PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Finally, A Farm Bill

As we write this column, the US House of Representatives has passed the 2014 Farm Bill. By the time you read this, hopefully the Senate will have agreed and sent the legislation on to the President for his signature.

The path to this piece of legislation began in 2011 on a note of optimism, followed by the failure of the Supercommittee to come to agreement on deficit reduction targets even though the Ag committees had submitted a budget that met the targets. The consequence of this failure was the sequestration-dictated, across-the-board cuts to all programs followed by an early January 2013 extension of the 2008 Farm Bill, which had expired at the end of September 2012.

In 2013, the Senate passed a farm bill that was rejected by the House. Instead the House adopted separate nutrition and agricultural bills. On the last Monday of January 2014, nearly 4 months after the farm bill extension expired, the Conference Committee reported out the bill that was quickly adopted by the House.

What follows is a look at a couple of the components of the 2014 Farm Bill that were very contentious.

One of the big battles was over the nutrition title and the determination of elements in the Republican Party to make significant cuts to the Supplemental Nutrition Assistance Program (SANP), which had grown significantly in the wake of the great recession. The strategy was two-fold: cut SNAP benefits and separate SNAP from the farm bill in order to break up the coalition between what were perceived as urban interests (SNAP) and rural interests (the commodity and conservation programs). It was thought that this division would make it easier to make larger cuts to each program than would be possible if they remained in a single bill.

The bill that was adopted by the Senate in 2013 contained 4 billion in cuts to SNAP. While the FY 2013 "Ryan Budget" called for $134 billion in cuts, the House version of the nutrition program contained $39.5 billion in cuts to SNAP. The Conference Committee compromised on cuts of $8.7 billion, the number that was agreed to by the House and is now before the Senate.

Under Congressional Budget Office cost projections, the nutrition program will cost $756 billion over the next 10 years. This amounts to 79 percent of 2014 Farm Bill projected spending.

In recent weeks, the Dairy Program garnered significant attention when Speaker of the House John Boehner announced his opposition to what he described as a "soviet style dairy program." The issue came up because of differences between the House and Senate versions of the dairy program.

Both programs provided for margin insurance, but the Senate wording provided for a stabilization program—incentives for reduced projection if the supply of milk got too large and the margin between the price of milk and the cost of feed fell, triggering large insurance payments — while the House wording had no stabilization program. It was the stabilization provision that Boehner called a "soviet-style dairy program."

The concern in the Senate was that without a stabilization program, the cost of providing margin insurance would spiral upward. The compromise reached in the Conference committee was the establishment of a milk product purchase program that would be triggered when the margin fell below a specified level for two months. The CBO projected cost of the dairy program including stabilization was $300 million. As a result of Boehner's objections, the cost of the dairy program with the purchase program will be $1.3 billion, a billion dollars in extra costs just to avoid a modest supply management program.

Another difference between the House and Senate provisions occurs in the commodity safety net that would be triggered if crop prices were to fall. The Senate version provided for variable support program based on a 5-year rolling average of actual season average prices for covered grains and oilseeds. The House version included fixed price protection levels.

In the end, the Conference Committee compromised by allowing farmers to make a one-time election for the 5-year duration of the 2014 Farm bill. Farmers will be allowed to choose between Agricultural Risk Coverage (the Senate Program variable support levels) and Price Loss Coverage (the House program with fixed support levels) on a crop-by-crop basis.

If prices remain high for the next 5 years, the ARC will provide most grain farmers with a superior level of coverage. On the other hand, if prices fall and remain there for a sustained period of time, the PLC will provide farmers with the best coverage. For both programs base acres and yields can be updated.

Reference prices for the PLC program are wheat, $5.50/bushel; corn, $3.70/bushel; grain sorghum, $3.95/bushel; barley, $4.95/bushel; oats, $2.40/bushel; long grain rice, $14.00/hundredweight (cwt).; medium grain rice, $14.00/cwt.; soybeans, $8.40/bushel; other oilseeds, $20.15/cwt.; peanuts $535.00/ton; dry peas, $11.00/cwt.; lentils, $19.97/cwt.; small chickpeas, $19.04/cwt.; and large chickpeas, $21.54/cwt.

It is interested to note that in the previous counter-

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cyclical program, the target price for corn, barley, and grain sorghum were all the same—$2.63 per bushel. Now the reference price for corn is $3.70 while grain sorghum is $3.95, and barley is $4.95. Not coincidentally grain sorghum is important in House Agricultural Committee Chair Frank Lucas' state of Oklahoma, while barley is important to House Agricultural Committee Ranking Member Colin Peterson's northern tier farmers.

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