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Farm Bill 2023: Another Side of Expectations Management for Farm Policy

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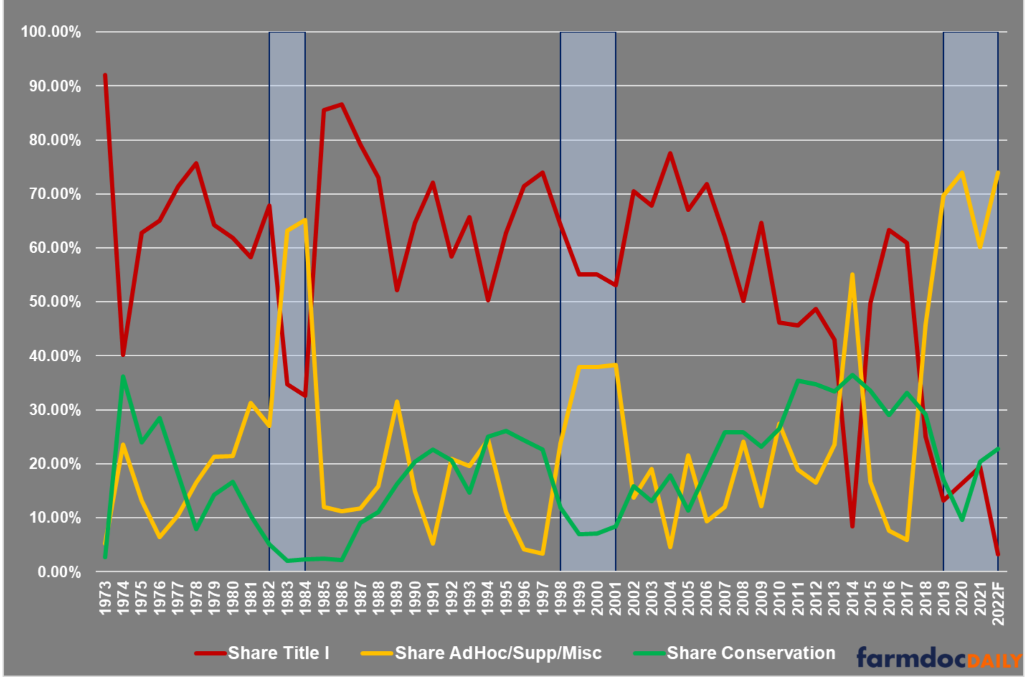
As discussed last week, one of the challenges for reauthorizing the Farm Bill this year are the possible expectations for farm program payments (*farmdoc daily*, June 15, 2023). These expectations may have been driven to unreasonable levels by the recent experiences with ad hoc and supplemental payments since the 2018 Farm Bill was authorized. Complicating those expectations further is the zero-sum nature of the Congressional budgeting rules and the Congressional Budget Office baseline, which restricts increases in spending without offsets and for which the ad hoc, supplemental and other miscellaneous program spending are not included. This being farm policy and a farm bill, there are other complicating factors to managing expectations and this article explores those complications further.

Historical Background and Perspective

Stepping back for historical perspective, the Agriculture and Consumer Protection Act of 1973 was the first farm bill written on the upside of a spike in crop prices not attributed to wartime demand (see e.g., *farmdoc daily*, May 30, 2019). The 1973 Farm Bill remains notable for a major change in farm support policy that de-emphasized the price-supporting loan programs created during the Great Depression and New Deal. In 1973, Congress positioned direct income payments to farmers based on low crop prices as the primary component of the farm support system. The program's primary payment trigger was a fixed price level known as target prices and the payments were known as deficiency payments. This policy design is essentially the same as the current Price Loss Coverage (PLC) program, which uses statutory fixed reference prices with a high-price escalator provision (85% of the five-year Olympic moving average of Marketing Year Average prices) to trigger payments. The 2023 reauthorization debate will mark the 50th year of this policy, but little has changed as the discussions once again revolve around increasing the price triggers.

Figure 1 illustrates an historical perspective relevant to this discussion using the data on government payments reported by USDA's Economic Research Service and adjusted by ERS to account for inflation (USDA-ERS, Data Files: U.S. and State-Level Farm Income and Wealth Statistics). This figure compares the share of total payments to farmers reported by ERS, broken down by category. The red line are those total payments from Farm Bill Title I programs, such as ARC and PLC. The gold line are those payments from ad hoc, supplemental and miscellaneous programs; the programs, in other words, not authorized in a farm bill but either through Congressional appropriations, USDA initiative, or both. Included in this category are programs such as the Cotton Ginning Cost Share Program, the Market Facilitation Program and the Coronavirus Food Assistance Program (CFAP); note that the non-USDA pandemic payments, reported as the forgiven loan amounts from the Paycheck Protection Program, have been removed from this total. The green line is the share of total payments to farmers for conservation programs and policies, historically the lowest share of payments. Highlighted are years of particular note, falling prior to the Food Security Act of 1985 (1982-1984), the Farm, Security, and Rural Investment Act of 2002 (1998-2001), and the years prior to a potential 2023 reauthorization (2019-2022). Each of these were times of elevated ad hoc, supplemental or miscellaneous (i.e., non-farm bill) assistance.

Figure 1. Share of Total Payments to Farmers by Category (USDA ERS)



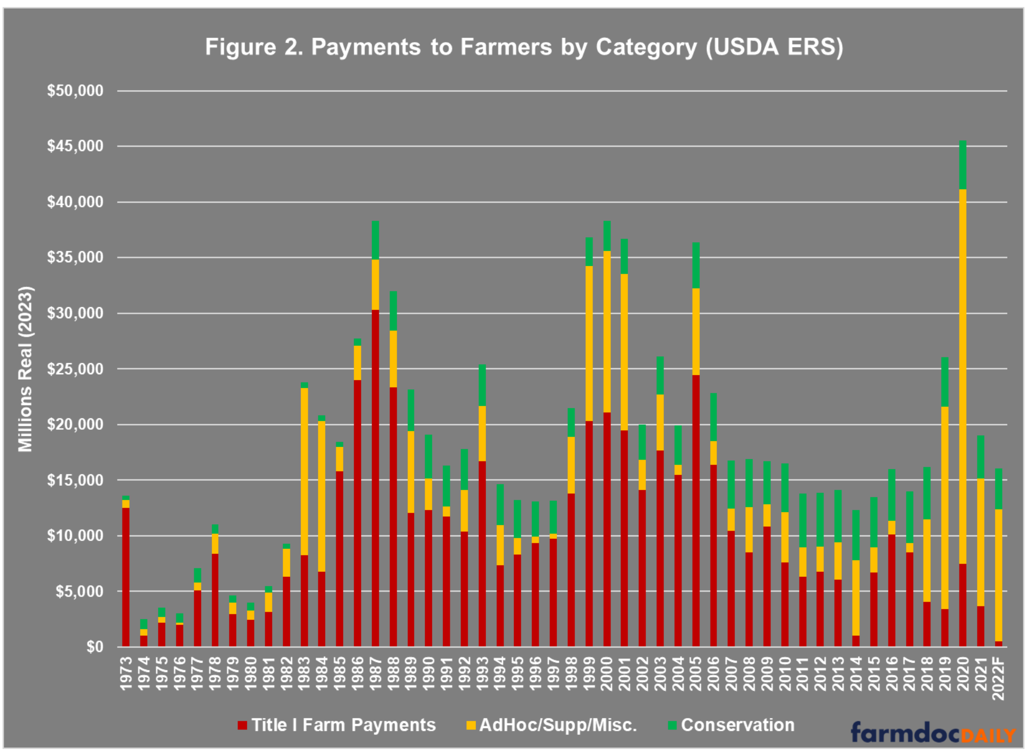
The highlighted years in Figure 1 add further context to the expectations management challenges for the upcoming farm bill debate. In the early 1980s, the Reagan Administration created a Payment-in-Kind (PIK) program to remove acres from production as farmers fell deeper into the Eighties farm economic and erosion crises. After passage of the 1996 Farm Bill, the Asian financial crisis helped depress farm prices and Congress responded with nearly $30 billion in ad hoc and supplemental payments through appropriations bills that largely amounted to doubling the direct payments created by the 1996 Farm Bill. Each of the farm bills that followed those moments resulted in a significant increase in Title I farm program payments. The potential for ad hoc payments to be a leading indicator of farm policy changes was previously discussed and remains a pressing question (*farmdoc daily*, July 29, 2020).

As should be well known by now, reality is not as simple as bold lines on a graph. One thing the graph does not include are crop prices, revenues, and incomes, which are at much higher levels today than they were in the earlier episodes. No trivial matter, that. Take the Food Security Act of 1985, for example. Congress did not increase target prices in that farm bill but rather froze them at current levels, followed by a decline in the final year of authorization. The drastic increase in spending was due to the continued collapse deeper into the economic crisis that lowered prices further and caused record level payments. The fight over raising target prices, in fact, nearly derailed the farm bill effort and caused substantial complications. The Senate farm bill was only able to pass that chamber after a heated floor fight over raising target prices was temporarily resolved by Majority Leader Bob Dole (R-KS) who negotiated a convoluted version of the policy that both froze and reduced target prices—a ploy to get the bill to conference with the House where it could be fixed (Coppess 2018, at 162-63).

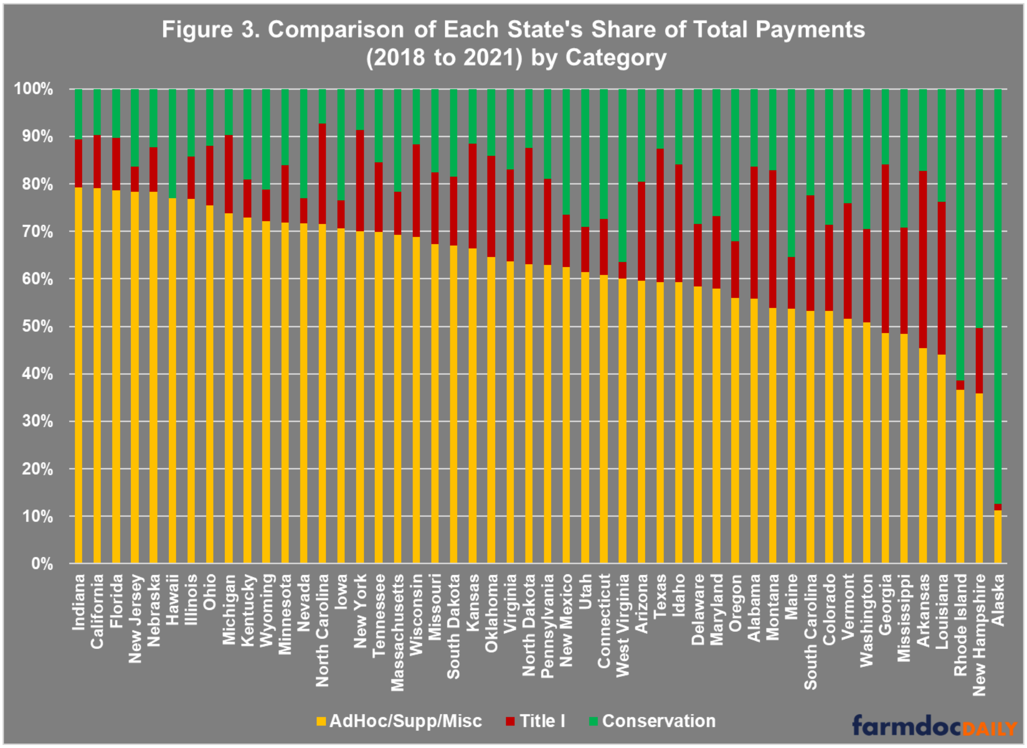
It was the 2002 Farm Bill that recreated the target price program, known as the Counter-cyclical Payments (CCP), which Congress had eliminated in the reforms of the 1996 Farm Bill. That policy change also occurred at a time of relatively depressed crop prices, revenues, and incomes unlike the current moment. Of course, the 2002 Farm Bill was also a budgetary anomaly: a temporary federal budget surplus had allowed the agriculture committees to bargain for an additional $80 billion in baseline funds, most of which they spent on adding the CCP to the direct payments program (Id., at 208-19). Herein also a reminder that fixed price triggers are very expensive in the CBO scoring process.

Another Review of the Extraordinary Recent Experiences

As noted previously and highlighted again in Figure 1, the federal payment experiences for farmers since the 2018 Farm Bill have been nothing short of extraordinary, even as compared to the two previous episodes of large ad hoc and supplemental payments. High crop prices, revenues, and farm incomes in recent years have driven down farm program payments while ad hoc, supplemental, and miscellaneous payments have broken historic payment records. The difference between the two is vast and could be fueling unreasonable or unmanageable expectations for what farm programs can achieve in a farm bill under the current CBO baseline. Figure 2 provides additional perspective, illustrating the total payments (adjusted for inflation) reported by ERS over these 50 years.

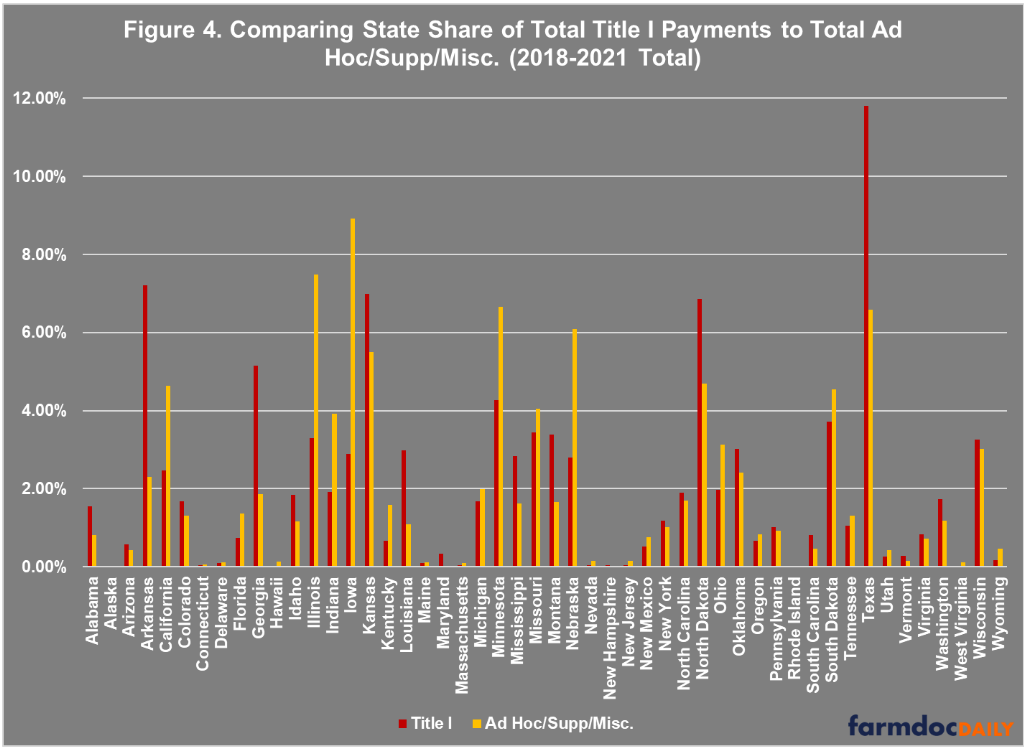


Clearly the ad hoc payments have far exceeded farm program payments in recent years; that has been the general experience in most states as well, but there are noticeable differences. Figure 3 charts the share of total governments payments in each State from 2018 to 2021 by category (ad hoc, farm program, and conservation) as reported by ERS. The ad hoc category (gold) is on the bottom to better illustrate that in most states greater than 50% of the payments received were from this category. Additionally, the States are ranked from largest to smallest share of total payments from the ad hoc category.

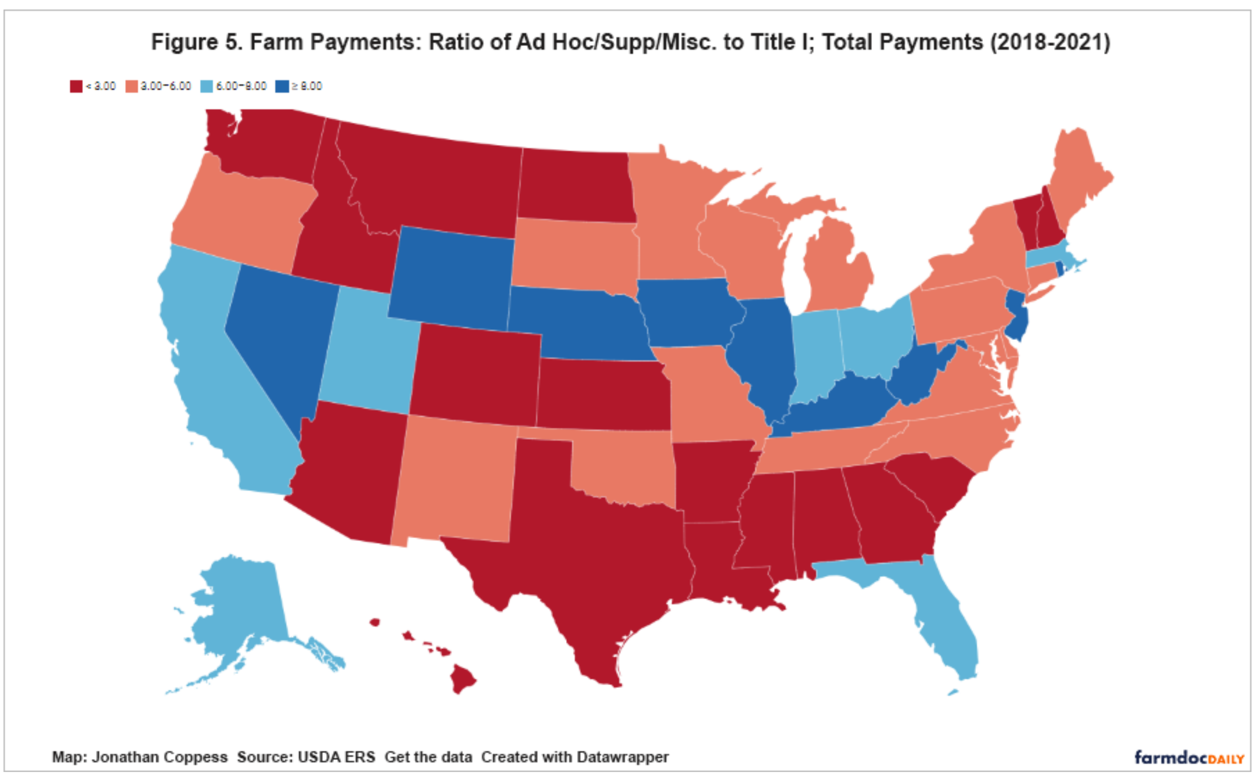


In addition to the overall experience, Figure 3 also indicates noticeable differences among the states as to which category contributed the most payments, especially as between the ad hoc category and farm programs in a farm bill. While almost all States received more in the former than the latter—which aligns with the substantially larger payments from the former nationally where 66% of the payments were in the ad hoc category, 17.5% in Title I and 16% in conservation—a distinctive pattern emerges that may be relevant for farm bill politics. For many of the Southern states, the share from the ad hoc category is noticeably lower, with some Southern states (Arkansas, Georgia, Mississippi, and Louisiana) below 50% of the total from 2018 to 2021. The share of total payments from Title I also exhibits noticeable regional differences, with the highest shares from that category in the Southern states. This raises many questions for potential further analysis and review.

Figure 4 provides a starting point for that further analysis, offering a state-by-state performance by category. It illustrates each state's share of the total national payments in the ad hoc and Title I categories (total from 2018 to 2021). In this, Texas stands out as the primary example; Texas received almost 12% of all Title I payments from 2018 to 2021, but less than 7% of the national total ad hoc category payments in those years. On the other end of the comparison, Iowa received just over 3% of total Title I payments from 2018 to 2021 but almost 9% of the total ad hoc category payments in those years.



The categorical performance differences highlighted in Figure 4 are noticeable given the regional nature of farm bill politics. The interactive map in Figure 5 adds further context, presenting each State's ratio of ad hoc category payments to Title I payments over the 2018 to 2021 years. For example, the national ratio was 3.79, indicating that the ad hoc category payments were nearly four times the amount of the Title I category payments. In Arkansas, that ratio was only 1.21, while in Iowa it was 11.74.



Concluding Thoughts

An initial exploration of government farm payment data presents another side of the challenge in managing expectations for farm policy in a farm bill debate. It also raises many questions about these various policies and the realities on the ground from multiple design decisions. From 2018 to 2021, as reported in the ERS data, almost every state received more from the various ad hoc, supplemental and miscellaneous programs than from the Farm Bill Title I programs. This could reduce the value to the farmer of the farm bill programs, or it could create unrealistic expectations for a farm bill that cannot be met under budget rules. Almost all Southern states received a higher share of the national payment total from farm bill Title I programs than from the national total for the various ad hoc, supplemental and miscellaneous programs. This could indicate significant inequities in Title programs and add political challenges managing region-specific expectations. It could also demonstrate the equalizing impact of including more farmers and crops in farm assistance programs. Of course, the scale of these programs also present cost challenges for expanding the reach of federal assistance: at an average of $18 billion each of the four years reviewed, the possible farm bill score for this could approach $200 billion, more than triple the current projected cost of the title. And yet, a more profound matter risks being lost in the over-emphasis on direct payments to farmers. A long history of underinvestment in conservation by federal agricultural policy is clear in the data, no matter how it is presented. Unreasonable expectations could make matters much worse if the search for offsets targets the conservation title's baseline or the historic investments in conservation and climate change made by the Inflation Reduction Act of 2022.

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