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1995 FARM BILL
WILL WE DECOUPLE?

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The farm bill debate began in earnest with Senator Lugar suggesting it is time to "pull the plug" on those antiquated Depression-era programs that have outlived their purposes. Many took up the cause. Leading agricultural economists like Luther Tweeten appeared before Senator Lugar's committee and lent support as did leading agribusiness spokespersons. Some thought the bandwagon would roll. But, it didn't!

Senator Lugar perhaps had the votes in the Senate Agriculture Committee, but missing were Senators Dole and Cochrane, and Mr. Andreas from ADM bolted from the agribusiness coalition.

Chairman Roberts took the House Agriculture Committee on the road in the spring, and they heard testimony from across the spectrum. But, what they heard most loudly and clearly was that "farm country" was in no financial position to ride out a pulling of the plug. With equal fervor the committee heard that farmers wanted flexibility to farm the marketplace instead of farming government programs. The "whole farm" base approach was the answer, declared many. In Dodge City they heard that in the 1990s, 52 percent of net farm income in Kansas came from government payments. This was based on Kansas State University's Farm Management Association data. They also heard that "pulling the plug" would cause 50 percent "decapitalization" of land values in Kansas with a four- to six-year recovery period required.

Economists have argued for years that the benefits of Federal farm programs were capitalized into land values. How can they now argue that we can pull the plug and decapitalization won't occur?

Secretary Glickman issued a "bluebook" of guidelines that generally supported flexibility, but also strongly backed current programs.

Three main factors are driving the debate: budget, exports, and to a lesser extent, the environment. The bitter partisan debate on the budget bled over onto the farm bill. Farm bills are usually not partisan, but given the budget battle that isn't the case this time. The question became "How much to cut?" Mr. Glickman argued for smaller cuts than the Congress, but he was working from a more optimistic baseline which would actually result in less money available for farm programs than the Congressional baseline, even with larger cuts.

Those who argued for "pulling the plug" evidently are convinced the bullish seller's export market can replace farm program payments in the farm income stream without farm income or land values declining. On the opposite end of the spectrum some argue that the export market cannot replace government programs at all and the current programs must remain intact. How much can exports replace farm program payments? Between zero and 100 percent. Where in between these extremes no one knows with any degree of certainty, but that is the essential economic questions behind the farm bill debate.

The 1994 Congressional election results clearly were not environmentally friendly in the eyes of mainstream environmental groups. The CRP and conservation compliance will remain intact, but decidedly more farmer-friendly in the eyes of many farm groups.

As the debate progressed, Chairman Roberts came forth with a whole new approach -- the Freedom to Farm Act. That immediately put him front and center in the debate. But, is Freedom to Farm bold and new, or is it Boschwitz and Boren reinvented? Or, as some suggest, a decoupled environmental payment. It is clearly completely decoupled fixed payments slowly ratcheted down with 100 percent flexibility excluding fruits and vegetables and haying and grazing. (Evidently, free enterprise-thinking cattlemen don't take their philosophy completely serious.) Freedom to Farm is designed to allow farmers to respond to the marketplace, but with a safety net in place.

Battle lines were quickly drawn. Supporting Roberts were the agribusiness community, including prominent analysts like Dennis Avery who see the export market as the greatest opportunity in the history of farming, and many High Plains wheat growers, Corn Belt farmers and several state Farm Bureaus. Opposing Roberts were southern cotton and rice growers and processors. This broke another time-honored tradition in farm bill history, i.e. "you scratch mine and I'll scratch yours." Previously, southern commodity interests supported northern commodity interests and vice versa.

Several myths abound:

1. Freedom to Farm means the end of farm programs. Not necessarily so. At least $4 billion remains in the baseline at the end of the seven-year period and the permanent legislation remains intact, which will force a debate seven years hence.

2. Freedom to Farm means the end of supply management. Short term, yes. Long term, no. The CRP is likely to emerge with at least 25 million acres in this long-term supply management program.

3. Freedom to Farm means less farm income. Not necessarily so. In fact, it scores at the top on several land-grant university studies and at least one general farm organization and one consulting firm study when compared with other options under debate. This is even true for southern commodity growers.

Why then the vociferous opposition? Many get caught up in a price-price-price mentality rather than looking at the real bottom line, i.e. income. The argument goes: we can't make payments to farmers when wheat is $5 and corn is $3. It isn't politically correct. Decoupled payments provide farmers with income when they need it the most, i.e. poor crops and high prices. The current program does the opposite: no payments when prices are high, due, at least partially, to reduced supply. In turn, current programs provide payments when they need them the least, i.e. low prices but bumper crops.

Freedom to Farm transfers the price risk from the government to farmers forcing them to carry the risk themselves or learn to use other available risk management tools.

Freedom to Farm eliminates short-term supply management and could yield close to fence row-to-fence row production. Many remember the last time full production was promoted by the government and the results that followed. So far, historically, farmers and their organizations have not been successful in supply management, only the government has that "successful" track record.

As we go to press, the farm bill is in political limbo. Farm programs are perhaps a pawn in the budget reconciliation debate between the Congress and the President and rest of the package (conservation, credit, trade, research, education, regulatory relief, etc.) languishes in committee waiting until perhaps spring to see action.

Agreement appears to be universal that: (1) budget cuts will occur, (2) maximum possible flexibility is the goal, (3) short-term supply management is dead, (4) long-term supply management is alive and well, and, (5) conservation will remain politically correct, but regulation will be relaxed.

We won't pull the plug or preserve the status quo. Policy is usually determined between the forty yard lines, not in the "red zone." Compromise will occur with neither extreme prevailing.

Will we decouple? From production, yes. From price, at least partially.

NOTE

This paper was the introductory piece to a panel discussion that included Ronald D. Knutson (his paper follows), David Spears, aide to Senator Dole, who gave the Senate perspective, and Ann Simons, aide to Congressman de la Garza, who gave the House perspective.