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# Are You Ready for the 1995 Farm Bill?

Wayne D. Purcell

Federal farm and rural policy will undergo its five-year check-up soon, as the federal farm bill comes up for renewal in 1995. On September 8, 1994, REAP will hold a conference on what one can expect from the 1995 farm bill and how the federal legislation could affect Virginia's agricultural and rural areas. A conference information sheet is included in this issue of *Horizons*. To prepare the ground for upcoming farm bill discussions, let's take a look at some history of farm policy, at some of the key features of current policy, and at the broad topic areas that will most likely be on the agenda when future policy is debated in 1995.

## A Bit of History

Farm policy in the United States has had a long and often volatile history. During every period when new farm policy legislation has been considered, positions have been taken and debated by often contentious groups and interests. The 1995 farm bill discussions will most likely be no exception.

The interesting path to the current farm-policy situation began in the years just after World War II, when concerns were widespread that the country would face food shortages. Rationing during the war years was vividly remembered, and discussions on farm policy at that time reflected that mentality. Price guarantees were needed, it was argued, to ensure that supplies of food and fiber would be adequate as the country made the transition to peacetime.

*Wayne Purcell is a professor in the Department of Agricultural and Applied Economics at Virginia Tech.*

The farm-policy legislation of the 1950s therefore was "emergency" in nature and orientation. The legislation was designed to support farm prices for various commodities at some percentage of "parity," that is, at some percentage of benchmark prices from a period when farm incomes were considered at parity with non-farm incomes. The 1910-14 period was selected as the historical benchmark.

As the years passed, those support prices started to look high relative to world prices. By the 1960s, surpluses had developed. The surpluses had to be managed, as did the related problem of how the United States could participate in world trade when domestic prices were above world prices.

The surpluses were handled in a number of ways, including the provisions of various titles of national legislation known as Public Law 480. Shipments to developing countries removed surplus corn, wheat, soybeans, and other storable commodities from the domestic market. Similarly, dairy surpluses converted to powdered milk and cheeses were exported under the PL-480 legislation.

The problem of encouraging U.S. agriculture in the commercial export market was addressed by developing a two-tier price structure. With domestic prices kept above world-level prices by government price supports, subsidies were paid to companies that exported at lower world prices. For example, if domestic wheat prices were $3.00 per bushel because of the price-support policies and the world price for wheat was $2.50, then the exporting firms bought at $3.00 and sold in the world market near $2.50, with the federal government paying the 50-cent difference. The federal government paid the subsidies in order to get the products of the United States farmer into the world market. The government also subsidized or facilitated construction of storage space, and storable commodities were housed in various types of government-owned or -subsidized facilities.

But there was another side to the subsidy issue. One of the long-stated purposes of farm policy has been to stabilize the farm sector, which is always subject to weather and other unpredictable factors. The polices of the 1960s certainly succeeded in this regard. During some entire years of that decade, the price of corn in important Midwestern markets varied less than 10-12 cents, a variation sometimes seen on a *daily* basis today. Such price stability brought cost stability to all the users of corn, other grains, and oilseeds in the domestic market. That stability was translated into the benefits of lower-priced food and fiber for the final consumer.

As the 1960s progressed, however, dissatisfaction with these price-support and income-security programs was growing. As U.S. involvement in world markets slowly but surely became more important, U.S. domestic farm policies were being recognized as obstacles to that involvement. The policies were entrenched and had become difficult to change. But dramatic developments in the early 1970s were powerful enough to alter even entrenched policies, and farm policy in the United States has not been the same since.

**A Period of Difficult Change**

In 1973, the former Soviet Union made a very important policy decision. Faced with a crop reduced by bad weather, the Soviet Union came into the world market and bought grains to allow the country to maintain its dairy, beef, pork, and poultry industries. Before it was publicly known what was occurring, private negotiations with major U.S. exporters resulted in the Soviet Union buying the bulk of U.S. grain stocks. With the recognition of what had happened, the economic and farm-policy world for the American farmer changed overnight.

Prices of key commodities skyrocketed. Corn prices in 1973--pushed higher also by a drought--moved above $4.00 per bushel for the first time in history, while wheat prices moved above $5.00 per bushel and soybean prices moved temporarily above $10.00 per bushel. Only a year earlier, season-average per bushel prices had been $1.57 for corn, $1.76 for wheat, and $4.37 for soybeans.

In response, the U.S. Department of Agriculture (USDA) changed its position from one of controlling production and supporting prices above the world levels to one of encouraging domestic production. Money poured into the farming sector from both private banks and farm-credit institutions.

Results were dramatic and long-lasting. By the late 1970s, from an initial base of around 200 million acres, some 50 million additional acres had been brought into production of corn, wheat, and soybeans. Legislation was passed to require the USDA to publish periodically supply-demand balance sheets for major commodities. The legislation also required that any sizable major-commodity purchase by the former Soviet Union had to be reported by the exporter involved in the sale.

But there was another, perhaps predictable, result of the huge surge in production capital--including land--that occurred in the United States: By the late 1970s, surpluses had developed again, and prices of grains and oilseeds had tumbled. For example, wheat prices that had been above $5.00 were closer to $1.50-1.75 during harvest. Farmers were in trouble. Most grains and oilseeds were now bringing prices below the costs of production. These changes established the basis for the farm crisis of the early 1980s and, at the same time, the basis for a different type of farm policy.

**A Different Approach to Farm Policy**

A much different kind of farm policy emerged after the mid-to-late 1970s policy that excessively encouraged land into production. Responding to the desire to participate in world trade of farm products, Congress established a framework that allowed domestic prices essentially to seek world-market-related levels. If those prices appeared too low to bring the desired stability and income protection to the farmer, then the farmer would be subsidized up to a price level established in the farm bill.

The new, deficiency-payment approach to farm policy included several new features:

**A loan rate or loan price**--Farmers may put grains in a short-term (9-month), Commodity Credit Corporation (CCC) loan at the loan rate. If market prices rise sufficiently, the loan can be paid off later; if prices do not rise above the loan rate, the grain can be forfeited to the CCC. In effect, then, the loan rate is a floor price;

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**A target price**--Set in farm bill legislation and tied to the cost of production, this is the designated "appropriate" price for the farmer;

**A deficiency payment**--This is the difference between the market price and the target price. The maximum deficiency payment is set at the target price minus the loan rate or loan price;

**A set-aside requirement**--Part of the Acreage Reduction Program (ARP), this is the percentage of the "base acreage" (see the explanation of base acreage below) on the farm that has to be set aside from production in order for the farmer to be eligible for benefits; and

**Base acreage**--Often referred to simply as "base," this is the acreage of program crops assigned to each farm. The assignment is related to a given farm's historical acreage of each crop.

Each year, the ARP set-aside levels are established and announced prior to planting. The ARP is the mechanism that USDA uses to try to balance supplies and demand and to control the costs of deficiency payments. By taking acreage out of production via the ARP, USDA is able to reduce domestic crops and keep market prices up somewhat. This reduces the difference between the market price and the target price (and therefore the deficiency payments).

Over the years there have been many marginal changes within the deficiency-payment approach to farm policy. One worth noting is that a long-term reserve program has supplemented the short-term loan program. In essence, this program has sought to maintain reserves of program crops in the hands of farmers; it has thereby largely moved the CCC out of the business of either owning storage space or facilitating its construction.

Beginning in 1985 and continuing in 1990, however, more than marginal changes occurred. The changes centered around the expansion of conservation provisions in the farm bills. Not only were new mechanisms introduced, but also a new objective was made clear: environmental protection. The 1985 bill saw the introduction of the Conservation Reserve Program (CRP), conservation compliance requirements, and "sodbuster" and "swampbuster" provisions. The 1990 bill added the Wetlands Reserve Program, the Water Quality Protection Program, and other provisions dealing with water quality.

Probably the key conservation/environmental feature of the recent farm bills is the CRP. The 1985 CRP was designed to get highly erodible land out of production. The CRP uses government payments under 10-rental year contracts to idle such land. Under the 1990 farm bill, additional categories of land were made eligible, including windbreaks, filterstrips, permanent grass strips and waterways, and other land that USDA identifies as "environmentally sensitive." Much of the CRP acreage is arguably the same acreage that was attracted back into crop production in the 1970s, when USDA was encouraging all-out production. In any case, approximately 37 million acres had been included in this program through the last sign-up period conducted in June 1992.

(*Ed. note:* For a summary of conservation changes in the 1990 bill and a summary of the status of the CRP, see the January-February 1991 and July-August 1993 issues, respectively, of the *Journal of Soil and Water Conservation*. To locate this publication, check your local library, or contact the Soil and Water Conservation Society, 7515 N.E. Ankeny Road, Ankeny, IA 50021-9764.)

## A Crowded Agenda for 1995

Given this background to farm policy, there appear to be three broad and overlapping forces shaping the agenda for the 1995 farm bill. First is the continuing, perceived need for income security for America's farmers. Second is the growing and more widely recognized need to protect and improve the environment. Third is the tendency to view farm-sector programs in the larger context of an overall rural development policy designed to ensure economic viability and quality of life in rural communities. Let's look briefly at some of the issues related to each area.

**Farm Income Security.** If the target price-deficiency payment dimensions of the program are continued, the level of the target prices is sure to receive considerable attention. Target prices for corn and wheat for 1994 are $2.75 and $4.00 respectively. With loan rates nationally at $1.89 for corn and $2.58 for wheat (they do vary slightly by locality), the maximum possible deficiency payments are $.86 per bushel for corn and $1.42 for wheat. Even advocates for a high level of farm security would admit that this is a potentially big exposure for the federal budget. The cost of modern farm programs was $17 billion in fiscal 1993 and is being estimated at $10-12 billion for the rest of the 1990s, if the current farm programs are essentially extended in 1995. Perhaps most importantly, the modern and efficient farmer may not need to have $2.75 corn or $4.00 wheat to be profitable. Under these circumstances, target-price levels will get roundly discussed in this round of discussions.

**Environment/Conservation.** The environmental agenda is broad and complex, but one focal point is sure to be the CRP. The 10-year CRP contracts start to mature in calendar year 1995, with a large number maturing in 1996. Theoretically, this acreage can then go back into production. The proportion of CRP acreage that actually does return to production will depend to some extent, of course, on commodity prices and price expectations. But the possibility of substantial acreage going back into production raises the specter of a promising conservation program that didn't last long enough. Expect, then, to hear strong support for extending this program in some form.

Expect, also, to hear requests to enforce the now-required farm-level conservation-compliance program, intended to control the tilling of acres that are subject to soil erosion. Under the 1985 and 1990 farm bills, farm-level conservation plans have become a required condition for the farmer to receive any government benefits (this is the conservation-compliance requirement). Two-thirds of U.S farmers, however, including dairy farmers, were not subject to conservation compliance under the 1990 law. Interestingly, then, we could well see environmental interests advocate the extension of some form of the income-security program (the target price-deficiency payment program), but with revisions designed to increase leverage and ensure the development and implementation of farm-level conservation plans.

**Rural Development.** The rural development agenda is not inconsistent with the interest in farm income security. Without question, however, rural development is moving to a higher level of interest and importance. The ongoing reorganization of USDA reflects an increased emphasis on rural development. Consider this example: The Agricultural Cooperative Service, housed in USDA for decades, has always placed its priority on cooperative activity at the local farmer level. But in 1994 the agency, still a part of USDA, became Cooperative Services within the Rural Development Administration. The agency is now more interested in cooperative development activity and consumer issues at the rural community level. While this move is not inconsistent with the economic well-being of farmers, it does show a change of emphasis.

### The Virginia Agenda

The 1995 farm bill will probably have something to interest nearly every Virginian, certainly every rural Virginian. The legislation potentially will affect everything from Virginia farmers' incomes to conservation of natural resources to property rights to protection of open space in the Commonwealth. Once more, let's examine three main areas of discussion.

**Virginia Farm Income.** A primary intent of the income-security components of the 1985 and 1990 farm bills was to allow domestic prices to seek the world-market level so that U.S. agriculture could participate in world trade. Then, if that world-based price were below the target price, the deficiency payment made up the difference.

But Virginia farmers, for various reasons (having to do with low proven historical yields and often complex lease arrangements across different landowners), have not participated heavily in the government programs, especially for the two key commodities of wheat and corn. Only once since 1980 has 50 percent or more of Virginia's base corn acreage been "in the program." In the midwestern states, meanwhile, 80-95 percent of the farms were routinely "in the program" and eligible for the substantial deficiency payments of the late 1980s and early 1990s.

Virginia farmers, farm groups, and feedgrain users would do well to examine the reasons that program participation is relatively low in the state. They could then argue for an income-security program that, at the least, does not worsen the Virginia grain-farming situation. That situation includes the removal from production of roughly half of Virginia's corn-for-grain acreage since the mid-1980s; this trend is starting to threaten the long-term economic viability of Virginia's feedgrain-users, such as the beef, dairy, poultry, and swine sectors.

**Virginia's Environment.** In Virginia, as in other states, growing environmental concerns and the demand for safe water and food are affecting agriculture and rural communities. The Chesapeake Bay adds another powerful element to the environmental agenda in Virginia. Nonpoint source pollution has a major impact on Virginia's waters, including the Bay, and most experts agree that farms are a significant contributor to this problem. At the same time, however, the environment as well as agriculture often loses when farmland and other open spaces become suburbanized. The need is obvious, then, for agricultural and environmental groups to find a balanced approach to the dual needs of income protection for the farmer and protection of our natural resources. The upcoming farm bill will probably be shaped by just these types of issues from around the country.

(*Ed. note:* For a discussion of how agricultural and environmental groups might find some common ground for discussion, see the January/February 1994 issue of *Horizons*.)

**Virginia's Rural Communities.** Rural communities and their relationship to agriculture should get lots of attention in the farm bill debate. Nowhere is that attention more timely than in Virginia in 1994,

*Please see* **Purcell, continued** *on back page*

# Virginia and the 1995 Farm Bill

## Thursday, September 8, 1994
## 10:00 a.m.-4:00 p.m
## Sheraton Inn, Charlottesville, Virginia

Come take an early look at what may be in store for Virginia's agriculture and rural areas when Congress reconsiders federal farm policy in 1995.

National-level speakers will give an overview of issues and potential features of the upcoming legislation in three key areas:

**Farm income security**--Keith Collins, Acting Assistant Secretary for Economics, USDA;
**Environmental and conservation**--Sandra S. Batie, Professor of Food and Agricultural Policy, Department of Agricultural Economics, Michigan State University;
**Rural development**--Sara Mazie, Associate Director/Agriculture and Rural Economy Division, Economic Research Service, USDA.

Following each presentation, the audience will participate in questions and answers about potential impacts on Virginia.

In addition, the **USDA reorganization** will be the topic of luncheon speaker Randall Torgerson, Assistant Administrator, Rural Development Administration, USDA.

There is no fee to attend, but you must pre-register by **September 1**.
You may do so by phone, mail, or fax.
Please provide your name, address, and daytime phone number to:

Alan Raflo
Dept. Agricultural and Applied Economics, Virginia Tech
Blacksburg, VA 24061-0401
phone (703) 231-9443; fax (703) 231-7417

*The conference is presented by Virginia Tech's Rural Economic Analysis Program (REAP), College of Agriculture and Life Sciences, and Division of Cooperative Extension/Agricultural Experiment Station.*

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**Purcell, continued**

because of looming changes in the tobacco industry and in communities where tobacco has been the economic mainstay. Also undergoing changes are communities built around dairy, swine, peanuts, and other crops and enterprises. Moreover, many rural Virginia communities without any agricultural tie nevertheless have a stake in potential rural development features of the farm bill. Nationwide discussion of farm policy--and, simultaneously, other aspects of rural policy--is likely to parallel discussions occurring in Virginia about economic viability, land use, and the overall quality of life in rural communities.

**The Farm Bill: Coming Soon to a Rural Area Near You!**

The 1995 farm bill legislation will be important to every citizen of Virginia. It will affect the costs of food and fiber and will have an influence on the quality of life in communities throughout Virginia. Because of this, informed debate will be needed at every turn. The debate promises to be a lively and lengthy one. Don't miss it!

## NOTICES

*Regional rural development centers are a valuable source of information for anyone interested in rural areas. The four regional centers provide a network for university research and extension materials to be shared across state lines. Virginia is served by the Southern Rural Development Center, located at Mississippi State University. A good introduction to the work of the regional centers is the recently published *1993 Combined Report* and *Combined Publications List*. You can request either publication form any of the four regional centers. Here is the contact information for each center:

- **North Central**--216 East Hall, ISU, Ames IA 50011-1070, phone (515) 294-8321, fax (515) 294-2303;
- **Northeast**--7 Armsby Building, PSU, University Park, PA 16802-5600, phone (814) 863-4656, fax (814) 863-0586;
- **Southern**--Box 9656, MSU, Mississippi State, MS 39762-9656, phone (601) 325-3207; and
- **Western**--Ballard Extension Hall 307, OSU, Corvallis OR, 97331-3607, phone (503) 737-3621, fax (503) 737-1579.

*For more information, please contact REAP, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, VA 24061-0401; telephone (703) 231-9443.*



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**Dept. Ag. and Applied Economics**
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