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Special Issue: What Is a Farm Bill, What Is in the 2013 Version, and What Does It Mean to California Agriculture?

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Although as of late summer 2013, the generally similar agricultural titles of the farm bill have been accepted by both the House and Senate, but there may not be a new farm bill at all. Nonetheless, understanding the proposals is useful to follow the next steps.

Also in this issue

Replacement for the 2008 farm bill has been on the horizon for more than a year. Although final passage remains uncertain, pending legislation has controversial provisions of particular importance to California agriculture.

Since the New Deal legislation of 1933, the United States has periodically renewed and revised its agricultural policies in what has come to be called the "farm bill." Many provisions of the current legislation, signed by President Bush in June 2008, were temporary amendments to the Agriculture Act of 1949. Because a new law was not approved, many of these provisions and others were set to expire in 2012, but Congress extended the 2008 law with a few adjustments through September 2013.

A one-year delay in the farm bill is not unusual. For example, Congress extended existing Farm Acts in both 1995 and 2001 to give themselves time to pass comprehensive legislation in the following years. But, the 2012/2013 delay has been longer than usual and in June 2013, the comprehensive farm bill was unexpectedly rejected by the full House of Representatives in a floor vote. Generally, such legislation is not brought to a floor vote until leaders strongly expect passage. The House of Representatives subsequently passed their version of the farm bill that contained the agricultural and rural titles, but without the "food" title.

Although known universally as the "farm bill" for the past forty years, this periodic omnibus legislation has included authorization for food stamps, now renamed the Supplemental Nutrition Assistance Program (SNAP). SNAP provides income supplements to the poor and, if not changed, would cost about $80 billion per year. Other programs run by USDA, such as school lunch subsidies and a program for women, infants and children (WIC), are authorized by other legislation and are not part of the farm bill.

Farm and Rural Provisions of the Farm Bill

The rural and agricultural side of the farm bill, which authorizes and regulates commodity subsidies, farm environmental programs, rural development subsidies, international food aid, agricultural research and more, is projected to cost about $20 billion per year. It is useful to acknowledge that substantial farm subsidy and price policies are also outside the farm bill. For example, authorization of the bulk of crop insurance subsidies and regulations that govern the programs are outside the farm bill. And, federal milk marketing orders that contain an elaborate array of regulations are authorized by legislation separate from the farm bill.

Table 1. Change in Projected Outlays for House Farm Bill (HR 2642) from Baseline Projections, Assuming Continuation of 2008 Farm Bill Provisions; Fiscal Years

Title	2014	5-year Sum 2014-2018	10-year Sum 2014-2023
	($ millions)		
Commodity	926	-7,944	-18,699
Conservation	106	-266	-4,827
Research and Extension	41	394	760
Horticulture	42	298	619
Crop Insurance (Risk Management)	199	3,396	8,914
Sum of These Five Titles	1335	-3,882	-12,821

Source: Congressional Budget Office July 11, 2013.

Table 1 shows the July "budget score" of five relevant titles of the House-passed farm bill. Following the tradition of the budget score process, these budget projections are reported as differences from what would be projected under the current farm bill programs if they were simply extended for the next decade.

Within the commodity title of the farm bill, both the House and Senate would change crop subsidy programs substantially. Direct payments, tied to historical production of grains, oilseeds and cotton, but largely not linked to current production or prices, would be replaced with payments triggered by shortfalls of annual revenue in the crop. Cotton, an exception, would have explicit revenue insurance subsidies instead. The historically important payment programs (marketing loans and counter-cyclical payments) that are tied to low prices have become mostly irrelevant with high projected market prices for grains and oilseeds.

The House version of the commodity title would raise these government price guarantees. These increases represent a reversal of recent trends and are worrisome for U.S. objectives under trade negotiations because they raise the prospects for market distortions. However, given the high prices expected over the next decade, they do not trigger significant increases in projected government outlays.

Projected outlays from the commodity title would have declined by about $5 billion per year if the direct payment program were simply eliminated. New programs and provisions of the House farm bill, primarily revenue-based "shallow-loss" subsidies, would add back about $3 billion per year of those potential savings to the commodity title. Some of the additional outlays are derived from the new dairy programs discussed in the article in this issue by Balagtas, Sumner, and Yu.

Conservation title outlays would decline by about $0.5 billion per year over the 10-year horizon, primarily because land idled under the Conservation Reserve Program would be smaller—given expectations of relatively high commodity prices and demand for feed and pasture. Other proposed conservation program changes have smaller budgetary impacts.

Research and extension outlays are scheduled to rise by about $76 million per year (a few percent of the research extension budget) over the next decade. In this issue, Alston argues that there are strong reasons for a much larger increase in public agricultural research investment. He points out that the rate of return to public agricultural R&D has been quite high and that outlays have not kept up with growth in the demand for new knowledge. Outlays for horticultural crops, including some R&D and promotion efforts, would also rise by about $60 million per year over the decade. California agriculture would be a significant recipient of these funds.

As noted above, most crop insurance programs are not authorized in the farm bill. Nonetheless, the House farm bill (and its Senate counterpart) does include some new programs and some expansion that would increase outlays for existing programs. Lee and Sumner consider crop insurance for specialty crops in California, but by far the largest of share crop insurance outlays are for the grains, oilseeds, and cotton grown largely in the Midwest and South.

The biggest new crop insurance provision, accounting for much of the $8.9 billion projected increase in outlays shown in Table 1, is a new revenue-based cotton program that would replace the traditional cotton program that had been in the commodity title. Both the House and Senate farm bills would shift the cotton program out of the commodity title and into the crop insurance title, while raising the projected outlays for cotton-specific support. Similar to the proposed shallow-loss programs for grains and oilseeds, which remain in the commodity title, the new "STAX" cotton program would entail government payments when county-wide cotton revenues decline. This proposed program is designed to stack on top of long-standing crop insurance benefits, which pay when individual farm cotton revenues fall below a chosen trigger.

New Provisions

A specific proposal in the House farm bill has raised significant concerns in California. The so called "King amendment" would stop states from specifying allowed farm production methods for agricultural products shipped into a state. Under the King amendment, agricultural products could not be blocked at a state border because they were produced using a production or processing method different from those allowed in the receiving state. The commerce clause of the U.S. Constitution already limits what states can do to restrict free trade across state lines. Although its precise interpretation remains unclear, and it would likely stimulate court challenges, the King amendment would appear to go further in limiting what states can do to restrict shipments of agricultural products from other states.

The King amendment would apply directly to housing for egg-laying hens and this case has been at the center of the controversy. Recall that California law now requires that, starting in 2015, hens producing shell eggs sold in California must be housed in such a way to allow more freedom of movement than is available in conventional cages. Proposition 2, passed by California voters in 2008, set such standards for eggs produced in California.

AB 1437, passed by the legislature in 2010, extends those standards to shell eggs shipped into California. Under the King amendment, it appears that California standards would still apply to California farms, but out-of-state eggs could continue to be produced from hens in conventional cages. The result would be a severe cost disadvantage for California egg producers and an extreme contraction of California egg production.

As noted above, for about sixty years, many farm subsidy provisions have been written as temporary amendments to previous farm bills, especially the 1949 Act. One of the motivations to pass a new farm bill has been that the permanent law to which farm programs would revert is wildly out of date, and reversion to "permanent" provisions would wreak havoc on commodity and food markets. The House-passed farm bill would end that tradition and is written as new, permanent legislation. Some farm subsidy proponents oppose this feature of the House bill because a more up-to-date permanent law would reduce the "must pass" nature of farm legislation and weaken their political position for the next time. Observers and analysts who oppose farm subsidies agree that there would be less pressure to revise programs in a few years, and therefore oppose the permanent law provision because they relish the opportunity to severely reduce or eliminate subsidies in the next farm bill.

Replacement of the 2008 farm bill has been on the horizon for more than a year. Although final passage remains uncertain, pending legislation has controversial provisions of particular importance to California agriculture.

Final Remark

Overall, starting with removing $50 billion in direct payments, agricultural programs in both the House and Senate farm bills would entail lower projected outlays than the continuation of current farm bill programs. Of course, until the President actually signs a new farm bill into law, no one can be sure what will be included. As the 2012 farm bill was delayed into 2013, controversy continued to surround the farm bill proposals and the process. The extension through the fiscal year expires on September 30, 2013, and at the end of August, no one can tell when new farm legislation will finally become law.

As headlines have focused on budget costs and the separation of SNAP from the agricultural and rural provisions, other controversy involves several farm and agricultural provisions. This *ARE Update* focuses on perennial farm policy issues, such as dairy, crop insurance and agricultural research, and areas where the House and Senate provisions are generally in agreement. It therefore provides a useful description and economic analysis of farm policies likely to be on the horizon.

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