

The Farm Bill

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What is the “Farm Bill”

- Amends permanent legislation of the Agricultural Act of 1949
 - This act makes up the major part of permanent commodity legislation (along with the Agricultural Adjustment Act of 1938) and is still effective in an amended form. The 1949 Act originally designated mandatory support for nonbasic commodities: wool and mohair, tung nuts, honey, Irish potatoes and milk, butterfat, and their products.
- “Omnibus” legislation
- Was commonly a 4-year proposition until 1996 FAIR Act

What Needs to be Done for Dairy Policy?

- Key Issues:
 - Safety Net
 - Milk Price Volatility
 - Targeted Benefits
 - Environment
 - Food Safety

Safety Net

- Price Support Program
 - Change the level of support
 - \$9.90 does not cover the full costs of production on more traditional farms.
 - Achieving the support level
 - Recent experience shows that at low market prices, we have difficulty achieving \$9.90
 - Adjusting the tilt
 - Recourse loans

Milk Income Loss Contracts

- Is likely to be renewed in budget reconciliation
- Going forward, reduce benefit to smaller producers at the expense of larger farms.
 - Increase cap
 - Adjust trigger to accommodate budget concerns.
 - Reduce from 45% to 34%
 - Take 97.5% of total

Dairy Export Incentive Program

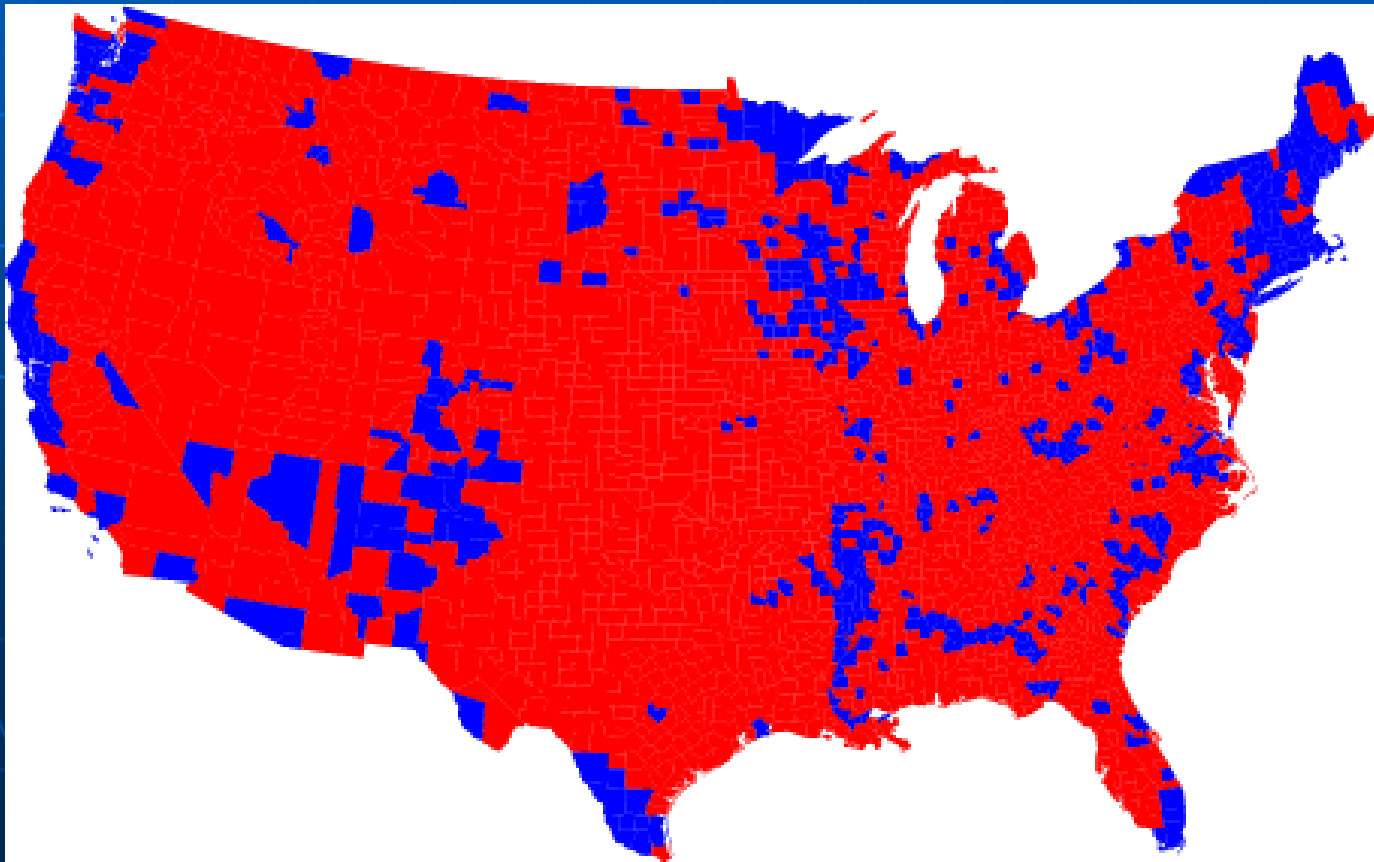
- Focus on markets with greatest potential for longer-term sales
- Don't focus on products current in surplus (market potential)
- Shorten time frame for review and acceptance of bids

Revenue Insurance and Farm Savings Accounts

- If price volatility is the most significant problem, then farm savings accounts can help (Canada and Australia have programs)
- Revenue (AGR) or margin (LGM) programs can also be employed

The Politics of Policy

- Don't forget that rural America reelected George Bush!



The Politics of Policy

- The Congress & the White House are now extremely politicized: there is no bipartisan cooperation among either ag committee members or their staffs. Each party is doing everything possible to make the other look bad, even if it means Congressional paralysis.
- We won't know the Republican-Democrat split in the Senate and House which will write the next farm bill until Nov. 2006.
- Farm bills are best written in odd-numbered years

The Politics of Policy

- Remember that the 2002 Farm Bill was written under unrealistic Federal budget expectations
- There's little public goodwill towards a farm program that gives most of the benefits to largest producers and land owners
- However, political support for agricultural spending is such that some Congressmen this year suggested taking proposed cuts out of food stamps instead of payments to farmers!

PAC Contributions, 2004

<u>Commodity</u>	<u>Contributions (\$ 1,000)</u>
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 (Federal Election Commission data)
Attribution: Robert Thomson

CCC Outlays

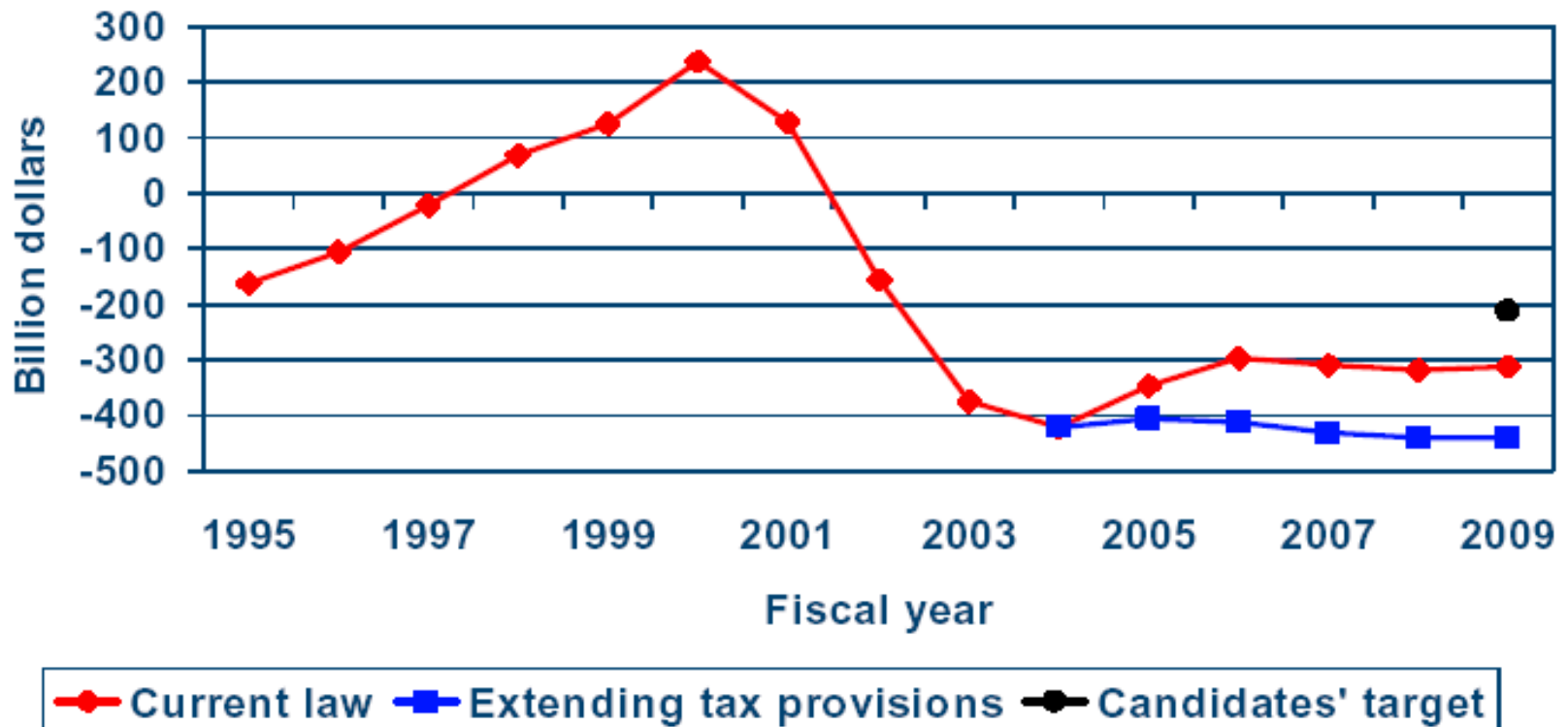
(Millions of Dollars)

Commodity	2002	2003	2004	2005E
Corn	2,959	1,415	2,504	7,683
Wheat	1,190	1,118	1,173	1,495
Rice	1,085	1,279	1,130	586
Upland cotton	3,307	2,889	1,372	4,721
Soybeans	3,447	907	595	1,563
Dairy	622	2,494	295	633
Total	15,680	17,425	10,575	24,065

Source: USDA CCC

Attribution: Robert Thomson

Money Matters!



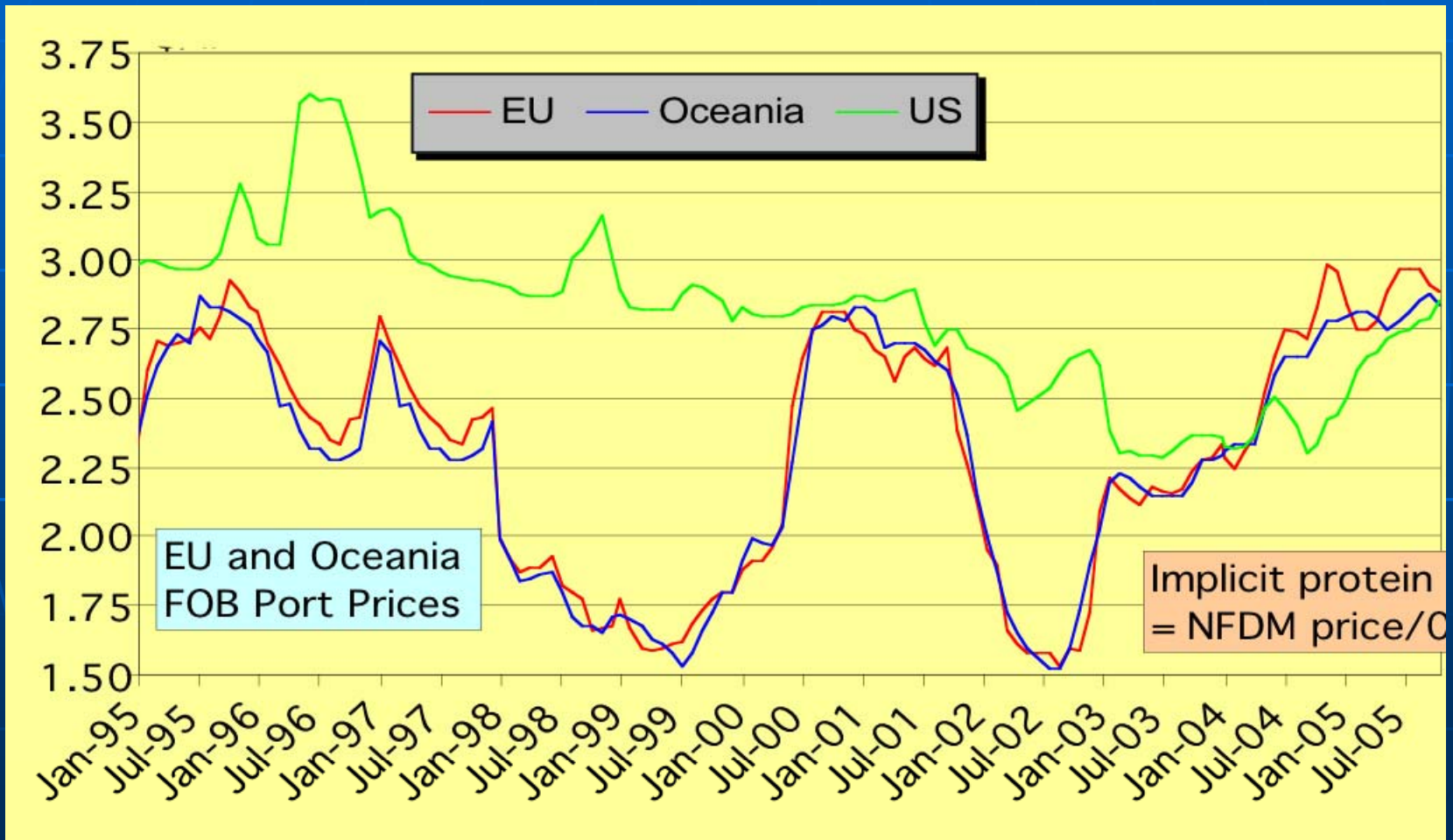
Source: Congressional Budget Office, Sept. 2004

E.U.-25 Net Exports

Attribution: Scott Brown



Implicit Protein Prices



U.S. Exports

Attribution: Scott Brown



Value of U.S. Dairy Exports

Attribute: Scott Brown



World Markets are Becoming More Important to the U.S.

- We can't ignore the impact of WTO on Farm Bill discussions
 - Dairy constitutes from 25 to 33% of our AMS (This is due to Price Support calculation. Could increase to 66%)
 - We can get much more room to play with "Boxes" by getting rid of the DPSP
 - DEIP is also threatened by WTO

The Bottom Line...

- We probably won't have a 2007 Farm Bill
 - We will need to see what our new WTO commitments are
- Not sure about a 2008 Farm Bill
 - Election year
 - Budget problems

Bottom Line...

- Dairy needs to harmonize with other programs
 - Direct payments are a likely outcome as a safety net (how much can we afford?)
 - Perhaps counter-cyclical (depends on WTO)
 - Payment caps appeal to non-agricultural interests but not to large producers
 - Likely to be connected to green practices