Criticism at home and abroad may push U.S. agriculture policy back on the path to reform.

Growing Pressures on Farm Policy

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The 2002 farm act, formally titled the "Farm Security and Rural Investment Act of 2002" (FSRIA), achieved little progress in the liberalization of U.S. farm policy. Funding for the legislation over its expected life from 2002 to 2007 represents a $45.1 billion increase in spending over the baseline of the previous farm act, the 1996 Federal Agriculture Improvement and Reform (FAIR) Act.

Over $40 billion of that increase is directly attributable to commodity, conservation, and trade programs funded through the Commodity Credit Corporation. The 2002 legislation creates a new regime of price-triggered payments known as counter-cyclical payments (CCPs), which is expected to deliver $15.4 billion to program crop producers from fiscal year 2003 through fiscal year 2007. The earlier FAIR Act's production flexibility contract (PFC) payments are continued by FSRIA under the name "direct" or "fixed direct" payments. Total expenditures for direct payments are expected to be about $25.4 billion through fiscal year 2007, slightly more than the $24.3 billion FAIR allocated for PFC payments in its last five full years. With the exception of soybeans, loan rates are as high or higher for each crop under the 2002 legislation compared to its predecessor. FSRIA expands participation for soybeans by including provisions for establishing base acres and program yields. Even the much-ridiculed wool and mohair programs are revived by FSRIA, as their demise under the FAIR Act proved impermanent.

How the current farm legislation could leave any group wanting that directly benefits from U.S. farm policy is difficult to understand.

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BACKGROUND

The 2002 farm act could only be considered a step back in the liberalization of U.S. farm policy if its predecessor was truly a step forward. On paper, at least, it was. FAIR eliminated set-asides and deficiency payments, replacing them with PFC payments whose annual rates gradually decreased over the bill's life. PFC payments also bore the label of "Agricultural Market Transition Act" (AMTA) payments — a reference to the commodity title of the farm bill. The idea was that this form of annual support would decline over the six-year span of the FAIR Act, eventually disappearing and "transitioning" producers to a greater market orientation. The FAIR Act still retained the marketing loan program, although only the soybean loan rate increased. The reforms of 1996 even had the nation's major newspapers speculating about the end of U.S. farm programs.

But near the end of the debate on FAIR, a provision was inserted into the bill stating that upon the expiration of the act, federal farm programs would revert to 1948 farm legislation. That stipulation has been common under modern farm bills, and is intended to force Congress to revise farm policy regularly so as to avoid the logistical nightmare of administering the obsolete programs of 1948. But in this case, the language was a clear sign that the FAIR Act would not even be the beginning of the end of distortionary farm subsidies.

Why did farm groups and the members of Congress they lobby support the FAIR Act's changes? Probably because it was the best they could do at the time. The relatively high commodity prices that began in 1995 and persisted during the 1996 debate were well above the support levels of the time, so program participants were anticipating very few transfers through farm programs. The FAIR Act simply represented an opportunity for producers to receive payments at a time when they otherwise would not. As for the declining and terminal nature

of the payments, that was a problem many interest groups believed they could "fix" later.

And fix it they did. By late 2001, when Congress began debating the farm bill that would become FSRIA, program participants had received three consecutive years of market loss assistance (MLA) payments equal to and on top of their PFC payments. That happened because when prices fell to relatively low levels in 1998, producer and commodity groups overwhelmed Congress with calls for additional support because the FAIR Act was "no longer working." In response, producers received MLA payments equal to 50 percent of PFC payments in 1998, followed by "double AMTA" payments in each of the next three years. The notion of the legislation's impotence became so ingrained in the collective mind of Congress that FSRIA became the new farm law several months before the FAIR Act would have expired. Functionally, of course, the FAIR Act barely lasted two crop years.

DESIGNING FSRIA Since producers came to expect twice the PFC rates of FAIR, the only real question for Congress was how to institutionalize that level of support. Counter-cyclical payments became an integrated mechanism for essentially performing the ad hoc functions of MLA payments — providing additional support on base acres and program yields during times of low prices. CCPs were essentially tacked on to the programs of the FAIR Act; the slightly modified PFC-turned-direct payments use a fixed rate over each year of FSRIA rather than a rate that decreases each year as was the case under FAIR. As noted above, FSRIA maintains or increases the loan rates for each of the program crops, but now all loan rates are fixed in legislation rather than based on formulas. Only the loan rate for soybeans was reduced because the crop now participates in the direct and counter-cyclical payment programs.

As the farm bill began to build election year momentum, the Bush administration made few requests and even fewer objections, other than an early endorsement of the House version of the bill. Regardless of whether this was a compromise on other issues (e.g., creating the new Department of Homeland Security), election year politics, or a combination of factors, the farm bill was a battle the administration chose not to fight. Given that environment, members of Congress began to include some of their most-wanted programs. As noted, this wish list even included the revival of the wool and mohair programs, and also the extension of marketing loan provisions to honey production. Whatever else it may be, the commodity title can certainly be described as inclusive.

Beyond the commodity title, Sen. Tom Harkin (D-Iowa), the then-chair of the Senate Agriculture, Nutrition, and Forestry Committee, pushed for the adoption of new conservation programs that, of course, call for new levels of spending. The programs, unlike some of their contemporaries, tend to emphasize the use of "working" lands, particularly pasture lands. The programs became a potential source of new funds to groups such as livestock producers, as opposed to traditional crop producers and those landowners who idle lands under the relatively more restrictive Conservation Reserve Program. FSRIA also includes an energy title that incorporates much of the existing farm-related energy programs. However, millions of dollars are earmarked annually to create programs that develop biomass and renewable energy sources, which could involve some of the same participants as in other titles.

By the time President Bush signed FSRIA into law in May 2002, it had become an expanded, bloated version of FAIR. The progression of reforms that essentially began with the 1985 leg-

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islation came to a halt. Many farm groups and most farm state members of Congress hailed the new legislation, but frequent critics of U.S. farm policy, including the national media and many U.S. trading partners, howled. *Business Week* went so far as to refer to FSRIA as "a Soviet-style" farm bill.

REACTION The generosity of the Republican House, the then-Democratic Senate, and the Bush administration has come at a price, however. A bipartisan group of Midwestern members of Congress, led by Sen. Charles Grassley (R-Iowa), continues to doggedly pursue tighter individual limits on farm program payments. Grassley contends such limits are needed to maintain public support for farm programs — support that has likely been undermined by the efforts of such interest groups as the Environmental Working Group. Through a Freedom of Information Act request, the group obtained from the Department of Agriculture the names of individuals and the total farm payments each person received, and then published that information on its Web site. Major national newspapers such as the *New York Times*, *Wall Street Journal*, and *Washington Post* repeatedly printed editorials decrying the excesses of FSRIA during its debate and after its passage. The total support provided by FSRIA has also become an issue in World Trade Organization negotiations, and has provoked an angry international debate over how to characterize the spending provided by the new counter-cyclical payments.

Hence, while the provisions of FSRIA have remained intact up to now, it faces remarkable pressures from multiple directions. Rarely has a farm bill continued to face such close scrutiny during times of a strengthening agricultural economy.

FARM-LEVEL IMPACTS

The departure of the 2002 farm act from the reforms contained in previous legislation will likely have several unintended, distortionary effects. Among the areas that can be expected to encounter those effects:

LAND VALUES In general, economists expect a primary consequence of dumping billions of additional dollars into the farm bill will be an increase in the price of farmland. Higher payment levels usually result in their capitalization into land values.

Higher land values caused by the capitalization of payments increase the wealth of the landowner, who may not be the farmer. Estimates of increases to land prices for program crops as a result of all farm payments under the FAIR Act averaged as much as 20 percent. The sustained increases in the price of farmland have been one of the purported motivations of Grassley's payment limit proposals. Higher land prices may make it more difficult for beginning farmers to get started and prevent smaller farms from expanding, allowing only the largest and most efficient farms to be in the best position for expansion. Those farms also have more assets and are better suited to take on the additional debt from acquiring more land. More expensive farmland increases the difficulty for smaller farms to obtain the credit needed to acquire or rent additional acres.

DIRECT PAYMENTS Since the FAIR Act began decoupled payments in 1996, economists have been attempting to measure how distortionary the payments ultimately are. The total direct payments in FSRIA are approximately the same as the total PFC payments in the FAIR Act, and therefore economists do not expect additional impacts. (PFC payments, however, were designed to decline and expire; direct payments have no such pretense.) While PFC and direct payments have certainly been less distortionary than previous measures, they do provide a wealth effect.

This wealth effect is believed to be relatively small but can have implications for production. The capitalization of all farm program payments, including direct payments, into higher farmland prices contributes to an inertia that keeps the land in production and out of alternative uses. Additionally, recent research indicates production for some crops may have occurred on more risky marginal areas as a result of PFC and MLA payments.

More difficult to assess is the number of producers who decide to continue producing their base crops because they believe it necessary to preserve their payments in future farm bills. However, FSRIA allowed producers to update base acres for direct payments and base acres and program yields for the new counter-cyclical payments according to producers' 1998–2001 planting histories. As a result, some observers have noted direct payments have a much more recent "base period" than did PFC payments, which could potentially diminish the decoupled effect by moving base acres closer to current production numbers. Furthermore, this type of policy action could influence producers to maintain or expand their base acres, particularly if they expect additional updating opportunities in subsequent farm bills.

Just how decoupled the payments are has become an issue in the WTO dispute over U.S. cotton subsidies. Brazil's challenge of the direct payments was not totally unexpected given the base updating provisions. Brazil argued this updating was a violation because the WTO framework did not intend for increases in payments to be linked to increases in production over time. The surprise was the inclusion of the PFC payments of the FAIR Act. The basis for Brazil's claim that both PFC and direct payments are not, in fact, decoupled lies in the production of fruits and vegetables on base acres, which is prohibited unless the farm or producer has a history of producing those crops. If no such history exists, a producer who wishes to plant fruit or vegetable crops must either face penalties or remove the entire farm from the payment programs, not just the acres planted in fruits or vegetables. FSRIA in effect exacerbates this situation by establishing base acres for soybeans, thereby increasing the potential for the loss of decoupled payments from fruit and vegetable production on the new base acres.

COUNTER-CYCLICAL PAYMENTS The new counter-cyclical payments represent a transfer not as decoupled as direct payments by virtue of their link to current prices. Although CCP expenditures are expected to be less than the ad hoc MLA payments of previous years, CCPs represent a form of institutionalized support that is less decoupled than either PFC or MLA payments. Because CCPs can reduce revenue risk, they can

potentially have effects on production decisions. One result is the reduction in revenue risk could lead a producer to plant a riskier crop. More probable is that a CCP will influence a producer to plant a crop with a price that closely follows the USDA's estimates of current prices — most likely the base acreage crop.

I have been involved in research pertaining to the CCPs for cotton that indicates producers who receive the payments and also produce cotton essentially have a measure of protection from changing market prices, to the degree they plant their base acres. However, the research also considers the possibility a producer could choose to participate in the futures market. If such a producer decides to plant a crop other than cotton on the cotton base acres — which the decoupled nature of the payments allows — then he or she has an incentive to purchase options in the futures market in order to protect the potential loss of the CCP for cotton from increases in the market price. The degree to which counter-cyclical payments are actually decoupled can therefore be influenced by the willingness of producers to participate in the futures market. Clearly, this situation illustrates a perverse and unintentional consequence of the latest farm bill.

LOAN DEFICIENCY PAYMENTS Decoupled payments may continue to generate debate among agricultural economists, but as a group they basically agree on the effects of federal crop loan rates. The rates represent the most distortionary payments because they are a coupled form of support — essentially providing a price floor for current production by allowing farmers to receive loan deficiency payments when market prices are below loan rates.

FSRIA not only began a loan program for peanuts and reinstituted the wool and mohair programs, but also initiated new loan programs for pulse crops like lentils, chickpeas, and dry edible peas. Furthermore, the 2002 act replaced the formula-based loan rates employed under FAIR with fixed rates, a move recent research by the USDA's Economic Research Service indicates is likely less economically efficient. According to that research's simulation based on 2001 planting decisions, 2.8 million more acres of the eight major program crops would have been planted under FSRIA than under FAIR.

Despite the many lapses of FSRIA discussed above, at least one move toward reform took place. The peanut program, long in need of restructuring, is brought more in line with other program crops. FSRIA gave owners of peanut quota a choice of buyout payments either in a lump sum in 2002 or annually through 2006, and peanut producers are now eligible for direct, counter-cyclical, and loan payments. However, the limits on those payments are equal to the total limits on the same payments for all other program crops. Prices for peanuts fell after the enactment of FSRIA, and total U.S. plantings declined in the law's first two years, although a slight increase may occur in 2004. The elimination of the marketing quota is a significant step, but the next farm bill will determine to what degree lasting peanut program reform will occur, such as integrating it into the mix of other program crops.

BUDGETARY PRESSURES

It may seem ironic to describe a bill that increases funding $45 billion from its predecessor as having budgetary pressures. In reality, much of that pressure has come since FSRIA became law. But some of the pressures have existed since the first days of the debate.

Sen. Grassley, the primary congressional advocate of tighter payment limits in the commodity title, cosponsored an amendment to the Senate version of FSRIA that essentially would have halved the limits on decoupled payments individual participants receive. In addition, the amendment would have imposed firm limits on loan payments. Ultimately, the conference committee removed the amendment in favor of the House language, which means FSRIA basically preserves the status quo, including what are effectively unlimited loan deficiency payments through the use of generic commodity certificates.

The Grassley-Dorgan amendment would have been more symbolism than substance, anyway — even his office admitted the amendment would have lowered the payments by only $1.3 billion over 10 years, hardly a dent in the cost of the farm bill. Furthermore, the amendment would not have reduced total funding, but only shifted it to other programs like food stamps and agricultural research, which perhaps may represent more efficacious spending, but spending nonetheless.

Grassley and others in Congress continue to push for payment limits where they can, namely through the budget and appropriations processes. The latest attempt came in the fiscal 2005 budget debate where he offered a similar amendment to the Budget Committee. Grassley claimed his payment limits would save more than $1.2 billion over five years — a relatively small sum. But the cut reflects the budget reality Congress is now facing.

Grassley intended to shift the savings to several conservation programs in FSRIA, including new and existing programs

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that, to date, have not been funded or have been underfunded. Most notable among those programs has been the Conservation Security Program, largely developed by Grassley's fellow Hawkeye, Harkin, who describes it as "the crown jewel" of the conservation title.

An informal coalition of members of Congress and farm and environmental groups still seeks full funding for the program and other programs, but program money has become increasingly scarce. The political environment has evolved since FSRIA became law, as the continuing wars on terror and in Iraq have commanded billions and led to mounting deficits. Those and other events, along with the president's tax cuts, have combined to lead to tighter funds for agriculture budgets. The spending for unfunded and underfunded programs is becoming more closely tied to offsets from other agricultural programs. Much of the conservation title was supported by Democrats, who lost control of the Senate after FSRIA became law. Some conservation programs have had their implementation delayed by design according to the statutes of FSRIA, so the fact that those programs are at the center of the budget battle is not unexpected.

The bottom line is that something within FSRIA will have to yield, given the current fiscal reality. The rejection of Grassley's proposal — reflecting the enduring power of producer and commodity groups — means that direct limits to program payments will not result in more funds for conservation programs. At present, some conservation programs seem likely to operate on a reduced scale or with fewer participants. For example, Congress recently approved a $2.9 billion disaster bill to provide assistance to producers experiencing damage from last summer's hurricanes as well as the drought conditions in the Midwest. Much to the chagrin of Harkin, the Senate version of the bill would require the funds to be offset from those designated for the Conservation Security Program — with no promises to restore those funds in the future.

Commodity prices began to improve in late 2003, creating the possibility that loan and counter-cyclical payments would not be triggered for most program crops this year. But in mid-2004, prices for several program crops began to retreat. Simultaneously, the USDA forecasted record 2004 crops for corn, soybeans, and cotton, which will increase the expenditures for program payments such as loan deficiency payments. That will only intensify the budget debate in the new Congress in 2005.

Regardless of whether Congress is able to shift funds to implement all programs as created in FSRIA, clearly the cost is approaching the current politically sustainable limit. Further, if conservation programs do not receive their anticipated funding, members risk losing any existing support from environmental groups if those groups believe such programs will never be implemented. The self-proclaimed family farm advocates continue to believe an optimal limit exists for individual program payments. Hence, the total budget of FSRIA faces pressures from several sources, including environmentalists, family farm advocates, and budget hawks. Those groups will be a factor in determining the size of the next farm bill, and may very well collaborate to reduce the current scope of FSRIA.

Since the farm bill became law, the political environment has changed as the continuing wars on terror and in Iraq have commanded billions of dollars.

TRADE PRESSURES

It would be difficult to contend that Congress constructed FSRIA mindfully aware of the United States' obligations through the World Trade Organization. Indeed, then-House Agriculture Committee chairman Larry Combest (R-Texas) said in response to criticism of the farm bill, "This [FSRIA] is for rural America, not for rural Mexico, not for rural Canada, not for rural Europe." The only provision directly relating to the WTO is the so-called "circuit breaker" that allows the secretary of agriculture to intervene to prevent the United States from exceeding its support limit commitments, although that legislative language is somewhat vague. However, Congress has maintained that FSRIA has been compliant with WTO obligations from the beginning and that the circuit breaker provision will keep it that way.

The most production-distorting domestic support directly provided through the commodity title has been the loan program, because loan rates essentially provide program crop producers with a minimum price for all of their current production. Because of the resulting distortions, all payments distributed through the loan program are classified as "amber box" payments and therefore subject to limits. "Amber box" is a term the WTO uses for those measures of support that, while allowed, must be limited because they distort production. The decoupled PFC payments of the FAIR Act were reported by the United States as "green box," which means there are no limits on this support because it is regarded as not or only minimally distorting production.

The WTO measures government domestic support to a sector through an index known as the Aggregate Measure of Support. Each member nation agreed to a ceiling in order to limit outlays to agriculture that distort production and trade. The United States agreed to reduce its support ceiling by 20 percent by 2000, and currently is holding its ceiling at $19.1 billion annually.

The CCPs, while not based on current production, are triggered when current prices fall below specific levels. If the maximum CCP rate is paid on all program crops (an event that would be associated with a decline in prices similar to that experienced in the later years of the FAIR Act), the inclusion of CCPs would result in raising U.S. support above $19.1 billion.

COTTON The findings of the WTO dispute settlement involving U.S. cotton subsidies could markedly increase pressure on domestic support in the near future. Brazil is the lead member nation in the case, although other participating members include the countries in West Africa that claim to suffer the most damage from U.S. cotton programs. The Brazilian case represents the first time the WTO has issued rulings and recommendations regarding a member nation's agricultural subsidies.

Brazil charged that U.S. cotton programs (including other mechanisms such as export subsidies) inflate cotton exports from the United States by as much as 40 percent, causing a drop in world cotton prices of at least 12 percent. The National Cotton Council has countered those findings with a study from Texas Tech that asserts the effects are much smaller, increasing exports only 4 to 5 percent and decreasing world prices by only one-half to two percent.

In their final report on the matter, the WTO dispute settlement panel determined that over the last four years, U.S. price-contingent subsidy measures — which include marketing loan payments, market loss assistance payments, and counter-cyclical payments — caused "significant price suppression in the same world market" and therefore constitute "serious prejudice" to Brazil's interests. However, while this judgment did not apply to direct payments, the panel found the payments should not be considered green box because of the planting flexibility provisions. At the same time, the WTO panel did not find that any of the mechanisms resulted in an increase in the market share of U.S. cotton. The recommendations of the panel call for the removal of two export subsidy measures for cotton, but do not specifically address the domestic programs. However, simply classifying all direct payments as amber box would push the U.S. aggregate support level beyond the current WTO ceiling.

As expected, the United States is appealing the panel's decision. Whatever the ultimate impact of the WTO decision, the continued controversy over the cotton program alone demonstrates the United States did not take the opportunity with the 2002 farm bill to advance the liberalization of farm programs consistent with the nation's stated goals for international trade.

MULTILATERAL DISARMAMENT Much like the budgetary pressures facing farm policy, the emerging trade pressures indicate U.S. domestic support may be approaching the maximum sustainable threshold. FSRIA was harshly received by most U.S. trading partners, but to date their criticism has been largely ignored by those involved in the policy process. The recent WTO dispute will likely force the United States to address some of those complaints, although appeals of the decision will delay any actions for some time. In light of the decision, the Bush administration has stated that "the best way to address distortions in world agriculture trade was through negotiations, not litigation."

At the same time, the United States and other developed nations have been negotiating the gradual reduction of export subsidies and tariffs. Those efforts, which are part of the latest round of WTO negotiations known as the Doha Round, would amount to a sort of "multilateral disarmament" in terms of trade. If the negotiations are successful, the international agricultural support system will likely be smaller and more transparent, and future U.S. farm legislation will more likely be shaped within the bounds of any new or forthcoming WTO agreements.

PUBLIC PERCEPTION PRESSURES

The pressures exerted by budgets and trade agreements are relatively easy to identify. However, while less specific and more anecdotal, the public perception of farm legislation may prove to be another emerging constraint. Such a change in the political landscape would be quite noteworthy because the general public has a history of tacitly supporting U.S. farm policy, or at least not objecting to it. Of course, farm bills have typically met one of the most common public choice theory criteria: The financial benefits (i.e., large transfer payments) are concentrated toward relatively few farmers, giving them both the incentive and means to be powerful lobbyists, while the costs are diffused over millions of taxpayers who would realize only small savings if the programs were eliminated or reformed. But the public perception has, for the most part, been that farm bills help family farmers; Jefferson agrarianism lives — if only in the minds of the American public.

Agriculture as an industry certainly has not had the best public relations in the months since FSRIA became law. The negative publicity from the bill itself and the recent WTO dispute settlement over U.S. cotton subsidies have already been mentioned — and that attention is certainly unwelcome by all of the agriculture industry. Agricultural policy has also been blamed as a contributory factor in the recent controversy over the nation's obesity epidemic, for causing some of the most fattening foods to also be among the cheapest. Other events include the first reported incident in this country of bovine spongiform encephalopathy (i.e., "mad cow" disease) in late 2003, which disrupted commodity markets and resulted in ongoing import bans on U.S. beef from over 70 countries. However, to date the American public's confidence in U.S. beef has remained remarkably high, in part because of no subsequent incidents and the determination that the infected animal originated in Canada. Irradiated beef and other foods have also been questioned in terms of risks to public health. More generally, a backlash has already occurred against some elements of biotechnology, as three counties in California approved bans on the production of genetically modified crops in 2004. At least a dozen other California counties are reportedly considering similar measures.

FSRIA may also prove to have undermined public confidence in agricultural policy. For example, consider Sen. Grassley's payments limit crusade. His own press releases have head-

lines that read, "Senator's Amendment Keeps Payments Aimed at Family-sized Farmers." The obvious implication is that without the amendment, the payments of FSRIA are not restricted to family farms. Of course, few Iowans, not to mention the rest of America, read the senator's press releases. But the congressional actions of Grassley and others are impacted by the efforts of interest groups such as the Environmental Working Group that draw attention to farm legislation issues like payment limits. As already noted, the pages of the *New York Times*, *Wall Street Journal*, and other newspapers across the country have repeatedly run editorials highly critical of FSRIA and its provisions. Those same newspapers have had multiple stories about the WTO and U.S. support programs, especially cotton subsidies. Television news coverage of agricultural spending can also cast a negative impression, particularly the juxtaposing of billions in agricultural appropriations with other spending priorities such as the military and homeland security, not to mention the mounting budget deficits.

Public perception of U.S. agriculture policy as being, at worst, non-threatening has been a contributing factor to its survival. However, the Environmental Working Group and its environmentalist colleagues may continue to bring negative publicity to farm policy if they believe it conflicts with their objectives. Other environmental groups may not support legislation if the conservation programs in FSRIA do not develop as expected.

The coalition of farm bill supporters in Congress may still be nonpartisan as it has been historically, but it may also be becoming more fractious. The payment limit issue has mostly divided members across regional lines, because the crops receiving the highest payments per acre are mostly produced in the South. Members from nonfarm states who supported the bill because of the conservation provisions may not be so ready to join in support in the future if they believe the programs will be treated as "second class." The most controversial provisions of FSRIA could require farm state members to, at the very least, engage in serious vote trading with their urban counterparts to maintain the needed congressional support if negative publicity escalates.

CONCLUSION

All in all, the 2002 farm act represents a missed opportunity for furthering the reform of U.S. agricultural policy. Instead of continuing down the path followed by the last three farm bills, most notably the FAIR Act of 1996, Congress and the Bush administration chose to increase the level of support provided to producers, albeit primarily through purportedly decoupled means. Yet, events in the two-plus years since FSRIA became law demonstrate large infusions of even decoupled support are not without consequences.

By institutionalizing additional government payments to producers, FSRIA does not move U.S. agriculture as a whole towards a greater market orientation, because the payments will be capitalized into land values and farmer responsiveness to commodity markets will diminish. Perhaps most significant has been the scrutiny all U.S. farm programs have been placed under as a result of the WTO dispute settlement over cotton subsidies, which ultimately questions how distortionary the commodity programs are.

FSRIA may demonstrate that its provisions represent the upper threshold in terms of budgets, impacts on trade, and public acceptance — indicative of the mounting pressure for reform of U.S. agricultural policy. Or perhaps the farm lobby and farm state members of Congress will continue to defy their critics and maintain the status quo. However, as the pressures on FSRIA increase, so do the odds its successor will result in fewer distortions and move farm policy closer to a system more consistent with the goals of U.S. trade policy. R

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