AGRICULTURE

Reform's Stunted Crop

Congress re-embraces agriculture subsidies.

By David Orden
Virginia Polytechnic Institute and State University

Congress is on the verge of finalizing a new long-term farm bill to replace legislation passed in 1996. The earlier legislation, when it was enacted, received attention for its potential to end farm subsidies as they had been known. If Congress had adhered to the 1996 law, both the level and year-to-year variability of previous farm support outlays would have been reduced. Instead, when a three-year run of high crop prices collapsed in 1998, lawmakers began appropriating extra support payments on an annual basis. Momentum to "beef up" the subsidies authorized in this year's farm bill has been building ever since. The 2002 farm bill will provide both fixed direct payments and producer price guarantees for wheat, feed grains, soybeans, rice, and cotton. It will also authorize an expensive new counter-cyclical subsidy program for a large proportion (but, in principle, fixed quantity) of farm output. The counter-cyclical payments will provide a third tier of farm commodity support by reauthorizing subsidies similar to those of the past.

The long-term support given to farmers by the new bill will have predictable effects. Lawmakers have promised a total of $100 billion in commodity subsidy expenditures over the next decade, which assuredly will create production incentives or be captured in higher land values and rents. Yet, the 2002 farm bill's harm can be limited, depending on how it is written. A House-Senate conference committee is hammering out the final language as this article goes to press.

David Orden is a professor of agricultural policy and trade at Virginia Tech. He is co-author of *Policy Reform in American Agriculture: Analysis and Prognosis* (University of Chicago Press, 1999). Orden can be contacted by e-mail at orden@vt.edu.

PARTIAL REFORMS IN 1996

The 1996 law, known informally as the Freedom to Farm Act and formally as the Federal Agriculture Improvement and Reform (FAIR) Act, initiated four changes in policy compared to previous farm programs:

- Most supported farmers attained flexibility to plant whatever crops they chose (but not most fruits and vegetables).
- Authority ended for the Department of Agriculture to require annual acreage idling to limit crop supplies.
- FAIR provided farmers with fixed income transfers, known as production flexibility contract (PFC) payments. PFC payments were based only on past output and were independent of current market conditions and farmers' planting decisions. The transfers replaced earlier "deficiency payments" from the 1990 and earlier farm bills that had required continued production of specific crops on "base acreage," and had risen or fallen counter-cyclically to offset movements in market prices compared to higher legislated "target" prices.
- FAIR capped price guarantees to crop producers through "loan rates" at levels well below market prices prevailing at that time. The loan rates provide price guarantees to farmers because they can forfeit their crops to the government instead of repaying the loans for which the crops are collateral.

The 1996 changes were partial reforms along the lines of a move toward direct income transfers instead of land idling or government stock-holding interventions that push prices above market-clearing levels. Planting restrictions and acreage idling are burdensome to farmers. Setting aside productive land to limit supply also is costly to national welfare and provides a competitive advantage to foreign producers

MICHAEL MELFORD INC./IMAGE BANK

in world markets. The FAIR Act reduced those undesirable effects of farm policy and, in that respect, improved the efficiency of American agriculture. The shift to fixed payments also reduced uncertainty about the budgetary cost of the legislation as enacted. The fixed payments were further designed to fully decouple income support from incentives to produce particular crops, or any crop at all, because the payments were made even if base acreage was left idle. As shown in Table 1, farmers responded to the increased flexibility the law allowed with substantial movements away from the crops to which deficiency payments had been tied.

TABLE 1

Planting Flexibility

Under the FAIR Act, farmers have shifted planted acreage away from crops to which deficiency payments were once tied.

Crop	Historical base acreage (millions)	2002 expected planted acreage (millions)
Wheat	78.4	62.3
Corn	81.4	79.7
Sorghum	13.5	9.5
Barley	11.1	5.9
Oats	6.7	4.9
Upland cotton	16.4	15.4
Rice	4.2	3.4
Soybeans*	60.6*	74.6
Sunflowers*	2.9*	2.7

* Not a "base acreage" crop under the 1990 or 1996 farm bill. Acreage shown in the first column is the 1990-1995 average planted. Source: USDA.

Freedom to farm Despite the market-oriented innovations, which came at a time of high prices in 1996, the extent to which the FAIR Act put farm policy on a less-interventionist or less-costly strategic path was uncertain from the outset. Control of both the House and Senate by the Republican Party brought the elimination of acreage idling to the fore—freedom to farm, after all, had been a rallying point for Republicans since at least the 1950s. But among its effects, acreage idling reduces the direct budget costs of farm support programs. With the objectives of lower government spending and deficit reduction high on the Republican agenda in 1995 and 1996, it is unlikely that farm policy would have abandoned annual acreage idling had market prices not surged upward. But prices did rise, and agricultural proponents in Congress were able to tout the end to acreage set-asides and introduction of fixed payments as deregulation of a large part of agriculture. They did so knowing full well that, while the new law gave farmers more cropping flexibility, it also increased support expenditures in the short run because deficiency payments under the old policy were falling as prices rose.

Farmers liked those outcomes of the FAIR Act. When challenged that the new farm policy undermined longer-term support levels, proponent Pat Roberts (R-Kansas), then chairman of the House Agriculture Committee, opined that Congress itself was the long-term safety net. That has turned out to be the case.

SUSTAINED SUPPORT ON AN ANNUAL BASIS

As prices fell after 1997, expenditures built into the FAIR Act increased automatically because of the counter-cyclical price guarantees provided by loan rates. To keep the guarantees from undercutting U.S. competitiveness or resulting in stock accumulations in government hands, farmers are allowed to market their crops and receive a direct payment of the difference between the loan rate and the market price, and most avail themselves of that option. The "loan deficiency payments" (LDPs) function just like the old deficiency payments of the difference between market and target prices, but LDPs apply to all of a farmer's output, not just a fixed quantity. Thus, loan rates above expected market prices create production incentives, both by setting a floor under the levels of prices received (a subsidy effect) and by reducing expected price variance (a risk-reducing effect). As market prices fell, expenditures for loan-rate price guarantees and related direct loan payments increased from $1.6 billion in fiscal year 1998 to $4.8 billion in 1999 and $9.8 billion in 2000, before falling back slightly to an expected $8.7 billion in 2001.

Critics respond Once prices fell sharply, the fixed payments and price guarantees under the FAIR Act provided less support to farmers than would have been available under earlier farm programs. Subsidized farmers and their advocates in Congress were hardly satisfied with that outcome. Critics of FAIR dubbed the act "freedom to fail" and chastised it for low prices, reduced support, and the absence of a safety net strong enough to suit them. A Congress closely divided on party lines could not resist responding to the criticism, and stepped in with ad hoc emergency legislation, supplemental annual appropriations, and new disaster relief and crop insurance subsidies. The effects on support policy were first to speed up delivery of scheduled fixed payments, then to increase their levels by 50 percent, and finally to double the payments in 1999, 2000, and 2001.

With the extra expenditures authorized by Congress on an annual basis, direct government payments received by farmers rose to over $20 billion during each of the past three years, providing more than 40 percent of net farm income. That placated most farmers in the short term but did not deter FAIR critics who sought permanently higher levels of aid for agriculture. Erstwhile proponents of freedom to farm were reduced to defending the 1996 bill by arguing that Congress had increased its support expenditures. More radical critics of farm subsidies, regardless of the merits of their case, were left to decry the rising outlays but, in reality, farm support levels had never been cut under the FAIR Act.

Supply and demand What caused the drop in farm prices and led to large subsidies over the past four years? The early 1990s had been a reasonably prosperous period for agriculture, with world demand growth exceeding that of world supply. A sharp weather-related reduction in U.S. crop production sent prices soaring upward in 1995. Subsequently, U.S. production recovered and world supply responded positively to the high prices in 1995 and 1996.

Demand conditions have also contributed to lower prices. Global market demand fell with the financial crisis in Asia. Moreover, after nine years of relative stability during 1988-1996, the U.S. dollar has appreciated broadly for four consecutive years relative to the currencies of competitors and customers in global agricultural markets. That has driven down farm commodity prices and caused U.S. export values to fall. Having passed the FAIR Act, Congress has been unwilling to let lower prices cause a drop in farm income or farmland values, both of which have been sustained by the added subsidies. But the farm support policies themselves have also put downward pressure on prices, as LDPs and other support expenditures induced more output than market signals alone.

RE-INSTITUTIONALIZING THE HIGHER SUPPORT

The political effort to turn the extra annual payments from 1998 to 2001 into permanent support entitlements under a new farm bill was marshaled aggressively by the House Agriculture Committee, chaired by Larry Combest (R-Texas) who was an initial opponent of the FAIR Act in 1995. The Senate Agriculture Committee, chaired by Richard Lugar (R-Ind.) until mid-2001, took a slower approach to sounding an alarm bell or calling for the rewriting of FAIR to raise support levels.

The agricultural lobby achieved a crucial victory in April 2001 when it attained inclusion in a congressional budget resolution of an additional $5.5 billion for that year and $73.5 billion over the next ten years (2002-2011). The new spending enhanced farm subsidies, conservation, nutrition, and related expenditures beyond the levels in existing law. It increased by three-fourths the baseline spending of nearly $100 billion in those categories anticipated from continuation of the FAIR Act, and allowed the 1996 law to be rewritten one year before it was scheduled to expire.

Commodity support Securing the additional long-term funds for agriculture rested on passage of specific authorizing legislation. The House agriculture committee was already moving forcefully toward that goal with a coordinated set of hearings at which commodity groups presented their positions and provided cost estimates for their proposals. The committee's mandate to the groups was clear: Get organized, present your specific ideas to the committee, then let's strike a cross-commodity bipartisan deal to capture the additional farm program dollars. Not surprisingly, the main farm groups each called for some type of counter-cyclical payments to institutionalize the extra subsidy appropriations farmers had been receiving annually since 1998. Farm groups were also nearly unanimous in favoring retention of the planting flexibility provided by the FAIR Act and in opposing limitations on payments received by individual producers.

The House Agriculture Committee passed a new 10-year farm bill, H.R. 2646, in July 2001. Under the committee bill, most of the newly available money (nearly $50 billion) went to commodity support, with a substantial funding increase also offered for conservation and some additional funds earmarked for market promotion, nutrition programs, and rural development. Fixed PFC payments were retained in the House bill as a basic income support mechanism. H.R. 2646 also retained FAIR-Act levels of loan rates for most crops, but lowered the loan rate for soybeans. The soybean rate had been set too high compared to other crops in 1996, making the shift in crop production shown in Table 1 in part the result of farm program incentives as well as market signals. The proposed lower loan rate would reduce the program incentive to grow soybeans, and resulting LDPs. That bore a cost as the legislation included fixed payments for all oilseeds, which had not previously received deficiency or PFC payments but had received direct payments under the recent annual appropriations.

The new H.R. 2646 counter-cyclical support program reauthorized crop target prices and deficiency payments contained in the 1990 farm bill, and extended those payments to oilseeds. Unlike the earlier deficiency-payments program, the House agriculture committee retained production flexibility for the new counter-cyclical support. The payments would again be made on the basis of past acreage and yields, but no specific crops had to be grown in the future to qualify, nor would annual land idling be imposed. With fixed payments in the House bill, income transfers to farmers would not shrink below $5 billion per year with the new counter-cyclical policy (as would have happened in 1995 and 1996 if deficiency payments of the 1990 farm bill had not been replaced by the PFC payments of the FAIR Act). The House agriculture committee bill also included a one-time option for farmers to update the acreage bases on which they received fixed and counter-cyclical payments. Under the updating option, farmers have the choice of keeping their old acreage bases or aligning their bases with planting decisions of recent years. Thus, H.R. 2646 offered substantial new support guarantees and familiar policy instruments to farm constituents.

CHALLENGES TO FARM SUBSIDY RENEWAL

Four key challenges could have moderated or derailed the legislation:

- Tightening budget constraints, resulting from the 2001 U.S. economic slowdown.
- International commitments on agricultural policy.
- Pressure for more attention to conservation and the environment.
- Structural arguments about the purpose and target of farm subsidies.

The first two challenges could have constrained the overall level of support expenditures, but apparently will fail to do so. The latter two challenges address the instruments and distribution of support and have remained contentious throughout the farm bill reauthorization.

Budget constraints Attaining supplemental funds for farm income support has been facilitated over the past four years by rising tax revenues and federal budget surpluses. The budget resources that the agricultural lobby secured in 2001 for increased spending authority over the next decade stipulated that the extra cost of the farm programs not dip into Social Security or Medicare revenues. Sufficient fiscal surpluses were projected in April 2001 to accommodate the expenditures planned for agriculture and several other special reserve funds. But a weakening economy and the passage of 10-year tax reduction legislation led to smaller budget surplus forecasts by August. Advocates of fiscal constraint may have hoped that the prospect of cutting into Social Security funds would lead to reassessment of the amount of money allocated to agricultural subsidies, but that debate never occurred. September 11 changed the budget environment — war, after all, is an extraordinary circumstance in which budget discipline is waived. The House floor debate on the farm bill was scheduled to begin September 12. It was put off just 21 days, and in early October 2001 the House passed its version of an expensive new farm bill with strong bipartisan backing. The Senate passed a five-year farm bill in February 2002 that also authorized new expenditures of $73.5 billion if extended over a full 10-year period.

Bush administration During deliberation on the House farm bill, the Bush administration did give voice to fiscal restraint, but that voice was muted. Bush officials floated the idea that additional funding of $25 billion over five years was more reasonable than $73.5 billion over 10 years, but that suggestion died out quickly.

The administration's muted voice should not be surprising. Bush officials had made implicit commitments to future agricultural spending during the administration's earlier push to secure passage of its tax cut initiative, and even before the September 11 attacks President Bush had ventured that agriculture was "part of our national security mix." The president also sought backing from agriculture for new trade negotiating authority as farm bill reauthorization progressed. That further weakened any administration resolve to limit farm spending, even if spending more for farm subsidies posed a threat to progress in future trade negotiations. When, late in the year, the Senate failed to close off debate on its version of the farm bill, the administration was quick to assure the farm lobby that full funding from the budget resolution still would be available in 2002. Thus, tightening budget circumstances after April 2001 failed to constrain farm program spending locked in at that time.

International commitments There has never been a strong connection between previously negotiated international agreements and modifications of U.S. farm policy. The ink was barely dry on the 1994 World Trade Organization (WTO)

DAVID R.FRAZIER/STONE

Agreement on Agriculture when the FAIR Act was signed into law, but it was not international disciplines that propelled those changes to U.S. farm policy. In WTO terms, the FAIR-Act policy shift was only from one non-limited category of farm support programs to another. Policy shifted from the WTO "blue box" classification, which exempts U.S. (and European) support programs for grains made on partial acreage and associated with land idling, to the WTO "green box" that includes fixed direct payments deemed not to be too trade distorting.

The WTO agreement only binds member countries in terms of their domestic support ("amber box") programs, tariffs, and export subsidies that have the most direct effects on agricultural production and trade. With passage of the FAIR Act, U.S. amber-box subsidies were well below WTO limits. But as the support provided to farmers began to rise automatically when agricultural market prices fell after 1997, and with the subsidies added by Congress in subsequent years, payments to U.S. farmers potentially classified in the amber box have reached levels close to the WTO limit.

Constraints on foreign agricultural subsidies and trade barriers are important to the United States as a net exporter of farm products. But U.S. commitments to its own constraints appear to be in jeopardy. In 2001, the U.S. secretary of agriculture decided, to the chagrin of agriculturalists in Congress, to notify the WTO that the supplemental farm payments of $2.8 billion made by the United States in 1998 because of low prices should be classified as amber-box trade distorting. By that criteria, economic projections of subsidy costs under the House (and later Senate) farm bill showed that the expenditures might exceed the WTO amber-box limit in some years.

Congressional response to the possibility that the new farm bill will violate WTO agreements has been muted. The House simply added a clause to the committee bill that authorizes (but does not require) the agriculture secretary to take unspecified steps to "ensure that payments do not exceed, but in no case are less than, such allowable levels." In the Senate, a brief amendment was adopted with language only slightly more binding. Thus, WTO constraints have had little effect in disciplining the subsidy levels or determining the instruments proposed for farm programs.

Conservation and the environment Measures to reduce the environmental degradation that results from agricultural production have long been integrated into farm policy. Annual unpaid land idling to achieve price support objectives was abandoned in the FAIR Act, but long-term paid land idling through the Conservation Reserve Program (CRP) and similar smaller programs was retained, and has idled over 30 million acres under 10-year or longer contracts. The various benefits associated with setting that land aside have attracted a strong constituency among conservationists, environmentalists, and sportsmen, as well as among landowners and farmers who receive nearly $2 billion annually in land retirement payments.

The House and Senate farm bills expand the CRP authority to around 40 million acres. That increase met opposition from agriculture-related supply and processing businesses and some farm groups, but it is less of an expansion than the 45 million acres called for by the sportsmen's caucus in Congress. The size of the CRP and other land-idling programs under the new farm bill gives an indication of the relative strength of the lobbies for unfettered farm production versus a coalition of those favoring acreage controls.

The second traditional instrument of agricultural conservation and environmental policy has been cost-sharing payments to farmers to undertake production practices that limit environmental damage. The House Agriculture Committee bill increased funding for those programs by over $8 billion, but an amendment to shift more of the new funds to those purposes (and spend less on commodity subsidies) was defeated on the House floor. The Senate bill includes more new conservation spending than the House bill, in part reflecting the unusual 2001 mid-session change in leadership that gave Democrats control of the chamber. Democratic Agriculture Committee Chairman Tom Harkin (D-Iowa) has long championed an environmental payments policy that includes a substantial income support component as a substitute for fixed direct payments or counter-cyclical commodity subsidies.

Payment structure The House farm bill increases farm support mostly through the addition of new counter-cyclical

payments. By allowing farmers to update their acreage bases, the bill also takes a step that undermines the decoupling of income support from production incentives. Acreage base updating will lead farmers to anticipate additional updating opportunities in the future, in which case expanded production will not only earn market income but also build eligibility for eventual government payments. The new counter-cyclical subsidies and acreage updating are both setbacks to the reforms undertaken in 1996.

In several other respects, the structure of the FAIR Act is retained in the House bill. Loan rates are not increased (with the minor exception of sorghum) and the soybean rate is lowered. Planting flexibility is retained and, as a result, neither the fixed payments nor the new counter-cyclical payments are dependent on production of specific crops. Annual acreage idling is avoided, which is desirable for efficiency and competitiveness. Still, there is no inherent counterweight to the production incentives provided by the subsidies in the House bill, and some restraint is needed lest the expanded subsidy levels themselves become a growing cause of low farm prices. The House bill does not effectively limit payments to individual farmers. Thus, in many respects, it is too generous and unconstrained to be judged positively by those seeking farm policy restraint domestically and abroad.

Senate bill Under Democratic leadership, the Senate farm bill would make further detrimental changes to the structure of farm payments. Democrats have long been the stronger proponents of higher loan rates, and the Senate bill raises the rates for all crops but soybeans. (See Table 2.) The Senate bill decreases fixed payments and provides lower target prices (called "income protection prices") for counter-cyclical payments than the House bill. Those latter steps might be viewed as constraints on farm subsidies, but the Senate bill allows farmers to update both their production bases and their crop yields to reflect recent levels. The Senate bill also makes the fixed and counter-cyclical payments available for 100 percent of updated farm output. Thus, all of a farmer's recent production would be guaranteed both higher loan rates and target prices. The result is to gut the earlier decoupling of income support payments from production incentives. A windfall is provided to aggressive past operators, and anticipation of future acreage base and yield updating of subsidy eligibility will provide farmers with incentives to increase output further.

TABLE 2

Generous Senate

Price guarantees, in the form of loan rates, contained in the FAIR Act and different versions of the 2002 farm bill.

Commodity	Dollars per bushel or pound		
	FAIR Act	2002 House Bill	2002 Senate Bill
Wheat	2.58	2.58	3.00
Feed Grains			
Corn	1.89	1.89	2.08
Barley	1.65	1.65	2.00
Oats	1.21	1.21	1.50
Sorghum	1.71	1.89	2.08
Rice	6.50	6.50	6.50
Soybeans	5.26	4.92	5.20
Minor Oilseeds	.093	.087	.095
Upland Cotton	.519	.519	.55
Peanuts			
Domestic Edible	.305	.175	.200
Other	.066	.175	.200
Honey	N/A	.60	.60
Dry Peas	N/A	N/A	6.78
Lentils	N/A	N/A	12.79
Chickpeas	N/A	N/A	17.44

The Senate bill also frontloads the new farm program expenditures into the legislation's first five years. When the bill was passed last February, the projected cost of its added commodity support and conservation spending was nearly $38 billion during 2002-2006, compared to $30 billion under the House bill. The greater Senate generosity in the near term was to be offset by planned reductions in commodity support (mainly from lower fixed payments) in years 2007-2011, plus sharp cuts to the Senate's higher conservation expenditures after the first five years. Yet there is no guarantee that a future Congress will follow through with the proposed reductions in commodity support or conservation spending. Thus, the Senate bill is likely to set the stage for even more total farm program costs over the next decade than the already generous House bill.

To make matters worse, analysts recently discovered an error in the budget calculations for the Senate bill. The corrected figures reveal that the bill would spend a projected $6.1 billion more on commodity support over the next 10 years than originally was thought — for a grand total of $79.6 billion in new expenditures. That exacerbates the potential for spending under the Senate bill to exceed the authority in the earlier budget resolution, unless further restraint is imposed. What is more, the Senate bill — like its House counterpart — links LDP and counter-cyclical payments to unpredictable market conditions, which means there is a good chance that actual expenditures will be even higher than currently predicted.

In one respect, the Senate bill has proposed fiscally conservative reform. An amendment on the Senate floor introduced tighter limits on payments to individual farmers than in the House bill, for a savings of $1.3 billion over 10 years. That provision would strengthen the "graduation" from eligibility often associated with social safety net programs. Other proposals to limit farm support and ensure that it is distributed more widely among farmers were defeated in the Senate.

DIVERGENT PROGRAMS

Unlike the major crop support programs, policies for sugar and peanuts have continued to rely on import restrictions and domestic supply controls to raise market prices, at a

cost to consumers. Milk supports have depended on a byzantine system of controls that is unique in U.S. agriculture. All three programs are in need of reform, but the new farm bill makes only a partial effort to do so.

Peanuts The 2002 farm bill may include a fundamental change to the peanut program. Instead of supply controls that have guaranteed quota-holders $610 per ton (well above the world price) for domestically consumed edible peanuts, the production of all peanuts (edible and processed) will be brought under the umbrella of the other crop programs — with a single lower loan rate, fixed income transfers, and counter-cyclical payments for a base quantity of output. Peanut production quota rights will be bought out by payments scheduled for five years.

Inclusion of reform of the peanut program in the 2002 farm bill has been criticized because of its budget cost (over $3 billion) and new benefits for non-quota peanut producers. But the changes, if not gutted in final negotiations, will remove artificial constraints about where edible peanuts are grown (quotas cannot be moved across state lines) and who has the right to grow them. The changes will allow domestic market prices to fall and make it easier in the future to negotiate more open access for foreign producers. The merit of those partial reforms will depend on the levels set for the key support parameters. The market for peanuts is relatively small, so setting the loan rate too high will prove costly, as output induced by the producer price guarantee could easily swamp demand and drive market prices down. The Senate bill sets the peanut loan rate at a higher level than the House bill, as it does for other crops.

Sugar In contrast to the reform of the peanut program, the existing sugar program will be continued and domestic sugar marketing quotas will be reauthorized in 2002. Extending the program will continue to impose relatively high prices on consumers. The sugar program was also expensive for taxpayers in 2000 because farmers were paid to plow down part of their crop and sugar stocks accumulated in government storage.

The United States is committed under NAFTA to eliminating barriers on sugar imports from Mexico by 2008, and other countries will seek additional access to the U.S. market through WTO negotiations or the Free Trade Area of the Americas. Thus, continued reliance on import and domestic supply restrictions to hold up prices will prove costly and exacerbate agricultural trade frictions. A shift toward direct payments might be a way out of the pending impasse, but the sugar industry has been intransigent and has prevailed on both houses of Congress. Extension of the sugar program with renewed domestic marketing quotas is another setback for farm policy reform.

Milk Dairy policy also may see new subsidies added by the 2002 farm bill. The dairy industry is dominated by regional conflicts and balkanization of the national markets for fluid and processed milk products. The FAIR Act authorized a temporary Northeast Dairy Compact to support regional producers. The compact expired last year, and efforts to extend it were defeated in Congress. But the 2002 farm bill may include new counter-cyclical support guarantees for all dairy farmers. (See "Congress's Dairy Dilemma," *Regulation*, Winter 2001.)

CONCLUSION

As this article goes to press, several things are clear about the 2002 farm bill. First, neither recent budget considerations nor international commitments to WTO rules have constrained farm spending levels or policy instruments, despite markedly changed budget projections and the importance of foreign markets to U.S. agriculture. That unfortunate outcome is a testament to the continued power of the agricultural lobby and its advocates in Congress; neither party seems willing to restrain the farm subsidy juggernaut. Any prospect for reducing the levels of farm support expenditures has been lost in 2002. The Senate bill spends more in the next five years than the House bill, and the bidding war may not be over. Fiscal restraint on farm policy will have to wait for another day.

Second, given the increased long-term funding authorization that seems inevitable for agriculture this year, important decisions are to be made by the House-Senate conference committee as it reconciles the two different versions of the farm bill. Farm policy will be served best by program instruments that distort farm markets the least through increased production incentives. In that respect, the Senate bill of February 2002 is badly off course. The higher loan rates, acreage and yield updating, and new dairy subsidies it authorizes should be rejected. Reform advocates may well endorse the payment limitations in the Senate bill, or a shift of more funds to conservation objectives without raising the eventual cost of the legislation. But a modest payment limit or shift of some additional funds into conservation versus commodity support hardly alters the fact that farm policy is being set to provide costly aggregate subsidies to agriculture well into the future. That bodes poorly for international negotiations to bring farm subsidies to task worldwide. R

READINGS

- "Agricultural Relief Legislation in 1998: The Bell Tolls for Reform," by Bruce L. Gardner. *Regulation*, Vol. 22, No. 1 (1999).
- "The Bad Harvest," by Jerry R. Skees. *Regulation*, Vol. 24, No. 1 (2001).
- "Congress's Dairy Dilemma," by Kenneth W. Bailey. *Regulation*, Vol. 24, No. 4 (Winter 2001).
- *Policy Reform in American Agriculture: Analysis and Prognosis*, by David Orden, Robert Paarlberg, and Terry Roe. Chicago, Ill.: The University of Chicago Press, 1999.