Agricultural and Resource Economics
UPDATE
GIANNINI FOUNDATION OF AGRICULTURAL ECONOMICS • UNIVERSITY OF CALIFORNIA
V. 10 no. 5 • May/June 2007

The New Farm Bill: Implications for California Agriculture

Daniel A. Sumner

An alliance of specialty crops producer organizations (including fruits, vegetables, tree nuts, and others) is engaged thoroughly in the Farm Bill process in 2007, in an effort to shape legislation that does more for their industries.

Also in this issue

In the next issue...

Every five years or so the United States reconsiders its major food, farm, and rural policies in a new "Farm Bill." Many provisions of the currently operative law, the Farm Security and Rural Investment Act of 2002, will expire in late 2007, so Congress, the Administration, and literally hundreds of interest groups are actively considering proposals for changes to the current law. In the late spring of 2007, the proposals range from slight adjustments to the 2002 Farm Bill to a wholesale elimination of farm programs and expansion of nutrition, conservation, and research and extension efforts.

What is a Farm Bill?

The 2002 Act had 10 separate titles: Commodity Programs, Conservation, Agricultural Trade and Aid, Nutrition Programs; Farm Credit, Rural Development; Research; Forestry, Energy, and Miscellaneous Provisions. The 2007 Act is likely to follow a similar plan. All of the titles are of vital interest to some constituency. However, this year

> *"The main farm programs are really only programs for one segment of farming."*

the most vigorous discussions have surrounded the commodity title, where most farm subsidy programs are authorized; the conservation title, which is of increasing interest among environmental groups and farmers; the nutrition title, which includes such large programs as food stamps and school lunch subsidies; and the energy title, which has been on everyone's policy agenda this year. Table 1 shows how the total of $124.9 billion in USDA outlays was

Table 1. USDA Program Outlays by Program Area, 2005

USDA Program	Expenditure in 2005 (billions of dollars)	Percent of Total
Food, Nutrition, & Consumer Services	51.0	40.8
Farm Service Agency	36.5	29.2
Rural Development	14.3	11.4
Natural Resources & Environment	8.7	7.0
Foreign Agricultural Service	5.4	4.3
Risk Management	3.0	2.4
Research, Education & Economics	2.7	2.2
Marketing & Regulatory Programs	1.8	1.4
Other	1.5	1.2
Total	124.9	100.0

Source: Economic Research Service, USDA. www.ers.udsa.gov

Table 2. Shares of U.S. Cash Receipts and Program Payments for Selected Agricultural Commodities, Crop Year 2002-05 Average[a]

	Percent of Total Value of Production	Percent of Individual Commodity Payments in Total Outlays
Upland cotton	1.9	22.3
Rice	0.6	7.3
Wheat	3.0	9.5
Corn	8.7	43.5
Soybeans	7.2	5.5
Other grains/oilseeds[b]	1.3	4.2
Horticultural crops[c]	21.3	~0.0[e]
Meat animals[d]	37.8	~0.0[e]
Dairy	10.8	5.1[f]
Other commodities[g]	7.4	2.5
Total	100.0	100.0

Notes:

a. Included in the total are production flexibility contract payments, direct payments, countercyclical payments, loan deficiency payments, marketing loan gains, and certificate exchange gains. For the dairy sector, the figure consists of payments under the Milk Income Loss Contract (MILC) Program.

b. Includes barley, oats, sorghum, millet, flaxseed, peanuts, sunflowers, safflower, and miscellaneous oil seeds.

c. Includes fruits, tree nuts, vegetables, melons, and greenhouse/nursery.

d. Includes cattle/calves, hogs, sheep, lambs, and poultry/eggs.

e. Program payments for the meat animal and dairy sector are very small and given here as approximately zero.

f. The data for the Milk Income Loss Contract Payment are available only by fiscal year. The share given is based on the average payment budgeted during fiscal years 2003–06.

g. Includes figures for tobacco, sugar, honey, wool, and mohair.

Source: USDA

U.S. cash receipt data are available from the USDA Economic Research Service, Farm Income Data, accessible at: http://www.ers.usda.gov/Data/FarmIncome/finfidmu.htm.

The commodity payment data are available from the USDA's Farm Service Agency, Budget Division, "Commodity Estimates Book for FY 2007 President's Budget" (for crop year 2002 and 2003 data) and available at http://www.fsa.usda.gov/dam/bud/CCC%20Estimates%20Book/estimatesbook_PresBud.htm), and the "Commodity Estimates Book Material for FY 2007 Mid-Session Review" (for crop years 2004 and 2005) and available at http://www.fsa.usda.gov/dam/bud/CCC%20Estimates%20Book/estimatesbook_MSR.htm.

allocated by program area in 2005. About 41 percent of outlays (about $51 billion) were for food and nutrition programs and about 29 percent for farm programs, including some environmental payments to farmers and landlords.

The Farm Bill is known as authorizing legislation because it creates and modifies government programs that set the framework for government outlays of funds or for regulating producers and consumers. The Farm Bill authorizes budget outlays for two categories of programs. The "mandatory" programs set program rules and triggers and then whatever outlays occur under the program provisions are automatically paid out each year the mandatory programs are authorized. The standard farm subsidy programs are mandatory programs. The cost of the programs depends on the rules set by the Farm Bill and by economic conditions in the relevant commodity markets. For example, the Congress set a loan rate for cotton of 52 cents per pound and whenever the relevant market price (which is the loan repayment rate) falls below 52 cents per pound, the USDA makes payments to cotton producers. The amount of the payments and the cost of the program vary inversely with the market price of cotton. The other major mandatory programs include food stamps and school lunch programs. Once the eligibility rules and subsidy rates are set, the outlays under these nutrition programs will rise or fall with the number of low-income individuals who participate in the programs. Outlays rise when the economy is doing poorly and fall when unemployment is lower and few people enroll.

Traditional farm commodity programs are limited to a handful of crops. Table 2 shows how the distribution of payments diverges from the distribution of the value of commodity production. Livestock products, horticultural crops and others receive almost none of the commodity program payments while major grains, oilseeds, and cotton receive payments far in excess of their share of farm output. The main farm programs are really only programs for one segment of farming.

Major Issues for 2007

Advocates for change in 2007 have argued for reallocating funds and policy attention away from commodity programs and toward more environmental payments, more attention to nutrition information and assistance, more protection from invasive species, more effort to promote bioenergy, and more research and development, among other subjects. Others, including many economists, argue that the time is ripe for reducing the reliance on traditional commodity support programs. Some suggest simply removing the existing programs, while others have proposed replacing the existing complex array of programs for the grains, oilseeds, and cotton with a new form of revenue insurance that would also replace standard crop insurance programs for these commodities.

Trade negotiations and litigation add further issues in 2007. If the negotiations of a new World Trade Organization (WTO) agreement move forward, they would provide some limits on farm support in the 2007 Farm Bill. But, even without a new agreement, the existing rules, as interpreted in the recent WTO ruling concerning the U.S. upland cotton program, suggest that U.S. commodity programs may be constrained to limit their impact on international markets.

An alliance of specialty crops producer organizations (including fruits, vegetables, tree nuts, and others) is engaged thoroughly in the Farm Bill process in 2007 in an effort to shape legislation that does more for their industries. This alliance has pointedly not advocated new payment schemes for producers of specialty crops. Instead, they have advocated programs related to demand expansion through promotion and nutrition education and support for consumers, and expansion of government activities that enhance long run productivity, such as research and protection from invasive species.

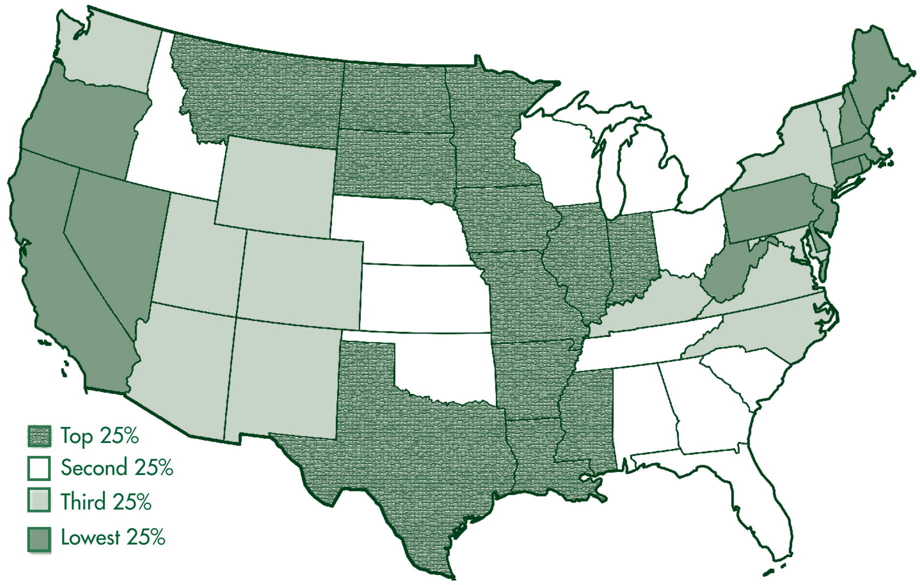
Figure 1 shows the geographic distribution of farm program payments under the current farm programs. Note that California, the number one farm state in the country, is in the bottom quarter of recipients of commodity payments relative to farm receipts. This map shows graphically why many California interests advocate for a reallocation of funds in 2007.

A major challenge facing those advocating change in 2007 relates to the long-standing Farm Bill tradition of supporting the program crops and the current budget situation.

Budgets and Market Conditions in 2007

Since 1933, every Farm Bill has been shaped in a unique economic and political setting. The Farm Bill of 2007 is no exception. Due to the ethanol boom among other forces, prices of program crops are high in 2007 and are projected to remain high for the next five years. This means that the price contingent payments made to program crops are projected to be very low for the life of the new Farm Bill. The budget allocated to the Farm Bill committees in Congress to cover the projected costs of these mandatory programs for the period of the new Farm Bill is also low relative to the budget in the recent past. For example, the corn program cost about $10 billion for crop year 2005, but is projected to cost no more than $2 billion in crop year 2008, if the program were unchanged in the 2007 Farm Bill. Because market prices are projected to be high, changing traditional farm programs would be credited with saving relatively little over the next Farm Bill. This means that change in farm commodity programs releases relatively few budget dollars to be reallocated to the many competing demands that have been advocated for the 2007 Farm Bill.

Figure 1. Commodity Payments as a Percent of Gross Cash Receipts, State Rankings, 2004



Source: USDA, Economic Research Service, www.ers.usda.gov

The committees of Congress charged with writing the 2007 Farm Bill have tried to find additional budget allocation to supplement their potential spending, but so far their success has been limited by concerns about the overall budget deficit. That means that the Farm Bill will have less money available overall and, even if commodity programs are changed, there is likely to be less money to reallocate among the many competing demands.

Perspective

Over the next few weeks and months, Congress will attempt to craft a new Farm Bill that will govern food, farm, and rural policy in the United States for the next five years or so. The process of writing a Farm Bill is almost as complicated as the final legislation. There are several steps even after the committees draft their initial bills and there is time for California groups to make their views known.

Daniel A. Sumner is the director of the University of California Agricultural Issues Center and the Frank H. Buck, Jr. Professor in the Department of Agricultural and Resource Economics at UC Davis. He can be reached by e-mail at dasumner@ucdavis.edu.