To anticipate the political climate for the next farm bill debate we need to keep in mind three critical contextual variables: party control of Congress, crop prices, and budget constraints. I refer to these as “variables” since all can change rather quickly, and in fact both crop price levels and budget constraints have changed dramatically since the last farm bill was written in 1995-96, in ways that are likely to trigger an even more generous bill to farmers in 2002 than we saw in 1996. Yet since the party control variable has not changed - the Republican party still controls (just barely) the House of Representatives - I don’t expect any of the more important changes that Republicans put into the 1996 bill to be taken out in 2002. The political climate for the new farm bill is likely to be one in which we add a bit - both new programs and new money - to our existing farm commodity support repertoire. Those who either thought or hoped that the last farm bill was going to serve as a “transition” to less federal government involvement in the U.S. farm sector are likely to be disappointed in 2002.

Republican or Democratic Party control of the U.S. House of Representatives is probably the most important of the three contextual variables I'm going to focus on. Party preferences differ on farm policy; both parties want to help farmers, but they tend to want to give the greatest help to distinctly different kinds of farmers, and in distinctly different ways. As a crude generalization, Democrats want to help smaller and less efficient high-cost farmers, and they have traditionally been comfortable doing so with market interventions such as higher loan rates linked to supply controls. Republicans, in contrast, want to help larger and more efficient commercial farmers, those that actually produce the bulk of our nation's food supply, plus the various agricultural industries associated with this efficient and competitive commercial farm sector. Republicans have concluded that the efficiency of this commercial farming complex tends to be hurt by intrusive market supports and supply controls, so they have long preferred to support farm income with cash payments that impose fewer constraints or distortions on production.

Because of these important party-based differences, the direction of U.S. farm policy tends to change whenever party control over the Congress changes, particularly in the House of Representatives. Party control is important in the House, because it brings with it not just a working majority on the floor of the House and within every committee; it also confers substantial agenda-setting power, by way of party control over all House committee chairmanships, including the still influential House Rules Committee which is a legislative gateway that sets the terms for floor debate. Party control of the Senate is important as well, but much less so because of a long tradition which gives individual Senators far more freedom to wander from party leadership positions and to routinely defy committee chairs from their own party. Chairs of the Senate Agriculture Committee tend to have far less control over the majority

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party members of their own committees than is the case in the House. As for party control over the White House and USDA, when it comes to agricultural commodity support policy Congress is still the first branch of government. The President and the Secretary of Agriculture can propose, but at farm bill time Congress will dispose.

In the book that David Orden, Terry Roe and I published in 1999 we showed that it was a change of party control in Congress after the 1994 election - a switch from Democratic to Republican control in both the House and Senate - that can explain better than anything else the surprising policy changes inserted into the 1996 FAIR Act. For the first time in 40 years, Republicans replaced Democrats as the party in control of the House of Representatives. These House Republicans had been complaining for years about the adverse impact of annual acreage reduction programs (ARPs) on U.S. farm export market shares, and on U.S. farm input supply and downstream processing industries, but their complaints had never been enough to make a difference because they were in the minority. It should have been no surprise that when they finally got a majority in the House, in 1995, they wrote an elimination of annual ARP authority into the new farm bill.

Crop prices are a second short-term variable that shaped farm policy in 1995-96. Shortly after the debate began in the spring of 1995, U.S. crop prices began moving up sharply, toward what eventually became a twenty-year high. This helped reinforce the move away from ARPs, but it also - through a quirk in Congressional budgeting rules and procedures - triggered a decision by then House Agriculture Committee Chair Pat Roberts to propose a complete decoupling of cash payments to farmers from both planting decisions and market prices. If Roberts had not decoupled cash payments from the rising prices in the market, payments to farmers would have shrunk to almost nothing in 1996 and 1997. It was decoupling that allowed Roberts to “capture” all of the spending that the Budget Committees had earlier allocated to the farm budget baseline. Decoupling was a device that gave farmers high payments on top of high prices in 1996 and 1997.

Chairman Roberts was asked at the time what would happen if prices suddenly fell some time later. How would farmers then survive if they had to rely on decoupled payments that would no longer grow as prices fell? What had happened to agriculture’s safety net? Roberts’ answer was, “Congress is the safety net.” Indeed, Congress has been as generous to farmers on the downside of the 1996 price spike as it earlier was on the upside. When prices fell sharply in 1998 and the decoupling feature of the FAIR Act became inconvenient to farmers, Congress became the safety net and voted billions of dollars in extra payments to make up the difference.

Notice what I am saying here. The market-oriented features of the 1996 farm bill did not grow out of some “new paradigm” that was persuading both Republicans and Democrats of a need to get the government out of farming. Republicans and Democrats alike wanted to renew the farm bill and, within budget limitations, keep federal farm income support programs in place. What changed was party control in Congress (the first Republican House in 40 years) and crop prices (the highest price spike in 20 years). These contextual changes ensured that when the farm

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bill was renewed it no longer contained authority for ARPs, and it now did contain a provision for cash payments completely decoupled from market prices.

So what do these same three contextual variables suggest we should expect from the upcoming 2001-2002 farm bill debate? I start by observing that the most critical variable - Republican Party control of the House of Representatives has not changed significantly, a fact that argues for some continuity. It is true that the Republican margin in the House, after last November’s election, is down to a mere half dozen members. But given the exceptional party discipline shown by House Republicans so far, and given the recent growth within the House Democratic caucus of the moderate New Democrat Coalition (a group of moderate Democrats that has now grown to constitute one third of the caucus) plus the presence of an overlapping group of 30 or so conservative “Blue Dog” Democrats - who on many issues are comfortable working with Republicans - the House that will write next year’s farm bill looks to be firmly under Republican control, just as it was in 1995-96. So firmly Republican, in fact, that some farm district Democrats would like to postpone the farm bill debate until 2003, when they are hoping the Democratic Party will have majorities in both the House and the Senate.

The very closeness of the party control margin in the House is a critical factor in the looming farm bill debate, which is likely to be completed not long before the critical November 2002 mid-term House and Senate elections. With control of both the House and Senate in the balance, neither party will want to go into this election vulnerable, even in a single farm state or district, to partisan charges of failing to support America’s farmers. Farmers tend to get more out of the government when party control margins are slim in the House than when they are wide, because with slim margins the nation's shrinking block of farm districts is more likely to be seen as possibly making a difference.

The second two factors on my policy prediction checklist are crop prices and federal budget constraints. Here, in each case, there have been exceptionally dramatic changes since 1996. Crop prices were at a 20 year high when the last farm bill was written in 1996, but then fell sharply in 1998. Last year’s prices were at an eight-year low for rice, a 14 year low for wheat and corn, a 25 year low for cotton, and a 27 year low for soybeans. Farm income has been protected during this price collapse by a dramatic increase in direct government payments - up to a total of $23.3 billion in payments in calendar year 2000. Both parties have supported these payments - in fact, they have repeatedly fallen into bidding wars, competing with each other to offer more. Fully half of all net farm income last year (and about 9 percent of gross cash income) came from these government payments.

This links us to the other big difference between today and 1996. In 1996, the Federal budget was still in deficit, but since 1998 the federal budget has moved strongly into surplus, now all the way up to a projected $5.6 trillion surplus anticipated over the next ten years. In this new context of low crop prices and these large projected budget surpluses it has been relatively easy for Congress, over the last three years, to vote emergency waivers of the Budget Act and spend as much money as necessary - an average of over $8 billion per year in emergency supplemental appropriations - to keep net farm income relatively steady.
The defacto abandonment of decoupling in the down market has been politically popular with both parties and, of course, pleasing to farmers, but it has been procedurally embarrassing to the Congress, particularly the Budget Committees of Congress. The House Budget Committee Chair, Jim Nussle of Iowa, has complained that the “bidding war” aspect of this ad hoc emergency supplemental funding approach is so fiscally irresponsible that Congress should abandon that approach this year, by writing the 2002 farm bill one year early. He is getting little support for this suggestion from the House Agriculture Committee, which has established its own somewhat more deliberate timetable for preparing the farm bill debate. Chairman Larry Combest’s Agriculture Committee is moving through a schedule of presentations by different farmer groups - he has heard from seven different groups so far - hearing specific farm policy plans from each group. The Agriculture Committee will set the pace of the action, not the budget committee.

Ordinarily when a farm bill is being written the action will go through three phases. In the first phase the budget committees decide on how much money will be available by voting on the farm support spending "baseline." During this phase of the action, the House and Senate agriculture committee chairs and the members from both parties will join ranks as best they can to push the budget committees for the largest baseline possible. Then, once the size of the pie has been determined, the action moves to the agriculture committees, where the majority party chairs - especially in the House - take control and attempt to divide up the pie in a manner agreeable to all the diverse agricultural interests - especially the different regional and commodity group interests - represented among the majority party members. During this stage of the process bipartisanship is usually lacking. Once the chair and a majority on the committee have drafted a bill, the process then enters its third and final phase - the search for a majority on the floor. At this point the process usually becomes visibly bipartisan once again, as most farm state members will prefer some farm bill - even one written by the other party - to no farm bill at all.

We are only beginning to move into this process, so there are still uncertainties aplenty. Yet I might as well venture a guess as to what I think will emerge. When we get to the critical second stage of this process, Republicans will be in control and I suspect these Republicans are not going to want to abandon the two key features of the 1996 FAIR Act which they originally authored and which they still like: the elimination of annual acreage controls, and a guaranteed stream of decoupled AMTA payments. I expect them to agree to add some form of a counter-cyclical market loss support payment scheme, to get Congress off the annual emergency supplemental budget waiver hook, but the result will be a “FAIR Act plus” in budget terms, not a “FAIR Act minus.”

I specifically see little or no support in Congress, even among populist Democrats, for any return to supply controls or to larger CCC reserves, or even to a farmer owned reserve. As I read the terms of the mini-farm bill (S20) introduced by Senator Tom Daschle and some others last month, it does propose a crowd-pleasing increase in marketing loan rates up to 80 percent of the “full economic cost of production,” but these are marketing loans so they need not result in larger government inventories, and Daschle specifically did not call for a return to ARPs or any other supply controls.
When the National Association of Wheat Growers (NAWG) testified before the House Agriculture Committee, it favored continuing with the “market-oriented” approach - it did not support any form of mandatory set asides, or an expansion of the CRP, or the establishment of a Farmer Owned Reserve, or any other proposal that would limit farmer flexibility. NAWG is also willing to see the fixed payment system of the 1996 FAIR Act continue, so long as it is supplemented with a counter-cyclical “market loss support program.” Other commodity groups - including the rice growers - seem to have similar preferences. They want to keep the planting flexibility and the decoupled payments contained in the FAIR Act. They then want to increase the money going to rice growers by uncapping marketing loan rates, and by setting up a supplemental counter-cyclical “gross revenue program.” Another “FAIR Act plus” approach, and with no talk of acreage controls or farmer owned reserves.

I do expect the Democrats to be strong enough to block one item on the Republican wish list - the proposed elimination of individual farm payment limits. As a Democrat myself, and as someone who is offended by the egregiously untargeted nature of our farm support programs, I would like to see farm payment limits tightened, not eliminated, and I sincerely hope the proposal to eliminate payment limitations goes nowhere, although I note that it was endorsed by the Commission on 21st Century Production Agriculture.

The struggle to watch, in the agriculture committee stage, will probably be the struggle over how and how high to set loan rates. And here I hope the Democrats lose. Higher marketing loan rates will only induce more unneeded production and drive market prices lower. If the goal is to get income support to farmers, I prefer decoupled payments to loan deficiency payments.

Before we even get to the agriculture committee stage, however, we will have to go through the budget committee stage. And this is one battle that has gotten fully underway this spring. Remember, in this stage of the battle it will be a struggle between the agriculture committees who want the biggest baseline possible and the budget committees, who must allocate fixed resources to various demanding constituencies, not just agriculture. The current annual budget baseline for farm support programs is $9.3 billion, which includes $4 billion specifically for fixed AMTA payments. Given the last three years in a row of emergency supplemental appropriations that have roughly doubled the spending for farmers contained in this baseline, and given the expectation that crop prices will remain low for some time, everybody expects this baseline to be increased by the budget committees, but the question is by how much.

Farm groups want to get this question answered quickly, since they sense that their best chance get a large permanent baseline increase out of the budget committees is right now in the spring of 2001. If they wait until next year the U.S. economy may have gone into a slump by then, CBO forecasts of future government surpluses might not be so rosy, and a large part of today’s surplus may have been locked up in the President’s tax cut.

So earlier this year a coalition of 20 farm and commodity organizations wrote letters to the agriculture and budget committee chairs and ranking members asking for an immediate $9 billion increase in the FY 2001 baseline for agriculture to cover emergency needs this year, plus a permanent increase in the annual baseline of at least $12 billion for the remaining years of the
forthcoming budget resolution, which is to say, out through 2011. This would imply at least $129 billion in additional spending authority for agriculture over that period.

This was a bold move, but it is a showing of solidarity among agricultural groups that the budget committees have to take note of, and it is already winning some endorsements from key members of the agriculture committees, especially Democrats, in part because they are not in the majority and so they won’t be held accountable if the budget is broken. Congressman Charles Stenholm, in remarks to the House Budget Committee earlier this month, agreed that the budget allocation for agriculture should be “permanently increased,” and he specifically referenced the commodity group demand for a $9 billion increase this year and a $12 billion annual increase thereafter. Two weeks ago Congressman Stenholm and Agriculture Committee Chair Combest wrote a letter to the Budget Committee recommending not only additional assistance for 2001 but a permanent increase in budget allocations for agriculture as well. On the Senate Side, while Budget Committee Chair Pete Domenici has so far tried to sound tough on a bigger baseline for agriculture, ranking minority member Kent Conrad is reportedly supporting roughly a $10 billion increase this year, and last week Senate Agriculture Committee Chair Richard Lugar and ranking member Tom Harkin wrote a letter to Domenici requesting "the necessary flexibility" to go above the existing CBO baseline.

It will be interesting to see how long the Republican budget committee chairs can hold out against these demands from farm interests and agriculture committee members for a significantly larger farm budget baseline. So far the budget positions taken by their fellow Republicans in USDA and the White House have not provided them with an especially attractive alternative. Secretary of Agriculture Ann Veneman also testified earlier this month before the House Budget Committee and refused to name a figure for supplementing the existing baseline, either this year or in the future, claiming that “such emergency appropriations are not part of the on-going mandatory program” and have “not been projected in future years.” Secretary Veneman tried to reassure farm groups by pointing to the availability of a so-called contingency fund provided for in the President’s new budget, from which farm programs might be able to draw, though admittedly they would have to compete with numerous other claimants for this money, and Democrats charged that the money doesn’t really exist because it comes from the Medicare trust fund.

The agriculture committees, which will accept money for farm programs anywhere they can get it, have indeed been eyeing this contingency fund, and just last Wednesday when the House Budget Committee approved a ten year $517 billion strategic reserve fund it stipulated that priority in using the fund should go for two activities in particular: national defense and agriculture. The House Agriculture Committee claimed this as at least a partial victory, arguing this meant the next farm bill could be written with an assurance that funding would be available over and above any baseline that is eventually created for agriculture. The new house budget resolution also provides assurances that assistance can be provided later this year if needed, from FY 2001 surplus funds.

But farm advocates are not yet satisfied. Representative Eva Clayton, a Democrat from North Carolina, has said she plans to offer an amendment to the House budget bill that has now
gone to the floor, an amendment that earmarks a full $9 billion extra for emergency assistance this year, then an additional $4 billion annually for the remainder of the decade.

So to summarize, I expect that the 2002 farm bill debate will take place in a mid-term election year atmosphere of intensified party competition for farm district support, and in a context of continued low crop prices plus weak discipline on budget spending. This is not a political formula for an end to farm programs. But neither is it a formula for a reversion to the more market-intrusive farm support programs of the past. So long as the Republican Party is in control, and so long as money is available for cash payment support, I suspect any formal proposals to resume supporting farmers through production controls will die early.

As for those of us who would like to see a move not only away from market-intrusive programs but also away from poorly targeted lavish payments to farmers, is there some moment in the future when the political climate could be right for such a reform? I can't be especially optimistic here. If the goal is to cash out and then squeeze out farm programs altogether, the best possible contextual situation will be a sustained interlude of Republican party control, moderately high and stable prices, and tight rather than loose budget constraints. We will only have (just barely) the first of these three enabling conditions when the 2002 farm bill is written, and I can imagine circumstances under which we might not have any of these three enabling conditions some years after that. I'm guessing, then, that the next farm bill will not only be a generous package for farmers; it is not likely to be the last.