



## Farm Bill Conference Issues

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### Overview

Both the U.S. Senate and U.S. House of Representatives have passed farm bills. The process now moves to a Conference Committee, which is composed of members of the U.S. Senate and House of Representatives appointed by the leadership of the respective legislative chamber. It is tasked with working out compromises on the differences between the two bills. This post presents a brief listing and discussion of the key differences. It does not attempt to cover all differences or to provide an extensive analysis of the issues. Its purpose is simply to provide a broad-brush outline of key issues. For additional discussion on the state of the farm bill debate, see "2013 Farm Bill Update – July 2013" by Carl Zulauf and Gary Schnitkey, available [here](#). The Senate farm bill is available [here](#) while the House farm bill is available [here](#).

### Potentially Important Differences between the House and Senate Farm Bills

- Nutrition Programs
- Permanent Law
- Dairy Programs
- Crop Insurance and Conservation Compliance
- Crop Insurance Subsidy Limit
- Payment Limits on Title 1 Crop Safety Net Programs
- Direct Payments and Upland Cotton
- Crop Safety Net
  - Moving vs. Fixed Targets
  - Price vs. Revenue Multiple Year Targets

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## Base vs. Planted Payment Acres

The word, potential, is included to indicate that differences between the House and Senate bills may not turn out to be an issue. One legislative chamber can accept the other legislative chamber's version or the difference may be easily compromised.

### **Nutrition Programs**

The Senate farm bill contains a nutrition title with spending cuts of \$4 billion over 10 years. The House farm bill contains no nutrition title. However, reports indicate the House Republican leadership will seek to pass a nutrition title as a separate bill with spending cuts totaling around \$40 billion over 10 years. Thus, two potential issues exist in regard to nutrition programs: will a nutrition title be included in a conference committee farm bill and, if included, what will be the level of funding? The debate over spending on nutrition programs reflects a broader debate over the level of spending for safety net programs, including Social Security, Medicaid, and Medicare.

### **Permanent Law**

The Senate takes the traditional approach of enacting most Title I (Commodities) programs as amendments to so-called permanent law (usually the 1938 and 1949 farm bills). The amendments also have expiration dates. For example, the Senate's programs for field crops expire after the 2018 crop year. In contrast, the House proposes to replace permanent law with the current farm bill and, more importantly, it has no expiration date. The combination of expiration date and outdated permanent law has provided impetus to reconsider not only the farm safety net but also the entire farm bill. The House proposal reduces and could negate the need to consider farm bills in the future, making it harder to enact changes. Thus, adopting the House approach will likely mean that farm bill actors will want to be more certain than normal that they are getting the programs they want, which in turn could reduce the likelihood of getting a new farm bill.

### **Dairy Programs**

Both the House and Senate farm bills replace the current milk safety net programs with a subsidized insurance program for the margin between milk prices and feed prices. The Senate bill has a provision that seeks to control the supply of milk when the margin declines below a specified value. The House bill does not contain a supply management provision. The bills also differ on the schedule of farm-paid insurance premiums, with the House bill's schedule being more favorable for smaller milk producers. The latter difference reflects long standing discussions over whether the proposed milk margin program favors large dairy farms.

### **Crop Insurance and Conservation Compliance**

The Senate bill attaches conservation compliance to Federal crop insurance. To qualify for the federal subsidy on crop insurance, a farm must meet the highly erodible land, sodbuster, and wetland conservation provisions that are currently attached to Title 1 commodity programs. The House bill does not attach conservation compliance to Federal crop insurance. Issues that underpin this difference include consistency between Title 1 and crop insurance programs, whether this provision is needed when most, but not all, buyers of crop insurance are in Title 1 programs, and, more broadly, what should society reasonably expect from farms in return for subsidizing crop insurance premiums.

### **Crop Insurance Subsidy Limit**

The Senate bill contains a 15 percentage point reduction in the crop insurance premium subsidy for entities with an average adjusted gross income exceeding \$750,000, but delays implementation for 1 year pending a study to assess the impact this limit will have on the program, including premiums, as well as analysis of attempts to circumvent the limit. The House bill contains no such provision. This difference reflects an intense debate over whether insurance subsidy levels should be the same for small, medium, and large farms. In other words, should the public's subsidy level take into account the ability to pay for insurance based on the farm's ability to generate income?

## **Payment Limits on Title 1 Crop Safety Net Programs**

The Senate and House bills limit marketing loan gains and price deficiency payments to \$75,000 per payment entity and limit payments by other Title 1 crop programs to \$50,000 per payment entity. The Senate bill has a separate payment limit that applies only to peanut program payments; the House bill does not have a separate payment limit for peanuts. Payments are denied to entities with an aggregate gross income (AGI) over 3 years that exceeds \$750,000 in the Senate bill and \$950,000 in the House bill. Differences exist between the two bills in the programs to which the AGI limit applies, with the House bill applying the limit to a broader range of programs, including conservation programs. Last, the Senate bill, but not the House bill, contains a provision that redefines active involvement in farming. This provision's objective is to tighten and more consistently enforce who is considered to be actively involved in farming. The existence of these payment limit differences reflect an on-going debate over whether public support to farms should be conditioned on a payment entity's level of income?

## **Direct Payments and Upland Cotton**

Both the Senate and House farm bills eliminate the direct payment program after the 2013 crop year, except that the House bill retains direct payments for the 2014 and 2015 crops of upland cotton. The payment level is phased down, with the percent of base acres on which payment is made declining from 85% for the 2013 crop to 70% for the 2014 crop and 60% for the 2015 crop. The issue is whether the other crops will also want a phased down extension for direct payments. In addition, if an extension of the 2008 farm bill is the path taken; these lower rates for direct payments could be part of the extension since a number of nonfarm legislators have stated that their support for a farm bill extension will be conditional on reducing or eliminating direct payments.

## **Multiple Year Crop Safety Net**

The House bill provides farms with a choice between a Price Loss Coverage (PLC) and Revenue Loss Coverage (RLC) programs. PLC is a target price program that makes payments when the market price is less than a reference price (i.e., price target). Payment is made on the basis of planted acres subject to a total farm payment limit based on the farm's historical base acres. The reference target prices are fixed in the House bill. RLC is a revenue target boundary program that covers revenue shortfalls that fall between 75% and 85% of a revenue target. The revenue target moves with the market based on a 5-year Olympic moving average of yield and price. RLC specifies that the crop's fixed reference price is a lower bound on the price used to calculate the revenue target.

The Senate bill offer farms both an Adverse Market Payment (AMP) program and an Agriculture Risk Coverage (ARC) program. AMP, like PLC, provides price deficiency payments when price is below a reference price. The reference price is set at 55% of a 5-year Olympic moving average (removes low and high value) of prices except that fixed reference prices are specified for rice and peanuts. ARC, like RLC, is a revenue target boundary program. It provides payments when revenue falls within a range between 78% and 88% of a revenue target determined by using a 5-year Olympic moving average of past yields and prices. ARC, like RLC, provide both shallow loss coverage and coverage for multiple year losses since a moving average adjusts more slowly than the market. AMP payments are based on historical base acres. ARC payments are based on planted acres subject to a cap for the farm (not on individual crops) determined by the farm's planting history for the 2009 through 2012 crops. The Senate bill is able to provide both a price and revenue program to farms because its reference price for most crops is much lower than the reference price fixed by the House bill.

It is easy to focus on the differences between the House and Senate Title 1 farm safety net programs. However, both offer a target price program and both contain a revenue program. They differ on whether the revenue program is an option to the target price program or is available to all farms. They differ on whether reference prices are fixed or variable for most crops. They differ on the use of historical base acres or planted acres. These differences are not trivial but are also surmountable.

## **Summary Observations**

A diverse set of differences exist between the House and Senate farm bills. However, many of the differences concern the farm safety net. These differences can largely be grouped into two categories.

One category contains issues that reflect a broad debate over what society should expect from farms in return for the public subsidies it provides. This set of issues includes payment limits, limits on crop insurance subsidies, and conservation compliance.

The second category contains issues that revolve around the determination of assistance levels for the farm safety net. In this farm bill debate, these issues are largely about multiple-year assistance. Some of the issues arise because the U.S. has decided not to enact annual supply control constraints for most crop safety net programs. The one exception is sugar. The vote by the House to remove the supply control provision in the proposed dairy margin program is consistent with the current situation for crop support programs, excluding sugar.

The lack of an annual supply control program means that any fixed program parameter can end up distorting the market and thus farmers' production decisions. In contrast, an annual supply control program provides the government with a mechanism for limiting production when policy distortions increase U.S. production. For example, target prices or revenue will distort production when prices or revenues are below the target levels for an extended time. Farms will produce for the target, not the market. Such a situation opens up the U.S. farm safety net to lawsuits at the World Trade Organization (WTO). This situation arose with respect to the U.S. cotton program. Specifically, fixed U.S. cotton price support targets became out of step with the market, leading to the successful Brazilian cotton case at the WTO and by extension to the major redesign of cotton programs contained in both the House and Senate farm bills. In summary, the U.S. has effectively two policy options if it wants to establish target levels: it can have targets that move with the market or it can use fixed targets but include some form of supply control to limit costs and farm production distortions when the market is below the fixed target. U.S. farm policy has struggled with accepting this situation. It will be interesting to see how the farm bill conference committee addresses it.

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