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FACTORS AFFECTING THE SHAPE OF THE 2007 FARM BILL

Stephanie Mercier  
Senate Agriculture Committee

# Factors affecting the shape of the 2007 farm bill

Stephanie Mercier

Senate Agriculture Committee

# U.S. farm bills

- Primary vehicle for setting medium-term U.S. agricultural policy
  - Range in lifetime from 18 months (1948 Act) to 7 years (1941 Act, 1996 Act)
- Scope of farm bills expanded over time
  - 1981-1990 farm bills separate titles for each commodity; 2002 single commodity title, total of 10
  - Broadened in part to create coalition to pass bill
- Margin of victory shrinking over time
  - Senate passed 1977 Act 63-8; 64-35 for 2002 bill conference report

# Reminder: What a Farm Bill Does

1. Provides USDA the authority to operate food and farm programs using provisions specified in the bill. For most programs, the authority to operate is temporary (e.g. 2002 through 2007 crops). A few programs have permanent authority to operate (i.e. until changed).
2. Provides upfront ALL of the funds needed to provide benefits for an Ag Committee “Mandatory” program during its authorized life. Funding can be (a) whatever amount turns out to be needed under specified provisions (i.e. an entitlement) or (b) a fixed annual amount.
3. For some programs, authorizes the appropriation of funds for “Discretionary” programs of the Appropriations Committee programs.
4. Must address “permanent law” provisions of the Agricultural Act of 1949 either through a temporary suspension or repeal. Outdated provisions of the 1949 Act would become effective if no new farm bill or extension were enacted.

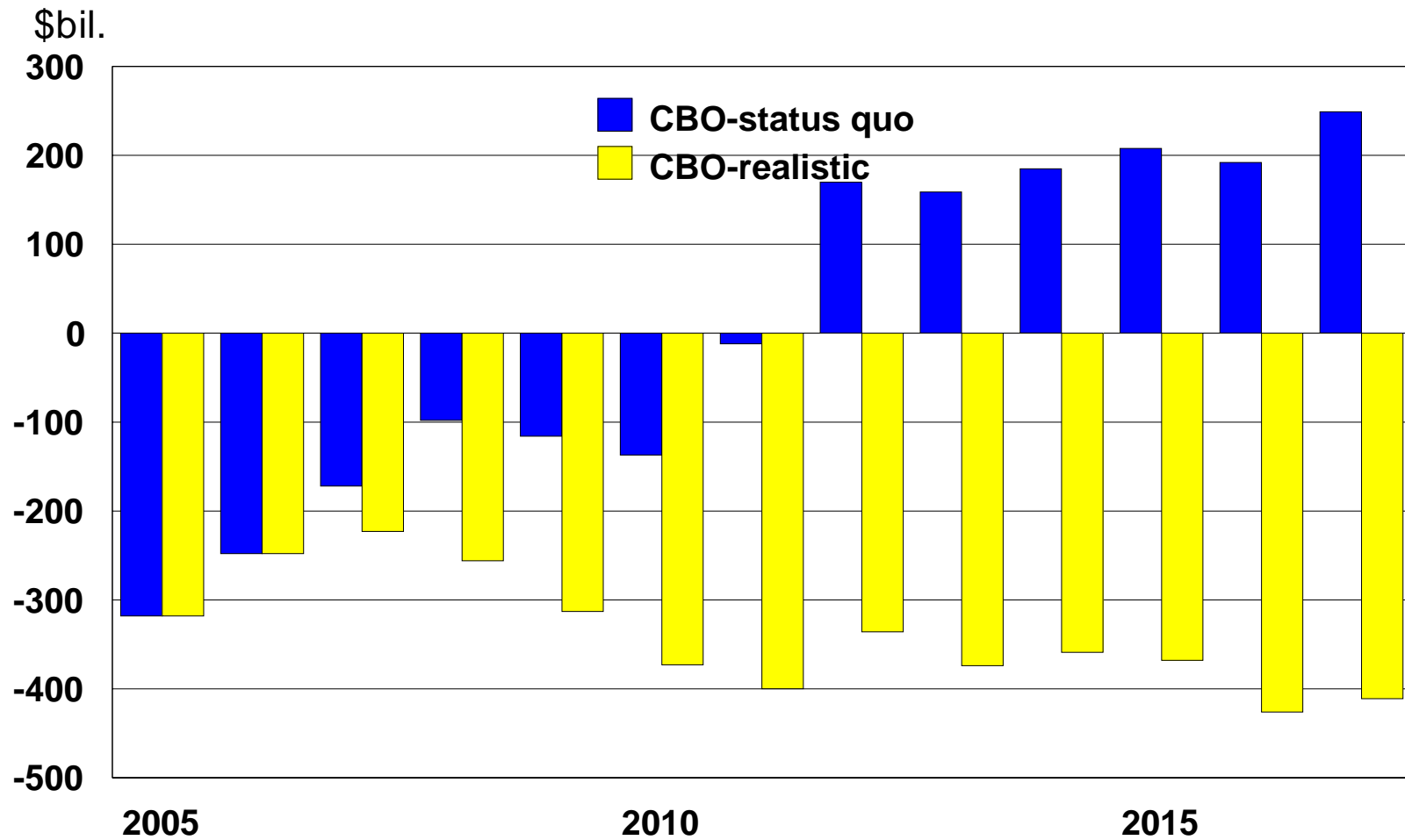
# Key Operational Issue #1: Committee Jurisdiction: Which Committee Is Responsible for a Program Area?

- **The Agriculture Committees have PRIMARY JURISDICTION for:**
  - Commodity Programs
  - Conservation Programs
  - Crop Insurance Programs \*\*
  - Agricultural Trade Programs
  - Rural Development Programs (Most funds provided through Appropriations)
  - Agricultural Research (Most funds provided through Appropriations) \*\*
  - Foods Stamps & Selected Other Nutrition Programs
  - Forestry \*\*
  
- **The Agriculture Committees DO NOT HAVE jurisdiction for:**
  - Funding for any Appropriated programs (e.g. USDA salaries & expenses, most research)
  - Immigration (e.g. agricultural labor policies)
  - Taxes (e.g. tax-related energy & safety net policies)
  - Trade Laws (e.g. trade agreements)
  - School lunch and other child nutrition (Senate Ag has jurisdiction, along with House Education and Workforce)

\*\* May or may not be included in a farm bill. Often addressed in separate bills.

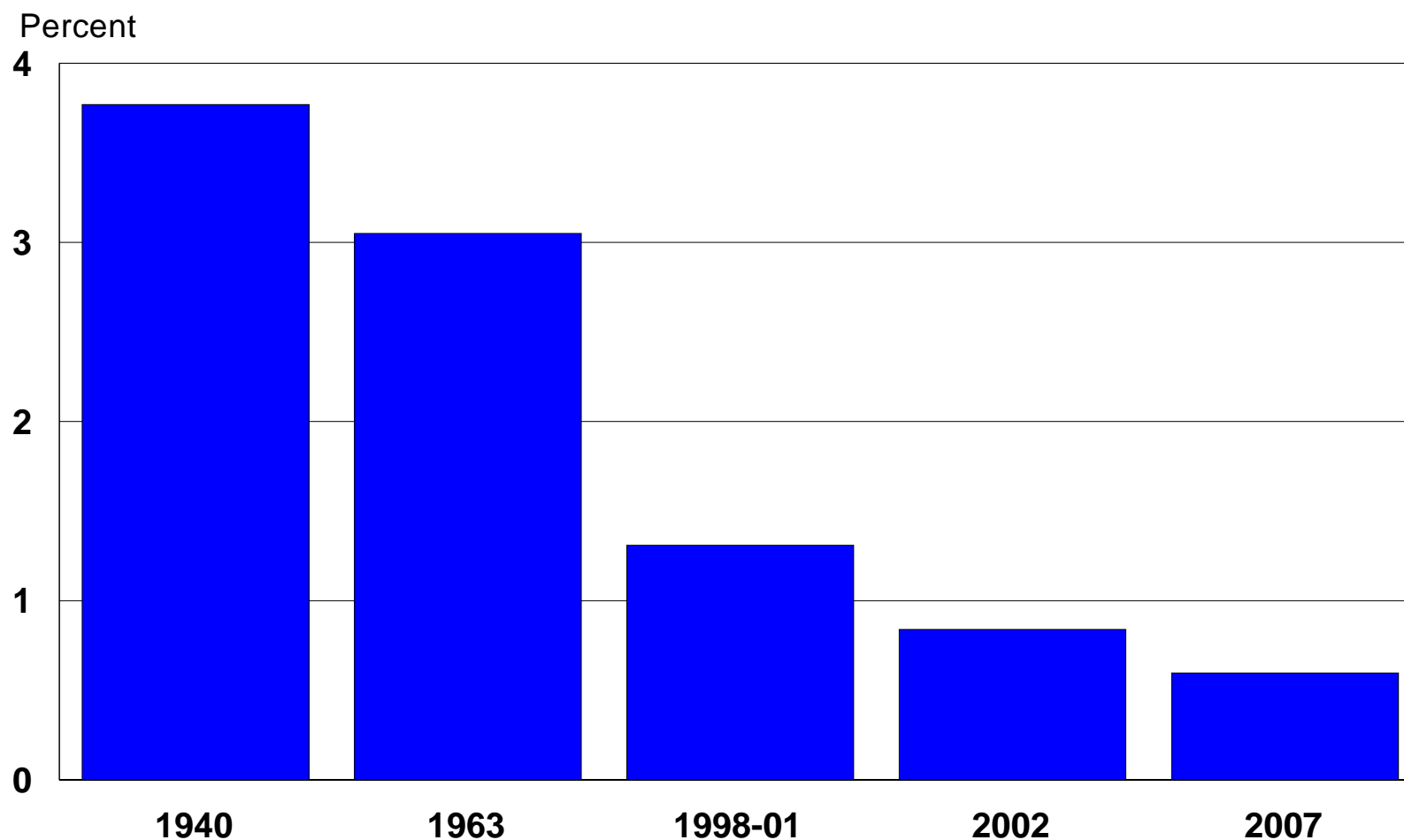
Figure 1

# U.S. Budget Projections, 2008-2017



Sources: CBO budget baseline, Jan. 2007.

## Farm program spending as share of Federal budget outlays



Source: CBO, OMB, USDA budget projections and historical budget documents. Includes crop insurance premium subsidies and indemnities.



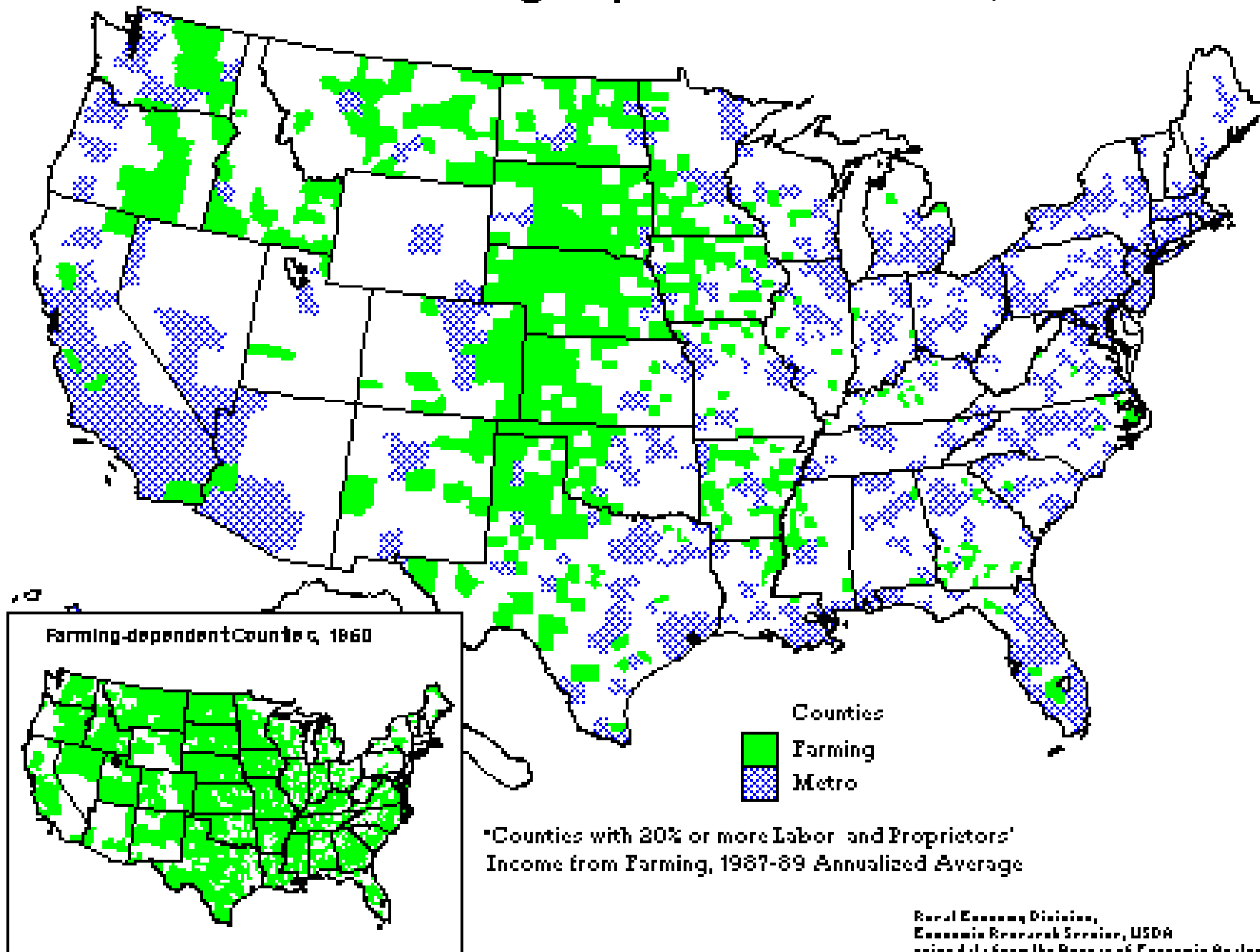
# Budget picture for 2007 farm bill

- January CBO baseline shows very low spending for commodity title over 2008-2017
  - Decline of \$30 billion since last year's baseline
  - Largely due to higher crop prices, especially corn, due to ethanol boom of 2006
- Concerted effort by a range of groups to obtain more funds in FY08 budget resolution

# Demographic trends

- At the same time that U.S. population has been growing, the number of farmers has been shrinking. During the 20<sup>th</sup> Century,
  - U.S. population grew 270 percent, while
  - Number of U.S. farms fell 60 percent
- Share of U.S. counties in which agriculture is a significant economic engine is declining
  - In 1950, the vast majority of counties nationwide, except in NE and SW, received at least 20 percent of their income from farming
  - Since 1989, most such counties are located in narrow belt between Eastern Montana and Texas panhandle

# Nonmetro Farming-dependent Counties\*, 1989



## Agricultural voting impact

- These demographic changes have had an impact on the farm voting bloc in Congress
- Almost all Senators represent some farmers, but not so in the House
- More than half (221 of 435) of Congressional Districts in 2002 Census of Agriculture had fewer than 1,500 farms (farms w/ >\$1,000 market receipts)

# Broader interest in farm bill process

- This time around, we are seeing groups engaged in farm bill discussion and putting forward policy proposals who have not previously participated
- USDA—first substantive set of policy proposals in perhaps 20 years
- Inside agriculture
  - Specialty crop producers
  - American Farmland Trust
- Outside agriculture
  - Chicago Council on Global Affairs
  - American Enterprise Institute
  - Oxfam U.S.A.

# International factors



# Doha Development Agenda

- Uruguay Round (1993) envisioned continuing negotiations to further reform agriculture, trade in services in 1999
- Doha Round launched after WTO Ministerial meeting held in Nov. 2001
- Key issue areas:
  - Agriculture
  - Non-agricultural market access
  - Trade in services
  - Implementation issues from Uruguay Round

# Consequences of a Stalled Doha Round

- Last-ditch effort underway right now to revive Doha Round
  - If revival successful, could finish agreement by late 2007 or early 2008
  - That success dependent on status of TPA renewal
  - Farm Bill process will proceed largely independent of Doha Round negotiations
- Many farm groups favor current policy structure, w/ modest 'tweaks'
  - NCGA expected to proposed revenue safety net
  - American Soybean Assn., Nat. Assn. Wheat Growers favor rebalancing of target prices
  - Regional split on renewal of Milk Income Loss program
- Prospect for additional dispute settlement cases against U.S. programs will tilt some toward reform
  - Jan. 2007, Canada initiated consultations with U.S. over corn program
- USDA role
  - Proposal released on Jan. 31<sup>st</sup>—reform-oriented, but not as aggressive as some had anticipated
  - Adoption would likely not meet new domestic support commitments in U.S. Oct. 2005 proposal in Round
  - Wild card—how actively will USDA push its proposals with Congress over next several months



# Brazil-US Cotton Case

- Step 2 ended August 2006, Export credits reformed administratively.
- WTO: Direct payments not Green Box: Fruit & vegetable planting prohibition
  - More challenges?
  - Re-categorization to Amber, non-commodity specific?  
Exceed \$19.1B limit.
- Brazil has initiated compliance case, asserting U.S. failed to meet its obligations under panel findings with respect to reforming cotton domestic support. Panel results delayed until July.

# Specialty Crop Issues

- Ruling in WTO cotton case on fruit and vegetable planting prohibition may lead to its repeal.
- First choice of specialty crop industry is no repeal. Informa study estimates loss to current growers of nearly \$4 billion annually.
- If repeal occurs, specialty crop interests seek mandatory funds in next farm bill as compensation.
- USDA has proposed new spending on specialty crop programs totaling \$5 billion over 10 years, in trade, research, conservation, nutrition, rural development, and energy. Some of these program changes likely to occur even if planting flexibility not changed.

# Possible reforms in 2007 farm bill

## Farm Income

- Consider programs that target revenue rather than price. Some approaches would encompass only current program crops, while others would include specialty crops, and livestock operations

## Conservation

- Continue shift toward providing payments to encourage adoption of conserving practices in agriculture that would clearly fall under green box criteria in WTO rules

## Renewable Energy

- Expand reach of renewable energy programs that were included in farm bill in 2002 for the first time, add incentives to encourage transition from corn-based ethanol to cellulosic ethanol.

# Renewable energy policy

- Much of federal incentive structure (tax credits, RFS) falls outside of Ag. Committee jurisdiction
- Expect to build on features of energy title in 2002 farm bill
  - Bio-based product federal preference program
  - Grants and loans to encourage renewable energy production, energy efficiency on farms
  - R&D funding for cellulosic ethanol and bio-refineries
  - CCC Bio-energy program
- Examine possibility of incentives for producing dedicated energy crops
  - Can we design incentives that are green box in WTO, i.e. non-trade-distorting?
  - Can we do insurance coverage for these crops, along lines of forage/pasture policies currently being piloted?

# Farm bill timeline

- Both Committee chairmen committed to finishing by Sept. 30
  - when 2002 farm bill expires
- Will need to have completed House and Senate bills by August recess
- Likely to mark up bills in May and June
- Wait for FY08 budget resolution to draft scoring portions of farm bill
  - need to know if have funds above baseline levels

# Concluding Remarks

- All of these factors will shape the farm bill debate in 2007, either directly or indirectly
- Framers of the next few farm bills will have to embrace a broader view of agricultural policy than in the past