

An Overview of Federal Farm Bill Titles

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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

Key Commodity Title Numbers

Crop	Target Price (\$/bu.)	Direct Payment Rate (\$/bu.)	National Loan Rate (\$/bu.)
Corn	2.63	0.28	1.95
Soybeans	5.80	0.44	5.00

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

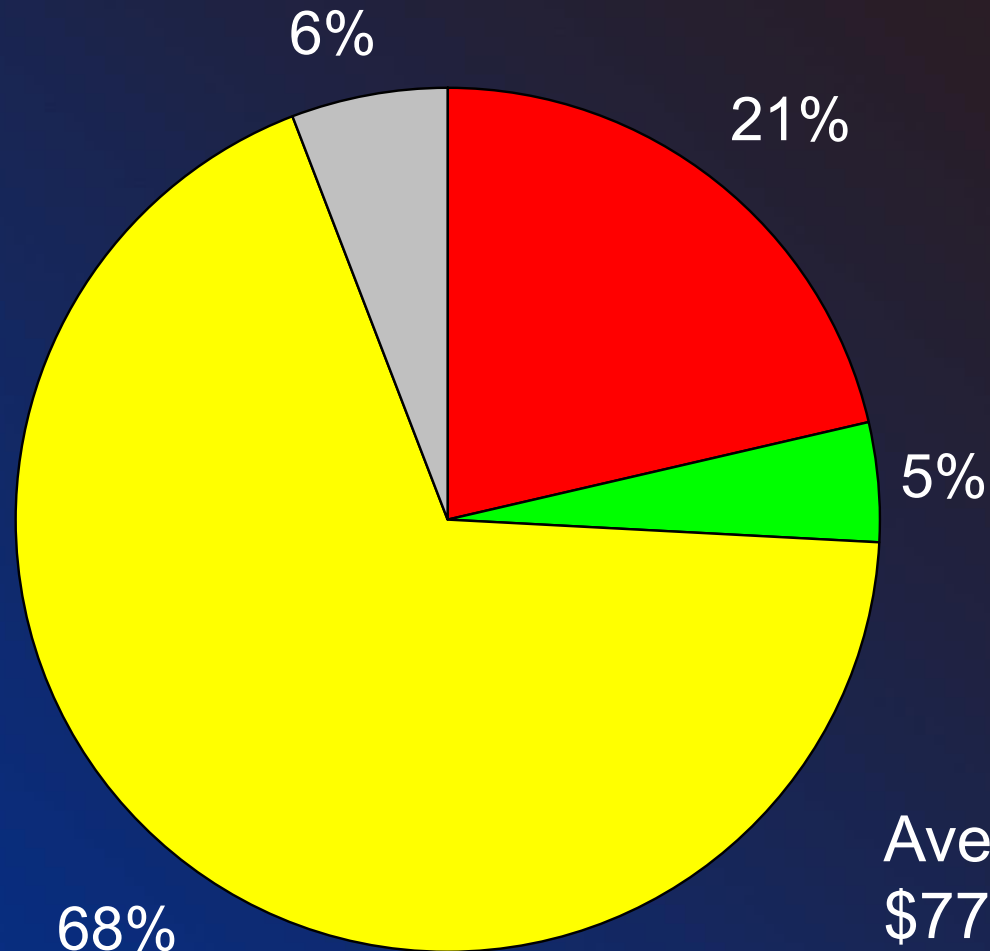
Title IX. Energy

- 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

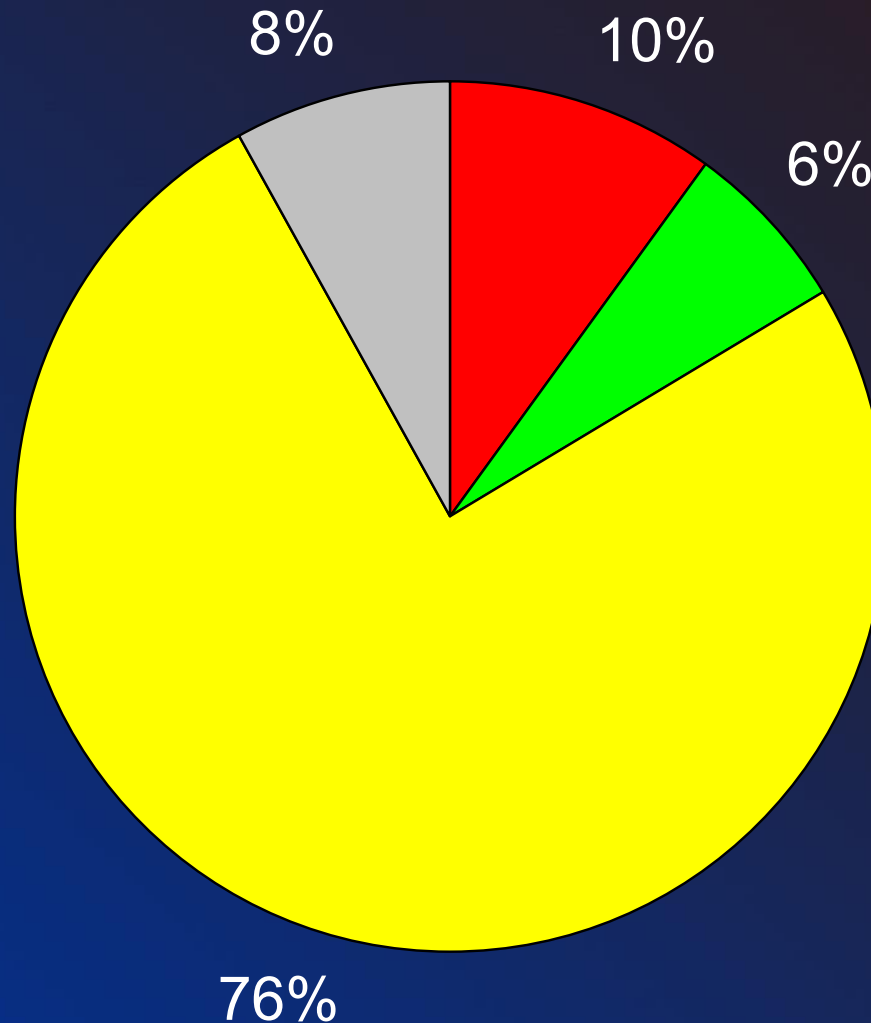


Average Budget
\$77.5 Billion/Year



Commodity Conservation Nutrition Other

Projected Spending - March 2007

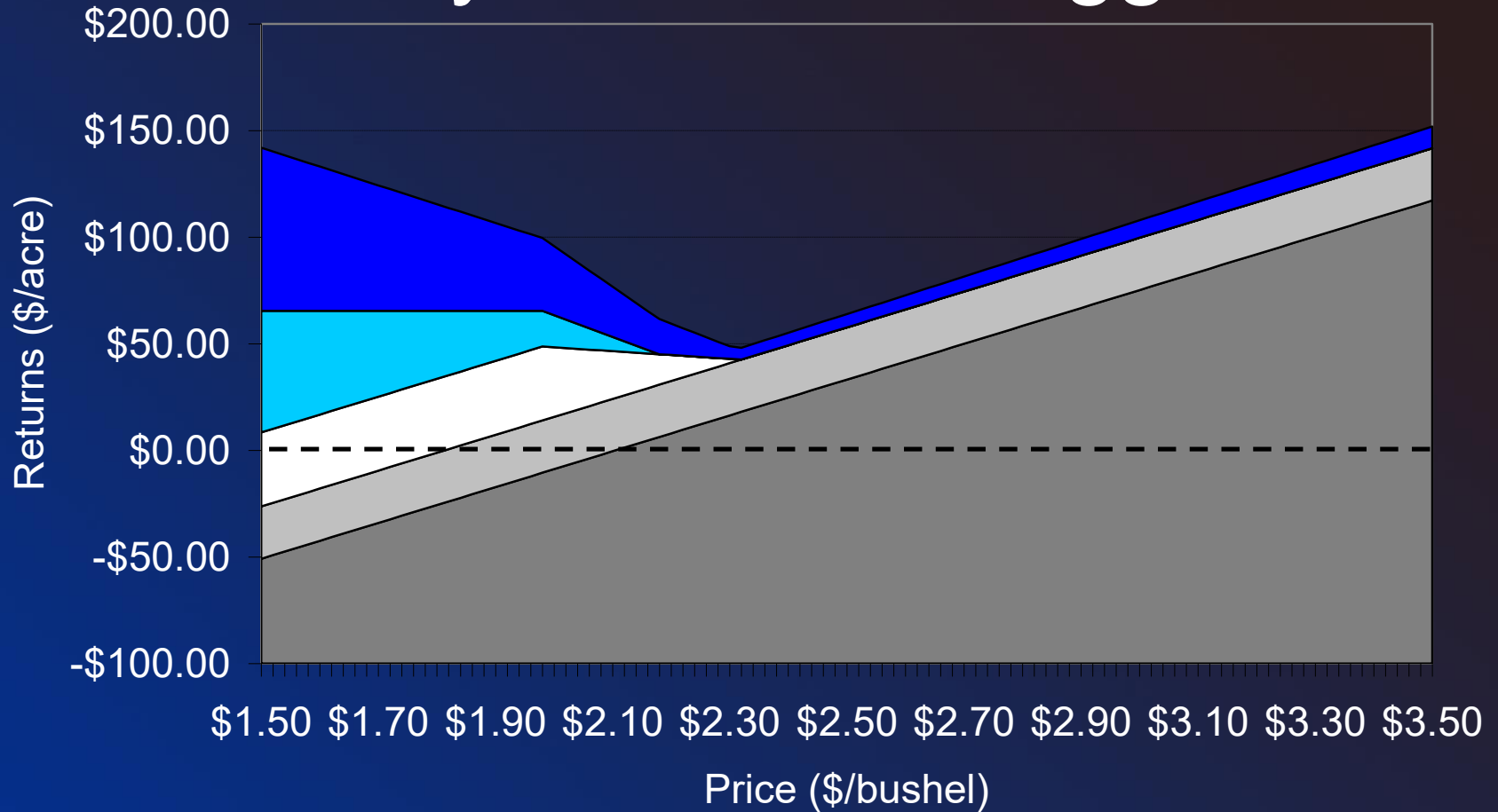


Average Budget
\$69.9 Billion/Year



■ Commodity ■ Conservation ■ Nutrition ■ Other

When Payments Are Triggered



- 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 cost 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

Crop	Target Price (\$/bu.)	Direct Payment Rate (\$/bu.)	National Loan Rate (\$/bu.)
Corn	2.75	0.28	2.01
Soybeans	6.85	0.44	5.01

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 = $95\% * \text{County trend yield} * \text{Projected price}$
- Projected price based on 3-year average with cups and caps
- Actual county revenue = $\text{County yield} * \text{National price}$
- 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

Crop	Target Price (\$/bu.)	Direct Payment Rate (\$/bu.)	Max. Nat. Loan Rate (\$/bu.)
Corn	2.63	0.30	1.89
Soybeans	5.80	0.50	4.92

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