POLICY PENNINGS

By Daryll E. Ray

Year in Review: Dollars drive farm bill debate

The question of how much money would be available for a new farm bill dominated much of the discussion in Washington, DC and in farm communities around the nation during the month of December.

Early in the year we took a look at the 1996 Farm Bill, the influences that brought it into being, the assumptions behind its adoption and how it has performed. The 1996 Farm Bill represented a Herculean change in farm legislation from a governmentally directed sector to reliance on the pressures of the free market. This change came about as the result of a number of factors including, the impact of exports on agriculture, the changing nature of agriculture wherein most of the inputs are purchased instead of produced on the farm, the increasing influence of free market oriented agricultural economists, the election of a Republican majority to Congress, opposition to land withholding programs, and rising farm prices during the period of the farm bill debate.

The assumptions behind the adoption of the 1996 Farm Bill implicitly include the belief that exports are the locomotive driving the growth of the agricultural crop sector, the belief that lower prices will force our export competitors to reduce their production or at least slow down the rate of growth, the belief that US farmers would respond to market signals and reduce production in the face of lower prices, and the belief that lower prices would trigger increased imports on the part of our export customers.

A close analysis of each of these assumptions shows that they cannot be supported by the data. Domestic demand, not exports has been the locomotive driving the growth in the US crop sector, partly due to increased demand for nonfood uses. Despite a forty percent drop in prices, producers in the US, and our competitors abroad, increased rather than decreased harvested major-crop area. And lastly, lower prices did not trigger an expansion in demand sufficient to sop up surplus production.

This combination of factors plus good weather around the world, resulted in increased inventories and lower prices. The lower prices and severely depressed market incomes, persuaded Congress to payout additional emergency payments resulting in record government payments. The failure of Freedom to Farm to perform in the market place had little to do with the normal external variability of the market and a lot to do with the faulty nature of the assumptions upon which it was built.

The price/income problems on the farm and the size of the government payments spurred the call for the replacement of the 1996 Farm Bill a year early. While the action on the farm bill appears to be a contest to see who can grab the biggest check, we suggested that a more fruitful approach would first be to identify the factors responsible for the price/income problems in crop agriculture and then design the program taking into account these factors.

In the early part of the year, discussion of a new farm bill revolved around the concept of fiscal restraint. Those asked to testify before the House Ag Committee were asked to quantify the costs of their program. The committee was acting under the belief that additional funds for agriculture would be limited. All of that flew out the window after the Congressional Budget Office released its April baseline showing a $97.4 billion 10 year baseline budget for agriculture, and an additional $73.5 billion available out of then-projected surplus. The tenor of discussions quickly changed.

Over the summer, the House Agriculture Committee put together a $170 billion farm bill. It was adopted by the committee in August and the full House on October 5. The Senate Ag Committee began its work on its own version of an ag bill in November. The committee approved the bill and sent it to the full Senate for action. The pressure was on for the Senate to complete action in time for it to go to conference committee for reconciliation with the House bill before the Christmas recess. The Senate leadership was not able to shut off debate and no action was taken before the holiday recess.

Both the House and Senate bills continue the popular planting flexibility provisions of the 1995 legislation. In the House version the loan rate for soybeans was lowered to $4.92 to bring it in line with the historic ratio between soybeans and corn. In addition the grain sorghum rate was increased to be the same as corn. In the Senate version, instead of lowering the soybean rate, the rate for the other crops were increased. It is this increase in the loan rate that has attracted the criticism of the administration.

When Congress returns in late January, the Senate will face considerable pressure to complete action on a new farm bill so that it can be reconciled with the House version and sent to the President for his signature. The goal will be to complete action before new budget numbers come out showing that the surplus has disappeared as a result of the recession and the September 11 attacks on the Pentagon and the World Trade Towers.

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