COMMERCIAL FARMERS AS 1995 FARM BILL STAKEHOLDERS

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Obviously, I am not in a position to speak for the commercial farmer sector in the upcoming 1995 farm bill deliberations. What I can do, however, is to indicate some of the major points public policy educators should consider when delivering educational programs for commercial farmers. These points answer the following questions, some of which touch on issues discussed by Lynn Daft elsewhere in this publication:

- When do farm program benefits become so low farmers decide not to participate in the program?
- How can we most effectively react to the increasing number of economists who act as free market advocates in support of this particular program alternative?
- How does the implementation of the Uruguay Round Agreement (URA) of the General Agreement on Tariffs and Trade (GATT) affect the 1995 farm bill?
- What options exist for commercial farmers reacting to environmentalists in the 1995 farm bill deliberations?
- What bases exist for developing the required coalition to enact the 1995 farm bill?

Each of these questions is sufficiently complex to require a chapter-long answer. Therefore, my responses will be concise, but incomplete.

Program Participation

One of the most interesting observations gleaned from editing the National Public Policy Education Committee (NPPEC) papers for *1995 Farm Bill Policy Options and Consequences* is that farm program benefits are perceived to have declined sufficiently that farmers are on the verge of non-participation—that the program itself is unraveling. This perception results apparently from the decline that has occurred in payment acres under the flex provisions of the 1990 bill, the increasing costs of conservation compliance mandated under the 1985 bill, and the effects of inflation eating away at program benefits.

The Agricultural and Food Policy Center (AFPC) has done considerable research on this issue. We find that if the 1990 farm bill provisions were extended through year 2000, substantial benefits to farmer-participants would still exist throughout the life of the 1995 farm bill. Moreover, we find that even with a 10 percent reduction in target prices, there would be substantial incentives for farmers to participate. Figures 1 and 2 summarize the results of our analyses of our representative wheat and corn farms. The benefits to cotton and rice are larger (Knutson et al.). These results are in real terms—considering the effects of inflation at currently predicted levels of about 3 percent.

Reacting to Free Market Advocates

The General Accounting Office (GAO) and a number of economists (i.e., Tweeten, Runge and Cochrane) have joined forces to advocate doing away with current farm subsidies utilizing the following arguments:

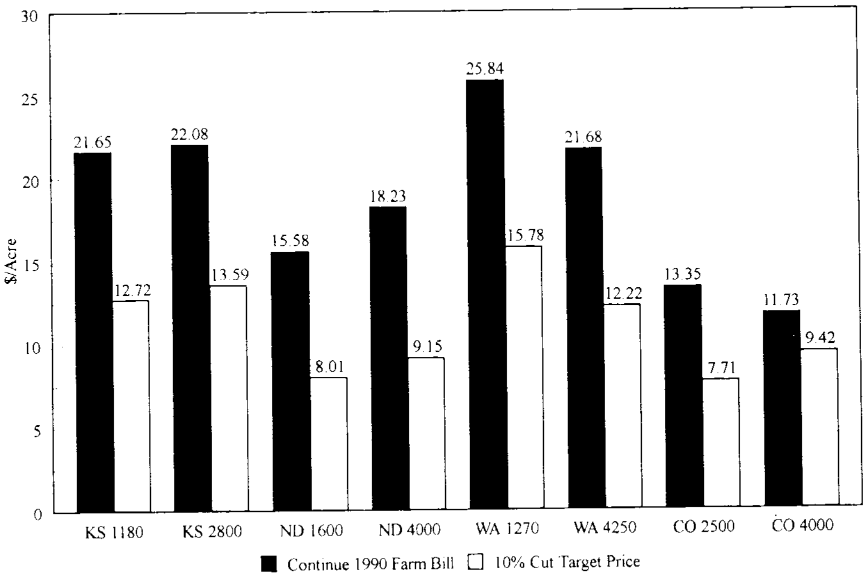
- The GAO analysis appears to be based primarily on the results of economic welfare analyses, indicating that the costs to consumers and taxpayers associated with the current programs are greater than the benefits—a dead-weight loss.
- Tweeten argues that farm program benefits are disappearing and that adjustments in agriculture have occurred to the point at which programs are no longer necessary (Tweeten).
- Runge and Cochrane argue that the programs are benefitting the wrong people.
- All of the above point out that commercial farmer income is now greater than nonfarm income.

In light of these developments, it is important that public policy educators consider the free market alternative when developing their 1995 farm bill educational programs. While this alternative is considered in the *1995 Farm Bill Policy Options and Consequences* publications, perhaps it did not receive the amount of discussion warranted in the individual commodity leaflets.

Educators need to consider the following factors when dealing with the consequences of moving to a free market:

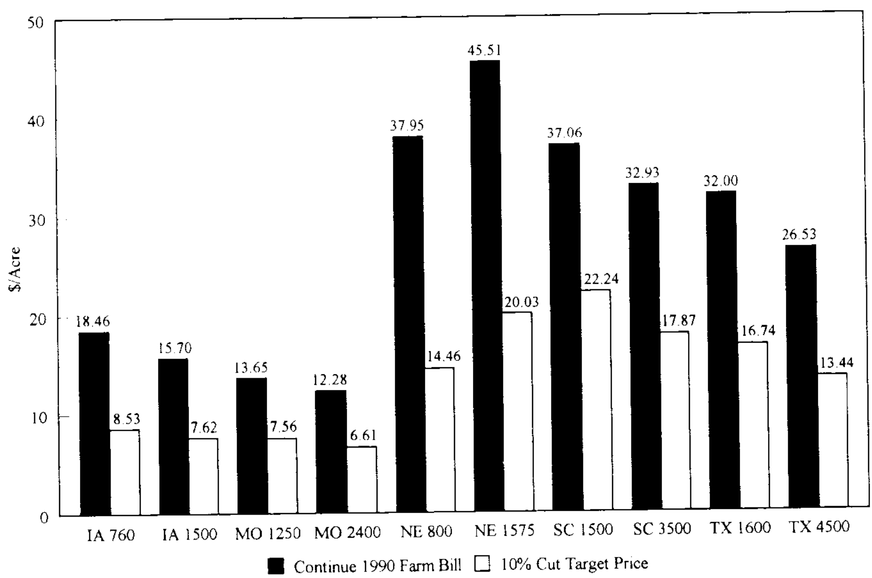
- The welfare analysis on which GAO and many economists base their conclusions utilizes a comparative static approach that does not consider the effects of adjustment resulting from displacement of farm families and resources. These effects could be particularly significant in commodities such as rice, cotton, wheat, peanuts and tobacco as well as in rural communities.
- Economic models are not particularly effective when used to ana-

Figure 1. Average Annual Difference in Net Cash Income Per Acre Between Participating and Non-Participating Representative Wheat Farms 1995-2000*



*Assuming Continuation of the 1990 Farm Bill and a 10 Percent Cut in Target Price.

Figure 2. Average Annual Difference in Net Cash Income Per Acre Between Participating and Non-Participating Representative Corn Farms 1995-2000*



*Assuming Continuation of the 1990 Farm Bill and a 10 Percent Cut in Target Price.

lyze the impacts of major adjustments in policy. Such adjustments are not represented in the data base contained in the model. Therefore, the projected impacts are made outside the range of the data used to estimate the model.

- The problems and impacts of agricultural price and income instability associated with free markets having highly inelastic supplies and demands are not considered.
- The benefits of stocks policy in terms of food security and price stability would not exist.
- Environmental compliance and Conservation Reserve Program (CRP) benefits are not considered.

In other words, it is important that the free market alternative be presented in a balanced context, considering both the arguments of the free market advocates and the above concerns that, apparently, are dismissed by the advocates.

Implementing the URA/GATT

Two general issues relate to implementation of the Uruguay Round (URA) of the General Agreement on Tariffs and Trade (GATT). The first involves the implications of the URA's implementing legislation for the farm bill and the second involves the implications of the URA for the farm bill itself.

Ideally, the implementing legislation would have been out of the way well in advance of the 1995 farm bill debate. That has not happened. The potential now clearly exists for muddying the farm bill debate with implementation of GATT provisions. One proposal that could substantially change the nature of the debate involves making the 1990 farm bill permanent legislation in place of the 1949 act. If this happens, it would remove the 1949 act bargaining tool for enacting a 1995 bill. Therefore, the 1990 farm bill could go largely unmodified except for some changes attributable to the URA.

The URA places a moratorium on existing farm subsidy wars with the European Union (EU) while phasing out the direct export subsidy programs. However, the URA opens the door for new means of rationalizing existing programs. For example:

- Payments for the purpose of environmental protection (green payments) appear to be legal under the URA. Green payments could become a 1995 farm bill rationale for extending CRP. Deficiency payments may be rationalized as green payments for conservation compliance, and payments may be made for specific practices.
- Decoupled payments appear to be legal under the URA. What constitutes decoupled payments has become increasingly ob-

scure. Are frozen payment yields alone sufficient to justify decoupling under the URA? Are effective payment limits also required? What about frozen payment yields in the absence of effective payment limits?

- Price and income supports in the presence of production controls appear to be legal under the URA. While production controls are contrary to competitive principles, they are viewed as being consistent with freer trade because they reduce incentives to subsidize exports. Ironically, this could become the basis for increased producer interests in production controls. Specifically, the EU can be expected to increasingly utilize production controls as a means of maintaining relatively high producer returns while controlling production sufficiently to reduce adverse impacts on the world market.
- Market promotion, international food aid, and export credit appear to be legal under the URA. However, overt export enhancement subsidies are due to be phased out under the URA. The bounds between legal export promotion and illegal export subsidies remain to be established by the new World Trade Organization—the arbitrating body for URA implementation.

Reacting to Environmentalists

Environmentalists' support may be one of the keys to garnering the 218 House votes needed to enact the 1995 farm bill. Rural votes in the House of Representatives total only about 70, leaving 148 that must be obtained from other interests. Environmentalists held a key to enacting the 1985 farm bill when the CRP was established.

While environmentalists may be needed to enact the 1995 farm bill, there are several potential areas of severe conflict that could become a barrier to necessary coalition building. The most contentious of these appears to be that of property rights. Aside from interference with the farmers' view of their right to farm, extremely strong opposition is developing to uncompensated regulation of farming practices and reductions in land values resulting from restrictions on use. An additional point of conflict involves restrictions on pesticides which commercial farmers view as being essential for maintaining yields and reducing production risks.

While these potential points of conflict exist, there are several areas of potential agreement or compromise with environmentalists. Farmers are concerned about water quality and they are concerned about wise use of pesticides. Their health would be adversely affected by water quality deterioration and unwise pesticide use. Policy initiatives to protect water quality and reduce pesticide residues could be favorably received by agriculture if these policies are designed to deal with the health issue while not adversely affecting competitiveness. Initiatives to encourage widespread adoption of integrated pest management (IPM) is illustrative of a policy that could be supported by commercial farmers—as long as it does not carry with it anticompetitive regulatory baggage.

While farmers are concerned about soil erosion, the economic evidence is clear enough that erosion control does not, as a general rule, pay—even when considering the impacts of changes in land values (Timmons and Amos; Gardner and Barrows). This was the underlying rationale for the formation of the Soil Conservation Service (SCS) and the Agriculture Conservation Program (ACP). The basis exists for dealing with soil conservation and related environmental issues through compromise involving continued use of CRP, conservation compliance, and an expanded ACP having environmentally-sensitive objectives.

Developing the Required Coalition

As indicated previously, a key issue in the 1995 farm bill debate will involve developing provisions that will attract the necessary 218 votes and still allow farmers to compete and survive. From a commercial farmer perspective, there will be three keys to accomplishing this desired end result:

- Agreement is required within the farm bloc on how to deal with a number of touchy commodity issues. Among these will be attempts by those opposed to farm programs to eliminate individual, if not all, programs. Dairy, peanuts, sugar and cotton are often mentioned as candidates for elimination. There will be efforts to reinstate the wool and mohair program, which could require budget concessions by other commodities. The wool and mohair program is being phased out because the farm bloc did not hang together in defense of commodity programs. Other commodities are equally vulnerable in the absence of a solid farm bloc.

- The farm and environmentalist blocs must find a way to compromise. With some give on each side, compromise is possible on CRP, conservation compliance and green payments. Regulatory and pesticide issues could end up driving a wedge between these two important groups in the farm bill debate. Both sides will need to exercise care to see that this does not happen.

- Farmers cannot afford to get into conflicts with food program provisions. There is no reason this should happen. Despite how uncomfortable farmers feel about welfare programs being more than half of the U.S. Department of Agriculture (USDA) budget, these programs attract central city Congressional votes *for* the farm bill. It would be a serious mistake to get hung up with the food lobby on issues such as the food pyramid (nutrition education), the nutritional content of school lunches, or the requirements for meat and poultry inspection. There is much more to lose on farm program benefits or environmental regulation than there is to gain on food issues.

These comments should not be interpreted as being negative for agriculture. Rather, what is suggested is a strategy designed to maximize the political muscle inherent in agriculture and food while realizing that farmers are a political minority. The case for farm programs is as strong as it has been in the past. However, with fewer numbers, that case has to be made more clearly, more convincingly, and with a realization of the need for coalition building and political compromise.

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