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CRS Report for Congress

The "Farm Bill" in Brief

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Summary

Most provisions of the current "farm bill," the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), expire in 2007. On January 31, 2007, the Administration opened the debate on a new bill with a package of proposed policy changes. Several would alter significantly some aspects of the current commodity support system. The Administration also proposed changes in other farm bill programs, including conservation, rural development, trade, domestic food assistance, agricultural credit, energy, and research. This report will be updated as events warrant; for a more extensive discussion, see CRS Report RL33037, *Previewing a 2007 Farm Bill*.

What Is the "Farm Bill"?

Federal farm support, food assistance, agricultural trade, marketing, and rural development policies are governed by a variety of separate laws. Although many of these policies can be and sometimes are modified through freestanding authorizing legislation, or as part of other laws, the omnibus, multi-year farm bill provides an opportunity for policymakers to address agricultural and food issues more comprehensively.

The Farm Security and Rural Investment Act of 2002 (P.L. 107-171) is the most recent omnibus farm bill. Many provisions, notably farm income and commodity price supports, expire in 2007. Without new legislation, permanent price support statutes would take effect. Most of these statutes were enacted many decades ago and are no longer compatible with current national economic objectives, global trading rules, and federal budgetary or regulatory policies. Many believe that these largely outdated permanent laws are kept on the books partly to compel a Congress with increasingly urban and suburban constituencies to pay attention to national agricultural policy.

If the next bill follows the pattern of the last six omnibus farm bills, dating back to 1977, it will contain titles on commodity price support, conservation, trade, food stamps, and research. Past bills sometimes had titles on farm credit, rural development, and/or marketing (e.g., promotion programs for fruits and vegetables), grain inspection, crop insurance and disaster assistance, organic certification, global climate change, forestry, and energy. This omnibus nature can create a broader coalition of support among sometimes conflicting interests for policies that, individually, might not survive the legislative process. This same climate can also stir fierce competition for available funds.

What Is the Cost?

Many (though not all) programs in a farm bill are classified as mandatory spending, where the authorizing bill itself determines the total annual cost by setting eligibility conditions, benefit levels, and so forth. Most farm support and domestic food assistance programs and many conservation and trade programs are mandatory (direct) spending. Such spending can vary widely from year to year. Commodity spending depends on crop and weather conditions, program participation rates, and other economic variables. Food stamp spending varies with enrollment rates and unemployment levels. Farm bills also address many discretionary programs, but appropriators ultimately make the annual spending decisions; credit, research, and many rural development programs are examples.

When the 2002 farm bill was enacted and scored against the March 2002 Congressional Budget Office (CBO) baseline, the estimated total cost of mandatory programs that most directly benefit the farm sector (commodity support and mandatory conservation and trade programs) was $114.8 billion over six years (FY2002-FY2007). The January 2007 re-estimate of these costs, reflecting more recent market conditions, was $93.3 billion. With mandatory programs, a revised spending estimate that is below the original cost estimate does not "free up" additional spending authority. Likewise, a revised estimate resulting in spending above the original estimate does not require a budgetary offset, as long as the higher spending is caused by changes in market conditions and not legislation.

When the House and Senate Agriculture Committees draft a 2007 farm bill, they are expected to be guided by spending constraints to be determined through the annual congressional budget resolution. CBO's January 2007 "baseline" projection for the above programs for the next six years (FY2008-FY2013) is $70.6 billion. (The baseline assumes current farm bill policies continue under expected economic conditions. The January 2007 baseline is a preview of the March 2007 baseline, which will serve as the official benchmark for the FY2008 budget resolution and for scoring the budgetary impacts of a 2007 farm bill.) At issue is whether the budget resolution will, in effect, keep CCC spending at this projected baseline, which at an annual average of $11.8 billion, is approximately $3.7 billion per year less than spent in the prior six years.

Many other farm bill programs, both mandatory and discretionary, are not included in the above estimates. The nutrition title in particular has incurred outlays of about $179 billion over six years (FY2002-FY2007), most of it for the food stamp program.

Policy Setting

The scope and direction of a farm bill likely will be determined by a number of contributing factors besides federal budgetary concerns, including the domestic agricultural and general economy, and international trade developments, among others. According to USDA's Economic Research Service (ERS), national net farm income — a key indicator of U.S. farm well-being — is expected to decline to $58.9 billion in 2006, beneath the record $85.4 billion in 2004 and $73.8 billion in 2005, but just above the

1996-2005 average of $57.2 billion. Some $16.5 billion in direct government payments helped to undergird the value of agricultural land and other assets, keep farm debt at favorably low levels, and stabilize farm operator incomes. Farm income in 2007 will be influenced by expected high prices for several major commodities. Income forecasts can change sharply, depending upon the weather, growing conditions in competing countries, agricultural disease or pest outbreaks, currency exchange and interest rates, and energy costs, for example. (See CRS Report RS21970, *The U.S. Farm Economy*.)

The United States has been participating in the current Doha round of multilateral trade negotiations, which were to succeed the 1992 Uruguay Round (UR) Agreements. Progress on the Doha round has been stalled, largely due to differences over how to limit trade-distorting domestic farm support, export subsidies, and import tariffs. However, the UR rules, as well as a series of bilateral and regional free trade agreements, still potentially constrain the choices U.S. lawmakers may have in designing new policies. Already the United States has needed to revise some cotton support program provisions after a World Trade Organization panel ruled that portions are not in compliance with the rules. (See CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*.)

Selected Issues and Proposals for Change

During the 109th Congress, the House and Senate Agriculture Committees and the Bush Administration held numerous hearings on the next farm bill. The new committee chairmen have indicated that they will seek to pass a new bill in their respective chambers prior to the August recess, and to resolve any differences and gain final passage prior to September 30, 2007. Some view this as an ambitious agenda, particularly given the huge scope of the bill, and the wide divergence of viewpoints on the issues.

Some policymakers and interest groups have contended that farmers are generally satisfied with current price and income support policies and urged that they be extended with relatively few changes. Among other arguments is a concern that the United States should not unilaterally change its own subsidy programs ahead of any multilateral trade agreement. Some advocates suggest that a farm bill extension could be tied to renewal of presidential trade negotiating authority (the current authority expires in July 2007). Adding some weight to this argument is the fact that a continuation of current policy might not require the committees to seek more money than projected in the CBO baseline. Other participants believe that agricultural policies are ripe for more fundamental reforms, for budgetary, equity, environmental, and other reasons.

Administration Proposal. On January 31, 2007, the Administration opened the debate on a new bill with a package of proposed policy changes. Some would alter aspects of current commodity price and income support benefits. The Administration also proposes changes to other programs covered by the farm bill. Some information on the Administration plan is in the following discussion, generally organized by 2002 farm bill title. (For details, see the USDA website, [http://www.usda.gov/wps/portal/usdahome].)

Commodity Programs. Title I of the 2002 bill set benefit levels for the 2002-2007 crops of wheat, feed grains, rice, cotton, and oilseeds. These benefits are provided through three distinct tools: fixed direct payments tied to producers' past production of these commodities; production marketing loans which farmers can often repay at less than the rate of borrowing, depending on market prices; and so-called counter-cyclical payments (CCPs) when farm prices for these crops are below prescribed rates. Title I also ended peanut poundage quotas with compensation to holders, and redesigned support to operate like that for other major row crops; continued import quotas and price support loans for sugar; nominally limited many crop payments to $360,000 per person per year; and supplemented a reauthorized milk price support program (through surplus dairy purchases) with "income loss" payments.

Some reformers have recommended that a "revenue insurance" program could support U.S. farm income better than the current mix of commodity-based programs, which now provide growers of selected crops with income support payments to offset low prices and, separately, with indemnity payments to offset production losses (caused by natural disasters). The Administration proposal would replace CCPs (but not marketing loans and direct payments) with a revenue-based approach that would supplement farm income when it drops regardless of whether caused by low prices or by production losses.

Other Administration proposals include tying crop marketing loan rates (now fixed by law) to a moving average of past market prices; barring commodity payments to farmers who have more than $200,000 in adjusted gross income (USDA estimates that payments went to 25,000 of 80,000 farmers who earned more than $200,000 in 2004); capping payments at $360,000 per person annually and ending a rule that allows someone to claim them on three separate entities; and generally continuing, with some modifications, the dairy and sugar programs.

The Administration has pointed out that price support benefits are not equitably shared across the sector, because they are directed at a limited number of commodities — mainly grains, oilseeds, cotton, milk, and sugar — and only about one in four U.S. farmers receives them. Also, subsidies are based largely on output, meaning that larger producers fare better than smaller ones. It contends that its proposals would help to address some of these imbalances. Defenders of the current policy counter that it is designed to support U.S. agricultural productivity and competitiveness in global markets, not to serve as a welfare program.

Conservation. Title II of the 2002 bill reauthorized and expanded several existing conservation and environmental programs and created several new ones, including a Grasslands Reserve Program and a Conservation Security Program providing incentive payments to farmers who adopt specified conservation practices on working lands. Some argue that this farm bill was the "greenest" in history, providing a variety of new conservation programs and devoting much more money to them than before.

Others believe that more should be done to replace or reorient commodity programs toward incentives that protect natural resources such as land, water, air, and/or wildlife, and possibly that enhance scenic, recreational, or open space amenities. This concept of "green payments" also describes the "green box" category of farm programs under the existing multilateral trade agreement that is considered to be the least trade-distorting, and therefore not prone to challenge by foreign trading partners. Conservation and environmental programs often can be classified as green box.

The Administration proposes increasing conservation title spending; consolidating various conservation cost-sharing payments into a redesigned Environmental Quality Incentives Program (EQIP) with more available money, and to include a regional water enhancement program; and increasing the cap on the Wetlands Conservation Program from 2.3 million to 3.5 million acres, among other things.

Trade. Title III of the 2002 bill reauthorized through FY2007 and amended USDA's foreign export promotion, credit, and subsidy programs and foreign food aid (P.L. 480), and authorized the International Food for Education and Child Nutrition Program. The Administration is proposing to increase funds for the Market Access Program; to reform CCC export credit programs so that they comply with international trade rules; and to expand various programs aimed at resolving sanitary, phytosanitary, and other technical barriers to trade in U.S. farm products, including specialty crops.

Nutrition. Title IV of the 2002 bill extended through FY2007 the food stamp program, expanding some eligibility and benefit provisions; the emergency food assistance program; nutrition assistance for Puerto Rico and American Samoa; the commodity supplemental food program; and nutrition assistance on reservations.

Food stamp benefit levels and eligibility requirements will, as always, be the subject of vigorous debate. Discussion also is anticipated on several smaller programs, including The Emergency Food Assistance Program (TEFAP), including the need, if any, for a higher guaranteed level of commodity assistance through the food bank network; and on whether federal nutrition policies could do more to address diet-related problems such as obesity. The Administration is proposing to ease some food stamp income eligibility requirements such as for those with education or retirement savings or with child care expenses and military combat pay, balancing the cost of these changes by eliminating the eligibility of some current recipients. It also proposes incentives aimed at healthier diets, including more spending on fruits and vegetables, among other things.

Credit. Title V of the 2002 bill authorized annual appropriations for USDA farm lending programs (authorized by the Consolidated Farm and Rural Development Act) through FY2007, and made several changes in the privately owned and operated Farm Credit System. The Administration says it wants to enhance existing credit programs to better serve beginning and socially disadvantaged farmers.

Rural Development. Title VI of the 2002 bill authorizes mandatory and discretionary funding for a variety of new and existing programs, including value-added agricultural market development grants, rural broadcast and broadband services, rural and regional planning, water and sewer applications, the Rural Business Investment Program, and Rural Strategic Investment Program. Critics say that rural policy remains unfocused and under-funded. Rural development supporters call for shifting resources from commodity spending into programs that expand the nonfarm economic base and support new sources of competitive advantage in rural areas. Proponents of commodity programs argue that farm payments are a primary contributor to rural economic activity. The Administration farm bill plan calls for "streamlining" some current programs and increasing funds to address rural infrastructure needs.

Research. Title VII of the 2002 bill reauthorized university research and state cooperative extension programs through FY2007, and created a number of new emphasis areas. The Administration in 2007 would combine USDA's two research agencies into a single entity — an option stakeholders have resisted in the past — and also focus more resources on high priority areas such as bioenergy and specialty crop research.

Forestry. Title VIII of the 2002 bill created programs to help private forest owners adopt sustainable forest management practices, and local governments to fight wildfires. The Administration is among those with ideas for new forestry initiatives in a 2007 bill.

Energy. This new title (IX) in the 2002 bill extended, with mandatory funding, a bioenergy program and established new and/or expanded programs aimed at encouraging this emerging sector, and farmers' participation in it. Separately, the Energy Policy Act of 2005 (P.L. 109-58, H.R. 6), is requiring the use of 7.5 billion gallons of renewable fuel by 2012. This requirement is being met primarily through the use of ethanol. Many view the next farm bill as a vehicle for offering further encouragement and incentives. However, some have cautioned that growth to date of farm-based energy production has relied heavily on federal and state incentives, that its competitiveness hinges on relatively high fossil fuel prices and/or on much-improved biofuels technology, and that, by itself, expanded use of bioenergy is unlikely to reduce the nation's dependence on petroleum imports. Some worry that diverting crops to ethanol will drive up the cost of animal feed (i.e., corn), and possibly come at the expense of planting cover for conservation. The Administration farm bill includes a variety of programs and funding increases to encourage the production of biofuels, with a focus on research on cellulosic ethanol.

Miscellaneous. Farm bills often contain provisions to address other perceived problems in food and agriculture. For example, Title X of the 2002 farm bill covers a variety of programs, among them mandatory country-of-origin labeling for fresh meats, produce, seafood, and peanuts, an overhaul of USDA animal health protection laws, increased annual authorizations of appropriations for outreach for socially disadvantaged farmers, financial assistance for apple growers, and a biotechnology education program. The Administration is recommending crop insurance and disaster assistance changes that conceivably might appear in such a title.

Specialty Crops. Many growers of so-called specialty crops (such as fruits, vegetables, nuts, and nursery products) want Congress to address their needs in the next farm bill. These growers state that they are not interested in direct payments, but they do want lawmakers to continue the current farm bill prohibition on planting specialty crops on subsidized farmland. The Administration's farm bill proposals call for ending this prohibition, which a recent WTO ruling against the U.S. cotton program cited as a trade-distorting aspect of the farm programs. However, specialty crop growers fear that opening subsidized acreage to fruits and vegetables would be unfair to them and would severely depress their prices and incomes. The Administration proposals do address growers' interest in more incentives for using fruits and vegetables in school and other feeding sites and in more aggressive efforts to remove foreign phytosanitary and other barriers to trade in their products, among other initiatives.

Competition. Some lawmakers are again expressing interest in a "competition" farm bill title. The Senate Agriculture Committee deleted such a title from its 2002 farm bill; among other things, it would have imposed new marketing rules on segments of animal agriculture. Supporters cited statistics about the growing proportion of cattle and hogs being slaughtered and processed by the top four firms (a situation they believe limits producer opportunities for selling animals and makes them "price-takers"). They expressed concern about increasing livestock and meat imports, among other perceived problems. Opponents argued that the title would have stifled U.S. competitiveness and undermined business relationships that producers willingly enter.