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Farm Bill Bogged Down
Failure to Pass New Bill Could Trigger Permanent Legislation Supporting Some Commodities at Higher Levels but Not Covering Recently Added Commodities

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While the House and Senate versions of the new farm bill were passed in July and early Dec. '07, respectively, very little progress has been made to resolve their differences. Congress has adopted continuing resolutions, extending Farm Bill 2002, which expired on September 30, 2007, for short periods, hoping that a compromise bill could be negotiated.

While the House and Senate versions are relatively similar, especially in the commodities titles, there are significant differences that must be resolved. Some progress has been made to resolve these differences. It appears that a major stumbling block over further progress revolves around the current funding estimate which is roughly $10 billion over baseline limits (projected spending above the average farm bill spending of the last five years). Congress was looking to the Senate Finance and House Ways and Means Committee leaders to find revenue sources to cover the $10 billion. Congressional leaders feel that once farm bill budget issues are resolved, conference committee negotiators can work out their differences on substantive issues, such as the levels of price support, nutrition spending, etc.

Shortly before breaking for the two week spring recesses in mid-March, congress extended the 2002 bill through April 18, 2007, hoping that the extra funding could be found and a compromise bill be negotiated during the three week period after Congress reconvenes on March 31.

Permanent Legislation

If a new farm bill is not enacted into law or if Farm Bill 2002 is not extended beyond April 18, permanent provisions of the Agricultural Adjustment Act of 1938 and 1949 could become legally effective. Permanent price support authority to support producers of agricultural commodities is provided by these two laws. A farm bill supersedes this permanent authorizing law for a period of four to six years. Updating this permanent legislation with a farm bill is important because it modifies the permanent law to meet current requirements, such as the recent changes to commodity support programs. Typically, with regard to appropriated programs, the farm bill sets upper limits on program activity levels and appropriations authority.

Under permanent provisions, eligible commodities would be supported at much higher levels, but many recently added commodities, such as rice, soybeans, and peanuts, would not be eligible for support. For example, the wheat harvest should start around May. Futures prices for wheat contracts for July '08 deliveries are trading at about $11/bu. This futures price level would probably translate to a cash price of about $10.40/bu. Subsidy values under permanent law are calculated under complicated rules which take into account carry-in stocks and other factors, but are generally calculated as 65% to 90% (depending on those other variables) of the parity support. (Parity; purchasing power of a particular commodity relative to expenses as compared to the Golden years of agriculture during 1921-1922). Under permanent law with wheat parity at $12/bu, this means cash prices below $7.80-$10.80/bu would receive a subsidy.

Reverting to permanent law would mean going back to acreage controls and some programs, such as nutrition, would not get funded, among many other drastic changes to current farm bill programs. Permanent law is so radically different from current policy and inconsistent with today's farming, marketing, and trade practices, as well as costly to the federal government, that Congress is unlikely to let it take effect.

Compromise

Congress wants to draft a compromise bill which the Administration will sign into law. It appears that the Administration strongly opposes: increases in farm bill spending and paying for the increases with new taxes, and failure to exclude from eligibility for farm program payments persons whose adjusted gross income exceeds $200,000 annually (the current AGI limit is $2.5 million). For example, to finance increased farm bill spending, the House version includes a proposal to raise $7.8 billion by ending a practice that allows foreign-owned companies operating in the United States, to shift earnings to countries with lower tax rates. The Administration considers this proposal as raising taxes. It appears that, essentially, there are two ways to overcome this obstacle; find revenue enhancers that pass the Administration's "no new taxes" test or reduce spending in other USDA programs to offset the increase. In terms of the AGI cap, congress would like an AGI cap closer to $1 million.

Congress has been working diligently to come up with a compromise that would meet the Administration's concerns. Congress proposed to make the law a ten-year bill (the House and Senate-passed bills were five-year bills); limit the increase in farm bill spending by reducing the increases in spending for nutrition and fruit and vegetable farmers, proposed earlier by the Senate, but essentially extend the current farm and income price support programs as in Farm Bill 2002. The Administration is making some signs to compromise in terms of increased farm bill spending.

While it appears doubtful that a compromise bill can be negotiated by the April, 18, 2008 deadline, a compromise appears possible by maybe mid-summer with additional extensions of Farm Bill 2002.