Order Code RS22131
Updated January 3, 2007

CRS Report for Congress

The "Farm Bill" in Brief

Geoffrey S. Becker
Specialist in Agricultural Policy
Resources, Science, and Industry Division

Summary

Most provisions of the current "farm bill," the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), expire in 2007, and the 110th Congress is expected to make decisions about the content of a new one. Commodity price and income support policy is usually the most contentious component of a farm bill. However, other food and agricultural issues, including conservation, rural development, trade, domestic food assistance, and biofuels also will be debated. This report will be updated as events warrant; for a more extensive discussion of the issues, see CRS Report RL33037, *Previewing a 2007 Farm Bill,* coordinated by Jasper Womach.

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. Although many of these policies can be and sometimes are modified through freestanding authorizing legislation, or as part of other laws, the omnibus, multi-year farm bill provides an opportunity for policymakers to address agricultural and food issues more comprehensively.

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 Many believe that these largely outdated permanent laws are kept on the books partly to compel a Congress with increasingly urban and suburban constituencies to pay attention to national agricultural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

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 — namely, the methods and levels of federal aid to agricultural producers — as well as on conservation, trade, food stamps, and research. Many 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.

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. The 2002 bill 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. The 2002 bill reauthorizes and expands several existing conservation and environmental programs and creates several new ones, including a grasslands reserve program and a conservation security program providing incentive payments to farmers who adopt specified conservation practices on working lands.

Title III — Trade. The 2002 bill 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. The 2002 bill 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. The 2002 bill 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. The 2002 bill authorizes mandatory and discretionary funding for a variety of 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. The 2002 bill 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. The 2002 bill creates programs to help private forest landowners adopt sustainable forest management practices, and local governments to fight wildfires.

Title IX — Energy. This new title in the 2002 bill 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 in the 2002 bill, among them mandatory country-of-origin labeling for fresh meats, produce, seafood, and peanuts, 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, and a biotechnology education program.

What Is the Cost?

Many (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 March 2002 Congressional Budget Office (CBO) baseline, the estimated total seven-year cost of programs that most directly benefit the farm sector (commodity support and mandatory conservation and trade programs) was $130 billion (FY2002-FY2008). An August 2006 re-estimate of these costs was $115 billion, reflecting more recent market conditions. (Other farm bill programs, most notably food stamps, incur additional costs not reflected in this number.) With mandatory programs, a revised spending estimate that is below the original cost estimate does not "free up" 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 legislation.

The House and Senate Agriculture Committees likely will not draft a 2007 farm bill until the panels' spending constraints are determined through the annual congressional budget resolution. With a large current budget deficit, there is some concern over whether Congress will fund farm programs at levels sought by stakeholders. Early debate could focus on whether CBO's "baseline" projection (which assumes the current farm bill continues under expected economic conditions) is appropriate, or whether a different level of food and agricultural spending should be "built into the baseline."

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 to $58.9 billion in 2006, beneath the record $85.4 billion in 2004 and $73.8 billion in 2005, but just above the 1996-2005 average of $57.2 billion. Though cash receipts in 2006 from the sale of crops increased, livestock receipts declined, and all production expenses increased. However, $16.5 billion in direct government payments helped to undergird the value of agricultural land and other assets, keep farm debt at favorably low levels, and stabilize farm operator incomes. Farm income in 2007 will be influenced by expected high prices for several of the nation's major commodities. Income forecasts can change sharply, depending upon the 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 were to succeed the 1992 Uruguay Round Agreement on Agriculture (URAA). Progress on the Doha round was stalled through late 2006, largely due to differences over how to limit trade-distorting domestic farm support, export subsidies, and import tariffs. However, the URAA and other World Trade Organization (WTO) rules, as well as a series of bilateral and regional free trade agreements, 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 CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*, by Charles Hanrahan and Randy Schnepf.)

Selected Issues and Options

Farm Bill Extension. Some policymakers and interest groups contend that farmers are generally satisfied with current price and income support policies and urge that they be extended with relatively few changes. Among other arguments is a concern that the United States should not unilaterally change its own subsidy programs ahead of the now stalled 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.

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 began discussing a 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 have appeared to be more interested in this approach than the broader 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 even suggested that recipients be 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 address their needs in the next farm bill. These growers state that they are not interested in direct payments, but 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.

Permanent Disaster Assistance. Additional money often reaches farmers suffering disasters through emergency supplemental appropriations (for nearly every crop year in the past decade). Some Members have proposed to authorize disaster assistance as a regular (i.e., "permanent") feature of farm policy. Critics of disaster assistance, whether periodic or permanent, suggest that it should be unnecessary given the availability of heavily subsidized crop insurance.

Rural Development. The 2002 farm bill authorizes an array of rural development activities, but critics say that rural policy remains unfocused and under-funded. They argue that the farm bill's emphasis on commodity program spending ignores the fact that most farmers earn a majority of their incomes from nonfarm sources and that commodity spending may go to landlords in non-rural areas. Rural development supporters call for shifting resources into programs that expand the nonfarm economic base and support new sources of competitive advantage in rural areas. Proponents of commodity programs argue that farm payments are a primary contributor to rural economic activity.

Competition. Some lawmakers are expressing renewed interest in a proposed "competition" title in a new farm bill. The Senate Agriculture Committee debated whether to such a title in the 2002 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 producer opportunities for selling animals and makes them "price-takers"). They expressed concern about increasing livestock and meat imports, among other perceived problems. Opponents argued that the title would have stifled U.S. competitiveness and undermined business relationships that producers willingly enter. The title was deleted during committee markup in late 2001.

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 more 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. However, some have cautioned that growth to date of farm-based energy production has relied heavily on federal and state incentives, that its competitiveness hinges on relatively high fossil fuel prices and/or on much-improved biofuels technology, and that, by itself, expanded use of bioenergy is unlikely to reduce the nation's dependence on petroleum imports. Some worry that diverting crops to ethanol will drive up the cost of animal feed (i.e., corn), and possibly come at the expense of planting cover for conservation.

Domestic Nutrition Programs. Food stamps constitute a substantial portion of annual farm bill spending. The benefit levels and eligibility requirements that determine this spending will, as always, be the subject of vigorous debate. Discussion also is anticipated on several smaller programs, including The Emergency Food Assistance Program (TEFAP), including the need, if any, for a higher guaranteed level of commodity assistance through the food bank network; and on whether federal nutrition policies could do more to address diet-related problems such as obesity.

Congressional Action

In the 109th Congress, the House and Senate Agriculture Committees and the Bush Administration held hearings on the next farm bill, taking testimony from producers, their organizations, former Secretaries of Agriculture, and leading agricultural economists, among others. The incoming committee chairmen have indicated that they will seek to pass a new bill in their respective chambers prior to the August recess, and to resolve any differences and gain final passage prior to September 30, 2007. Some view this as an ambitious agenda, particularly given the huge scope of the bill, and wide divergence of viewpoints on the issues it encompasses.