1995 US Farm Bill

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The 1995 farm bill, currently under discussion in the United States, is one of the most important policy measures which will determine world agricultural trade over the next seven years and beyond. Australian politicians and farmer groups see the farm bill as an opportunity for change in US agriculture policy, and have been active in lobbying for reform. Against a background of increasing agricultural trade liberalisation, and a strong political agenda for reducing budget outlays, domestic pressure in the United States has also been mounting for a significant change in farm support measures.

US farm programs have remained largely unchanged since the 1930s. Support is focussed on a core group of commodities, including wheat, cotton, sugar and dairy products, and a variety of mechanisms are used. Prices and incomes are stabilised using minimum guaranteed prices and deficiency payments, US exports are made more competitive with subsidies, imports are restricted by tariffs and quotas, and farmers are paid not to grow crops. The increasing complexity of the support arrangements has resulted from policy makers trying to offset many of the effects of support measures. Acreage reduction and export enhancement programs were responses to over production, and increasing government stockpiles, particularly of wheat and dairy products.

Between 1980 and 1994, budget outlays for farm programs averaged US$12.4 billion annually, and peaked in 1986 at US$25.8 billion. This is small relative to total Budget outlays (US$1250 billion annually) and the total value of agricultural production (US$180 billion). That said, there are additional costs associated with farm support, in particular, an estimated annual transfer from consumers of US$11.3 billion each year due to artificially high domestic food prices.

Agriculture committees from both houses of Congress have agreed on a proposal dubbed the “Freedom to Farm” plan. Instead of paying farmers not to grow crops, or compensating them when prices fall below a government determined level, the plan would guarantee US farmers US$43 billion in income support payments, in what Senate Agriculture Committee chairman Richard Lugar has called “a seven year transition to full market oriented farming”.

The proposal effectively ‘decouples’ support from production, allowing US producers to respond to market signals rather than government determined prices. Farmers would not have to be enrolled in a particular crop program to be eligible for support, increasing production flexibility. Payments would be based on each farmer’s past acreage in a crop, the area of crop nationwide, and the funds available, not on current production levels. Export subsidies would be capped in line with the GATT agreement. Overall the plan allows for budget cuts of US$12.3 billion over the next seven years.

While any reduction in US support is good news for Australian farmers, there is a down side. As part of the plan, acreage reduction requirements would be removed, allowing increased US grain production. In addition, while export subsidies are to be wound back, US officials have already signalled that the subsidies which remain could be used to aggressively target growing Asian markets in which Australia is a major player.

As yet there has been no agreement on dairy support measures, and the “Freedom to Farm” proposal may still be vetoed by President Clinton. However, Australian farmers can take some heart from what appears to be new direction in US agricultural policy.