November 9, 1995

HOW TO SALVAGE AGRICULTURE REFORMS IN BUDGET RECONCILIATION

INTRODUCTION

As conferees work to resolve differences between the House and Senate versions of budget reconciliation, they will determine whether any real agriculture reform will occur this year. Only the House has included fundamental reforms of some of the existing farm programs—changes in the wheat, feed grain, cotton, rice, and dairy programs embodied in House Agriculture Committee Chairman Pat Roberts's Freedom to Farm Act (H.R. 2195).[1] Unfortunately, neither the House nor the Senate has offered any significant reform of the sugar or peanut programs or the Conservation Reserve Program (CRP). If Congress is serious about accomplishing anything close to real reform this year, it should adopt the House proposals. In addition, when Congress considers the farm bill either later this year or in 1996, those programs that were overlooked in reconciliation must be addressed.[2]

COMPARING THE HOUSE AND SENATE AGRICULTURE PROVISIONS

The only meaningful reforms of agriculture programs still being considered as a part of budget reconciliation are the Freedom to Farm Act provisions included by the House (Table 1 presents a comparison of the key agriculture provisions in the House and Senate reconciliation bills). These reforms would replace traditional payments for wheat, feed grains, cotton, and rice with transitional payments that decline over a period of seven years. The House eliminates the deficiency payments based upon target prices, ending the federal government's role in telling farmers what and how much to produce. The House also eliminates the marketing loan payments and the

1 For a complete discussion of the Freedom to Farm Act, see John E. Frydenlund, "The Freedom to Farm Act (H.R. 2195): Key Changes Will Improve Potential for Serious Agricultural Reform," Heritage Foundation *Issue Bulletin* No. 211, September 5, 1995.

2 For a complete discussion of how to reform the sugar, peanut and dairy programs, see John E. Frydenlund, "Reform the Sugar, Peanut and Dairy Programs," Heritage Foundation *Issue Bulletin* No. 216, September 26, 1995.

three-entity rule, which would end the preferential treatment for cotton and rice and close the payment limitation loophole that allows these farmers to receive as much as $250,000 annually. In addition, the House bill provides similar reform of the dairy program, eliminating price supports and marketing orders and replacing them with transition payments.

The Senate failed to include any reform of these programs, other than elimination of annual acreage reduction programs and the farmer-owned reserve, reforms also embodied in the House reconciliation package. The conferees should accept the reforms provided in the House version. Otherwise, there would be no meaningful reform of the current agriculture programs, and America's farmers will be denied the chance to capitalize upon the opportunities a free market provides.

In fact, the Senate would move away from real, free-market reform of the dairy program by establishing a "Northeast Interstate Dairy Compact" that provides a competitive advantage to dairy producers in six states.[3] Under the Compact, a governing commission would set a minimum price for all milk produced in the Northeast region above the price set by milk marketing orders. Producers and processors from outside this region will be precluded from competing in these six states because no milk from outside the compact states will be allowed to come in at a lower price. This not only will increase prices to consumers in the Northeast, but also will create potentially costly surpluses that must be purchased by the American taxpayer.

Even worse, the Senate bill establishes a two-tiered pricing system by requiring compensatory payments for nonfat dry milk used in higher value products. Allowing a lower price for nonfat dry milk being exported while setting a higher price for U.S. dairy and food manufacturers using nonfat dry milk in their products amounts to imposing a "powder tax" on domestic manufacturers who use nonfat dried milk as an ingredient. The Senate bill also establishes a mechanism for national pooling of milk prices by requiring milk producers in most areas of the country to pay into a "pool" to subsidize lower prices received for surplus milk products from other areas. The Senate provisions, rather than provide reform as in the House version, takes an already archaic system of milk pricing under the Federal Milk Marketing Orders and imposes more unnecessary federal regulation on the dairy industry.

The only positive provision in the Senate version, which is absent from the House version, provides that farm program authorities expire at the end of seven years. The House bill would establish the Commission on 21st Century Production Agriculture, ostensibly for the purpose of identifying the appropriate future relationship between the federal government and production agriculture after 2002. This proposal simply represents a delaying tactic. There is ample evidence pointing to the advantages of getting the federal government out of the business of centrally managing U.S. agriculture.[4]

3 Maine, Vermont, New Hampshire, Massachusetts, Connecticut, and Rhode Island.

4 For a complete discussion of changes needed in federal agricultural policy, see John E. Frydenlund, *Freeing America's Farmers: The Heritage Plan for Rural Prosperity* (Washington, D.C.: The Heritage Foundation, 1995).

Finally, both the House and Senate failed to include any meaningful reform of the sugar or peanut programs because reform advocates were virtually frozen out of any opportunity to offer amendments that would have reformed these archaic programs. They also failed to effect significant reform of the Conservation Reserve Program, which removes millions of sustainable acres from productive use. These programs should be addressed in the farm bill.

CONCLUSION

House and Senate agriculture conferees for budget reconciliation should adopt many of the reforms embodied in the House reconciliation bill. These proposals would begin to free America's farmers to produce for the world marketplace rather than for the dictates of the federal bureaucracy. These include provisions which provide significant reform of the wheat, feed grain, cotton, rice, and dairy programs. The benefits are increased farm income and greater economic growth. Conferees must reject most of the Senate provisions, which, at best, preserve the status quo and, for dairy in particular, actually make the programs more restrictive and uncompetitive. Finally, in other program areas, such as peanuts, sugar, and the Conservation Reserve Program, little or no reform is accomplished in either the House or Senate versions of reconciliation. Therefore, Congress must address the reform of these programs in the farm bill.

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Table 1

Comparison of Key Agricultural Reconciliation Provisions

Provision	House	Senate
Wheat, Feed Grains, Cotton, and Rice		
Annual Acreage Reduction Programs	Eliminates Annual Acreage Reduction Programs, including 0/85 & 50/85 Programs	Eliminates Acreage Reduction Programs, But Retains 0/85 Program and Converts Rice to 25/75
Farmer-Owned Reserve	Eliminated	Eliminated
Target Prices/Deficiency Payments	Eliminated Replaced with Declining Seven-Year Transition Payments	Status Quo Programs Retained with only Minor Tinkering with Acreage Eligibility
Marketing Loans	Eliminated	Retained
Three-Entity Rule/Payment Limitations	Eliminates Three-Entity Rule Establishes Enforceable $50,000 Payment Limitation	Retains Three-Entity Rule Makes No Changes to Payment Limits
Dairy Support Program	Abolishes Price Support Program Replaces with Transition Payments through 2001 Terminates Milk Market Orders and Assessments	Retains CCC Purchase Authority for Cheese Reduces Support Price Only 10 Cents Annually Eliminates Assessments Creates Northeast Interstate Dairy Compact Imposes New Milk Powder Tax
Sugar Program	Continues High Sugar Loan Rate Eliminates Marketing Allotments Increases Marketing Assessments	Effectively Reduces Loan Rate Only One Cent Eliminates Marketing Allotments and Increases Assessments
Peanut Program	Continues Restrictive Quota System Reduces Support Price by $68 per Ton for Next Seven Years	Continues Restrictive Quota System Reduces Support Price by $50 per Ton Program Authorized Only Through 2000
Conservation Reserve Program	Provides "Cap" at Present Acreage and Allows "Early Out"	Acreage "Capped" at Present Level and Assumes 50% Reduction
Farm Program Authority	Program Authorities Are Not Scheduled to Expire Commission Created to Study Future Role of Government	Permanent Law Repealed Farm Bill Authority Expires in Seven Years