



Run-Up to the Next Farm Bill

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“A successful Doha Round will reduce and eliminate tariffs and other barriers on farm and industrial goods. It will end unfair agricultural subsidies.... We must work together in the Doha negotiations to eliminate agricultural subsidies that distort trade and stunt development, and to eliminate tariffs and other barriers to open markets for farmers around the world.... The United States is ready to eliminate all tariffs, subsidies and other barriers to free flow of goods and service as other nations do the same.”

President George W. Bush
United Nations
September 14, 2005

"Let me be clear, the Congress will be writing the next farm bill in 2007, and I am deeply concerned the administration is using the current negotiations to reshape farm policy without the full input of Congress and grassroots support.... As Chairman of the Senate Agriculture Committee, I have a responsibility and duty to protect the farm safety net..."

Saxby Chambliss, Chairman
Senate Agriculture Committee

Towards the Next Farm Bill:

Points to Remember

- A farm bill is much more than commodity programs
 - 2002 Farm Bill had 10 titles
- Two-thirds of U.S. agriculture receives no commodity payments, but most is affected by programs authorized in one or more title.
- A farm bill is authorizing legislation. Without an appropriation each year, nothing happens.
- EXCEPT: In the case of commodity programs set up as entitlements under the Commodity Credit Corporation, which draws on a \$30 billion line of credit at U.S. Treasury which is periodically replenished by the Congress.
- To reduce commodity program entitlements requires amendment of the authorizing legislation in the last farm bill.

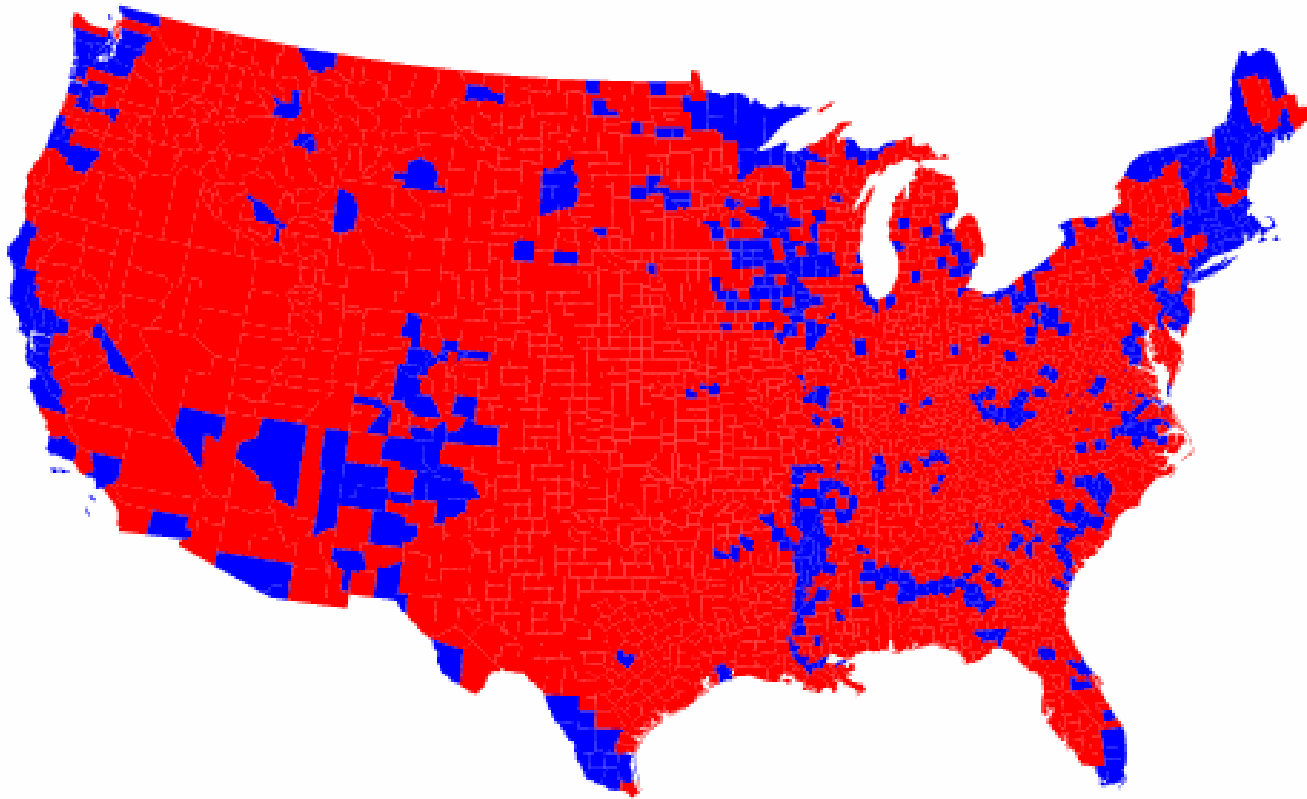
2002 Farm Bill Had 10 Titles

- I. Commodity Programs
- II. Conservation
- III. Agricultural Trade and Aid
- IV. Nutrition Programs
- V. Farm Credit
- VI. Rural Development
- VII. Research
- VIII. Forestry
- IX. Energy
- X. Miscellaneous

Future U.S. Farm Policy: Forces for Preserving Status Quo

- Many farmers are satisfied with the status quo.
- Farm policy changes are normally evolutionary, not revolutionary.
- Agriculture groups are generous campaign contributors
- Politics
 - Rural America reelected George Bush
 - Rural America important to both parties' future
 - Iowa has one of earliest Presidential primaries
- Fear of causing a farm land price collapse

Who Reelected President Bush? Rural America



Campaign Contributions

- Congressional and Presidential elections are extremely expensive in the United States.
- Little real campaign reform has been achieved.
- Farm organizations and commodity groups are generous campaign contributors.
- There is a positive correlation between relative size of campaign contributions and the size of farm program benefits.

Ag Political Action Committee Contributions to Federal Candidates, 2004 Elections

<u>Commodity</u>	<u>Contributions (\$ 1,000)</u>
Sugar	2,375
Dairy	1,757
Cotton	479
Rice	283
Peanuts	218
Citrus	167
Wheat	100
Potatoes	57
Corn	37
Soybeans	17

Source: Center for Responsive Politics (Federal Election Commission data)

U.S. Producer Support, 2001-2003

(Percent of producers' gross revenue)

Sugar	58
Milk	44
Rice	44
Sorghum	37
Wheat	34
Barley	30
Corn	20
Soybean	19
Wool and lamb	17
Pork, beef and broilers	4
Overall	19

Source: OECD Producer Support Estimate database

Lagging Public Perception of Modern Agriculture

- Our increasingly urban population is too many generations removed from the farm to know much about where their food comes from, but many still hold a nostalgic view of the small family farm.
 - But this is changing....

Future U.S. Farm Policy: Forces that Could Drive Change

- Recognition that current commodity programs aren't achieving their stated objectives
- Federal budget deficit (worse now after hurricanes)
- Agricultural solidarity fragmenting
- International pressure to shift subsidies that distort ag production and trade to non-distorting forms (direct payments & investments in public goods, e.g. research, conservation; infrastructure)
 - WTO ag trade negotiations
 - WTO cotton case

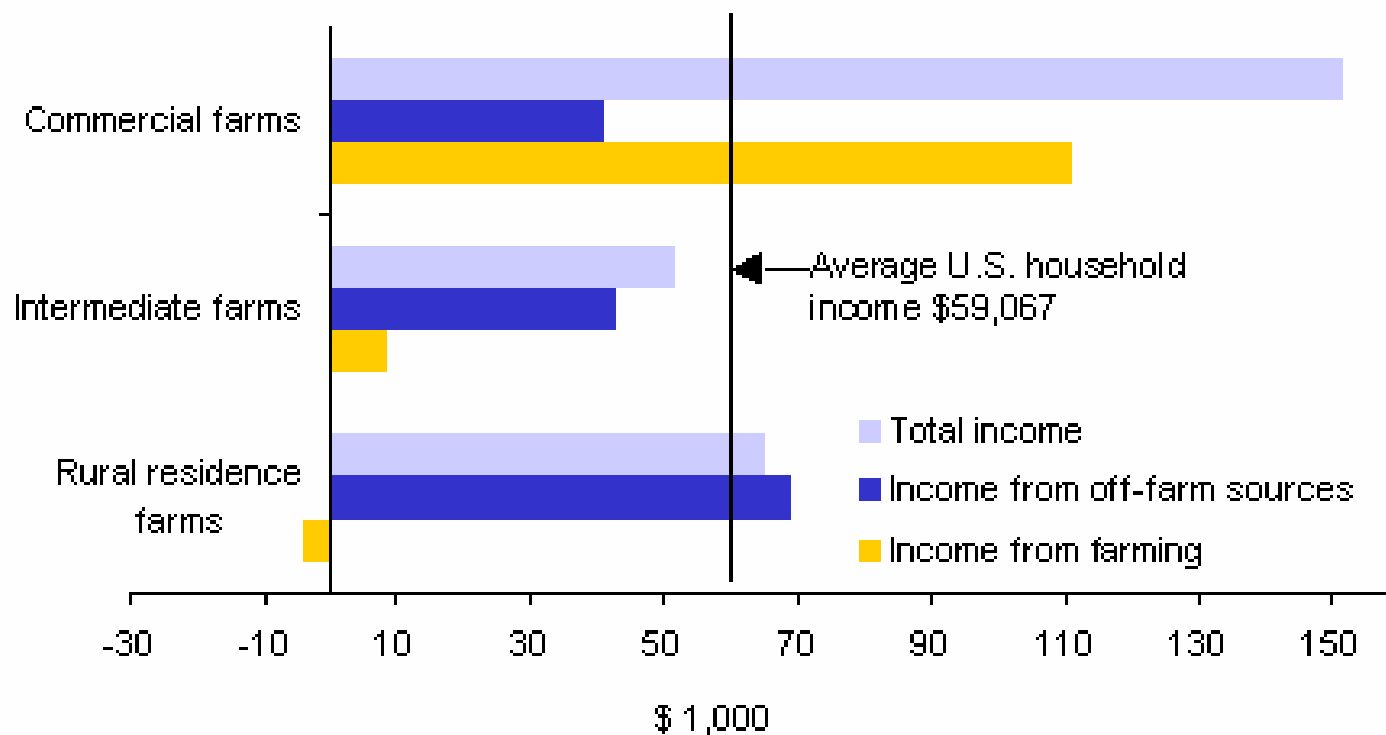
Recognition that Farm Programs Aren't Achieving Stated Objectives

- Low farm family income
 - Most payments go to larger producers whose family incomes & wealth are well above average
 - Low income farmers receive very little from programs
- Variability of farm income
 - Farmers can buy options and can use income averaging and cash accounting
- Increase competitiveness
 - Capitalization of payments into land values raises U.S. cost of production and undercuts international competitiveness
 - Public investments in ag research declining
- Food security
 - Not a credible problem when U.S. ag grows 1/3 more than it uses domestically
- Rural development
 - Farm program payments facilitate consolidation; don't create more jobs

Size Distribution of U.S. “Farms,” 2003

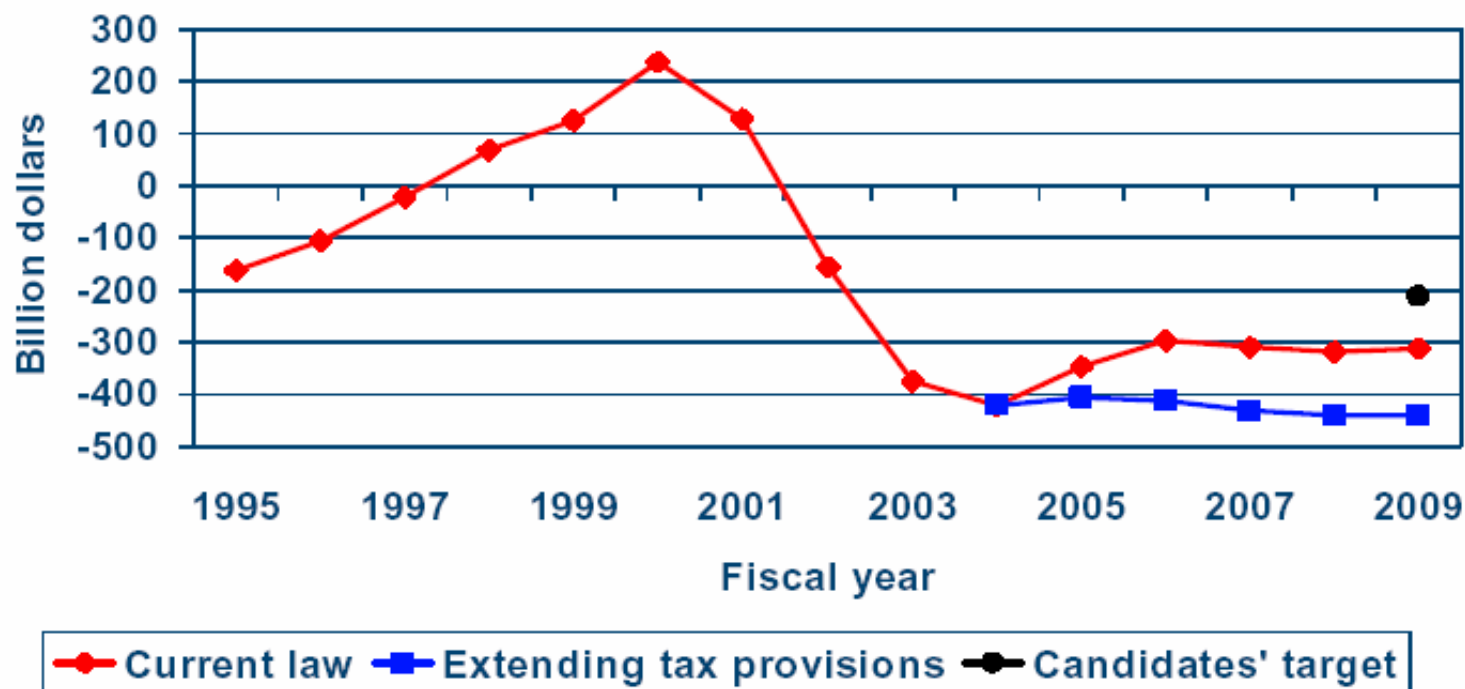
Sales (\$ thousand)	Thousand farms	% of all farms	% with payments	Ave \$/ pay farm (000)
<10	1,227	58	20	2
10-49	398	19	53	6
50-99	172	8	71	10
100-249	165	8	78	19
250-499	86	4	78	34
500-999	45	2	70	55
>1000	29	1	56	82
All	2,123	100	39	13

Sources of operator household income by typology group, 2003



Source: 2003 US DA *Agricultural Resource Management Study*.
Economic Research Service, USDA.

“Something Has to Be Done About the Federal Budget Deficit”



Source: Congressional Budget Office, Sept. 2004

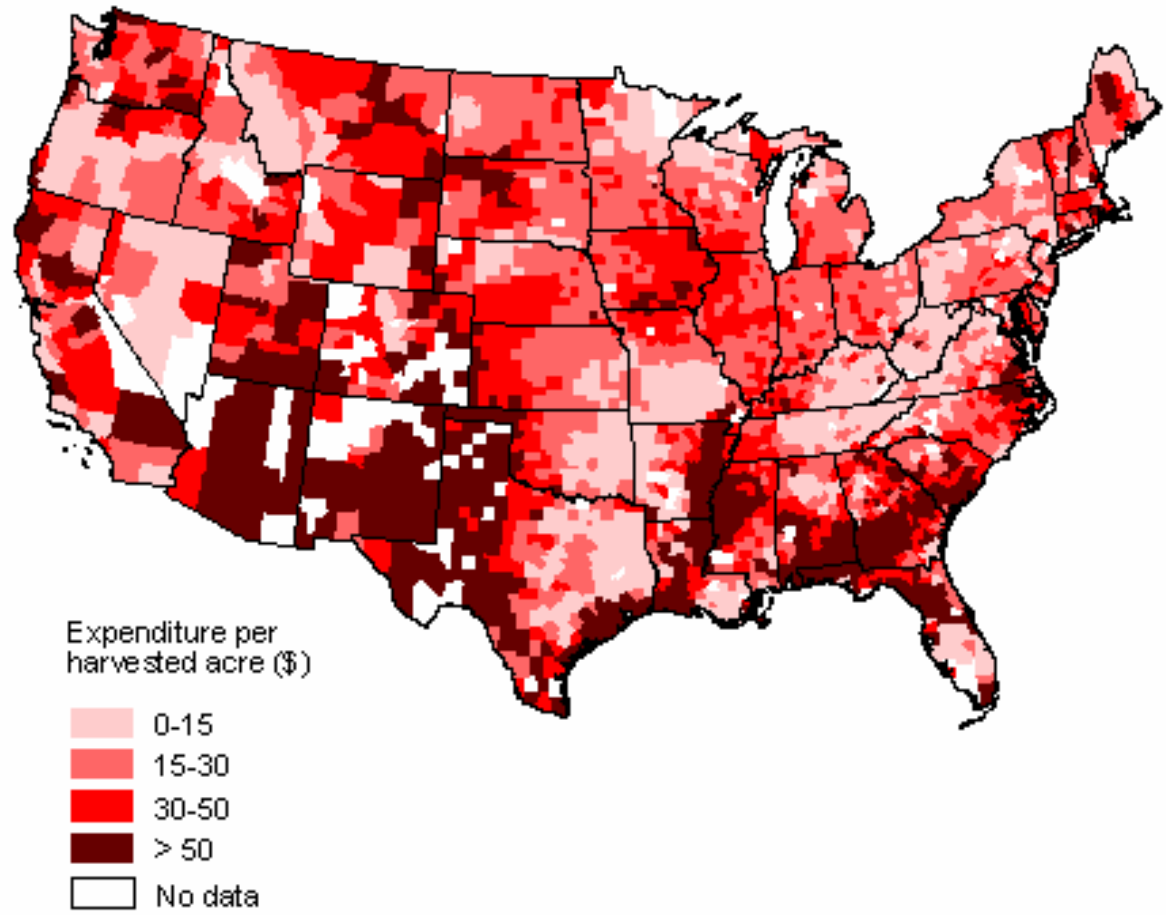
Senate Ag Committee's Budget Reconciliation Plan: Oct. 20, 2005

- Mandated to cut ag spending \$3 billion over 5 fiscal years
 - \$1.6 billion from commodity programs (with every commodity program taking a 2.5% cut)
 - \$536 million from repealing Step 2 cotton payments (from 1 Aug. 2006)
 - \$1.1 billion by delaying payment date of part of direct payments
 - \$1.8 billion from conservation programs
 - \$336 million from research
- Added \$1 billion to reestablish MILC dairy program
- The originally proposed \$574 million to be taken from nutrition programs was withdrawn due to political backlash.

Fragmenting of Agricultural Solidarity

- Many farm group leaders expect there will be fewer dollars for agriculture in the next farm bill.
- Large differences among program crops and regions in payments per farmer and per acre are creating “subsidy envy”
- Profitability of the 2/3 of agriculture not producing program crops is calling into question what the programs accomplish
- Traditional solidarity among commodity groups and among commodities in general farm organizations is starting to show cracks.
 - North (corn & soybeans) vs. South (cotton & rice)
 - Fruits and vegetables vs. program crops
 - Sugar vs. everybody else

Distribution of commodity payments per harvested acre



Source: USDA Economic Research Service

Environmental Groups' Role

- 1985 Farm Bill was the first in which environmental groups were a real player
 - Long-term conservation reserve
 - Conservation compliance
 - Swamp buster and sodbuster.
- Most ag budget cuts since 2002 have come out of conservation programs.
- The *Environmental Working Group* has increased transparency of who gets most farm program payments
- Mobilizing public opposition to farm subsidies
- “Doubly green”* payments (decoupled payments for conservation that fit in the “green box”) are a likely winner in the WTO ag negotiations.

*To paraphrase Gordon Conway's Doubly Green Revolution book

WTO Cotton Decision

- Congress heeded Uruguay Round Ag Agreement cap on trade distorting subsidies when it wrote the 2002 Farm Bill
 - But didn't want to come in much under that cap
 - And ignored the fact that marketing loans can work as export subsidies and depress world market prices.
- Need to change marketing loan, LDP and perhaps CCP provisions for cotton and for other program crops that have them – or risk losing them in WTO litigation and not getting anything for them (rice? corn? soybeans?).
- The fruit and vegetable production exclusion in qualifying for direct payments needs to be changed.
 - This will bring huge political opposition from fruit & vegetable growers, e.g. California and Florida.

WTO Ag Trade Negotiations: What Is Possible?

- Eliminate all forms of ag export subsidies (would require US to change food aid rules)
- Increase market access by reducing tariffs (highest the most), and if exceptions are allowed, require larger minimum market access (as percent of domestic use)
- Reduce trade-distorting domestic subsidies (i.e. those linked to production of specific commodities)
 - The US has proposed complete elimination in 3 phases over 15 years.
 - It may be possible to move counter-cyclical payments to the Blue Box?
- No limits on non-trade distorting subsidies
 - Tighten definition of what subsidies are “non-trade distorting”?

2007 Ag Market Conditions

- Every farm bill is influenced disproportionately by the current economic condition in the farm sector and commodity markets *at the time* the bill is written.
- While one cannot predict how crop conditions here and around the globe will evolve between now and 2007, we can predict with some assurance that whatever they are will affect the content of the next farm bill.

Other Issues in 2007 Farm Bill

- Food safety and bioterrorism
- Rural development: Acknowledgment that ag commodity programs make weak rural development policy.
- Conservation programs
- Science: Implications of shifting investments in ag research from public to private sector are being recognized.
- Food aid: When is it an export subsidy?
- Future role of ethanol and bio-diesel in U.S. energy policy
- Crop insurance: Would Congress keep hands off to allow an actuarially viable approach to function?
- Could *gross revenue insurance* replace disaster payments, crop insurance, marketing loans, LDPs, *and* CCPs?

Prospects for 2007 Farm Bill

- Most likely outcome in 2007 Farm Bill is only modest changes from 2002 Farm Bill
- BUT, there are just enough forces for change that you should be prepared that bigger change is possible
 - Federal budget deficit
 - WTO trade negotiations
 - Public perception that farm programs are not achieving their objectives
- The most-discussed alternatives are
 - Some forms of subsidized gross income insurance
 - Payments for conservation or environmental services
 - Rural infrastructure investments