect many dairy farmers. (2) **Eliminating the dairy price support program**. With annual costs of less than \$300 million, the dairy program is not likely to escape the notice in budget cuts. Program elimination would lead to increased price variability for farmers and consumers, and tax savings of just over one dollar per year for each

American. (3) **Self-help programs** with costs borne by farmers through additional assessments or federal milk marketing order revenue pools. (4) **Increased support price with supply management programs** would stabilize farm prices and likely increase consumer prices. This is not likely to be high on the agenda of an increasingly market-oriented Congress. And (5) **Changes in milk marketing order options** likely to be discussed include reducing Class I differentials, finding a substitute for the Minnesota-Wisconsin price series, and multiple component pricing.

Conservation Programs

Farm bills are not intended to be environmental legislation but major provisions of the last two farm bills have had strong environmental consequences. One important example is the **Conservation Compliance Policy**. This is a mandated policy which requires that all highly erodible land (HEL) be cropped in accordance with an approved conservation plan in order to maintain eligibility for USDA programs. Kentucky has about 3.5 million acres of HEL which are now under approved conservation plans.

Conservation plans were to be fully implemented by January, 1995. Kentucky farmers and landowners are largely in compliance as Conservation Plans have been completed and are being implemented. However, there may be efforts to increase enforcement of current provisions and possibly expand the policy to require a whole-farm Total Resource Management plan.

Another important conservation provision in the last two farm bills is the **Conservation Reserve Program (CRP)**, first passed in 1985. The CRP is a voluntary land retirement program which attempts to remove highly erodible cropland or environmentally sensitive areas from crop production. CRP contract holders receive annual payments for planting vegetative cover.

Over 36.5 million acres have been enrolled into the CRP nationally and about 451,000 acres in Kentucky. The majority of CRP land in Kentucky is west of I-65. Contract holders are paid about \$50/acre nationally and \$60/acre in Kentucky for the ten-year period cropland is in the CRP.

Signals about the future of the CRP are unclear. The first CRP contracts begin to expire in late 1995. Surveys of farmers and landowners in several states indicate about 50-60% of the CRP land may be returned to crop production. Thus, late in 1994 the Secretary of Agriculture announced a general option for a one-year extension of CRP contracts at existing terms and conditions. USDA subsequently also announced its intention to provide for long-run extensions but the Administration FY96 budget provides for only 15 million acres in the CRP, less than one-half the current acreage. Several conservation groups and livestock producers strongly support continuation of the current program.

Both the 1985 and 1990 Farm Bills also had **“Swampbuster” provisions** which eliminated USDA

farm program eligibility for crops grown on wetlands converted after 1985. This has been a very controversial policy since the definition and delineation of wetlands has produced no general agreement on the role of soils, hydrology, and vegetation necessary for practical identification of a wetland area. The Clinton Administration has attempted to reach a policy consensus using the 1987 technical manual while implementing a no-net-loss goal for wetlands.

Agricultural Trade Policy

After peaking in 1981, U.S. agricultural exports declined throughout the early to mid-1980s, primarily in response to a strong U.S. dollar, a sluggish world economy, and non-competitive support prices evolving from the 1981 Farm Bill. Since 1986, U.S. agricultural exports have rebounded in response to more favorable macroeconomic conditions and trade-enhancing farm legislation and now are expected to exceed the record levels achieved in the early 1980s. Currently, production from more than one-third of U.S. cropland is exported.

Recent farm bills have focused attention on international trade, given its increasing importance. The 1995 Farm Bill will be no exception. However, unlike other farm bills, the 1995 Farm Bill will be developed following two major trade policy agreements that have been reached between the United States and other trading nations. The North American Free Trade Agreement (NAFTA) was signed in December 1992, while the U.S. and 110 other nations concluded the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in December 1993.

Both agreements call for reductions in various production subsidies, import barriers, and export subsidies for agricultural commodities. Based on adjustments in U.S. production subsidies under previous farm and budget legislation, many U.S. agricultural price support programs are already in compliance with NAFTA and GATT. However, under GATT, the U.S. is being forced to make major adjustments on export promotion programs such as the Export Enhancement Program (EEP).

The EEP has been used extensively since 1985 to improve U.S. price competitiveness (primarily wheat) in international markets as a means of countering subsidies used by foreign competitors. However, GATT requires export subsidies to be reduced (over a six-year period) by 21% in volume and 36% in value from the 1986-1990 period. These reductions have already been put in place under the recently enacted GATT implementing legislation. However, EEP and other export promotion programs will continue to be under close scrutiny in the 1995 Farm Bill.

In addition to export subsidies, the 1995 Farm Bill will also address other trade policy issues such as credit guarantees, market promotion, and food aid. With large reductions in export promotion programs, the potential exists for some of these other trade programs to main-

tain or even obtain increased funding, despite increasing budget pressures on agricultural programs.

Food Assistance Programs

Almost two-thirds of USDA expenditures (about \$40 billion) are for food assistance programs. The largest of these is the Food Stamp program which provides food coupons to the poor. In 1993 about 27 million people received benefits averaging \$68 per person per month.

The other large food assistance programs included in the farm bill are the child nutrition and commodity donation programs. Child nutrition programs, the largest being the School Lunch program, reach 28 million young Americans and will cost about \$8 billion in 1995. Domestic commodity donation programs dispense surplus food and commodities to poor families, the elderly, and the homeless. The cost of these donations is over \$1 billion/year.

Traditionally, food assistance programs have been included in farm bills in order to solicit urban votes. This year the push for major welfare reform has included food assistance programs in the current attempt to transfer some poverty programs to the states. If approved, the food assistance programs could be consolidated into one of block grants passed on to the states, thus ending the national standards and eligibility criteria.

Rural Development

The economic, social, and health problems of rural regions helped push Congress to pass the Rural Development Act of 1972. This Act made USDA the central agency of responsibility for rural policy. The USDA reorganization of late-1994 created a **Rural Utilities Service** (combining the telephone and electric service programs of the old REA), a **Rural Community Development Service** (to administer the old FmHA housing programs and REA community loan programs), and the **Rural Business and Cooperative Development Service** (consolidating rural business and cooperatives programs).

Congress showed strong support for rural programs last year with increased appropriations for rural development programs, technical services, and cooperative development. However, the current budget environment may change congressional priorities and funding levels.

What May Not Be In the 1995 Farm Bill?

Tobacco — The tobacco program is permanent legislation that is voted on by producers every three years. Given the political struggles that the tobacco program constantly faces in Washington D.C., the tobacco industry has purposely avoided any program changes in the farm bill. However, this does not necessarily mean that tobacco will not be a part of the 1995 debate. The tobacco program (along with other controversial pro-

grams such as peanuts and sugar) will likely have to withstand intense efforts to dismantle the program.

One area that will certainly help tobacco relative to other program crops is its financial effects on the federal budget. Unlike other program crops, tobacco producers and purchasers pay for the operation of the program. The only major federal outlays attributed to the tobacco program originate from administrative costs such as Consolidated Farm Service Agency (formerly ASCS) personnel. These outlays are extremely small relative to farm program expenditures. Nevertheless, short of eliminating the tobacco program, some anti-tobacco Congressmen may attempt to recover the federal outlays for the tobacco program (approximately \$16 million) by forcing the industry to pay another assessment (approximately one cent per pound) to cover the program's administrative costs.

Livestock — Livestock and meat interests have generally received little direct attention in farm bills. Most producers and their organizations have generally preferred to keep it that way. While some espouse philosophical reasons and trust in markets, there are more pragmatic reasons these industries have preferred a low-key position. The primary reason is because of the many layers in the livestock sector (especially the cattle industry). For example, if a program to increase feeder calf prices were enacted to help cow-calf operations, the buyers (backgrounder and feedlots) would be hurt. As a result, it would be virtually impossible for industry consensus to emerge for a program comparable to the cropland set aside program.

Historically, the greatest impact of a farm bill on the livestock sector has been indirectly through the grains program. Stabilization of grain prices has been viewed as a positive aspect for cattle, hog, and poultry producers. However, programs which raised grain prices, whether through production limitations (like set asides) or expanded demand (like the Export Enhancement Program), have reduced profits and affected livestock supplies.

However, the number of titles in the farm bill which may have a direct impact on the livestock industries is increasing. The Export Enhancement Program has been used to help increase pork exports. Funding has been targeted toward meat export promotion. While a whole range of factors affect international trade, export markets have become increasingly important for the meat industry. For example, the U.S. became a net

exporter of pork for the first time ever during a short part of 1994.

The two general areas in which change may occur in the 1995 Farm Bill are related to food safety and environmental issues. The issue of meat quality and safety has become more widespread, and rare but acute problems have emerged. Inspection and food handling procedures have been improved gradually, but the full extent of modern science has yet to be applied to meats. New inspection methods are being evaluated. Changes are being implemented through regulation, but legislation may be required to allow utilization of antimicrobial washes, irradiation, and comparable new technologies.

A related issue which evokes controversy within the cattle industry is the Conservation Reserve Program. Release of CRP land for pasture, hay, and grazing would hurt some cattle producers as new pasture in certain regions becomes available, leading to expanding beef supplies

Agricultural Credit Issues — Most policy issues relating to agricultural credit are handled outside of the farm bill. In fact, agricultural credit regulations generally originate in congressional banking committees, not the agriculture committees. This is not to imply that farm and rural credit issues are not important agricultural issues. The future of the Farm Credit System, Farmers Home Administration, and Farmer Mac (the secondary market for ag mortgages) depends on the congressional actions.

The farm credit market is not a growth industry. Real farm debt has declined since its peak in the early 1980s. Policy issues to be addressed in the near future center on the role of ag-oriented lenders. Will Congress allow traditional agricultural lenders to expand their scope to include rural development, agribusiness, and rural non-ag business? Or will policy makers maintain status quo in agricultural credit institutions and allow other agencies or commercial lenders to continue to service the rural, non-agricultural markets?

Note

Some parts of this publication draw on leaflets prepared by the National Public Policy Education Committee, edited by Dr. Ron Knutson, Texas A&M University. Copies of the full set of leaflets are available by contacting one of the authors of this fact sheet.