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The Farm Bill and California Food and Agriculture*

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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 at the end of September 2007, so Congress, the Administration and literally hundreds of interest groups are actively considering proposals for changes to the current law. The active 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. This brief provides an overview for considering the options for the 2007 Farm Bill.

What is a Farm Bill?

The 2002 Act had 10 separate titles and authorized hundreds of billion of dollars:

I. Commodity Programs, which include programs for crop program payments and dairy programs that have been in place since the New Deal of the 1930s;
II. Conservation, which includes programs for land conservation, working lands programs and farmland protection;
III. Agricultural Trade and Aid, which includes export programs, international food aid and international trade relations;
IV. Nutrition Programs, which includes food stamps, commodity distributions and community nutrition programs;
V. Farm Credit, which includes farmer loan programs under the Farm Service Agency and regulation of the Farm Credit System;
VI. Rural Development, which includes a host of programs to aid rural communities and research related to value added agriculture and rural development;
VII. Research, which includes authorization of USDA "intramural" programs, external formula funds for research and extension in the states, competitive grant programs; and a host of specific research and extension programs such as that for organic agriculture;
VIII. Forestry, which authorizes USDA Forest Service programs;
IX. Energy, which authorizes programs of research and development for biobased energy; and
X. Miscellaneous Provisions, which include modification of programs for crop insurance and organic agriculture and a new initiative related to country-of-origin labeling and specialty commodities.

The 2007 Act is likely to follow a similar structure to that of the 2002 Act, but content of each title must be determined. All of the titles are of vital interest to some constituency. However, for the 2007 Farm Bill, the most vigorous discussions have surrounded the Commodity title, where most farm subsidy programs are

*This AIC Farm Bill brief is one of a series that provides information on the 2007 Farm Bill of particular relevance for California. For more information and references to additional analysis please check www.aic.ucdavis.edu.

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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 will be the title used to authorize change in such programs as school meals and the Women Infants and Children (WIC) program; and the Energy title, which has been on everyone's policy agenda for 2007.

Table 1 shows how the total of $125 billion in USDA outlays was 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 *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—discretionary programs and "mandatory" programs. For discretionary programs, congress must pass appropriation legislation to fund the outlays authorized. That means, discretionary programs may not receive the funding authorized and may not operate as the Farm Bill authors envisioned.

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 two most important sets of mandatory programs are food stamps and the farm commodity programs. For the food stamp program (or the school lunch program), once the eligibility rules and subsidy rates are set, the government outlays rise or fall with the number of low-income individuals who participate in the programs. Outlays rise when the economy is doing poorly and outlays fall when unemployment is lower and few people enroll.

The budget cost of the mandatory farm commodity 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 upland 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 therefore vary inversely with the market price of cotton. Besides the marketing loan programs, commodity support in the form of counter cyclical program payments also vary inversely with commodity market prices. Because farm commodity program outlays depend on volatile commodity prices, budgeting must be done with inherently uncertain projections and actual spending often differs from that forecast when the Farm Bill is being crafted.

For the 2007 Farm Bill, considerable attention has focused on the imbalance between agricultural support spending across commodities. In particular, the USDA and important interest groups have noted the lack of support for the interests of fruits, vegetables, melons, tree nuts and other specialty crops that are important in California.

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 farm commodity programs actually support only 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 towards environmental payments to farmers, nutrition assistance and information, protection from invasive species, promotion of bioenergy and more research and development among other subjects. Others, including economists and non-farm interest groups, argue that time is ripe for reducing the reliance of program crop industries 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 new revenue insurance subsidies.

Trade negotiations and litigation add further issues in 2007. If the negotiations of a new World Trade Organization (WTO) agreement move forward, it would provide additional limits on the form and amount of farm support in the 2007 Farm Bill. But, even without a new agreement, the existing rules, especially as interpreted in the recent WTO ruling which found U.S. upland cotton programs out of compliance with WTO rules, indicate that U.S. commodity programs may be constrained to limit their impact on international markets. Recently, Canada has pursued an additional WTO case against U.S. commodity programs that may motivate changes in the 2007 Farm Bill.

An alliance of specialty crops producer organizations (including fruits, vegetables, tree nuts, and others) is engaged more deeply in the 2007 Farm Bill process than in previous cycles. They are attempting to shape legislation that does more for their industries. This alliance has pointedly not called for new payment schemes for producers of specialty crops. Instead, they have advocated programs for market promotion, nutrition education, and support for low income consumers of fruit, tree nuts, and vegetables. They have also urged expansion of government activities that enhance long run productivity, such as investments in 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.

Despite many forces urging reconsideration of Farm Bill priorities, major challenges facing those advocating change in 2007 include the long Farm Bill tradition of heavy support for the program crops and the current budget situation.

Budgets and Market Conditions in 2007

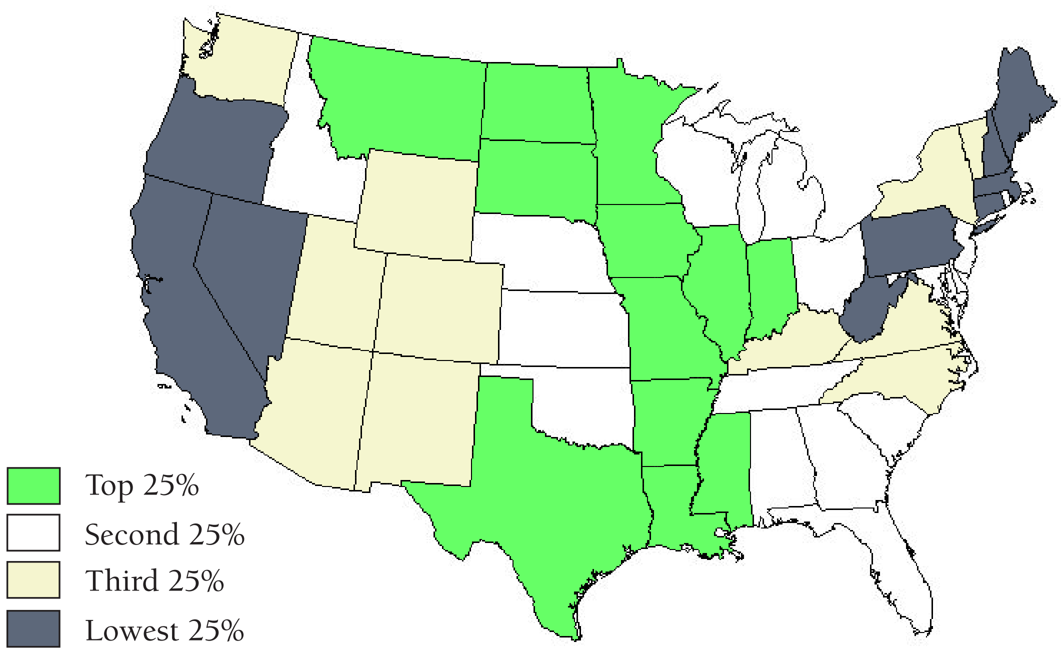
Every Farm Bill since 1933 has been shaped in a unique economic and political setting. The Farm Bill of 2007 is no exception. Due in part to the huge expansion in the demand for corn-based ethanol (caused by a combination of higher oil prices and government support for renewable fuels), prices of program crops, except for cotton, are extremely high in 2007 and, importantly, are projected to remain high for the next five years. These high prices mean that the price-contingent payments made to program crops producers 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 therefore quite low relative to the budget projections and outlays 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 about $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 little over the next Farm Bill. This means that changes in farm commodity programs would release relatively few budget dollars that could then be reallocated to the many competing demands that have been advocated for the 2007 Farm Bill.

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 congressional budget rules and 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.

Overview

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. Farm Bills are notoriously complex and the process of writing a Farm Bill may be even more complicated than the final legislation. The 2007 Farm Bill season has been underway for months already and there are many more steps before the various proposals under consideration are crafted into final legislation the President will sign. The interests of California differ in many significant ways from states that produce mainly supported commodity crops. In addition, Californians have much at stake in the nutrition, conservation, research, and other titles of the Farm Bill. While the legislation is complex, its scope means that the Farm Bill has important implications for all Californians.

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



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

Table 1. USDA Program Outlays by Program Area, 2005

USDA Program	Expenditures in 2005 (billions of dollars)	Percent of total
Food, Nutrition & Consumer Services	51.0	40.8
Farm Services 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 and Regulatory Programs	1.8	1.4
Other	1.5	1.2
Total	124.9	100.0

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

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

	Share of total value of production	Share 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

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) available at http://www.fsa.usda.gov/dam/bud/CCC%20Estimates%20Book/estimatesbook_MSR.htm

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.