

Staff Paper

Issues and Alternatives in the 1995 Farm Bill
Debate: An Overview of the Farm Bill

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Abstract

Nearly every aspect of Michigan Agriculture is affected by the farm bill. Farm program payments are a major source of income (25 percent of Michigan's net farm income in recent years has come from farm program payments – Figure 1), conservation compliance requirements are beginning to affect production decisions, and export programs affect market prices. All farmers in Michigan will be affected by the decisions made in 1995, regardless of whether they currently participate in farm programs or produce program crops.

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**ISSUES AND ALTERNATIVES IN THE 1995 FARM BILL DEBATE:
AN OVERVIEW OF THE FARM BILL
Department of Agricultural Economics
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Staff Paper 94-50
From the Series: Michigan Agriculture in a Global Economy**

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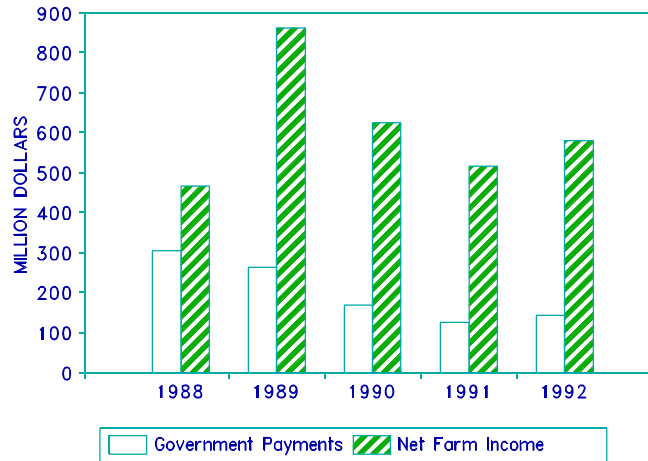
Nearly every aspect of Michigan agriculture is affected by the farm bill. Farm program payments are a major source of income (25 percent of Michigan's net farm income in recent years has come from farm program payments -- Figure 1), conservation compliance requirements are beginning to affect production decisions, and export programs affect market prices. All farmers in Michigan will be affected by the decisions made in 1995, regardless of whether they currently participate in farm programs or produce program crops.

As 1995 approaches, the political machinery of Washington is gearing up to write a new farm bill to replace the Food, Agriculture, Conservation and Trade Act of 1990. Writing a farm bill is now a major policy exercise for Congress, requiring several months of debate to produce a massive document. The 1990 farm bill was 1,200 pages that included:

- Commodity programs, including the feed grain, wheat, rice, cotton, sugar, peanut, tobacco and dairy programs.
- Conservation programs, including conservation compliance requirements, Conservation Reserve Program, Wetlands Reserve Program, Water Quality Protection Program, and Environmental Easement Program.
- International trade programs, including the Export Enhancement Program, Market Promotion Program, and P.L. 480 food assistance program.
- Domestic nutrition programs, including the Food Stamp Program.
- Research and extension programs, including funding for agricultural research and extension programs at land grant universities.
- Marketing programs, including check-off programs promoting agricultural commodities.
- Credit programs, including Farmers Home Administration programs.
- Crop insurance and disaster programs, including Federal Crop Insurance Corporation programs and disaster payments.
- Grain quality, organic certification, and rural development programs.

Many issues and alternatives will be considered during the 1995 farm bill debate, and each alternative raises important questions for Michigan farmers.

FIGURE 1. NET FARM INCOME AND FARM PROGRAM PAYMENTS IN MICHIGAN



Will There Be Major Changes In Commodity Programs?

Commodity programs will once again be at the center of the farm bill debate, with alternatives ranging from continuation of the current programs to a complete restructuring of government programs for agriculture. Some observers believe the existing programs need only minor changes to meet specific policy objectives. These changes could include changes in flex acreage to reduce budget costs, changes in payment limits to address equity issues, or changes in loan rates.

Other proposals would make fundamental changes in the structure of commodity programs. One alternative that will likely be considered is the use of a revenue protection program as a substitute for the existing target price program. While several versions of this program are likely to be considered, all such programs would base payments on a farmer's gross revenue rather than the current program based on deficiency payments. Other proposals would replace the target price program with a system of "green payments" that would pay participating farmers an incentive to accomplish specific environmental objectives.

Any major changes in commodity programs would probably affect both program crops (corn, wheat, cotton and rice) and non-program crops. Some proposals would eliminate disaster programs that are currently available for non-program crops, while other proposals would extend some form of revenue protection to non-program crops. In any case, the diversity of Michigan agriculture means that changes in commodity programs would have a larger impact on Michigan farmers than on farmers in many other states.

Will a Redesigned Conservation Reserve Program Mean More Money for Michigan?

The future of the Conservation Reserve Program (CRP) promises to be a central issue in the farm bill debate. Established by the 1985 farm bill, the CRP now has 36.5 million acres enrolled in 10-year contracts. Participants in the program receive an average payment of \$50 per acre for idling this land and maintaining conservation practices that protect the soil. These contracts will begin expiring in 1996, with 24 million acres of land eligible to return to production between 1995 and 1997. Michigan farmers have enrolled 333,000 acres in the CRP and will receive \$206 million of payments during the life of the contracts.

The establishment of the CRP was the linchpin of the farmer-environmental coalition responsible for passage of the 1985 farm bill. Both sides accomplished a much-desired objective: Farm groups obtained a long-term voluntary land retirement program that helped support crop prices and reduce the cost of the target price program, while environmental groups obtained a program designed to reduce soil erosion and protect water quality. Because the budget costs have been considerable -- 20 billion dollars to date -- few observers believe the CRP will continue in its present form.

The 1995 farm bill will determine which of these contracts will be renewed and whether the program will be completely redesigned to address a broader range of environmental problems. If the program is not renewed, as much as 23 million base acres could return to production, thereby reducing crop prices and increasing the cost of farm programs. Even those farmers who have not enrolled land in the CRP will be affected by the outcome of this debate.

Michigan farmers could gain if the CRP is redesigned to accomplish a wider range of environmental objectives. In its original form, the CRP was targeted at reducing soil erosion, and much of the land enrolled in the program was located in the wheat-producing regions of the Great Plains. Since 1988, the CRP has included the objectives of protecting groundwater quality and wetlands habitat. Consequently, more acreage was enrolled in Michigan after 1988. If the CRP is redesigned to address other environmental problems, Michigan farmers could gain assistance in dealing with localized environmental problems. Similarly, a redesigned CRP might help Michigan farmers gain compensation for the potential costs of complying with provisions of the Clean Water Act or the Coastal Zone Management Act.

Will GATT and NAFTA Mean the End of U.S. Farm Programs?

The completion of the Uruguay Round of General Agreement on Tariffs and Trade (GATT) negotiations will also affect the 1995 farm bill debate. While the Uruguay Round agreement will not affect the basic structure of target prices and loan rates, it will require the United States to reduce spending on export subsidies. Both the Export Enhancement Program and the Dairy Export Incentive Program must be reduced to comply with the Uruguay Round agreement and any new programs must comply with the restrictions established by GATT. While NAFTA and GATT both require the United States to eliminate its Section 22 import quotas that are used to maintain some U.S. farm programs, GATT will permit the U.S. to replace these quotas with import tariffs.

Will the Old Arguments Win in the New Washington?

Washington has changed since the 1990 farm bill was written, and these changes will affect the 1995 farm bill debate. Three fundamental changes could mean that traditional arguments in favor of farm programs will face new opposition in Washington.

First, intensified budget pressures now dominate every policy debate in Washington. The rules of the Congressional budgeting process require that every increase in program spending be offset by a tax increase or a reduction in another program. This rule pits each federal program against other programs in a continuing scramble for a share of the federal budget. Agriculture will have difficulty increasing its share of the budget under these rules and will likely face continued attempts to reduce spending on USDA programs.

The second major change is in the membership of Congress. Given the large number of retirements expected before this year's Congressional elections, over one-half of the members of the House of Representatives will have been elected since 1990 and will never have participated in the writing of a farm bill. At least two-thirds of the 48 members of the House Agriculture Committee will never have participated in the writing of a farm bill. These new

members will bring a wider variety of concerns and objectives to the farm bill debate. While most members of the Committee continue to see farm income problems as their highest priority, some of them may not view existing farm programs as an adequate means of addressing the needs of all farmers. Other members may view trade policies, environmental issues, food safety, nutrition programs or rural development issues as higher priorities. The impact of these new members on the outcome of the farm bill debate is impossible to predict, but it is certain that these new members will demand a stronger role in shaping the farm bill and in addressing issues important to their constituents.

The third major change is that the traditional relationships that have framed past farm bill debates may no longer hold during the 1995 debate. The traditional justification for farm programs -- that farmers have lower incomes than non-farmers -- is losing its force as the gap between the incomes of farm and non-farm families has closed. Consumer interests have increased in importance as nutrition programs have taken a larger share of the USDA budget. Agriculture is no longer viewed as unique and is less likely to be exempt from regulations applied to other industries. The impact of these changes on the shape of the farm bill is difficult to predict, but these changes -- combined with increased budget pressures and changes in the membership of Congress -- will frame the initial farm bill debate, the alternatives that are considered, and the political and economic feasibility of each alternative.

Preparing for the Long Haul

The writing of a farm bill is a political marathon, not a sprint. New proposals are sure to arise in the coming months, and Congress is likely to debate the farm bill for much of 1995. Michigan farmers have much at stake in this debate. Sorting out the proposals and expressing opinions on policy preferences will be critical in the coming months.