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The "Farm Bill" in Brief

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Summary

Most provisions of the current "farm bill," the Farm Security and Rural Investment Act (FSRIA) of 2002 (P.L. 107-171), expire in 2007. However, policy developments have brought farm bill programs into play during the 109th Congress, and the House and Senate Agriculture Committees have held hearings on them. This report will be updated if events warrant; for a more extensive discussion of the issues, see CRS Report RL33037, *Previewing a 2007 Farm Bill*, by Jasper Womach, coordinator.

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. Many of these laws periodically have been evaluated, revised, and renewed through an omnibus, multi-year farm bill. These policies can be and sometimes are modified through free-standing authorizing legislation, or as part of other laws. However, omnibus farm bills have provided Congress, the Administration, and interest groups with a periodic opportunity to address agricultural and food issues more comprehensively.

The Farm Security and Rural Investment Act (FSRIA) 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 Many believe that these largely outdated permanent laws are kept on the books partly to compel a Congress with increasingly urban and suburban constituencies to pay attention to national agricultural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.

What's in a Farm Bill?

In addition to one or more titles on farm income and commodity price supports — namely the methods and levels of federal aid to agricultural producers — farm bills typically include other titles. 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. The 2002 farm bill contains ten separate titles:

Title I — Commodity Programs. Specifies direct payment and production marketing loan levels for the 2002-2007 crops of wheat, feed grains, rice, cotton, and oilseeds; ends peanut poundage quotas with compensation to holders, and redesigns support to operate like that for other major row crops; continues import quotas and price support loans for sugar; nominally limits many crop payments to $360,000 per person per year; and supplements a reauthorized milk price support program (through surplus dairy purchases) with "income loss" payments.

Title II — Conservation. Reauthorizes and expands several existing conservation and environmental programs and creates several new ones, including a grasslands reserve program and a conservation security program (CSP) providing incentive payments to farmers who adopt specified conservation practices on working lands.

Title III — Trade. Reauthorizes through FY2007 and amends USDA's foreign export promotion, credit, and subsidy programs and foreign food aid (P.L. 480), and authorizes the International Food for Education and Child Nutrition Program.

Title IV — Nutrition Programs. Extends 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.

Title V — Credit. Authorizes annual appropriations for USDA farm lending programs (authorized by the Consolidated Farm and Rural Development Act) through FY2007, and makes several changes in the privately owned and operated Farm Credit System.

Title VI — Rural Development. Authorizes mandatory and discretionary funding for a variety of both 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.

Title VII — Research and Related Matters. Reauthorizes university research and state cooperative extension programs through FY2007; reauthorizes the Initiative for Future Agriculture and Food Systems (a competitive grants program on critical emerging issues and high-priority research); and places new emphasis on research to improve bioterrorism prevention, preparedness, and response.

Title VIII — Forestry. Creates programs to help private forest landowners adopt sustainable forest management practices, and local governments to fight wildfires.

Title IX — Energy. A new farm bill title that extends, with mandatory funding, a bioenergy program and establishes new and/or expanded programs for federal purchases of bio-based products and education, and loans and grants for farmers to purchase renewable energy systems and to improve energy efficiency.

Title X — Miscellaneous. Covers a wide variety of programs and issues, ranging from mandatory country of origin labeling for fresh meats, produce, seafood, and peanuts, to an overhaul of virtually all USDA animal health protection laws, increased annual authorizations of appropriations for outreach for socially disadvantaged farmers, financial assistance for apple growers, a biotechnology education program, and others.

What Is the Cost?

Most (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 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 where the appropriators make the annual spending decisions; most of the research and many rural development programs are examples.

When the 2002 farm bill was enacted and scored against the then-current Congressional Budget Office (CBO) baseline (March 2002), the estimated total seven-year cost of the programs that most directly benefit the farm sector (farm commodity support and mandatory conservation and trade programs) was $130 billion (FY2002-FY2008). Based on more recent market conditions, an August 2006 re-estimate of these costs was $115 billion. (Other farm bill programs such as food stamps, rural development, and research, incur additional costs not reflected in this number.) As part of the nature of mandatory programs, a revised spending estimate that is below the original cost estimate does not result in 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 changes made to the authorizing law.

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 in 2006 following three years of robust receipts and income. Net farm income is forecast to fall by $19.4 billion (or 26%) to $54.4 billion in 2006 due to declines in cash receipts (down $3.6 billion) and government payments (down $6.1 billion) combined with a sharp rise in production expenses (up $9.5 billion). However, farmers' overall ratio of debt compared to assets is the lowest since 1960, suggesting a strong financial position for the agricultural sector as a whole. Income forecasts can change sharply, however, depending upon domestic 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*, by Randy Schnepf.)

The United States has been participating in the current Doha round of multilateral trade negotiations, which could succeed the 1992 Uruguay Round Agreement on Agriculture (URAA), intended to limit trade-distorting domestic farm support, export subsidies, and import tariffs. Progress on the Doha round seemed to have stalled by mid-2006 (largely over farm policy reform differences), but the URAA and other World Trade Organization (WTO) rules, as well as a series of bilateral and regional trade agreements concluded or being negotiated by U.S. officials, still potentially constrain the choices U.S. lawmakers may have in designing the next generation of agricultural, trade, food, and related policies. Already the United States has needed to revise some cotton support program provisions after a WTO panel ruled that portions are not in compliance with the URAA. (See also CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*, by Charles Hanrahan and Randy Schnepf.)

What Will a New Farm Bill Look Like?

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. Many of the past bills also included titles on agricultural credit, rural development, and/or marketing (e.g., promotion programs for fruits and vegetables), and similar titles are possible in the next bill.

Other subjects gaining their own title in at least one past farm bill are grain inspection, crop insurance and disaster assistance, organic certification, global climate change, forestry, and energy. Finally, the last four omnibus measures have included a "miscellaneous" title encompassing a variety of farm, animal, marketing, or food-related issues of interest to Congress. Following are some of the topics, options, and issues that already have arisen with an eye toward the 2007 debate — an indication of both the scope and divergence of ideas likely to be discussed. (The topics here primarily affect production agriculture; a similarly broad range of ideas is expected to arise in discussions on other farm bill titles.)

Farm Bill Extension. Several major groups, including the American Farm Bureau Federation and the National Farmers Union, contend that farmers are generally satisfied with the current price and income support policies and urge that they be extended, at least for one year. Among other arguments is a concern that the United States should not unilaterally change its own subsidy programs ahead of a 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). Other participants, including the Administration and various farm and environmental groups, believe that agricultural policies are ripe for more fundamental reforms, for budgetary, equity, environmental, and other reasons. Even some who call for an "extension" are at the same time calling for modifications.

Revenue-Based Support. Some reformers have recommended that a "revenue insurance" or "revenue assurance" 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). Over the last decade, several federally subsidized revenue insurance products have been offered to producers as part of the crop insurance program, providing some experience for considering a more universal version in the next farm bill. The National Corn Growers Association in 2006 offered a preliminary proposal to shift a portion (but not all) of current farm subsidies to a revenue-based policy. Nonetheless, agricultural economists and Washington-based think tanks appeared in 2006 to be more interested in this approach than the broad farm community. Future support by farm groups likely will hinge on anticipated benefits relative to those under current programs.

"Greener" Farm Policy. "Green" has been used to describe two aspects of farm policy. The first is environmental — commodity support programs should be replaced with, or at least reoriented toward, incentives that protect natural resources such as land, water, air, and/or wildlife, and possibly that enhance scenic, recreational, or open space amenities. Green 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. While some farm bill interests want to expand green policies and spending in the next farm bill (and several already have proposed a farm bill alternative emphasizing conservation), others argue that the existing (2002) farm bill is the "greenest" in history, providing a variety of new conservation programs and devoting much more money to them than before.

Other Commodity Program Reforms. Some farm program critics point 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. These imbalances should be addressed, they argue; one option could be to further tighten annual payment limits. Some have further suggested that recipients be determined based upon individual need (i.e., means-tested). 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.

Specialty Crops. Many growers of so-called specialty crops (such as fruits, vegetables, nuts, and nursery products) want Congress to consider their priorities for the next farm bill. Although these growers state that they are not interested in direct payments, they do want lawmakers to continue the current farm bill prohibition on planting specialty crops on subsidized farmland. A recent WTO ruling against the U.S. cotton program cited this prohibition 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. They also are interested in an expansion of specialty crop block grants now going to states for fruit and vegetable programs; more incentives for using fruits and vegetables at school and elderly feeding sites; and more aggressive efforts to remove foreign phytosanitary and other barriers to trade in their products. A coalition of fruit and vegetable growers has drafted a specialty crops farm bill title, which includes these types of options.

Competition. The Senate Agriculture Committee debated whether to include a "competition" title in the last farm bill. The title, among other things, would have imposed new marketing restrictions 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 their opportunities for selling animals and makes them "price-takers"), and expressed concerns about increasing livestock and meat imports, among other perceived problems. Opponents argued that the title would stifle U.S. competitiveness and undermine the business relationships that producers willingly enter. The title was deleted during committee markup in late 2001. Some lawmakers are expressing renewed interest in a proposed competition title in a new farm bill.

Agriculture-Based Energy Policy. Recently, the U.S. agricultural sector has been developing its capacity to produce energy, primarily as renewable biofuels and wind power. The farm sector has been encouraged to do so because of the national interest in energy security, greenhouse gas reductions, and raising domestic demand for U.S.-produced farm products. Under the Energy Policy Act of 2005 (P.L. 109-58, H.R. 6), Congress 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 for farm-based energy production. On the other hand, some have cautioned that growth to date of farm-based energy production has relied heavily on federal and state programs and incentives, and that its competitiveness hinges on relatively high fossil fuel prices and/or on much-improved biofuels technology. Some also have expressed concern that, by itself, expanded use of bioenergy is unlikely to reduce the nation's dependence on petroleum imports, and could adversely impact other uses such as food and animal feed and conservation cover.

Congressional Action

Throughout the 109th Congress, the House and Senate Agriculture Committees have held 2006 hearings on the next farm bill, taking testimony from producers, their organizations, former Secretaries of Agriculture, and leading agricultural economists, among others. (The Administration held public "Farm Bill Forums" in most states in 2005 and has since issued several discussion papers on farm bill issues.)

Early in the 109th Congress, in response to reconciliation instructions in the FY2006 budget resolution (H.Con.Res. 95), which passed Congress in April 2005, the subsequent Deficit Reduction Act of 2005 (P.L. 109-171, S. 1932) altered mandatory commodity, conservation, rural development, and research programs to achieve five-year net savings of approximately $2.7 billion. (See CRS Report RS22086, *Agriculture and FY2006 Budget Reconciliation*, by Ralph M. Chite.)

Additional money often reaches farmers through emergency disaster appropriations (recently for nearly every crop year). In addition, spending on farm subsidies and other USDA programs inevitably is discussed when Congress considers the regular annual appropriation for USDA. Thus aspects of farm policy are examined much more frequently than just in "farm bill season" — which is expected to open again in 2007 when the 110th Congress convenes.