History of Farm Bills

• Basic framework of farm bill started in 1930’s

• Programs have evolved to address various issues in agriculture and rural communities
Current Farm Bill

• Became law May 13, 2002

• Governs Federal farm programs for 6 years (2002-2007)

• Has 10 titles covering many aspects of agriculture
Big Changes for 2002

• Creation of new programs
  – Price countercyclical payments
  – Conservation Security Program

• Greater emphasis on conservation than ever before

• 1st Energy title in the farm bill
Farm Bill Titles

I. Commodity
II. Conservation
III. Trade
IV. Nutrition
V. Credit
VI. Rural Development
VII. Research
VIII. Forestry
IX. Energy
X. Miscellaneous
Title I. Commodity

- Income support for program crops
  - Direct payments
  - Price countercyclical payments
  - Marketing loans

- Dairy and sugar programs are also covered by this title
<table>
<thead>
<tr>
<th>Crop</th>
<th>Target Price ($/bu.)</th>
<th>Direct Payment Rate ($/bu.)</th>
<th>National Loan Rate ($/bu.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>2.63</td>
<td>0.28</td>
<td>1.95</td>
</tr>
<tr>
<td>Soybeans</td>
<td>5.80</td>
<td>0.44</td>
<td>5.00</td>
</tr>
</tbody>
</table>
Title II. Conservation

• Programs for working lands
  – Environmental Quality Incentives Program (EQIP)
  – Conservation Security Program (CSP)

• Programs for land retirement
  – Conservation Reserve Program (CRP)
  – Wetlands Reserve Program (WRP)
Title III. Trade

• Programs to develop and expand market for U.S. agricultural products
  – Export credit guarantees
  – Market development programs
  – Food aid

• Language to adjust farm support to fit within WTO guidelines
Title IV. Nutrition

• Food stamps and commodity distribution programs

• Largest part of agriculture budget
Title V. Credit

• FSA farm loan programs
  – Lending partially targeted to beginning farmers

• Farm credit system
  – Cooperatively owned financial institutions specializing in agricultural lending
Title VI. Rural Development

• Funding for strategic planning, feasibility studies and coordination activities across several layers of government

• Development programs, such as:
  – Water and Wastewater Treatment
  – Broadband Internet Service
  – Value-Added Agriculture
  – Training for Rural Emergency Personnel
Title VII. Research

• Funding for agricultural research and extension programs
  – State Ag. Experiment Stations
  – Initiative for Future Agriculture and Food Systems (IFAFS)
    • Future food production
    • Environmental quality and resource management
    • Farm income
Title VIII. Forestry

• Funding for agricultural programs in forestry
  – The U.S. Forest Service is part of USDA
  – But the vast majority of its budget come from the Interior Department
Title IX. Energy

• Funding for bio-refineries and bio-based products
  – Established grants and loan programs for bio-refineries and procurement of bio-based products
  – Established grants to assist in small renewable energy systems for rural communities
  – Extended the biomass research and development and bioenergy programs
Title X. Miscellaneous

• Crop insurance and disaster assistance changes
  – Crop insurance is not part of the farm bill

• Country-of-origin labeling

• Animal and plant protection

• Food safety

• Organic agriculture
Projected Spending - March 2002

- Commodity: 21%
- Conservation: 6%
- Nutrition: 68%
- Other: 5%

Average Budget: $77.5 Billion/Year
Projected Spending - March 2007

Average Budget
$69.9 Billion/Year

Commodity
Conservation
Nutrition
Other

76%
8%
10%
6%

Average Budget
$69.9 Billion/Year
When Payments Are Triggered

- $100.00
- $50.00
$0.00
$50.00
$100.00
$150.00
$200.00
$1.50 $1.70 $1.90 $2.10 $2.30 $2.50 $2.70 $2.90 $3.10 $3.30 $3.50

Price ($/bushel)

Returns ($/acre)

Market Return less Variable Costs
Direct Payment
Countercyclical Payment
Marketing Loan Benefit
Net Crop Insurance Benefit
Farm Bill Budget

• Budget determined by Congress, but based on projections of spending for current farm bill.

• With crop prices projected to remain high, current farm support program costs are projected to be low.

• This doesn’t leave much room for farm bill changes.
Farm Bill Proposals

• There are many proposals out there
  – USDA
  – National Corn Growers Association
  – American Soybean Association
  – National Association of Wheat Growers
  – American Farmland Trust
  – American Farm Bureau

• Can be divided into two camps
  – Modify current structure
  – Move to revenue-based farm support
Soybean Proposal

- Higher target prices
  - Higher of current target price or 130% of 2000-2004 Olympic average of season-average prices

- Higher loan rates
  - Higher of current loan rate or 95% of 2000-2004 Olympic average of season-average prices

- No change on direct payments
## Soybean Proposal

<table>
<thead>
<tr>
<th>Crop</th>
<th>Target Price ($/bu.)</th>
<th>Direct Payment Rate ($/bu.)</th>
<th>National Loan Rate ($/bu.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>2.75</td>
<td>0.28</td>
<td>2.01</td>
</tr>
<tr>
<td>Soybeans</td>
<td>6.85</td>
<td>0.44</td>
<td>5.01</td>
</tr>
</tbody>
</table>
Why Switch to Revenue?

• Critics of the current farm bill point to two main factors
  – Continuing need for disaster assistance
  – Possible overcompensation from price-based programs
    • Example: 2004 for corn, record corn yields, 3rd highest corn crop value, large corn government payments

• Targeting revenue, instead of price, can address these factors
Corn Proposal

• Revenue-based support program
  – County-level (Revenue Counter-Cyclical Program)

• Marketing loans changed to recourse loans (means farmers could not forfeit crop as payment for loan)

• No change on direct payments
Revenue Counter-Cyclical Program

- Somewhat like current counter-cyclical program
- Revenue guarantee = 95% * County trend yield * Projected price
- Projected price based on 3-year average with cups and caps
- Actual county revenue = County yield * National price
- Payments made when actual county revenue is below revenue guarantee
- Integrated with crop insurance
  - Premiums and indemnities reduced by payments from revenue counter-cyclical program
USDA Proposal

• Set loan rate at minimum of loan rates in House-passed version of 2002 farm bill or 85% of 5-year Olympic average prices

• Change marketing loan program from daily price settings to monthly price settings

• Increase direct payment rates

• Change counter-cyclical program to be revenue-based
# USDA Proposal

<table>
<thead>
<tr>
<th>Crop</th>
<th>Target Price ($/bu.)</th>
<th>Direct Payment Rate ($/bu.)</th>
<th>Max. Nat. Loan Rate ($/bu.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>2.63</td>
<td>0.30</td>
<td>1.89</td>
</tr>
<tr>
<td>Soybeans</td>
<td>5.80</td>
<td>0.50</td>
<td>4.92</td>
</tr>
</tbody>
</table>
USDA’s Revenue Counter-Cyclical Program

• Revenue guarantee = 2002-2006 National Olympic average yield*Effective target price
  – Effective target price = Target price – Direct payment rate

• Actual revenue = National yield*Max(Season-average price, National loan rate)

• Payments made when actual revenue is below revenue guarantee

• Pays on base acres and yields, not planted acres and actual yields
Legislative Action Thus Far

• House Ag. subcommittees have begun to craft language on conservation, credit, energy, and research titles

• Senate Ag. Committee has held hearings on various titles and will begin markups soon

• Lack of budget agreements has limited action on farm bill
Debates Shaping Up

• Neither committee has tackled the commodity title yet
  – Price vs. revenue targeting

• Conservation will grow, but where
  – House prefers CRP, EQIP; not CSP
  – Senate would likely expand CSP

• Energy title will expand
  – General guidelines vs. specific targeting
  – How best to manage agriculture’s role in the energy market?
The Next Farm Bill?

• May look like some of the farm lobby proposals
  – As time proceeds, the odds increase for packages that look like the current farm bill

• Congress usually blazes its own trail
  – USDA proposals do not carry significant weight in Congress
  – But leadership in both houses did not dismiss the proposals out-of-hand

• Cost will be a major consideration
  – Hard to find political support for new programs, when they would require budget offsets