Farm Bill Options

Curriculum Guide

I. Goals and Objectives

A. Develop an understanding of the history of USDA farm programs.
B. Understand the provisions of the 1996 FAIR (Freedom to Farm) Act.
C. Review the policy options available when the 1996 FAIR Act expires in 2002.

II. Description/Highlights

A. The first farm program was a part of the Roosevelt New Deal, passed in 1933. It supported prices at 100% parity (1910 to 1914 farm prices and expenses). The parity index is no longer realistically applicable today because parity ignores the production efficiency gains that have occurred since 1910 - 1914. American farmers accepted government intervention into the marketplace because of a severely depressed farm economy, beginning in the 1920's.

B. When the debate on the 1996 Farm Bill began, U.S. agriculture had a 63 year history of government intervention into the marketplace. Historically, farm programs consisted of four basic elements: 1) land retirement, 2) stored reserves, 3) price supports, and 4) income supports. Agriculture is highly unstable in production, price, export demand and income, except when government programs reduce that inherent instability. Traditional farm programs work fine in a domestic economy, but price us out of the market and make us inefficient in a global, export dependant economy. While the U.S. idled land and stored grain, the rest of the world increased production and gained market share.

C. Four factors came together to make this major change in agricultural policy possible:
   1. Huge budget deficits.
   2. The desire to plant for the marketplace at full production levels.
   3. Relatively high commodity prices due to low stocks and global demand.
   4. A new group of farm policy leaders consisting of Senate Majority Leader Bob Dole, House Agriculture Committee Chairman Pat Roberts, and Secretary of Agriculture Dan Glickman.

D. The major difference between Freedom to Farm and previous farm bills is that payments to farmers are no longer coupled to market prices and specific production decisions. It also authorized a schedule of fixed, declining payments from 1996 to 2002 (see Figure 1 and Table 1). Farm payments are scheduled to decline from a high of 6.4 billion dollars in 1996 to 4.0 billion dollars in 2004.

The law authorizes the payment schedule, but congress must still appropriate these payments on an annual basis and the appropriation may be larger or smaller than the authorized payment scheduled, as was the case when congress increased the transition payments in 1998. Decoupling transfers price risk from the government to the farmer. Because of this, producers must be better managers of risk in the new environment.

E. It is a myth that farm programs will end in 2002. When Freedom to Farm expires in 2002, there will be a $4 billion baseline from which appropriations are debated for 2003. Debate will center around how this money should be used. Is the safety net adequate? There are at least seven main options for the next farm bill debate.

1. Continue Freedom to Farm (status quo). Flexibility is popular and there has been a tremendous change in the crop mix. The fixed payment schedule and flexibility of Freedom to Farm worked very well for farmers during the high income years of 1996 - 97. It remains to be seen if freedom to farm can survive falling prices and low exports. It will depend on what commodity prices and farm income levels are during the debate.

2. Recouple payments to price and production (go back to the old program). This option involves reinstituting target price, base acres, deficiency payments, and the nonrecourse loan. The government would then provide protection in low-price years and no payments in high-price years. Under this option, Congress loses control of expenditures since producers would be entitled to a payment tied to price. Recoupling production reduces the flexibility to farm the marketplace. This option would provide a more stable income, at the expense of marketplace dynamics.

3. Recouple payments to price. This option would raise the loan rate while keeping the marketing loan and loan deficiency payments. This option would produce more price variability and more variable government expenditures.

4. Increase traditional nonrecourse loan rates. This option retains the nonrecourse loan and does away with the marketing loan while raising the loan rate. Grain may end up in storage as opposed to moving through the marketplace. Forfeited grain depresses market prices, keeping them near the nonrecourse loan rate floor. High loan rates also tend to keep US prices artificially above world prices, giving our competitors an advantage in global markets.

5. Revenue insurance. This option involves providing a combination of price and yield coverage as a revenue insurance policy. This would insure a producers income (price X yield) as opposed to more traditional yield insurance.

6. 1949 Agriculture Act. Returning to the 1949 Act (the permanent legislation) would establish high price supports and referenda on mandatory production controls. This would work in a domestic market, but not in an export oriented market. The permanent legislation would become law if a farm bill was not enacted in 2002.

7. Repeal the 1949 Act. This would eliminate farm programs. The $4 billion in the baseline could be spent on other agricultural programs, or could be returned to the US Treasury. Operating in this open market environment would bring more instability, and success would greatly depend on how well producers managed risk, and if our competitors moved towards a market oriented policy.

III. Potential Speakers

A. Public Policy Extension Educators
B. Elected Congresspersons or Senators

IV. Review Questions

A. Over the history of US Farm Programs, what have been the results for agriculture and rural America?
Answer: Farm prices and income are likely higher than they would have been, farm program benefits have been capitalized into land values, the pain of adjusting to new technology was decreased, movement off the farm has been reduced, and the inherent instability of agriculture has been reduced.

B. Will farm programs end in 2002?
This is highly unlikely. There is $4 billion in the budget baseline for farm programs after the 1996 Fair Act expires. Also, since no one wants the farm law to revert to the 1949 Agriculture Act, Congress must address farm policy issues, which will result in a new Farm Bill of some sort.

V. For More Details

Ronald D. Knutson, J.B. Penn and Barry L. Flinchbaugh, Agricultural and Food Policy, 4th ed. (Upper Saddle River, NY: Prentice Hall, Inc.) 1998

● Objectives

- ☞ Understand the history of farm programs
- ☞ Understand the 1996 FAIR Act
- ☞ Review policy options when 1996 FAIR Act expires in 2002

● First Farm Program Passed in 1933

- ☞ Part of Roosevelt's New Deal
- ☞ Supported Price at 100% Parity
- ☞ Farmers accepted intervention because of highly depressed farm economy

- **Prior to 1996 Farm Bills Consisted of Four Major Elements**
  - ☞ Land retirements
  - ☞ Price Supports
  - ☞ Stored Reserves
  - ☞ Income Supports
- **Works Well in Domestic Economy**
- **Inefficient in Global, Export Oriented Economy**
- **This Major Shift in Agriculture Policy Due to**
  - ☞ Huge budget deficits
  - ☞ Desire to "plant the marketplace" at full production
  - ☞ Relatively high commodity prices
  - ☞ New Farm Policy Leadership
    Senate Majority Leader Bob Dole
    House Ag Committee Chairman Pat Roberts
    Secretary of Agriculture Dan Glickman

Important Changes from Freedom to Farm

- ☞ Payments no longer couples to price and production

- ☞ Authorized a schedule of fixed declining payments
  - $6.4 billion in 1996
  - $4.0 billion in 2002

- ☞ Congress must still annually appropriate these payments
  - Appropriation may be larger or smaller than authorized payments
  - 1998 payments were larger than authorized

Figure 1. 1996 FAIR ACT Authorized Payments

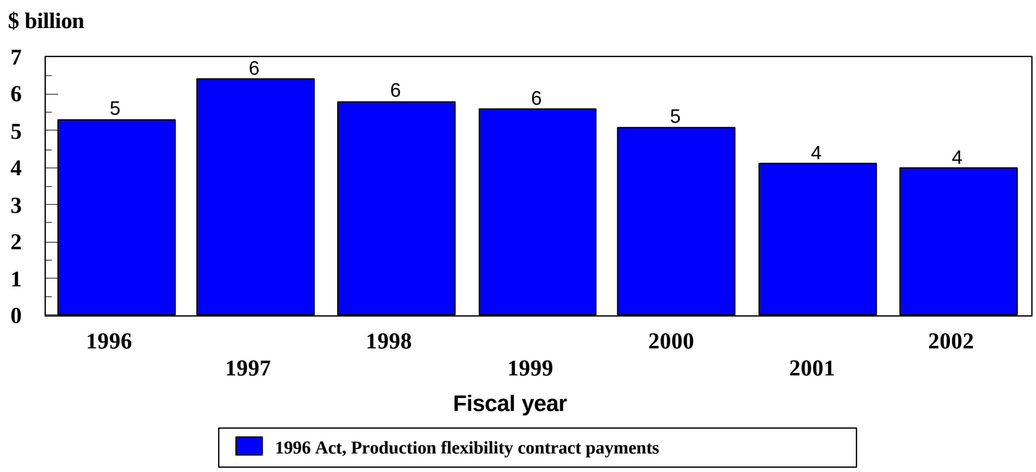

Table 1. 1996 FAIR ACT Authorized Per Bushel Payments

Fiscal Year	1996	1997	1998	1999	2000	2001	2002
Wheat	$.87	$.64	$.68	$.65	$.59	$.47	$.46
Corn	$.24	$.52	$.41	$.39	$.36	$.29	$.28
Sorghum	$.31	$.53	$.46	$.44	$.40	$.32	$.31

- **Farm Programs will not end in 2002**
- **$4 Billion Baseline Appropriation Available in 2003**
- **Debate Will Center on How to Use $4 Billion**
- **At Least 7 Options Available for Next Farm Bill Debate**

Farm Bill Options

- ☞ Continue Freedom to Farm (Status Quo)
  - Flexibility is popular
  - Worked well in high income years of 1996-1997
  - Remains to be seen how program works in low price/exports period
  - Outcome will depend on price and income levels

- ☞ Recouple payments to price and production (Old Program)
  - Re-institute target price, base acres, deficiency payments and nonrecourse loan
  - Government provides payments in low price years and not in high price years
  - Congress loses control over expenditures
  - Producers lose flexibility
  - Provides more stable income at expense of marketplace dynamics

- ☞ Recouple payments to price
  - Raise loan rate while keeping marketing loan deficiency payments
  - Would result in more variable prices and more variable government expenditures

Farm Bill Options (Cont.)

- Increase nonrecourse loan rates
  - Retains nonrecourse loans and raises loan rates
  - Eliminates marketing loan
  - Grain will remain in storage
  - Market prices will fall to near the loan rate floor
  - Will keep US prices above world levels giving our competitors and advantage in export markets

- Revenue Insurance
  - Provides price and yield coverage
  - Insures producer income (price X yield)

- 1949 Agriculture Act (Permanent Legislation)
  - Establish high price supports and referenda
  - Not workable in a global, export oriented economy
  - Would become law if a farm bill not enacted in 2002

- Repeal 1949 Act
  - Eliminate Farm Programs
  - More price and income instability
  - Would competitors move to a market oriented policy