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2013 Farm Bill Update – November 2013

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Full version of this brief is at http://www.farmdoc.illinois.edu/ (11/14/13) and http://go.osu.edu/YAg.

Overview: The farm bill is now in conference. **Conference** is a committee of key senators and representatives appointed to resolve differences in the Senate and House versions of a bill. Few rules apply to conference. The single most important is that votes are on a delegation basis instead of a majority of all conferees. Thus, a majority of the House delegation and a majority of the Senate delegation must agree on each provision and the final product for it to come out of conference. The 2013 farm bill conference committee is large, consisting of 29 House and 12 Senate conferees. Both Chairman Lucas and Chairwoman Stabenow bring strong majorities for their positions in conference.

Budget Differences: Clearly, the biggest difference is Title 4 (Nutrition) (see Figure 1). Ten-year cuts total $39 billion by the House compared with $4 billion by the Senate. The House achieves its cuts by reducing number of eligible beneficiaries. The Senate does not reduce the number of eligible beneficiaries. The second largest difference is the crop safety net. Both bills reduce Title 1 (Commodities) spending by eliminating direct payments and increase spending on Title 11 (Insurance). Both establish a new shallow loss insurance program that farms can elect to add on top of their individual insurance (for corn and soybeans, called SCO). However, the House spends $3.9 billion more on insurance than the Senate while the Senate spends $2.6 billion more than the House on Title 1 programs, excluding disaster assistance. Crop insurance is a single year risk management program because its price is reset each year to reflect current market conditions. In contrast, Title 1 programs provide assistance against multiple-year declines. Thus, the difference in spending by the House and Senate on Titles 1 and 11 reflects an important question: how much emphasis should be placed on multiple year risk vs. individual year risk?

Potential Key Issues: (1) It is possible the final decisions on **nutrition programs** are going to be made at the leadership level of the House, Senate and White House. If so, it becomes difficult if not impossible for the conferees to reach compromise on other top-tier priorities as long as the outcome on the nutrition title remains unknown. (2) Most experts believe the most divisive **Title 1 issue** is base vs. planted acres, followed by the issue of fixed vs. moving average reference prices (new name for target prices). Moreover, while the House increases references prices for all crops compared with current target prices, the increase favors peanuts, barley, and rice, especially relative to recent market prices (see Figure 2). The differential relationship to current market prices increases the likelihood that the reference prices will distort production decisions. A largely unnoticed issue is whether farms should have a choice of Title 1 crop program, as the House bill provides; or a single program, as the Senate bill provides. (3) The Senate, but not the House, requires a farm to comply with its conservation plan to qualify for the **insurance** subsidy. The Senate, but not the House, reduces a farm's insurance subsidy level by 15 percentage points if its aggregate gross income (AGI) exceeds $750,000. (4) The Senate follows the historical tradition of writing Title 1 farm programs as sunset (i.e. limited-life) amendments to the so-called **permanent farm bills** of 1938 and 1949. In contrast, the House replaces permanent laws with its Title 1 and provides no sunset. (5) Both the House and Senate bills replace current **dairy programs** with a risk management program based on the margin difference between the price of milk and feed. However, the Senate but not the House margin program contains a provision to control supply by encouraging supply reductions when margins are low. Of particular note, House Speaker John Boehner is an opponent of supply control.

Summary: Currently, we think the probably of a new farm bill and of an extension is about the same. It is easy to point to nutrition programs as the likely reason a new farm bill will not occur. However, we think the farm safety net issues are just as, and maybe more divisive. Whether the bill is an extension or a new bill, it is distinctly possible the bill will be attached to the federal budget deficit and concurrent spending resolution that Congress must pass.

Figure 1. Difference: House Farm Bill Cuts Minus Senate Farm Bill Cuts, Outlays in Million $, Over 10 Years, U.S.

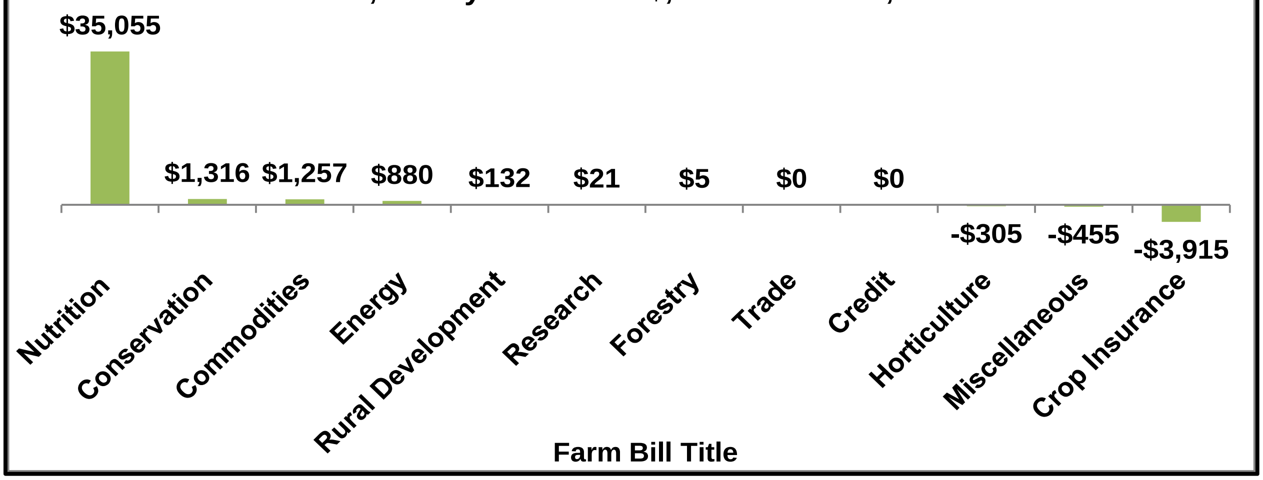

Figure 2: Comparison Ratio: House Reference Price to Average 2008-2012 Crop Year Prices, U.S.