Finding Our Way to the Next Farm Bill
John Gordley

As Congress begins to consider writing a new farm bill in 2018, it's time to review how the Agricultural Act of 2014 (AA-2014) is performing, what problems have arisen and how these concerns might be addressed before and during the upcoming debate. It's also time to consider the need for production agriculture to work cooperatively with former partners in the conservation and nutrition communities to avoid another protracted struggle which could imperil getting a bill done at all.

As background, let's begin with the yardstick that is used to measure the cost of current programs and to set the spending parameters for 2018 – the budget estimates prepared by the Congressional Budget Office (CBO). In March 2014, just after enactment of AA-2014, CBO estimated its cost at $956 billion over ten years (2014-2023). As indicated in the third column in the table below, this amount included $756.4 billion for nutrition programs, primarily the Supplemental Nutrition Assistance Program (SNAP), $44.5 billion for Title 1 programs, $89.8 billion for crop insurance (including $3.3 billion for the cotton STAX program) and $57.6 billion for conservation programs. The other nine titles of the farm bill – spanning programs from rural development and research to trade and forestry – were estimated to cost less than $10 billion over the entire 10-year period.

The estimate also reflected savings of $16.5 billion from the CBO baseline in May 2013, which was the reference point from which changes in costs were measured (see second column). These savings were achieved by cutting $14.3 billion from Title 1, $8 billion from nutrition and $4 billion from conservation, while adding $5.7 billion to crop insurance and $4 billion to the other titles (horticulture, research, rural development, etc.).

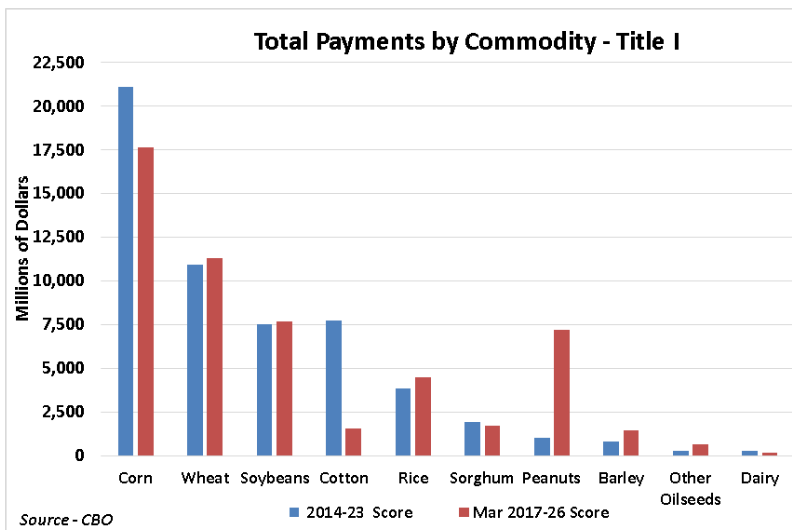
Two years later, CBO's March 2016 estimates indicate that overall spending under AA-2014 is expected to be $24.6 billion less, largely due to the reduced cost of SNAP as the national economy has improved (see fifth column). Nutrition spending is now down $35.5 billion, Title 1 is up $13.5 billion and conservation is up slightly by $175 million. Crop insurance is down $1.5 billion, with a $1.8 billion increase in the basic program more than offset by a $3.1 billion reduction in the cost of STAX.

Titles	May 2013 CBO 2014-2023	AA-14 Change to May 2013	Total Cost AA-14	March 2016 CBO 2017-2026	Change Mar 2016 vs AA-14 Cost	Change Mar 2016 vs May 2013
Title I - Commodities	58,765	(14,307)	44,458	57,970	13,512	(795)
Title II - Conservation	61,567	(3,967)	57,600	57,775	175	(3,792)
Title IV - Nutrition	764,433	(8,000)	756,433	720,899	(35,534)	(43,534)
Title XI - Crop Insurance	84,105	5,722	89,827	88,298	(1,529)	4,193
Other Titles	4,036	4,048	8,084	6,839	(1,245)	2,803
Total Farm Bill Baseline	972,906	(16,504)	956,402	931,781	(24,621)	(41,125)
Crop Ins. Breakdown						
Cotton - STAX	-	3,288	3,288	178	(3,110)	
Crop Insurance	84,105	2,434	86,539	88,298	1,759	

Even if these "paper" savings are realized, no one expects them to be available to spend on the next farm bill. The spending baseline will be whatever the CBO estimates are in March 2018. And no one expects Congress to increase funding for the 2018 Farm Bill. Instead, there will be renewed efforts to reduce program costs, primarily in SNAP, Title 1 and crop insurance. In addition, horticultural crops and other sectors may press to increase their slice of what may well be a smaller pie.

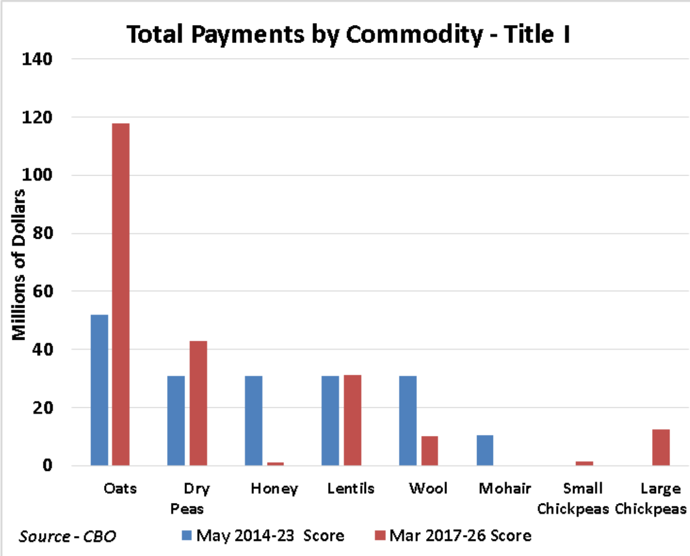
With Congress looking to reduce overall spending on farm programs, opponents pushing for their elimination or wholesale reform and competition for funding within the legislation itself, there's plenty of concern about whether we will be able to find our way through to a new bill. The best case scenario may be that production agriculture will be fortunate to defend, extend and, where necessary, amend AA-2014 for another five years.

This brings us to the question of how AA-2014 is performing. In the case of farm programs, the answer, not surprisingly, is that it depends on who you ask. The act offered producers of Title 1 commodities a choice between shallow-loss revenue protection under the Agricultural Risk Coverage (ARC) program and price protection under the Price Loss Coverage (PLC) program. Over 90 percent of corn and soybean farmers and two-thirds of wheat producers chose the county ARC (ARC-CO) program, while nearly all rice, peanut and canola producers opted for PLC.



The charts here compare CBO's 10-year cost estimates for Title 1 commodities in the May 2013 baseline with its latest estimates in March 2016. In the right table (outlays range from $183 million to $20.9 billion), corn and sorghum show declines; wheat, soybeans and dairy are little changed; rice, barley and minor oilseeds are up somewhat; cotton is down significantly; and peanuts are up substantially. Below (outlays from 0 to $109 million) you find oats and chickpeas up substantially; dry peas up some; lentils down slightly; and honey, wool and mohair down significantly.

Fortunately, both the ARC and the PLC programs retained the structure of "decoupling," under which producers are paid on their crop acreage bases rather than on current-year production when revenue or prices for a crop fall below recent average revenue or a fixed reference price. Decoupling prevents distortions in crop production by encouraging farmers to respond to market prices rather to the potential for government payments. If Title 1 is reauthorized in the 2018 Farm Bill, it is essential that decoupling be included for commodity programs.



While CBO's out-year estimates go well beyond the expiration of AA-2014, the most recent years reflect very real changes in income support payments for 2016 through 2018 crops. They also reflect problems in how programs under the act have performed for specific commodities.

In the case of cotton, only 27 percent of producers are participating in STAX. The sharp increase in peanut outlays is being driven by the conversion of former cotton base to "coupled" generic acres, on which producers are paid based on the crop they plant each year rather than on their historical crop bases. Peanuts have a PLC reference price well above current market prices, which has encouraged producers with former cotton bases to plant the crop and receive higher program payments.

This is a problem not only for cotton farmers who have already lost income support under AA-2014, but for efforts to develop a better cotton program by 2018. With only a fraction of the funding it had when the current bill was written, it will be harder to develop a more effective program to support cotton prices and income in the next farm bill. This very real problem is behind current Congressional efforts to have cottonseed declared an "other oilseed," which would make cotton producers eligible for additional Title 1 benefits.

Another commodity experiencing problems with a new program is dairy. Under the Margin Protection Program (MPP), participating milk producers are reimbursed when the difference between feed costs and milk prices exceeds $4 per hundredweight. While producers are eligible to buy up protection to a margin of $8 per hundredweight, the cost is higher than most producers have been willing to pay. Moreover, the margin has remained close to but not higher than $4 and the program hasn't been paying out. So many of the 50 percent of milk producers who signed up in 2014 and 2015 are not expected to participate again in 2016.

A third problem needing to be addressed is the difference in payments received by farmers in adjacent counties under the county ARC (ARC-CO) program. AA-2014 did not specify how county payment yields should be established and the U.S. Department of Agriculture decided to use published National Agricultural Statistics Service (NASS) yields, when available. However, NASS only publishes yields when at least 30 producers in a county respond to its annual survey. For counties without a NASS yield, the USDA chose to use RMA yields, which are frequently higher than NASS yields. As a result, ARC-CO payments for 2014 crops were substantially lower in some counties than they were in adjacent counties, a situation expected to be repeated for 2015. Farm organizations have met with Farm Service Agency officials in an effort to resolve which data to use going forward and how to make it consistent. While a solution has yet to be found, we want to take this problem off the table before it becomes an issue in the 2018 farm bill debate.

A fourth concern outside of Title 1, and a major priority for farm organizations, is how to prevent the crop insurance program from being cut or means-tested, either before or during the next farm bill process. Opponents have pointed to its rising cost as farm prices have fallen since 2013, arguing that crop insurance has become more of an income support program than a true insurance product. The Administration and Congressional leaders tried to cut $3 billion in payments to insurance companies in last fall's budget agreement – an effort that was reversed in subsequent legislation after staunch opposition. Still, the President's FY2017 budget went on to include $18 billion in cuts over 10 years. And while crop insurance is separately authorized, further efforts will be made to reduce its cost during the farm bill debate. Its supporters need to come up with better explanations for how the program buttresses the farm economy against low prices and income, and better justifications for the amount of premium subsidies paid to farmers.

It is important that ways to address these problems in Title 1 programs and crop insurance be found before the farm bill positions of different groups are finalized. Farm organizations have met twice so far this year to discuss their concerns and how to coordinate efforts in order to reduce the potential for misunderstandings and improve cooperation. In addition, passing the next farm bill will require restoring and building on past coalitions between the farm sector and conservation and nutrition communities.

In the debate on AA-2014, opponents of crop insurance made major efforts to reduce the premium subsidy or cap payments to producers and/or insurance providers. This attack was staved off only when farm organizations agreed to support a priority of the conservation community: making conservation compliance a requirement for crop insurance eligibility. In exchange, mainstream conservation groups agreed to oppose more draconian proposals. This alliance needs to be re-established based on the priority both sectors share to reauthorize their programs in 2018. However, some conservation groups have made it known that they feel short-changed in terms of the effectiveness of their programs under AA-2014, while some producers still chafe at having conservation compliance tied to crop insurance.

The alliance between the farm and hunger communities dates back to much earlier farm bills and reflects longstanding recognition that an ag-only bill is unlikely to pass the urban-dominated House and a nutrition-only bill would have difficulty in the Senate. In recent farm bills, however, collaboration between groups willing to support both the farm and social safety nets has declined as competition for a larger slice of a shrinking pie has grown. The result was apparent in 2013, when opponents of both farm and nutrition programs combined to defeat a farm bill that included both on the House floor. To avoid a similar debacle, proponents of farm and social support programs need to reestablish an effective working relationship long before their organizations begin to testify on policy priorities.

Finally, the path to the next farm bill will be more difficult due to the state of the U.S. agricultural economy. Farm prices and income are down 40 percent from 2013 and land rents haven't adjusted to the reduction in per-acre revenue. Lenders are more reluctant to extend operating loans and farm input costs remain high relative to commodity prices. In this environment, finding the "sweet spot" where everyone is satisfied with their level of support going forward will be a major challenge.

All of this is not to say that it will be impossible to find our way through the thicket of problems that lie ahead in order to pass a new farm bill in 2018. What it does say is that production agriculture must be much better prepared to solve them than we were before the three-year donnybrook that was AA-2014 and much better than we are today. Otherwise, we'll have no one else to blame if we find ourselves bogged down again in two years, unable to find a way to enact new farm legislation.

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