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# CONTINGENT COMMODITY PROGRAM OPTIONS AND THEIR IMPLICATIONS FOR AGRICULTURAL SUSTAINABILITY

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## Introduction

Planning for the 1990 farm bill requires both pragmatic consideration of the likely legislative vehicles and analysis and construction of the most favorable policies for supporting a sustainable agriculture. This paper attempts to anticipate and prepare for the contingency that the farm program we are familiar with will not be the model for the 1990 farm bill. The likely alternative options of decoupling and quantitative supply management are presented and analyzed for their impact on sustainability. This paper asserts that the option of quantitative supply management is the more favorable for supporting a sustainable agriculture.

## Factors Influencing Farm Bill Debate

While the force of inertia may suggest that the familiar system of price supports and deficiency payments will be the model for the next farm bill, there are factors at work which may alter the course of the debate. First, there has been ongoing criticism of the current farm program from a wide range of sources. Groups like those at this meeting have complained of its impact on the environment. Urban taxpayers question the high cost. Family farm advocates decry its role in promoting fewer and larger farms. And agribusinesses dislike its skewing effect on the marketplace (and on their profit potential).

Second, the \$150 billion to \$200 billion annual budget deficit will require major fiscal changes. President-elect George Bush has said he will not raise taxes (cf., "Read my lips!"), removing increased revenues as an option. As Gramm-Rudman budget cuts continue, members of Congress will start to look for someone else's budget to pick on, rather than watch their own pet programs take across-the-board cuts. At around \$20 billion a year, the farm program presents itself as an attractive target.

Third, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) is considering a proposal from the United States to deregulate global agricultural trade, including the phase-out of almost all farm programs, elimination of import regulations and a ban on all direct and indirect export subsidies including deficiency payments, restitutions, and export enhancement programs. In the press release announcing his proposal, President Reagan described it as "the elimination, over a ten-year period, of all export subsidies, all barriers to each other's markets (including tariffs and quotas), and all domestic subsidies that affect trade." [White House Press Release, Washington, D.C. July 6, 1987.] If this proposal were agreed upon, the Congress would be asked to write a very different farm bill.

Fourth, the election of George Bush as president will mean a continued effort to increase production and lower prices for agricultural commodities. Bush said, "I strongly support the U.S. proposal in the GATT negotiations to gradually phase out all farm subsidies." [The Farmer, October, 1988, St. Paul, Minnesota] Bush has said he supports increased exports and has said he will devote his first economic summit conference to agricultural trade.

Even if the current farm bill is extended for one year to avoid a debate during the 1990 election year, these four factors could ultimately shift the policy debate away from the traditional set of commodity programs. The two options which could go head to head in this debate are decoupling, proposed by Senators Rudy Boschwitz, David Boren and former Senator David Karnes, and quantitative supply management advocated by Senator Tom Harkin and Representative Richard Gephardt.

### Decoupling

Decoupling calls for the following farm program elements to be applied to the major commodity crops, including corn, wheat, soybeans, sunflowers, cotton and rice:

- 1) Cut farm price support loans by roughly 30 percent from current levels.
- 2) Replace deficiency payment subsidies with welfare-type "equity payments" that would be guaranteed, no matter what happens to crop prices or production, and would be phased out for soybeans and sunflowers over five years and cut by 50 percent for other program crops. These "equity payments" would be based strictly on past production history, and not tied to any set-aside or land use requirements.
- 3) Eliminate supply management programs.
- 4) Enact marketing loan export subsidies for commodities with CCC loans.

The impact of this approach on sustainability can be grouped into eight major areas:

- 1) Increase in land under cultivation.

Current farm legislation has allowed farmers to fallow over 75 million acres over the past few years. With a 50 million acre limit, decoupling would bring 25 million or more acres of land back into production. In addition, this 50 million acre limit will mean that at least 30 million of the estimated 80 million acres of highly erodible land will not be taken out of production.

- 2) More intensive use of pesticides and fertilizer.

Gary Meyers, the head of the Fertilizer Institute, has thrown the support of the chemical industry behind decoupling because it will mandate "reductions in prices which will provide incentives for farmers to improve their production efficiency." In other words, prices will fall so much it will force farmers to maximize their production per acre to try to maintain their income.

This would impact on a middle-sized soybean and corn farm by requiring that yields and production would have to increase significantly to maintain the same level of gross receipts as under the current (1988) program. It will require that corn production would need to rise from a yield of 100 bushels per acre to 160 bushels, and that soybean production would need to rise from a yield of 36 bushels per acre to over 60 bushels by the sixth year.

3) Less attention given to sustainability and conservation.

As profit margins and income diminish, it will be more difficult for farmers to invest in soil and water conservation improvements. Also, lower prices and lower net income will make it more difficult to "risk" conversion to more sustainable practices.

The trend toward fewer and larger farms will continue. According to the Kellogg-funded research by Resources for the Future, "The number of farms may decline at a faster rate than at present as farmers consolidate their holdings to become more competitive." Capital intensity will replace the management attention needed for good conservation practices. The management philosophy of certain lenders and insurance companies who repossess land may not fit with the conservation practices of the previous family farm owners.

4) Smaller, diversified livestock producers to face increased competition from feedlots.

The falling of feedgrain prices, due to both the general program and the marketing loan, will put large livestock producers, including cattle feedlots, hog confinement operations, dairy factories, and huge poultry operations, at an enormous competitive advantage over smaller, diversified family operations who are growing their own feed. Under decoupling, corn that costs a family farmer around \$3 per bushel to produce can be bought by a corporate feedlot for \$1.30 per bushel, or even less under the marketing loan provision. Not only will this tend to squeeze out smaller producers, it will mean even greater environmental problems with run-off of manure from these huge operations.

The concentration of livestock into large scale units brings additional problems with diseases, fostering increased reliance on antibiotics and the use of gamma ray irradiation to control these threats to animal and human health. These producers are also the major advocates of growth hormones and stimulants to further boost production.

5) Budget costs will continue at high levels, reducing funds available for sustainable agriculture and conservation programs.

Though the huge "equity payment" costs will be reduced over time, they will only be reduced to 50 percent of the first year cost for most crops. In addition, the cost of the greatly expanded marketing loan program, which has largely gone unnoticed by most observers up to now, will increase as crop prices go down.

In an attempt to appear to be cutting costs, Boschwitz has said he is lowering the income support limit from \$250,000 per farmer to \$200,000 per

farmer. However, he has mischaracterized the current deficiency payment limitation by including the marketing loan limits of \$200,000 for cotton and rice and adding the \$50,000 deficiency payment cap which applies to all commodities. The marketing loan is not an income support and it only applies to two commodities. In actuality, Boschwitz is proposing to increase the income support limit from \$50,000 per farmer to \$200,000 per farmer for the first year of the program. The Congressional Budget Office has done cost estimates of this proposal for Boschwitz. But he refuses to release the estimates, saying he believes the analysis was faulty.

Although sustainable agriculture has received small amounts of new funding, the much larger soil and water conservation programs have been some of the first items cut or reduced in budget battles over the past few years.

6) Uncontrolled and unfair competition created for existing small and medium sized non-program and speciality crop producers.

These producers first will find their markets flooded by the shifting of land now in set-asides of other crops into production of their non-program crops. Then, base acreage will be opened up to non-program crops. In addition, the Boschwitz decoupling proposal will subsidize farm program producers of non-program crops with "equity payments," while those producers who have traditionally grown non-program crops will have to take what they can get in a flooded market. This would unquestionably be unfair treatment for farmers who are already diversified and who often are the better stewards of the land.

7) Adverse impact on agricultural sustainability in the Third World.

Downward pressure on prices will continue to force third world nations to intensify production in order to keep up their export earnings and maintain their attempts at food self-sufficiency. More rain forests and jungles will likely disappear in the process.

8) Elimination of conservation compliance requirements.

Cross compliance features, such as sodbuster and swampbuster provisions, are not included in the Boschwitz legislation.

In an effort to gain support for decoupling among environmental groups, Senator Boschwitz has offered the possibility of tying the "equity payments" to conservation compliance requirements. While this may attract some to decoupling, it should be noted that the impacts on sustainability identified above are not affected. It does not change the fundamental problems with the entire concept. As long as the overall policy is toward ever lower prices and an end to supply management, the land will be farmed for maximum production.

### Quantitative Supply Management

Although the quantitative supply management legislation contains significant expansion of the conservation reserve and other soil and water conservation features, the main contrast with the "decoupling" approach is in the commodity programs and supply management.

The key features of quantitative supply management include the following:

- 1) Set farm prices at the cost of production.
- 2) Eliminate deficiency payment subsidies.
- 3) Establish quantitative supply management programs for most commodities, contingent upon approval by producers.
- 4) Limit land set-aside for supply management purposes to 35 percent of the crop base.
- 5) Restrict export subsidies for use only in cases where agreements cannot be reached with other exporting nations to maintain the U.S. 1985 world marketshare.

Impact on sustainability can be grouped into five areas:

- 1) Less land will be farmed, compared to the decoupling approach.

The average land set-aside over the past few years has been about 60 million acres. This has been, on average, about the right amount of set-aside, although more of this should be long-term CRP type set-asides. Without the 50 million acre cap in the decoupling approach, the quantitative supply management plan will allow set-aside acreage to rise to the level needed to balance supply and demand and provide for conservation and wildlife needs. All set-aside acres must be "devoted to locally approved conservation uses," according to the proposal.

- 2) The land will be farmed less intensively, for two main reasons:

First, with quantitative supply management, farmers can only sell a specified total amount. It becomes less profitable to try to extract every bushel possible from your land, since you cannot sell the overproduction. At the same time, it becomes more profitable to produce your total crop needs at the lowest cost possible, which could mean using less fertilizer, chemicals and fuel.

Second, the quantitative supply management proposal includes a special, "conservation cropping" provision which allows farmers to reduce their acreage set-aside upon adoption of "conservation cropping" to permit less intensive farming practices. This does not allow a producer to market more crops, it is strictly designed to encourage the de-intensification of production by allowing farmers to grow the same size crop on a larger piece of land.

It is this feature of the bill, the de-intensification of production, that has provoked a full-scale lobbying effort by the chemical industry to stop this legislation.

- 3) Higher farm income will facilitate greater attention to conservation.

Since the early 1980's, farm prices and farm income have been so low that hundreds of thousands of farmers have been bankrupted. Many of those still on the land are unable to maintain proper soil and water conservation practices, and are often forced to "mine their soil" in hopes of producing enough to survive. Groundwater is being pumped for irrigation at record levels, again in an effort by farmers to hang on. At

the same time, inadequate income makes it impossible for many farmers to take the necessary risks needed to switch to less chemical and energy intensive methods of production.

Quantitative supply management would raise farm prices and farm income, putting producers on stable footing. This does not guarantee immediate improvement in soil and water conservation practices nor will it automatically increase the number of producers switching to lower-chemical methods. It simply provides the financial stability that is the fundamental obstacle at the moment.

4) Family farm livestock producers will have an advantage over giant feedlots.

As long as grain prices are set below the cost of production, the huge feedlots can continue to put diversified family farmer livestock producers out of business. Under quantitative supply management, not only would feedlots have to pay a fair price for their grain, the larger operations would have to absorb a greater portion of the overall land set-aside. The quantitative supply management approach, in some commodities, places an upper limit on the size of farm which can receive marketing quota, and it requires the largest producers to limit their production more than the smaller producers.

5) Significant budget savings are reallocated in Harkin-Gephardt to food and nutrition programs and an expanded Conservation Reserve Program. Eliminating deficiency payments will free up over \$10 billion for these purposes.

6) Encouragement of diversification while protecting incomes of traditional producers of non-program crops.

Up to 20 percent of a producer's base acres can be shifted each year to non-program crops, allowing farmers to get out of the monoculture patterns many are locked into now. However, this shift would be more strictly limited "if the Secretary [of Agriculture] determines that such limitation is necessary to ... maintain farm or ranch income..." This will prevent the flooding of markets which are traditionally served by existing producers of non-program crops.

7) Third World sustainability will be enhanced.

Where agreements can be reached, quantitative supply management will raise world farm prices to cost of production levels. This will allow farmers around the world to sell their crops in their local markets without being displaced by heavily subsidized U.S. exports. This will spur local economic development and it will contribute to their food security and self-reliance.

Again, restoration of fair prices will not guarantee forward progress on the monumental Third World environmental problems related to agriculture, but it is the fundamental basis for starting this process. Unless prices rise, farmers everywhere will find no option but to crop the hillsides and rainforests, or to divert water to try to farm the desert.

8) Conservation compliance is retained in Harkin-Gephardt.

Swampbuster and sodbuster requirements are maintained in the quantitative supply management proposal. Also, all set-aside acres must be "devoted to locally approved conservation uses," according to the legislation.

### Conclusion

The authors assert that, of the two options discussed in this paper, quantitative supply management, as proposed by Harkin and Gephardt, is more supportive of sustainable agriculture than the decoupling approach of Senators Boschwitz and Boren. Because of the several factors influencing the debate on agriculture policy, these two options may play a significant role in the farm bill debate. It is important to be prepared for that contingency and to be able to identify which policies will contribute the most to the sustainability of agriculture.