APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Dr. Daryll E. Ray

The hazards of debating farm policy when economic conditions are not typical

Will the President veto the farm bill or won't he? What compromises will the House and Senate have to make to avoid a veto? Will they ignore the administration and iron out their differences, daring to administration to defy them?

Several items are drawing the ire of the administration. Clearly, the leading objection that the administration has to the House and Senate bills is the tax increases or budget gimmicks that are being proposed that would provide more money than allowed by the budget baseline.

The second objection raised by the administration is the issue of means testing of farm program benefits. The House has set $1million in adjusted gross income as its cap while the Senate has set its cap at $750 thousand. The administration wants a $200 thousand cap. All of these limits are calculated on a three year average.

The desire of the administration to see more "reform" in commodity programs is less well defined and presumably would not be a problem if Congress does what it wants on the first two issues.

Acting Secretary of Agriculture Chuck Conner delivered the administration's talking points to the 2008 meeting of the American Farm Bureau Federation (AFBF) in New Orleans.

The points did not sit well with AFBF President Bob Stallman who felt that the comprises made to get the House and Senate Bills were as far as they were willing to go. He would like to see the two bills harmonized in the Conference Committee and is not particular as to how the extra funding is obtained.

To make his point clear, Stallman said, "We believe the administration is serious about their veto threat. It would be better, if the administration did not veto a farm bill." He went on to say that "many farmers in red-state country [states that voted Republican in recent elections] would be disappointed" with a veto. He indicated the AFBF would work to override the veto. That would undoubtedly involve lobbying Republican legislators to support the veto override.

How did we come to the point that the Conference Committee discussion revolves around a threatened veto? The current high prices are at the center of the issue. Because of the current high prices, it is expected that payments for Marketing Loan Gains and Counter-Cyclical Payments will be zero or small.

The consequence of this is that legislators have a smaller budget baseline and fewer dollars to move around as compromises are made. As a result, both the House and Senate had to come up with additional funds to make the compromises necessary to get a bill approved, thus the veto threat.

Congress and the administration find themselves at this crossroads, in part, because of the nature of the budgeting process. If prices were at the levels they were two years ago, the budget baseline would have ample money that could be moved around to effect the necessary compromises.

The calculation of the baseline is the problem. The baseline is set with the assumption that the future will look much like today. In our experience that is an unrealistic assumption. It is much more likely that the future will look more like the past than today. The future will undoubtedly include high prices like the mid-90s and today. But, it will also include low prices like those in the late 80s and 1998-2001.

When the budget baseline for the 1995 Farm Bill-later to become the 1996 Farm Bill-was established, prices were low. But when the legislation was passed, prices were high and Congress was quite willing to establish decoupled payments as a means of making sure all of the money was spent. Little was set aside for a safety net-with high prices it seemed none would be needed. Two years later prices plummeted and Congress approved massive "emergency" payments. The 1996 Farm Bill was terminated a year early.

The 2002 Farm Bill budget baseline was set at a time when prices were low. As a result there was plenty of money to move around and the bill sailed through without any threat of veto.

Agriculture is not like highways and many other programs where straight line projections based on today's conditions will provide an adequate roadmap for the future. Over time, agriculture typically experiences short periods of high prices and extended periods of low prices. To account for this extreme variation, it would seem more in line with experience if the agriculture baseline were established in a manner that would allow Congress to develop a policy for all seasons.

What is needed is a set of policies that will work equally well when prices are high and when they are low. It is hard to justify Direct Payments when soybeans are over $12, corn is pushing $5 and wheat is in record territory. At the same time some of proposed programs will provide little support if prices stay below the cost of production for an extended period of time.

Perhaps the unstated assumption is that if prices tank, Congress will once again pass massive emergency payments to make up for a set of policies that assume the atypical conditions of today will be typical in the future.

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