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The Agricultural Policy Outlook: Looking Back Focuses the Road Ahead

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The talk on the street, in the coffee shops, and certainly among academic economists is that conventional farm programs are in big trouble. They cite:

- election results and the loss of farm program advocates (such as Congressman Stenholm and Senator Daschle) resulting in a more urban-oriented Congress;
- the WTO decision cutting down US cotton subsidies and the related Doha Round trade negotiations (see the Mercier article in this issue); and
- a renewal of restraints on farm program spending, which has not been a major factor in farm program deliberations for the past two decades (see the Richardson and Outlaw article in this issue).

Without question, these factors represent challenges to farm bill interest groups, which include more than just farmers. Adjustments in strategies, new concerted efforts, and perhaps even new programs will be required. But it is naive to consider farm programs dead or dying. This article explains why. It will do so by updating the history of farm programs, evaluating the goals of farm policy, and analyzing the politics of farm programs.

Some Farm Program History

It is often pointed out by the less than well informed that today's farm programs have their origin in the depression days of the 1930s; this gives the impression that they have not changed much since. The fact is that farm policies have evolved through three distinct periods, as follows:

Price Support Era (1930s–1960s). Farm policy began with the government overtly supporting farm prices. When market prices fell to the support level, the government purchased and stored commodities. The monuments to this policy era are the concrete grain storage silos—many of which now stand empty—across the Corn Belt and the Great Plains. In fact, government stocks became so large that prices were generally at the support level, and production controls ranging from quotas to land retirement programs were prevalent. Because support prices were too high to be competitive in export markets, the international Food for Peace program and domestic food distribution programs were developed.

Income Support Era (1970s–1995). In the 1970s it was realized that US farmers were missing an opportunity to sell US farm products for dollars in international markets. Doing this, however, required a watershed change in farm policy from supporting farm prices to supporting farm income. The government storage bins were emptied, resulting in sharp declines and gyrations in market prices. The mechanism for supporting income involved the government setting a politically acceptable target price or loan rate and agreeing to pay the difference when the market price fell below the target price (or loan rate). During this era, farmers relied on the government-guaranteed target price (or loan rate) as a major element in their production decisions. Yet from time to time the government stepped in to control production, importantly as a means of reducing government costs. Also during this era, commodity distribution programs converted to food assistance and mushroomed to about half of the USDA's budget. In the absence of commodities in government hands and with the development of convenience foods, nutrition programs developed into predominately food stamps and cash subsidies to schools.

Market-Oriented Era (1996–present). Although the political rhetoric of the income-support era frequently made reference to more market-oriented policies, it was not until the 1996 Farm Bill that farmers were free to make decisions on what to produce based on market prices as opposed to government-determined payments. This was accomplished through the establishment of a system of government-determined direct payments that were not tied to either production or price. These payments were referred to as *decoupled payments* to reflect the fact that they were not tied to either price or production. Yet the system was not purely decoupled from price, because the marketing loan remained in effect, and the Congress added supplemental payments when price fell during the late 1990s. The 2002 Farm Bill amounted to a further reversion from decoupling by adding payments that were tied to price but not to production, which raised serious questions as to how committed US policy makers were to decoupled farm polices. This is one of the central decisions policy makers face in the next farm bill. That decision will be made in an international political environment that frowns on high US farm program payments that enhance farm output and reduce world market prices (see the Mercier article in this issue). However, until 1996 farmers were restrained in their ability to receive payments on crops for which they had no production history. Likewise, during this era production controls were largely eliminated, with the exception of the politically-sensitive sugar program and environmentally-sensitive Conservation Reserve Program lands. This period also introduced the concept of the government buying out the capitalized value of farm program benefits in return for making the peanut and tobacco programs more market oriented. While food assistance programs continued to grow, conservation programs were rejuvenated with a green payment environmental orientation.

Evolution of the Goals of Farm Policy

Logically, farm policy would be developed based on a specific set of goals. A review of the preambles to farm bills, where goals might be expected to be specified, suggests that this logic is seldom realized. Yet the changing substance of farm bills over time suggests a substantial evolution of policy goals, as indicated by the following:

- The social goal of saving the family farm has evolved into an economic goal of providing tools by which farm businesses can reduce risk. Implied in this change is that the government cannot save farms that do not have the scale of operation, the technology, and the level of specialization that allows them to be efficient in production and effective in marketing and management. However, limits on government payments to large farm operations can be expected to continue to be a contentious policy issue.
- The goal of adjusting production to market needs has evolved into the goal of expanding demand, remaining competitive, and achieving open markets internationally. This goal is supported by US initiatives in expanding trade agreements and negotiating for increased market access in the World Trade Organization.
- The goal of soil conservation has evolved into a goal of sustainable production in the utilization of land, air, and water. The meaning of stewardship is expanding beyond soil conservation to maintain clean air, clean water, and humane animal production systems. From a regulatory perspective, agriculture is being treated increasingly as other industries are, but government will be there to help farmers with the transition if farm organizations are wise and flexible enough to seize upon the opportunity.
- The goal of food reserves has evolved into a goal of food security, food safety, and homeland security. New looks are being taken at how to protect the integrity of the food supply chain from farm to table in an era of globalization. The impacts of increased emphasis on food safety and security will be greatest at the farm level, domestically and internationally. This is the case because while processors and marketers are adjusting rapidly to this new goal, farmers have resisted adjustment.
- The goal of domestic demand expansion has evolved to eating wisely and in moderation. Obesity has become a major policy issue that cannot be ignored in the context of an omnibus farm policy. The potential impacts extend beyond food assistance (roughly half of the USDA's budget) and nutrition education to farm production.
- The goal of expanding the use of agriculture's production capacity production for energy production needs to be officially recognized. Continued expansion of public support for industrial uses of agricultural products are a consequence of high oil prices, the need for energy security, the ability to reduce pollution from animal agriculture by capturing energy from animal waste, and new technologies for production of bio-energy.

Politics and the 2007 Farm Bill

The results of the election put agriculture in a favorable political position. The six Plains states, where farm incomes and land values are most affected by farm programs, voted decisively for the President. The political and economic importance of agriculture is understood by Secretary Johanns and the elected members of the Congress in this rural-oriented region.

Satisfying the goals of the 2007 Farm Bill does not mean less government. It does mean a different type of government and a continuing evolution of farm, food, and resource policy. Likewise, it does not necessarily mean less government payments for farmers, but a reorientation of payments to forms that facilitate adjustment to make agriculture more environmentally friendly and humane, more specialized on the commodities for which we can be competive internationally, and more responsive to markets with less distorting effects.

Making the transition to this new policy orientation will not be easy, as was indicated by the 2002 Farm Bill and subsequent developments. If farm organizations continue to live in the past, where they are more comfortable, their influence will decline. However, if they recognize their minority status and develop a common policy position that considers the goals and realities of the time, farm program benefits will continue to be an important feature of farm survival.

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