CORNELL

AGRICULTURAL ECONOMICS

STAFF PAPER

THE 1985 FARM BILL--
THE POLITICAL PROCESS
AND SOME POSSIBLE OUTCOMES

K. L. Robinson

April 1985

No. 85-8

Department of Agricultural Economics
Cornell University Agricultural Experiment Station
New York State College of Agriculture and Life Sciences
A Statutory College of the State University
Cornell University, Ithaca, New York, 14853

It is the policy of Cornell University actively to support equality of educational and employment opportunity. No person shall be denied admission to any educational program or activity or be denied employment on the basis of any legally prohibited discrimination involving, but not limited to, such factors as race, color, creed, religion, national or ethnic origin, sex, age or handicap. The University is committed to the maintenance of affirmative action programs which will assure the continuation of such equality of opportunity.

THE 1985 FARM BILL-- THE POLITICAL PROCESS AND SOME POSSIBLE OUTCOMES*

K.L. Robinson
Cornell University

Negotiating a new farm bill in 1985 will be a lengthy and complicated process. There is no clear front-runner among proposed bills, and as Professor Stanton has pointed out, the politics of food and agriculture has become more complicated because of active involvement by a greater number of interest groups. With more organizations seeking to testify, hearings take longer and reconciliation of conflicts becomes more difficult. In 1933, it was possible to bring a handful of people together in a hotel room in Washington and draft a farm bill. This is no longer the case.

I shall begin by calling attention to the current political environment and some of the issues that may have a bearing on whether or not we will have a new farm bill in 1985. I will then discuss possible compromises and what may finally emerge as legislation.

The 1985 farm bill cannot be isolated from the major issues confronting the 99th Congress. Washington will devote most of its attention over the next few months to (1) where and how much to cut the budget including military spending; (2) what to do about our trade deficit, and (3) tax reform.

* A summary of remarks prepared for presentation at the Food and Agricultural Forum, Albany, NY, April 9, 1985 and Cortland, NY, April 11, 1985.

Clearly, the farm bill falls well down on the priority scale relative to these items. Reconciling conflicts over budget cuts and perhaps tax reform may take most of the session. If so, Congress could end up postponing consideration of any major changes in farm legislation until next year.

Deals made by the White House in order to gain support for its proposed budget cuts also could have a bearing on subsequent farm legislation. The administration demonstrated that it was prepared to make commitments on future legislation to salvage the MX missile program. They might do the same thing for other legislative items on which they place a high priority.

The willingness to trade votes could, of course, work for as well as against agriculture. You may recall that sugar supports were added to the 1981 Farm Bill because of commitments made earlier to Southern Democrats (the Boll Weavil Bloc) who supported the President's budget cuts.

While preoccupation with the budget crisis and tax reform could delay action on farm legislation, the importance to agriculture of doing something about the deficit should not be underestimated. In fact, one can make a convincing case that so-called macro-economic policies will have as much impact on farmers as changes in support policies. Interest and amortization payments now account for as much as 20 per cent of all farm expenses. A decline in interest rates from say 12 per cent to 8 or 10 per cent would help farmers as much as raising support prices by 5 per cent. The psychological impact of reducing the deficit could be substantial. It would lessen the prospect for inflation and consequently would permit the Fed to ease up on the money supply, thus reducing interest rates. This, in turn, might help to bring down the value of the dollar because there would be less incentive for so-called hot money seeking high returns to come to the U.S.

The current high value of the dollar is a major burden on all exporters, including U.S. farmers. While our support prices have come down, prices for export crops when converted into local currencies in other countries have risen simply because of the appreciation of the dollar. The Canadian and Australian dollars are now worth about 70 per cent of the U.S. dollar (not so long ago, the Australian dollar was worth more than the U.S. dollar). Australia and Canada are selling wheat in competition with the U.S. at around $3.60 per bushel (U.S. price). An international price of $3.60 in U.S. dollars translates into a price of over $5 per bushel in Canadian and Australian dollars (based on current exchange rates of 1.4 Canadian or Australian dollar per one U.S. dollar). Cargill found they could buy wheat in Argentina, ship it to the U.S. and undercut U.S. prices. They did not do so because of adverse publicity, but it illustrates the consequences of an overvalued dollar.

The strong dollar has an important indirect effect on New York's fruit and vegetable industry as well. The cheap Canadian dollar encourages imports of such commodities as potatoes and onions. Cheap wine imports from Europe are adding to the problem of New York grape growers, especially those who planted wine varieties.

Clearly trade policy will be a major issue in 1985. What the New York Times refers to as "Japan - bashing" is now very popular. Congress is in a mood to retaliate against Japan and the European Community for policies which they believe have not been fair to the U.S. Any new farm bill is likely to include a strong trade sub-section designed to make U.S. farm products more competitive on world markets. This may take the form of offering exporters low-cost credit or surplus commodities (a PIK program for exporters). The danger is that Congressional action could precipitate a trade war in which some commodities would be losers. Soybean producers are especially vulnerable to possible retaliation by the European Community and Japan.

The farm policy debate in 1985, even more than in other recent years, will focus on the level of support for a small group of commodities, mainly wheat, corn, rice and, to a lesser degree, cotton and dairy products. Support levels for Midwestern export crops are of particular concern to members of the agricultural committees of Congress. It is in the Midwest, of course, where land values have declined most precipitously and where banks and other lenders are in serious trouble. Dairy areas in the Northeast, relatively speaking, are in better financial shape. Consequently, Congress will be under less pressure to do something about support prices for milk than for wheat, corn and rice.

While lowering support prices is unpopular, the Administration has stressed that U.S. prices of export crops must be reduced if farmers are to recapture the markets they have lost or even to retain existing markets. Many members of Congress now recognize the need to provide for greater flexibility in establishing support prices. As Professor Sisler has pointed out, this may take several forms, but most of the proposed bills provide for linking support prices to an average of recent market prices. Support prices for soybeans and cotton are now determined in this way. In the Senate, a bill calling for modest reductions in price-support loan rates is likely to be approved, but both the Senate and House agricultural committees will be very reluctant to make corresponding cuts in target prices because of the impact this would have on the cash flow of farmers and on creditors. Thus, one of the consequences of attempting to make U.S. farm products more competitive on world markets may be to widen the spread between target prices and market prices (which are strongly influenced by price-support loan rates). The effect of this will be to increase deficiency payments, thereby raising treasury costs which, of course, the administration opposes. Other supported commodities, including milk, may be vulnerable to cuts in support prices if the budget committees of Congress force the agricultural committees to comply with budget ceilings. If Congress ignores the budget constraint, there is always the threat of a Presidential veto. In the end, commodity groups may be pitted against each other if gains for one commodity must be offset by cuts in others. Intercommodity conflicts almost led to the defeat of the 1981 Act and pose a threat to the 1985 Act as well.

Normally, whatever the Administration proposes has the inside track in Congress but this will not be the case in 1985. The bill sent to Congress by the White House has met a hostile reception. Representative de la Garza, chairman of the House Committee on Agriculture, has made it clear that he will not go along with the Administration's proposals. He favors continuing the 1981 act with minor modifications. Even in the Senate where a more favorable reception might have been expected, there is little support for the Administration's bill. Senator Helms has introduced his own bill which would permit greater flexibility in establishing support prices but would not go as far in lowering supports as proposed in the bill submitted by the Administration. Senator Helms has sought to avoid conflicts by keeping the peanut program in its present form and ignoring tobacco which does not require an immediate change in legislation. As might be expected, the Helms bill contains a strong export title, which among other things would mandate sales abroad of surplus dairy products. This bill probably will have the inside track in the Senate although this is by no means certain. Opposition has developed because some representatives of commodity groups whose prices may be cut object to insulating other commodities from similar treatment.

The Farm Bureau bill represents another attempt to achieve an acceptable compromise. It would lower support prices more gradually than the Administration's bill, and would attempt to achieve a greater degree of equity among commodities. The support levels proposed in the Farm Bureau bill do not differ greatly from those in the Helms bill. It is not inconceivable that some combination of the Helms and Farm Bureau bills will emerge as the winner in the Senate.

Legislation in the House is likely to take a somewhat different form. Much of the power in the House agricultural committee rests with the commodity subcommittees. The dairy subcommittee, of which Mr. Jeffords from Vermont is a ranking minority member, will probably write the dairy title. What may emerge for other commodities is simply a modified version of the 1981 act. In any event, it will be necessary to provide something that will appeal to urban voters. The agricultural committee cannot afford to antagonize representatives of nonfarm areas if they expect to get a bill approved on the House floor. Vote trading is essential to get a farm bill through the House. In the past this has been done by trading urban votes for support programs in return for rural votes to sustain or liberalize food stamp benefits. If the Helms bill were to be approved in its present form, it is unlikely that it would survive a House vote because he proposes to tighten up on eligibility standards, institute a broader work requirement and restore the cash purchase requirement. The latter was dropped in 1977. Senator

Helms would like to insure that more of the benefits go to farmers, but this makes the program less attractive to those who view it mainly as an income supplement. Thus, there could be conflicts between the House and Senate over proposed provisions relating to food stamp benefits.

Because the House and Senate bills are likely to differ substantially, whatever emerges as legislation will almost certainly be based on compromises worked out in the Senate-House Conference Committee. The conference committee is made up of the senior members of the Senate and House Agricultural Committees. The South and Midwest will be over-represented in the Conference Committee relative to other regions. In addition to Senator Helms, the Senate conferees are likely to include Dole from Kansas, Lugar from Indiana, Cochran from Mississippi, Boschwitz from Minnesota, Zorinsky from Nebraska and Leahy from Vermont. On the House side, the delegation is likely to include Foley from Washington, the two Jones, one from North Carolina and the other from Tennessee, Brown from California, Madigan from Illinois and Jeffords from Vermont. Senator Dole and Congressman Foley rather than the two committee chairmen were most influential in working out the compromises that eventually became part of the Food and Agriculture Act of 1981. Both are in leadership positions in their respective chambers and consequently what they propose is likely to form the basis for whatever compromises are worked out. In short, anyone who wants to influence the final bill must have access to the Conference Committee, and especially to Dole and Foley and/or members of their staff.

Once the compromises are worked out, the final conference report goes back to the Senate and House for their approval. It cannot be amended. Thus the choice is either yes or no. As you may remember, the 1981 conference report passed in the house by only 2 votes. It very nearly failed and would have done so without the support of Congressman Foley. The 1985 Farm Bill, if it gets this far,also faces the threat of a Presidential veto if it fails to reflect the Administration's preference for a more market-oriented agriculture or if the potential treasury costs appear excessive. The greatest protection agriculture has against a veto is that the permanent legislation (based on acts passed in 1938 and 1949) is even less acceptable to the Administration because it would compel them to raise support prices for several commodities. Acreage allotments, which they also oppose, would be mandated for wheat, corn and cotton, but only if approved by a two-thirds vote of producers.

Conclusions

My conclusion, based on a review of the current political and economic climate, is that farmers should not expect to be bailed out of their current financial plight by new legislation. The Administration will not accept a costly farm bill and those who are most knowledgeable about agriculture are aware that in the long run, farmers have more to lose than to gain from overpricing. It is unrealistic to expect the government to accept the responsibility for disposing of surpluses of grains and dairy products that could amount to as much as 6 to 10 per cent of production. On the other hand, one should not be too pessimistic in predicting changes in support prices. Congress is not likely to accept a bill that lowers supports as precipitously as the Administration's bill proposes because of the adverse effects this would have on farmers, agribusiness firms and agricultural lenders. My guess is that the support price for manufacturing milk will not drop below $11.60 per hundredweight, at least during the next two years, although it could do so thereafter. Support prices for other commodities are likely to come down only modestly from current levels. But prospects for any increase in support prices or for the revival of a dairy diversion program over the next two years are considerably less than 50-50. While the precise details of the 1985 farm bill cannot be predicted, the general direction is clear. Any new legislation, assuming Congress passes something the President finds acceptable, will be somewhat more market-oriented and will offer farmers less support than they have had in the recent past.

One cannot dismiss entirely the prospect of having no new farm bill in 1985. If commodity groups end up fighting one another or the conferees cannot find compromises that are acceptable to their respective chambers, or if the President decides to veto the bill, we could end the year faced with two alternatives, neither of which is very attractive. One alternative is to extend the 1981 Act for another year. The other is to allow the legislation to lapse. Under the latter alternative, the Secretary would be compelled to support manufacturing milk in accordance with provisions of the 1949 Act which calls for supports within the range of 75 to 90 per cent of parity. My guess is that Congress and even the Administration would opt for the former alternative rather than the latter, but the net result of this would be to leave future support levels even more uncertain.