

December 1990 record of \$129.48 per cwt and approached \$135 in late February. First-quarter prices averaged \$129.41. With seasonal moderation of feeding conditions, prices this spring are expected to decline. However, prices remained strong

in April as feeding conditions remained poor. **AO**

Ron Gustafson (202) 694-5174
ronaldg@ers.usda.gov

Agricultural Policy

U.S. Farm Policy for the 21st Century: A Diversity of Visions for the Future

As debate over the future of U.S. farm policy gathers momentum, a wide range of ideas has emerged regarding how to address the needs of farmers and other stakeholders in a new farm bill. The House Committee on Agriculture began hearing testimony in mid-February from agricultural economists, commodity groups, and farm organizations on specific options and program designs for a new farm policy. The testimony has reflected a diversity of views on the shape farm policy should take in the future.

Most of these views have been fleshed out with significant detail on program design, and generally fall into three positions. One favors continuation of traditional support programs with no supply controls, the second favors a return to supply controls, and the third favors continued transition to a more market-oriented policy.

Traditional Support Programs

Continuation of traditional support programs has been advocated in testimony by most commodity groups and farm organizations before the House Committee on Agriculture and has characterized most of the views reported by the 21st Century Commission on Production Agriculture (AO April 2001). Proponents base their policy recommendations on the agricultural market conditions since enactment of the 1996 Farm Act. In their view, the promise of increased market access and rising exports for U.S. commodities has not been realized, and risk management programs were inadequate to address price and production losses over the past several years, resulting in emergency assistance.

Proposals from these groups have all recommended some type of countercyclical income support program, although details vary on trigger mechanisms and payment formulas. Proposals for triggers have included farm income, aggregate price, gross revenue, gross return per acre, gross cash receipts, or percentage of production cost, calculated at national levels, although some recommended state, regional, or county triggers.

Payments would be the difference between the current levels of the measure, and the measure during some historical base period—generally mid-1990s to 2000—multiplied by an eligibility factor which varies among proposals. For this factor, some suggest historical area and yields, others propose average recent production, and some suggest the same eligibility as current production flexibility contract (PFC) payments (also called Agricultural Market Transition Act—AMTA—payments). Some proposals recommend including government payments in calculating target income or price levels, but most do not. Nearly all proposals recommend covering the traditional program crops and adding oilseeds.

Most proponents of traditional support programs have favored continuing the current PFC payments. About half have proposed increasing the amounts paid out through that program, and most, though not all, have recommended including additional crops, particularly oilseeds. Most also favor maintaining the current marketing loan program, although most recommend adjusting commodity loan rates upward to rebalance price relation-

For more information on the beef market, see the Economic Research Service report *Livestock, Dairy, and Poultry Situation and Outlook* at <http://usda.mannlib.cornell.edu/reports/erssor/livestock/ldp-mbb/2001/>

ships among covered crops with the level currently set for soybeans. Many suggest changes to increase flexibility in the operation of the marketing loan and loan deficiency payment programs, including allowing for pre-harvest lock-in of loan deficiency payment (LDP) rates, allowance for payments on grazed-out wheat acreage, ending the requirement of PFC payment eligibility to receive loan deficiency payments, and extending sign-ups and final dates for requesting loan deficiency payments through the marketing year.

All proponents of traditional support recommend eliminating payment limitations for the loan programs, and most advocate no means testing for participation in income support programs. At least one proposal, however, favored targeting of benefits to family-scale operations, both to secure public support for farm income assistance and to guard against further concentration of production.

Virtually all advocates of traditional support programs have recommended continuing the planting flexibility introduced in the 1996 Farm Act; however, a small but vocal group recommends adoption of supply control programs to manage surpluses. They believe trade forecasts had been too optimistic when the 1996 Farm Act was enacted, overstating access to international markets as outlets for surplus domestic production. Their proposals included a voluntary supply control program that would provide higher marketing loan rates in return for fallowing land, as well as reauthorization of farmer-owned reserves, to assure adequate stocks and to provide a risk management tool for farmers. Other proposals suggest increasing humanitarian food aid donations and creating a farm storage program for government-owned surplus stocks designated for food aid and use as renewable fuels.

Briefs

Market-Oriented Views

A more market-oriented view, presented both to the House Agriculture Committee and as a minority view within the 21st Century Commission report, was advocated by only a few, but is representative of a view that has surfaced in other farm policy discussions. Details vary among groups and individuals who hold this position, but in most cases the view is based on the idea that the U.S. farm sector is diverse and thus requires a range of programs that will meet the needs of most groups without damaging the interests of others. The strongest proponents of a market-oriented farm policy broadly suggest that income support programs are not needed since large farms produce adequate income, small farms depend on off-farm income rather than on farm programs, and mid-size farms need assistance to transition either to more profitable sizes or out of farming into more profitable enterprises. Others, particularly among some livestock commodity groups, favor more market-oriented programs because they are less likely to help one sector of the industry at the expense of another.

The strongest proponents have recommended converting spending now dedicated to direct payment programs toward two new sets of programs. For larger commercial farms, they recommend efforts focused on risk management, trade expansion, and a safety net for catastrophic market- or weather-related risk—for example, a farmer-run actuarially sound crop insurance system coupled with a legislated automatic (not emergency) disaster payment. For smaller farms, they suggest rural development programs and technical assistance in adopting new technologies and developing greater economies of scale.

Those holding the stronger position oppose establishing a new countercyclical income support payment, arguing it would be absorbed into land prices and rents and thereby provide incentives for farm operations to grow larger in order to afford the cost of land. Most also recommend ending the decoupled PFC payment, particularly if a new countercyclical program is adopted, since the purpose of fixed payments—to ensure farmers the benefits (and costs) of market price changes—

would be undermined by countercyclical support payments that flattened out income across high- and low-price years.

All proponents of a market-oriented policy oppose acreage set-asides and on-farm storage programs, because of their tendency to distort market prices.

Addressing Trade, Concentration, & Environment

Although recent House hearings have been focused primarily on commodity price and income support policy, most groups submitting testimony have called for expanded trade. Proponents of both the market-oriented and traditional support approaches favor improved access to foreign markets and the exclusion of food from unilateral sanctions, but many who propose more traditional support programs also suggest stronger export promotion programs. Some have also advocated negotiating allowances in trade agreements for measures to offset the negative effects of exchange rate fluctuations, to protect against competitive advantages based on lower regulatory standards, and to address unique incidents such as weather disasters or import surges. A few have suggested that global solutions be developed for supply, demand, and price issues common to all farmers.

Of particular concern to a number of groups favoring traditional support was increasing concentration, particularly in the input and processing sectors. Those sharing this concern recommended vigorous enforcement of current antitrust regulations, as well as enhanced government, particularly USDA, authority to investigate and regulate business organizations and alliances, to review the concentration implications of government research and patenting procedures, and to provide relief and damages for anticompetitive and market distorting practices. They further recommended efforts to secure international cooperation in addressing anticompetitive behavior on a global basis.

All of the groups have been in agreement in their recommendations for continuing public expenditures on research and technical assistance. Proposals have been made for increased research in the areas of food safety; new technologies, includ-

ing biotechnology; disease prevention; and environmental quality. Some have recommended increased research into the implications of structural change, particularly increased concentration.

Virtually all agree on the need for programs designed to assist farmers in meeting conservation goals and environmental mandates. Recommendations include increased technical assistance, cost-share programs, and incentive payments for adoption of environmentally beneficial practices. Many also favor expanding land retirement for conservation, although there was more disagreement on this kind of conservation proposal because of its production reducing effect.

Supporters of the market-oriented view have recommended that farm payment programs focus more attention on environmental stewardship, given growing concern among the nonfarming public about environmental impacts of agriculture and the safety of food production.

As debate continues, new policy ideas and program designs will undoubtedly emerge. Most will likely fall within the general positions outlined here, leaving the details of these diverse proposals increasingly the focus of discussion. As testimony already presented to the Committee reveals, balancing competing demands and differing views will be challenging. Add to that the need to meet commitments within the World Trade Organization and to remain within Federal spending limits, and the difficulty of the task becomes even more apparent.

Further articles in this series will consider a number of these policy ideas and program designs in greater detail and will consider the diversity of underlying goals for farm policy that have generated the range of proposals entered thus far in the debate. **AO**

Contacts: Anne B. W. Effland (202) 694-5319 and Edwin Young (202) 694-5336
aeffland@ers.usda.gov
cyoung@ers.usda.gov

Testimony presented to the U.S. House Committee on Agriculture is available on the Committee's website: www.agriculture.house.gov/comdty.htm