farmdoc DAILY
Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

2012 Farm Bill Update

Carl Zulauf

Department of Agricultural, Environmental and Development Economics
The Ohio State University

December 6, 2012

***farmdoc daily* (2):236**

Recommended citation format: Zulauf, C. "2012 Farm Bill Update." *farmdoc daily* (2):236, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 6, 2012.

Permalink: http://farmdocdaily.illinois.edu/2012/12/2012-farm-bill-update.html

Overview

The 2012 Farm Bill has become entwined with the debate over federal budget priorities at a time of large fiscal deficits, a debate commonly called the fiscal cliff (see yesterday's farmdoc Daily post here). The 2012 farm bill process most closely resembles the 1991 farm bill process, which also became entwined in a debate over budget priorities and deficits. This article briefly examines the current status of the 2012 Farm Bill process and offers a peek at future farm safety net issues.

Current Status

In June 2012, the U.S. Senate passed the Agriculture Reform, Food and Jobs Act of 2012. In July 2012, the U.S. House Committee on Agriculture passed the Federal Agriculture Reform and Risk Management Act. The full House has not taken up this bill. Potential next steps in the 2012 farm bill process include passage of a House-Senate compromise farm bill, either as a separate bill or as part of a larger package to address the fiscal cliff, or a short-term extension of all or part of the current farm bill. An extension probably will not exceed a year, and could be less.

Comparison of Existing Bills

Most provisions in the House and Senate farm bill drafts are similar. In terms of the crop safety net, both bills eliminate direct payments, retain marketing loans, make risk management the safety net's central focus, make individual crop insurance the central safety net program, enhance individual crop insurance coverage, add a county insurance Supplemental Coverage Option (SCO), implement a multiple-year county revenue option as a complement to insurance, and give farms a choice over their multiple-year risk management program.

In my opinion, the major differences in the drafts are: (1) the size of cuts to nutrition programs: $4 billion (Senate) vs. $16 billion (House) over 10 years, (2) whether or not the Farm Service Agency should administer a farm level risk management program, and (3) whether or not the multiple-year risk management program should focus on price (House) or revenue (Senate) and have benchmarks that are fixed (House) or change with market conditions (Senate). The last two differences are integral to the debate over the share of spending by crop; in particular the argument by Southern crops that a market oriented safety net does not work for them.

Summary Observations

I continue to think that there is a higher probability that the 2012 Farm Bill will be passed before the end of this year than that the current farm bill will be extended. My reasons for this assessment include the broad agreement that currently exists in much of the two farm bill drafts, the concern over what a new budget baseline will mean for the farm safety net, and the potential use of the budget savings in the new farm bill to fund bi-partisan priorities. Of course, this assessment means that the House and Senate will need to compromise over the existing differences in the two draft bills.

I think the two most important proposed changes in the farm safety net are SCO and the Dairy Production Margin Protection Program. The latter is the first farm safety net program since the 1970s to include cost of production in its design. If adopted, it will be important to monitor how this program performs, including its costs and its impact on different farm sizes.

SCO allows a farm to buy county insurance as an add-up to its individual farm coverage. Coverage can be bought up to 90%. For example, a farm could buy coverage for losses at the county level that occur between the 75% individual insurance coverage bought by the farm and 90%. SCO has no payment limit, a 70% subsidy level, and, unlike current county products, no payment multiplier. I think many farms will look carefully at SCO, especially in areas of lower yield variability, such as the Midwest, and larger farms, whose yield variability usually more closely tracks county yield variability. I also think farms may consider enrolling in SCO and buying down individual insurance.

The search for a multiple-year program to complement insurance remains on-going. It is unlikely this farm bill will resolve this policy issue and thus farms will be given a choice. In addition, the cost and design of crop insurance likely will become a key future policy issue. Crop insurance no longer is a small budget program. Its cost has exceeded $5 billion in 3 of the last 4 years. We as a nation look differently at large budget programs than at small budget programs. In particular, we become as interested, if not more interested, in the question, “What does the public gain from the program in exchange for the tax dollars spent on a program?” compared with the question, “What do beneficiaries of a program gain from the program?”