The 2007 Farm Bill: Prospects for Change

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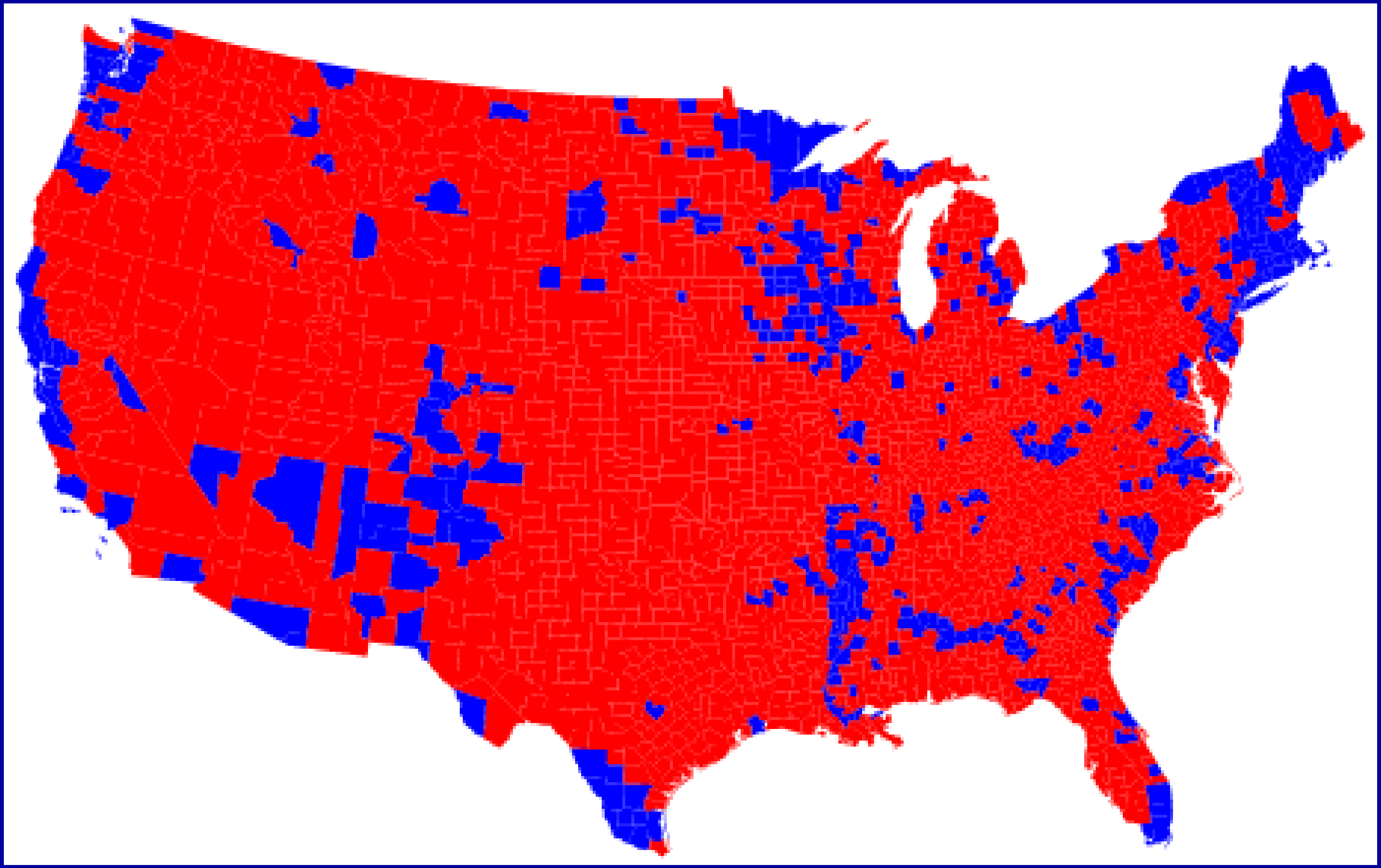
Future Farm Policy: Factors for Preserving Status Quo

- Inertia (changes in farm policy are normally evolutionary, not revolutionary)
- Politics
  - Rural America reelected George Bush
  - Rural America important to both parties’ future
  - Iowa has the first Presidential primary
- Agriculture is a generous campaign contributor
- Fear of causing a farm land price collapse

Who Reelected President Bush?
Rural America



Source: Univ. of Michigan

Ag Commodity PAC Contributions to Federal Candidates, 2004 Election Cycle

Commodity	Contributions ($ 1,000)
Sugar	2,375
Dairy	1,757
Cotton	479
Rice	283
Peanuts	218
Citrus	167
Wheat	100
Potatoes	57
Corn	37
Soybeans	17

Source: Center for Responsive Politics (FEC data)

Future Farm Policy: Factors that Could Drive Change

- Recognition that current commodity programs aren't achieving their stated objectives
- Federal budget deficit
- Agricultural solidarity fragmenting
- International pressure to shift subsidies that distort ag production and trade to non-distorting forms (e.g. direct payments & investments in public goods, e.g. research, conservation; rural infrastructure)
  - WTO ag trade negotiations
  - WTO cotton case
- 2002 Farm Bill has to be reopened anyway.

Recognition that Farm Programs Aren't Achieving Stated Objectives

- Low farm family income
  - Most payments go to larger producers whose family incomes & wealth are well above average
  - Low income farmers receive very little from programs
- Variability of farm income
  - Farmers have income averaging and cash accounting
- Increase competitiveness
  - Capitalization of payments into land values raises U.S. cost of production and undercuts international competitiveness
  - Public investments in ag research declining
- Food security
  - Not a credible problem when U.S. ag grows 1/3 more than we use domestically
- Rural development
  - Payments facilitate consolidation; don't create more jobs

Fragmenting of Agricultural Solidarity

- Many farm group leaders expect there will be fewer dollars for agriculture in the next farm bill.
- Large differences among program crops and regions in payments per farmer and per acre are creating "subsidy envy" (93% of farm prog. benefits go to 5 commodities)
- Profitability of the 2/3 of agriculture not producing program crops is calling into question what the programs accomplish
- Traditional solidarity among commodity groups and among commodities in general farm organizations is starting to show cracks.
  - North (corn & soybeans) vs. South (cotton & rice)
  - Fruits and vegetables vs. program crops
  - Sugar vs. everybody else

If "Successful," WTO Ag Trade Negotiations Might:

- Eliminate all forms of ag export subsidies (would require US to change food aid rules)
- Increase market access by reducing tariffs (highest the most), and if exceptions are allowed, require larger minimum market access (as percent of domestic use)
- Reduce trade-distorting domestic subsidies (i.e. those linked to production of specific commodities)
  - The US has proposed complete elimination in 3 phases over 15 years.
  - It may be possible to move counter-cyclical payments to the Blue Box?
- Accelerate economic growth in low income countries where most market growth potential is.

2002 Farm Bill Will Be Reopened

- Need to change marketing loan, LDP and CCP provisions for cotton and for other program crops that have them – or risk losing them in WTO litigation and not getting anything for them. (rice? corn? soybeans?)
- The fruit and vegetable production exclusion in qualifying for direct payments needs to be changed to avoid them being counted as amber.
- When NAFTA is fully implemented on Jan. 1, 2008, Mexico will get free access to US sugar market. US sugar program will have to change.

2007 Ag Market Conditions

- Every farm bill is influenced disproportionately by the current economic condition in the farm sector and commodity markets *at the time* the bill is written.
- While one cannot predict how crop conditions here and around the globe will evolve between now and 2007, we can predict with some assurance that whatever they are will affect the content of the next farm bill.
- Prospect of higher corn prices has the National Corn Growers Association looking already at revenue insurance as an alternative to present marketing loan-LDP-CCP structure of farm programs.

Prospects for Next US Farm Bill

- Most likely outcome in 2007 Farm Bill is only modest changes from 2002 Farm Bill
- BUT, there are just enough forces for change that you should be prepared that bigger change is possible
  - Federal budget deficit
  - WTO trade negotiations & prospect of litigation
  - Public perception that farm programs are not achieving their objectives
- Most pressing concern: replace trade-distorting mechanisms for supporting farmers with non-trade-distorting alternatives – whether or not Doha Round is concluded by then.