



# Issue Report

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## Reconciling Farm Commodity Policy

The Great Depression and the Dust Bowl were twin disasters that roiled the nation in the 1930s and helped create U.S. farm policy. The first farm bill signed into law—the Agricultural Adjustment Act of 1933<sup>1</sup>—was part of President Franklin Roosevelt’s first 100 days in office and his New Deal for a nation crippled by the Great Depression. The current farm bill—the Agricultural Act of 2014—was signed into law on Feb. 7, 2014, after an arduous three-year process. It will expire in September 2018.

Farm commodity policy is viewed as a response to the risks inherent in farming. Even in today’s high-tech world, farm risk is difficult to manage due largely to the unpredictable impacts of weather and natural events. In the simplest of terms, a farmer plants a seed into the ground along with all of the associated sunk costs: seed, fertilizers, pesticides, fuel, equipment and the cost of the land. A successful crop from those inputs largely depends on good weather during the growing season. Whether the farmer can earn enough on that crop to cover the costs and make a profit depends on volatile commodity markets. A farmer has no control over the weather and no control over or impact on market prices.

Weather and market risks also play a significant role in the politics of farm policy but are complicated by regional differences. A coalition of farm interests led by the American Farm Bureau Federation (AFBF) and major commodity interests first developed commodity support policy. These commodities represent three of the major U.S. production regions: cotton in the South; corn in the Midwest; and wheat in the Great Plains.<sup>2</sup> In addition to regional production differences in climate, weather and soils, these crops have very different market realities that make for different price risks and policy preferences.<sup>3</sup> The total of farm policy involves more commodities but these three have played the most significant role in every farm bill debate to date. Reconciling farm policy to the needs for it remains at the center of Congressional reauthorization debates.



### Paper Explanation

In 2016, Farm Foundation and USDA’s Economic Research Service hosted a conference on the changing dynamics in farm ownership and agricultural finance. As part of that discussion Farm Foundation commissioned two papers: on federal farm policies, authored here by Jonathan Coppess of the University of Illinois, and trends in farmland ownership, authored by Bruce J. Sherrick of the University of Illinois. Farm Foundation gratefully acknowledges support from Bank of America for this project.

## A brief history of farm bill and commodity policy

Today's farm bill stretches back to the emergency legislation that was the 1933 Act. But commodity support policy goes back further, with roots in America's westward expansion and the closing of the frontier in the Great Plains. Prices collapsed after demand from World War I dried up but increased farm production continued. To help farmers, a coalition of farm interests first designed policy in terms of parity between the prices farmers received for their crops and the cost of the goods they purchased to farm. The U.S. Supreme Court declared the 1933 Act unconstitutional in 1936, at a time when the Dust Bowl raised awareness of, and concerns about, soil erosion. Congress responded to both policies that year with stopgap legislation that combined commodity support policy with efforts to combat erosion. This paper divides the subsequent policy history into three distinct eras: the parity era of 1938-1973; the target price era, 1973-1996; and the modern, decoupled era, 1996-2014.

*The Parity Era of 1938 to 1973:* In 1937, Congress began developing what it hoped would be permanent farm commodity legislation. The result was the Agricultural Adjustment Act of 1938 which created a commodity price support system that used nonrecourse loans to help guarantee a price level to the farmer for the commodity.<sup>4</sup> Supporting commodity prices also relied on efforts to control production with a goal of keeping supplies in line with demand. This, in turn, would keep prices above loan rates and close to perceived fair levels, i.e., parity. Controls were also intended to offset the incentives provided by the loans, and typically involved acreage allotments and marketing quotas.<sup>5</sup>

The parity system was controversial and problematic. In the 1938 Act, loan rates depended on the relationship between expected supply and demand for each commodity. This resulted in corn, cotton and wheat receiving different loan rates because the more the crop was oversupplied, the lower the loan rate. During World War II, Congress pushed loan rates to 90% of parity, a level that would prove politically difficult to reduce after wartime demand dissipated.

Congress's first attempt to reduce the rate was in the highly-partisan 1948 election year. Voters returned Congress to Democratic control, and Southern Democrats subsequently returned to 90% of parity in the Agricultural Act of 1949.<sup>6</sup> A partisan, political fight over the parity system ensued, dividing the farm coalition along regional and partisan lines. This dynamic complicated farm policy throughout the 1950s and 1960s, during a time when farm productivity increased dramatically. Disputes over the parity system, especially acreage controls, combined with technological advances in farming to result in surpluses that could not be kept under control.

The Eisenhower Administration (1953-1961) repeatedly pushed to reform farm policy but struggled against Southern Democrats in Congress. This fight played out over three farm bills as policymakers tried to get a handle on the commodity surplus. First, Congress looked to foreign food aid in 1954 and President Eisenhower's veto pen forced a minor step away from 90% parity. The surplus problem worsened and farmers continued to receive low prices. In 1956, President Eisenhower proposed using conservation to reduce acres and surplus. Congress included the President's Soil Bank proposal in the Agricultural Act of 1956, but the program was unsuccessful in reducing surplus. By 1958, the parity system was collapsing under the weight of surplus and opposition to production controls by the Corn Belt. The Agricultural Act of 1958 provided corn farmers the option to vote themselves out of the parity system and they took it.

The surplus problem persisted into the Kennedy Administration. In 1961, Congress tried a new policy to address it: paying feed grain farmers directly to reduce feed grain acres. Some of the payments came in the form of surplus stocks from federal storage known as Payment-in-Kind (PIK). It was expensive but partially effective. Yet, the political conflict over farm policy deteriorated further. A 1962 effort by Southerners to reinstate mandatory production controls on corn and wheat was rejected by corn interests in Congress when they initially defeated farm legislation on the House floor. That defeat was followed by an even bigger loss when wheat farmers rejected a return to controls in a 1963 referendum. By 1965, the feuding commodity interests had largely reached détente but the parity system was in tatters.

It was effectively in place only for cotton and a few other smaller acreage commodities, such as tobacco and peanuts.

*The Target Price Era, 1973 to 1996:* In 1972, President Nixon's Secretary of Agriculture Earl Butz negotiated a deal with the Soviet Union after weather destroyed their crops. The deal cleared out existing federal holdings of surplus wheat. Coming on the heels of changes in the world economy and inflation, the Soviet wheat deal quickly increased commodity prices but drove a consumer backlash against farm policy that reverberated in an urbanized Congress.<sup>7</sup> The result was the most substantial change to farm policy in its then 40-year history and the formal end of the parity era. It began when the Senate Agriculture Committee agreed to de-emphasize price support loans and create an income support system using target prices to trigger deficiency payments.<sup>8</sup> The 1973 Farm Bill was also the first to include both farm support programs and food stamps in a single bill, rolling together rural and urban votes in order to get legislation through Congress.<sup>9</sup>

Farmers expanded production in response, but prices subsequently fell as exports failed to match expectations and were eventually exacerbated by grain embargoes on the Soviet Union. Inflation, high interest rates and spiking energy costs further damaged heavily-indebted farmers, driving many into bankruptcy and nearly collapsing the entire Farm Credit System. Another severe farm economic crisis consumed farm policy in the 1980s. President Ronald Reagan called for farm policy reform, but his efforts were limited by the farm crisis and political deals with Southern Democrats. In the 1981 Farm Bill, Congress chased inflation with an increasing schedule of target prices and, in 1983, President Reagan's USDA reinstated the PIK program to take acres out of production. President Reagan's demands for reform began to take hold by the time Congress wrote the 1985 Farm Bill. That bill froze target prices, continued set-aside acreage authorities, revised price support loans to make them more market oriented and added export subsidies to help U.S. farmers compete in the world market.<sup>10</sup> It was expensive but was credited with helping pull the farm economy out of crisis. The 1990 Farm Bill furthered

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reform efforts by freeing 15% of a farmer's acres from the support system.<sup>11</sup> It was the last farm bill of the target price era. Bigger changes were on the horizon.

*The Modern, Decoupled Era, 1996-2014:* The 1996 Farm Bill marks the beginning of the modern, decoupled era for commodity policy, which has been shaped by drastic swings in crop prices and partisan control of Congress. First, increased export demand again pushed commodity prices to record levels. Second, Republicans won a majority in both chambers of Congress for the first time in 40 years in the 1994 mid-term elections. Republican Congressional reformers sought to cut spending, balance the budget and reduce the federal government's role in the U.S. economy, including agriculture.

Out of this came Freedom to Farm, a proposal to decouple farm supports through a seven-year contract providing farmers with fixed annual payments. It was controversial, but increasing commodity prices eventually helped much of the farm coalition to accept it and the Republican Congress to push it into law over significant Democratic opposition.<sup>12</sup> The 1996 Farm Bill decoupled federal support from planting decisions by making payments on historic contract acres instead of contingent on whether the farmer planted the crop. It also temporarily decoupled support from market prices through the fixed annual payments. At the time, supporters claimed that the 1996

Farm Bill was the most substantial reform of farm commodity policy. When it was followed by another period of sustained low prices, however, Congress quickly reinstated price-based support.

An Asian financial crisis damaged export markets and brought down prices. Congress responded by appropriating tens of billions of dollars to farmers in emergency payments known as Market Loss Assistance. Congress also revised crop insurance policy to increase premium subsidy and expand coverage.<sup>13</sup> When a temporary federal budget surplus allowed the Agriculture Committees to capture an additional \$73.5 billion for the next farm bill, they spent that funding largely on commodity support by reinstating price-based assistance. The 2002 Farm Bill created a three-tiered commodity support

system out of direct payments, counter-cyclical (target price) payments and the marketing assistance loan program, including loan deficiency payments.<sup>14</sup> Under that system, farmers could potentially receive three different federal payments for each commodity covered by the bill. This generosity quickly turned into a major liability when Brazil initiated and won a dispute against U.S. cotton supports before the World Trade Organization (WTO).<sup>15</sup> Brazil's WTO victory not only required revisions to cotton supports it posed a threat to U.S. farm commodity policy.

More price and partisan changes consumed the two most recent farm bills. Congress created the Renewable Fuel Standard (RFS) in 2005. Democrats recaptured majorities in both chambers in 2006 and expanded the RFS in 2007. The RFS mandated that minimum specified levels of renewable fuels be blended into domestic transportation fuel market. Because renewable fuel consists predominantly of ethanol produced from corn, the RFS created a strong demand for that crop and, coupled with other demand growth, helped strengthen commodity prices. Congress made few changes to commodity policy in the 2008 Farm Bill, which was quickly followed by a worldwide economic downturn.<sup>16</sup> Politically, Barack Obama (D-IL) was elected president in 2008 but the 2010 midterm elections returned the House of Representatives to Republican control while Democrats retained a majority in the Senate. The result was a series of intense partisan disputes over federal spending, including the federal budget and debt ceiling. Farm programs were a primary target in a time of record farm income. These political pressures forced the Agriculture Committees to cut spending to reauthorize farm commodity policy; they eliminated direct payments.

The three-year effort to write the 2014 Farm Bill nearly destroyed it and its primary coalitions. Eliminating direct payments produced a regional commodity policy dispute, with the South favoring continuation of a price-based support policy and the Midwest and much of the Great Plains leaning toward a switch to revenue-based policies. The disagreement consumed two Senate debates in 2012 and 2013.

The commodity policy dispute, however, paled in comparison to the destructive partisan fight over the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps, in the House

of Representatives. The fight over SNAP initially killed the farm bill on the House floor in 2013. Farm programs and SNAP had to be split into separate bills, passed separately by narrow Republican-only votes and recombined for conference with the Senate.<sup>17</sup> The final conference agreement provided most covered commodity farmers the option to choose between price or revenue policies on their base acres.<sup>18</sup> Conference barely repaired the fractured coalition with SNAP through an agreement to minimize program reductions. The 2014 Farm Bill is scheduled to expire in 2018.

## **Reconciling Policy Development with History**

Farm bill history consists largely of the path etched by market prices through time; policy chases ever-changing production and economic conditions.<sup>19</sup> Much depends on how the problems are defined. Farm commodity policy has largely focused on trying to provide assistance with market problems for a select group of basic, bulk commodities. As discussed, policy has evolved from the parity system to target prices to the modern decoupled policies. Along the way, the whole of farm policy has also involved other programs, such as conservation and crop insurance. Political realities have required farm interests to join forces with urban interests and add food assistance for low-income persons. Reconciling the development of farm commodity policy with its history can be found in the changing definition of these issues and how policymakers sought to address them.

### *From the farm problem to protecting farm income*

Initially, farm policy was an attempt to address what was known as the "farm problem." It boiled down to the relationships between commodity production and demand, as well as between commodity prices and the costs of production. The farm problem perspective helps explain the parity system. Individual farmers could not control commodity production and prevent it from outpacing demand for the harvested crops.<sup>21</sup> Oversupplied commodities resulted in depressed prices. The cost to produce those crops was also largely outside of the farmer's control. Low prices and high costs damaged farmer incomes and drove many out of farming all together. The parity system used the federal government and acreage allotments as an attempt to better align production with demand. In

return for submitting to this control, a farmer would receive a nonrecourse loan to put a floor under the crop's price.

The system failed, however, largely for the same reasons that policymakers diagnosed a farm problem: it was impossible to effectively control commodity production. Federal controls were subject to the same vagaries of weather as farmers. More consequentially, the technological revolution in U.S. agriculture eviscerated the parity system's ability to control production with acreage allotments. Farmers had increasingly adopted mechanical means of production during the early years of the policy debate and into the parity era. After World War II, farmers also quickly adopted hybrid seed technology, as well as synthetic fertilizers and pesticides. These technologies vastly improved farm productivity—fewer farmers produced more crops on fewer acres. As a result, acreage allotments as a means of keeping production in check failed and the result was massive federal surplus stocks of forfeited commodities throughout the 1950s and 1960s. Surplus pushed the parity system to the point of collapse. It required acreage reductions that were politically untenable.<sup>22</sup> Non-acreage attempts to reduce the surplus through international food aid in 1954 and then the Soil Bank in 1956 also failed.

The parity system had another problem in the nonrecourse loans. The loans provided a guaranteed minimum price and were meant as an incentive to get farmers to comply with acreage allotments. The problems started with the 1938 Act because it produced different loan rates relative to parity for corn, cotton and wheat.<sup>23</sup> The counter position was high, fixed loan rates—i.e., 90% of parity—but these were production incentives that worked against the acreage allotment system. Setting high loan rates also provided political incentives for elected representatives to deliver to favored constituents. Lowering loan rates caused problems for the farmer and the elected official.

The parity system's breakdown created political conflict and liabilities that haunt farm policy to this day. It drove wedges into the farm coalition over loan rates and acreage controls, dividing it along its regional-commodity fault lines. The divide was magnified by partisan politics. Cotton interests were almost exclusively Southern and Democratic. They demanded and defended the 90% of parity loan rates and acreage controls, not just for cotton but for all crops receiving price support. Midwestern

corn interests aligned with mostly Republican members of Congress against 90% parity and federal acreage controls for both practical and ideological reasons. The vast majority of corn was used for animal feed, much of it by the same farmers who grew the corn or their neighbors. To make the disagreement worse, acres diverted out of cotton and wheat were planted to feed grains that competed with corn and caused surpluses of corn that likely would not have existed but for the diverted acres.<sup>24</sup> The debates were scenes of partisan conflict and caused a serious breach in the farm coalition.

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The parity system's failings were obvious and burdensome. The federal government was required to handle and store large quantities of supported surplus commodities at great cost to the taxpayer. This was a very public demonstration of policy failure. It coincided with a large-scale demographic shift that weakened the farm coalition's voting power in Congress and public standing. The demographic changes also produced a split in the Democratic caucus between urban Northern representatives and Southern rural representatives. That divide also involved volatile Civil Rights issues that intersected farm commodity policy debates. The growing chasms between North and South, rural and urban, would eventually require a bridge built by food stamps.

Regional and partisan conflict coupled with demographic pressures and policy failure forced a slow, difficult evolution in commodity policy. Corn farmers voted themselves out of the parity system in 1959. Midwestern members of the House of

Representatives killed an attempt to return corn farmers to mandatory controls when they joined with urban Representatives to defeat commodity legislation on the House floor in 1962. The policy diagnosis evolved from addressing the farm problem to protecting against price-based risks. Policy moved towards loan rates that were based on market average prices and direct payments (including PIK).<sup>25</sup> Each iteration was focused more on helping farm incomes when prices were low rather than working to increase market prices.

This evolution consumed farm bill debates for nearly 25 years. It took the early 1970s price spike and the Nixon Administration to finally bring the parity system to an end. The target price system that replaced it provided deficiency payments, designed as a backstop for farm income should prices to fall, rather than an interference in the market to increase prices. It was partially the product of strong optimism about export demand for U.S. commodities and intended as an incentive to farmers to expand production, plant “fencerow to fencerow” to capture export markets.<sup>26</sup> It was considered more market-oriented than price support policy because it permitted prices to follow the market and simply supplemented the farmer’s income if they were too low. Secretary Butz infamously told farmers to “[g]et bigger, get better or get out” of farming and farmers responded.<sup>27</sup> They expanded production and, in many cases, borrowed heavily to do so.

Target price policy was also designed to have political appeal beyond the farm. Farmers would not be paid to take land out of production and the federal government would not need to store commodities. The policy avoided paying farmers at all if prices stayed high enough, thus reducing farm policy’s footprint on the federal budget. Consumers would benefit from expanded production in terms of avoiding food shortages and high food prices. If prices fell, the payments would supplement farmer incomes without increasing prices, thus also acting as an indirect subsidy for food.

Policies that encourage production proved far more successful than those that tried to control it. Export markets and crop prices, however, failed to live up to the optimistic forecasts. Combined with other factors, such as embargoes, inflation and monetary policies, expanded production under the 1973 target price

policies helped bring about a second farm economic crisis and extremely costly efforts to recover from it. Payments attached to the farmer’s planting decisions provided a federal incentive to plant the supported commodity, even if it was oversupplied and suffering from depressed prices. In response to the crisis, Congress and the Reagan Administration redeployed acreage reduction policies in the form of set aside acres and, temporarily, PIK.<sup>28</sup> These were echoes of the parity system rather than a reversion. In fact, commodity policy continued trending in a market-oriented direction and set-aside acres fell out of favor as the farm economy recovered. Modern farming realities and the 1996 Farm Bill launched farm policy on a different trajectory.

### *Natural resource challenges and conservation policy*

Throughout this history, policies to conserve natural resources and combat issues like soil erosion were largely used to help price support policy. The Dust Bowl was the main catalyst for farm conservation policy. Congress’s reaction to the 1936 Supreme Court decision quickly brought conservation into the service of price support policy as a justification for reducing acres planted to the supported commodities. Thereafter, conservation was a component of acreage allotments and production controls. It faded during the war years only to be brought back in service of the troubled parity system. The 1956 Soil Bank was a method for renting or bidding acres out of production and to avoid having them go into competing crop production.

The 1985 Farm Bill marks the beginning of modern conservation policy. Expansion in the 1970s brought back to prominence soil erosion and other environmental challenges for farming. By 1985, those issues collided with an environmental coalition empowered by legislative and political victories in the 1970s, such as the Clean Water Act and the Clean Air Act. As a result, the farm program-food stamp coalition expanded to include conservation and environmental interests.

In the 1985 Farm Bill, Congress created the Conservation Reserve Program (CRP) and conservation compliance policy. The former was an updated version of the 1956 Soil Bank but designed to focus more on removing highly erodible and

otherwise environmentally sensitive crop land from production. Under conservation compliance, a farmer could become ineligible for farm support for draining a wetland to farm it, farming on a previously drained wetland or farming highly erodible land without a conservation plan to control erosion. Conservation compliance was all the more notable because Congress created it during the farm crisis, meaning that struggling farmers could lose Federal support and have to pay it back. Compliance highlights the significance of this turning point in farm policy.

The conservation and environmental focus in the 1985 Farm Bill were only the beginning. Congress expanded conservation policy in subsequent bills. It added easement authority to preserve farmlands, grasslands and wetlands. It focused on water quality conservation, as well as expanded CRP.<sup>29</sup> The 1996 Farm Bill created the Environmental Quality Incentives Program (EQIP) which combined several existing authorities into a single program devoted to providing cost-share assistance to farmers for implementing conservation practices.<sup>30</sup> Reserve programs, such as CRP and easements, take land out of production; working lands programs, such as EQIP, provide assistance for conservation integrated with production.

The 2002 Farm Bill further expanded conservation assistance out of a portion of the additional baseline funding, most notably with creation of the Conservation Security Program (CSP). CSP provided five-year annual contract payments for conservation. Renamed Conservation Stewardship Program, it was revised in 2008 and 2014 with directives to USDA to add millions of acres to the program each fiscal year. From a policy perspective, this contrasts with the acreage caps that limit CRP enrollments. Finally, the 2014 Farm Bill added the Regional Conservation Partnership Program, which combined various authorities and added funding that was to be matched by non-federal sources.

The trend for conservation policy appears to be in the direction of working lands assistance.<sup>31</sup> Congress has repeatedly added working lands programs, funding and acres while reducing CRP acreage caps. This trend has coincided with an increase in the prominence of conservation programs in the farm bill. For example, the Congressional Budget Office (CBO) estimated that the 2014 Farm Bill conservation title would spend more than the commodity title. The 2014 Farm Bill and a subsequent return of sustained, relatively low

prices, however, raise questions about the future direction for both commodity and conservation policy. Such questions may be more pressing given the growing environmental and conservation challenges facing farmers, particularly those concerning water quality and water quantity.

### *Risk management and baseline in the modern era*

Twenty years of the modern, decoupled era have witnessed significant cross-currents for farm policy. Out of those cross currents, two main trends have emerged. The first is the rise of risk management and the ascendance of crop insurance in terms of expenditures, participation and prominence.<sup>32</sup> The second is the increasingly dominant role played by Congressional budget disciplines, including the CBO baseline, in farm bill development and debates.<sup>33</sup>

Congress created crop insurance in the 1938 Act but it long languished, suffering from low participation and other problems. As recent as 1990, the George H.W. Bush administration proposed ending crop insurance in favor of disaster assistance payments. Congress rejected the President's proposal in favor of reforming the program, which can be seen as the start of the risk management trend. Decoupling federal supports from production in 1996 allowed farmers to respond to market signals more than farm programs. In that way, it supported the risk management trend. It was followed by the Agricultural Risk Protection Act of 2000 (ARPA) which was the biggest shift for crop insurance largely due to the fact that it provided increased assistance to farmers for crop insurance premiums.<sup>34</sup> ARPA also expanded revenue-based insurance policies popular with many farmers. Together, these changes have resulted in substantial increases in participation and have added billions to the estimated expenditures in the crop insurance baseline.<sup>35</sup>

The RFS pushed the trend further. It helped strengthen crop prices which virtually eliminated counter-cyclical payments in the time leading up to the 2007 reauthorization debate. The 2008 Farm Bill involved crop insurance more deeply in farm bill efforts and added revenue policies based on insurance concepts. The 2014 Farm Bill expanded crop insurance while contracting commodity programs as reflected by the expected expenditures for the bill.<sup>36</sup> It also eliminated the fixed, decoupled direct payments under partisan budget pressures, bringing to an end that policy's 18-year existence. This can also be seen as a shift towards risk management because direct

payments were simply transfer payments without any connection to the actual risks of farming. Going forward from 2014, all commodity payments can be considered risk-based because they are contingent on either low prices or estimated losses in revenue.

Crop insurance has not, however, replaced the commodity support programs that have long dominated farm policy. This is due, in large part, to the fact that crop insurance coverage is only for those risks within the crop year. It does not provide assistance with multiple years of yield loss or low prices. Income support payments continue to dominate the farm commodity policy debate but have been plagued by intense disputes over design. By establishing limits on the funding available for farm programs, the CBO baseline is a large part of the reason.

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Whether it was intended to do so or not, the 1996 Farm Bill accomplished more than decoupling assistance; it elevated the CBO baseline's role in farm bill development. The 1996 bill was designed to capture CBO baseline in a time of increasing crop prices, as well as Congressional focus on reducing federal expenditures.<sup>37</sup> Expenditures under target prices were unpredictable with large payments under low prices but little or no payments if prices remained high. The solution to both was to capture the baseline and lock it in with seven years of fixed payments. Congress also explicitly allocated total expenditures to each of the supported commodities and froze in place the acres used to make payments.<sup>38</sup> Going forward, federal expenditures were built into the program acres with different values for the acres of each commodity.<sup>39</sup> Doing so had policy and political implications. For example, changes in policy could redistribute expenditures among commodities and alter program acre values. In effect, this established a baseline within the CBO baseline for each commodity interest.

The 2002 Farm Bill was an additional baseline grab for the commodities programs in general and cotton in particular. But it was also a reaction to a sustained period of depressed prices.<sup>40</sup> Arguably, it was an

over-reaction to the 1996 Farm Bill's reforms. The fixed contract payments may have drifted too far from farm risk by removing crop prices from the support equation. The 2002 Farm Bill benefitted from an anomalous budget situation but fit with historical precedent where high prices bring about big policy changes only to be followed by low prices that result in backtracking on those changes.

The RFS also impacted the baseline. It was beneficial to corn but also improved prices across-the-board for all commodities.<sup>41</sup> Increasing prices reduced federal outlays from the counter-cyclical program and reduced the baseline to direct payments.<sup>42</sup> The subsequent elimination of direct payments at a time of spiking prices fully exposed the baseline's impact on farm program politics. It magnified regional differences over policy that converged on the dispute between

price and revenue programs. Removing cotton from the programs to settle the WTO dispute added further complications.<sup>43</sup> The recent dispute nearly fulfilled a prediction once made by President Reagan's budget director that the budget could be used to turn the coalition against itself making it easier to eliminate farm programs.<sup>44</sup> Farm commodity policy survived the 2011 to 2014 disputes, however, as commodity interests were able to fight to a draw in Congress leaving the ultimate policy decisions to the farmers themselves.<sup>45</sup>

## **The next Farm Bill: Questions of crop prices, baselines and coalitions**

The current bill's expiration is in 2018 and there remain significant uncertainties that limit making sound predictions about the next farm bill. At best, a few clear questions have emerged that are likely to dictate the next farm bill's direction; history can provide perspective, if not clear guidance. History adds additional perspective that these are long-term matters worked out over substantial timelines. Congress wrestled with a failing parity system for 25 years, tinkered with target prices for another 23 years and, by the next farm bill, will have worked with decoupling for 22 years. By 2018, food assistance will have provided an important alliance to farm policy for



45 years and modern conservation policy for 33 years; it will mark 85 years of farm bills.

The price trends immediately leading up to and during a farm bill debate tend to have the largest impact on both the policy and the debate. If current market and production trends hold, expectations are that crop prices will remain relatively low going into the next farm bill. To date, farm bills written during times of sustained low prices have failed to produce substantial reforms or significant changes to policy. More often they have reinstated policies that were thought to have been discarded and have increased support to farmers. If price trends continue into the 2018 farm bill debate a very difficult baseline situation will add to the challenges. Fundamentally, a return of relatively low prices produces uncertainty about the direction Congress will take with respect to the trend towards risk management and crop insurance. The next farm bill might involve a reversal of that trend or some form of rebalancing.

Addressing multi-year price risks is at the heart of farm policy. It has also long produced intense regional disputes which have recently found a home in the debate between price-based and revenue-based policies. Revenue programs use moving averages of market prices (albeit with a minimum price included) to trigger payments while the price program uses only minimum prices fixed in statute. Sustained periods of relatively low prices will lower the trigger point for revenue payments. Revenue programs also trigger payments dependent on a combination of prices and yields, rather than on either of them separately. In short, this complicates payments because high yields can result in decreased prices but together might not result in a revenue low enough to trigger payments.

A target or reference price, however, is fixed in statute and does not change; payments are triggered only by decreases in prices that fall below the fixed statutory price. It does provide more protection against depressed prices in part because it will not adjust lower but that also depends on the levels at which the prices are fixed. This policy design, however, has been historically problematic and faced strong ideological opposition, particularly from Midwestern Republicans. The fixed price also has baseline risk in that prices can be relatively low but not low enough to trigger payments, and much would depend on the forecast for prices.

In many ways, this is an updated version of the debate between 90% parity and flexible price supports that consumed farm policy efforts in the 1940s and 1950s. It remains concentrated between Southern and Midwestern commodity interests. Midwestern crops, especially corn, remain anchored by strong domestic demand and less reliance on exports. This has only increased with the advent of the RFS which continues to differentiate corn from such crops as cotton that are heavily exported.<sup>46</sup>

The debate also raises issues of equity among the commodities in a baseline-driven policy environment. Increasing fixed prices for those crops with smaller acreages, such as rice or peanuts, produces a much smaller score from CBO and, thus, the impact on the baseline is reduced. Those crops with larger acreages are less able to increase fixed prices because of the large CBO score and substantial baseline impacts. In comparison, revenue calculations were better able to account for increased prices during the years leading up to the 2014 Farm Bill. The downside is potentially playing out at present because sustained levels of relatively lower prices will reduce payments and the baseline.

These issues return time and again to the CBO baseline—it is likely to be the largest obstacle to any reversal or rebalancing of the risk management trend. If prices remain low, the revenue programs would be expected to spend considerably less.<sup>47</sup> That would be expected to produce a smaller baseline for the Agriculture Committees when they work to rewrite farm programs, making any significant policy changes extremely difficult. Under budget discipline rules, increasing funding for any program or commodity requires that the spending be offset elsewhere. Those offsets would have to come from the expected expenditures on other commodities or from other programs, such as crop insurance, conservation or even SNAP. There are not likely to be any easy options.

Cotton stands at the center of these questions because it was removed from income support programs in 2014 to settle the WTO dispute. The cotton industry has already demanded that USDA take steps to bring it back into the income support programs to provide assistance with low prices.<sup>48</sup> Reinstating cotton to the income support policies would likely require offsets while also raising concerns

about the trade implications. If those offsets come from other commodities this may create additional friction given that cotton prices have not fallen nearly as far as prices for corn, wheat or soybeans.<sup>49</sup> Taking from other commodities to pay for cotton would add considerable stress on the farm coalition after what it endured for the 2014 Farm Bill.

Reducing expenditures in crop insurance to pay for cotton or other farm program assistance would cut against the trend towards risk management. It would be expected to also cause significant friction within the farm coalition. Risk management and crop insurance are not viewed the same by all members of the farm coalition. Differences in participation, costs, risks and losses vary by region and crop.<sup>50</sup> Crop insurance has proven most popular with Midwestern corn and soybean farmers. It would also come with political liabilities given the view of crop insurance in recent farm bill debates.

Baseline issues also raise questions about conservation policy. It has trended in the direction of working lands policies as compared to retirement policies such as CRP. Low crop prices may alter or reverse this trend as they can be expected to drive pressure to increase the acres permitted in CRP. Adding acres to that program will also have a cost that will need to be offset. If it comes from within the conservation title it will most likely come from working lands programs. This could result in strong disputes within the conservation and farm communities, causing problems for a title that is generally less controversial than the commodity title. The conservation baseline has grown by steady, small increments but seeking offsets from farm programs or crop insurance would add friction. Moreover, it would coincide with pressures for increased spending on cotton and possibly other commodities due to low prices. The potential collision among baselines and interests would increase stress on the coalitions in a farm bill.

The issues discussed thus far mostly involve the farm and conservation coalition. Getting enough votes to move a farm bill out of the committees and through

Congress will require functioning coalitions beyond farm and conservation interests. The formula for winning in Congress has been bipartisan, built with a powerful coalition with food assistance (SNAP) interests. That alliance adds potentially large numbers of urban and suburban votes that both helps pass a farm bill but also protects programs within it from amendments unfavorable to farm or conservation interests. All of the alliances within the coalition suffered significant damage in the disputes that plagued the 2014 Farm Bill, but arguably none more than the one with SNAP.

The partisan fighting over SNAP that led to the farm bill's initial defeat on the House floor was the most damaging in terms of coalition-maintenance. Budget pressures combined with partisan, ideological policy differences to put enormous pressure on both sides of this coalition. The breakdown raised difficult questions about its future viability. That breakdown was also rooted in baseline issues that had multiple causes. First, the 2008 Farm Bill revised eligibility rules to expand participation. Second, the American Recovery and Reinvestment Act temporarily increased maximum benefits.<sup>51</sup> Third, the 2008 financial crisis and resulting economic recession significantly expanded SNAP participation. Together, they increased SNAP expenditures beginning in 2009.<sup>52</sup> This added to the spending imbalance between the members of this key coalition. SNAP makes up nearly 80% of estimated farm bill costs but has vastly more participants receiving far smaller benefits than farm programs. These program realities add to the political difficulties that envelop SNAP.

In 2013, the House voted to add controversial work requirements to SNAP. Doing so broke the coalition and cost the bill votes. It was initially defeated on the House floor, magnifying the questions hanging over the farm program-SNAP coalition. The outcome of the 2016 Congressional and Presidential elections adds further doubt.<sup>53</sup> The risks and challenges for farm policy on its own are daunting. Left alone in Congressional debates, commodity programs and crop insurance would be incredibly vulnerable and the prognosis for a farm bill dims considerably.

## Conclusion

The long history of U.S. farm commodity policy may well be a singular story in the annals of U.S. governance. Farm policy has survived two economic crises, a Dust Bowl, failures, massive surpluses, an urbanized population, world trade disputes, partisanship, regional disputes and budget disciplines. It has survived by forming strategic legislative alliances and by adapting to changing circumstances, albeit slowly and reluctantly. The question for the future of farm commodity policy is whether it can maintain those strategic alliances in spite of partisan, budget and regional pressures. The issue ultimately boils down to a simple exercise of vote counting. It is also a question of adaptation and whether the policies and politics can adapt to the changing needs of farmers, consumers and taxpayers.

The discussion herein has attempted to reconcile farm policy's history with its development and its future. It is an attempt to reconcile the policy with the needs for it given changes over a long existence. That history also provides important lessons that could guide future debates and developments. But before the future for the farm bill appears too dim and its demise easily predicted, it is important to keep in mind that the process of negotiations and debates can produce a viable path. Somewhere within all of the challenges lie opportunities to revise policies and bring together a successful coalition for a farm bill. Success will continue to be determined by the ability of the policy to meet the needs of various constituencies and the politics of the time.

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- <sup>1</sup> Agricultural Adjustment Act of 1933, P.L. 73-10 (73d Congress, May 12, 1933). Note that the term “farm bill” will be used throughout in general reference to the legislative vehicles that carry farm policy.
- <sup>2</sup> See, Coppess, J. and T. Kuethe, “Mapping the Farm Bill: the Traditional Farm Coalition and Current Production.” *farmdoc daily* (6):152, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, August 11, 2016, available at: <http://farmdocdaily.illinois.edu/2016/08/mapping-the-farm-bill-traditional-farm-coalition-current-production.html>.
- <sup>3</sup> See, Appendix, charts 1-3; U.S. Department of Agriculture, Economic Research Service, Data Products (Cotton, Wool and Textile Data; Feed Grains Database; and Wheat Data), available at: <http://www.ers.usda.gov/data-products.aspx>.
- <sup>4</sup> The price support program permitted the farmer to take out a loan from USDA on his crop at the established loan rate. At the end of the loan period (generally nine months) if prices were above the loan rate the farmer would sell the crop and pay back the loan. If, however, prices were below the loan rate the farmer could forfeit his crop to the CCC and keep the loan funds. The loans were non-recourse, which meant there was no penalty or recourse for the forfeiture and the farmer could borrow again the following year. Under this policy, the Federal government became the effective buyer of last resort at the loan rate. Loan rates for each of the covered commodities were based on a percentage of a concept called parity which compared the ratio between crop prices and cost of goods a farmer purchased for the crop year with a base era ratio for the commodity. Initially the base era for parity was the pre-war years 1909 to 1914. The ratio between prices and costs from that era equaled 100 and each crop year’s ratio was compared to it to determine the fair price for the crop and the loan rate (i.e., if the ratio was 120 then that would be applied to prices to get the parity price against which the loan rate was established).
- <sup>5</sup> Acreage allotments were used to limit how much of a commodity a farmer could plant and were based on USDA estimates for demand. Marketing quotas were limits on how much a farmer could sell of the harvested crop if production was beyond demand (or USDA estimates). Farmers generally had to approve marketing quotas by referendum.
- <sup>6</sup> The 1949 Act remains relevant to current farm policy discussions because it serves as permanent law. The commodities title of the farm bill is written with an expiration date, generally five years from the date of the bill. The title contains legislative language that temporarily suspends operation of the 1949 Act provisions for that five-year window, but if a new commodity title is not written to replace the expiring one (or the existing one is not extended), then commodity policy technically reverts to the 1949 parity provisions because the five-year suspension ends. See e.g., Agricultural Act of 2014, P.L. 113-79 (113th Congress, Feb. 7, 2014), at sec. 1602.
- <sup>7</sup> Throughout the post-World War II years, outmigration from rural communities was pronounced as many moved off the farm and into cities and suburbs for job opportunities. Productivity increases in farming also helped drive this outmigration. Southern segregation policies and discrimination pushed many African-Americans out of farming and rural communities in the South and into urban areas of the North. These demographic changes impacted political power in Congress and were magnified by Supreme Court decisions that required redistricting and further diminished rural voting power in the House. See, Winders (2009), Chapter 5, “The Decline of the South,” at 105-28.
- <sup>8</sup> Income support is direct Federal payments to farmers when prices are low (i.e., below the target prices). See, U.S. Senate Committee on Agriculture and Forestry, “Agriculture and Consumer Protection Act of 1973,” report (together with additional views) on S.1888, S. Rept. No. 93-173 (93d Cong., 1st Session, May 23, 1973), at 23-24; Agriculture and Consumer Protection Act of 1973, P.L. 93-86 (93d Congress, Aug. 10, 1973). See also, Claude T. Coffman, “Target Prices, Deficiency Payments, and the Agriculture and Consumer Protection Act of 1973,” 50 N.D. L. REV. 299 (1973-1974).
- <sup>9</sup> See, John Ferejohn, “Logrolling in an Institutional Context: A Case Study of Food Stamp Legislation,” in CONGRESS AND POLICY CHANGE, ed. By Gerald C. Wright, Leroy N. Reiselbach, and Lawrence C. Dodd (1986 Agathon Press), pp. 220-263.
- <sup>10</sup> Specifically, the price support loan program began being revised in the Eighties to the Marketing Assistance Loan (MAL) program. These revisions provided USDA the authority to allow farmers to replay loans at rates that were below the loan rate and keep the difference, known as a marketing loan gain. In addition, Congress added Loan Deficiency Payment (LDP) provisions. Pursuant to LDP authority, farmers could agree to it in lieu of taking out a loan on the crop and if prices were below the loan rate at time of sale the farmer would collect the difference in a direct payment. Both revisions were intended to reduce (and prevent) forfeitures and keep the CCC out of the business of having to handle and store commodities. This altered the loan program to be more like income support policies.
- <sup>11</sup> See, Food, Agriculture, Conservation, and Trade Act of 1990, P.L. 101-624 (101st Congress, Nov. 28, 1990).
- <sup>12</sup> This greatly simplifies a difficult process that began when the new majority pushed budget cuts through the reconciliation process which included farm bill spending. House Agriculture Committee chairman Pat Roberts (R-KS) introduced Freedom to Farm but it was initially rejected by the House Ag Committee. He had it included in the 1995 budget reconciliation legislation that was vetoed by President Bill Clinton, which resulted in a Federal government shutdown. Congress returned to the proposal in 1996, known as Agricultural Market Transition Assistance (AMTA). The legislation passed the Republican Congress over significant Democratic opposition and was signed by President Clinton. See, Federal Agriculture Improvement and Reform Act of 1996, P.L. 104-127 (104th Congress, Apr. 4, 1996).

- <sup>13</sup>See, Joseph W. Glauber, "The Growth of the Federal Crop Insurance Program, 1990-2011," *AM. J. AGR. ECON.* (2013) 95(2): 482-88; and Joseph W. Glauber, "Crop Insurance Reconsidered," *AM. J. AGR. ECON.* (2004) 86(5):1179-1195.
- <sup>14</sup>Only direct payments were decoupled from market prices, but both programs remained decoupled from planting decisions through the base acre system although the bill permitted a base acre update and farm owners could update base to account for planted acres from 1998 to 2001, with the potential for increasing base to take into account soybeans and other oilseeds. See, *Farm Security and Rural Investment Act of 2002*, P.L. 107-171 (107th Congress, May 13, 2002).
- <sup>15</sup>The WTO had been formalized out of the General Agreement on Tariffs and Trade (GATT) negotiations which included the Uruguay Round agreement to reform farm supports. The U.S. joined the WTO in 1994. It contained a dispute mechanism between nation-signatories to the agreement if one failed to adhere to its terms. That was the basis for Brazil's claims against U.S. cotton policy and the WTO agreed. Brazil would go on to win the right to retaliate against U.S. exports, including cross retaliation and the case would impact the 2008 and 2014 farm bill debates. Target prices were more beneficial to cotton. See, Appendix, chart 4; Randy Schnepf, "Brazil's WTO Case Against the U.S. Cotton Program," *CONGRESSIONAL RESEARCH SERVICE, CRS REPORT FOR CONGRESS* (RL32571, June 21, 2011); Michael J. Shumaker, "Tearing the Fabric of the World Trade Organization: United States—Subsidies on Upland Cotton," *32 N.C. J. INT'L L. & COM. REG.* 547 (2006-2007); and William A. Gillon, "The Panel Report in the U.S.-Brazil Cotton Dispute: WTO Subsidy Rules Confront U.S. Agriculture," *10 DRAKE J. AGRIC. L.* 7 (2005).
- <sup>16</sup>The 2008 Farm Bill continued direct and counter-cyclical payments and marketing loans, but also added new revenue-based policy options for farmers. Revenue-based policies are based on some combination of prices and yields, with payments triggered by a loss of revenue as compared to an historical benchmark revenue. The 2008 Farm Bill included two versions of this policy, the Average Crop Revenue Election (ACRE) and Supplemental Revenue Assistance Payments (SURE). See, *Food, Conservation, and Energy Act of 2008*, P.L. 110-246 (110th Congress, Jun. 18, 2008).
- <sup>17</sup>See, Jill Lawrence, "Profiles in negotiation: The 2014 farm and food stamp deal," *CENTER FOR EFFECTIVE PUBLIC MANAGEMENT AT BROOKINGS*, (Oct. 2015), available at: <http://www.brookings.edu/research/papers/2015/10/23-farm-bill-negotiation-lawrence>; and Neil D. Hamilton, "The 2014 Farm Bill: Lessons in Patience, Politics, and Persuasion," *19 DRAKE J. OF AGRIC. LAW* 1, (2014).
- <sup>18</sup>The 2014 Farm Bill eliminated direct payments, counter-cyclical payments, ACRE and SURE, replacing them with the election between Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC). PLC was mostly a continuation of the counter-cyclical program while ARC combined features of ACRE and SURE for a revenue-based policy with options for yield coverage at either the county level or across all covered commodities on the farm. Cotton, however, was the exception. Largely in response to the Brazil WTO dispute, cotton base became generic base and rendered ineligible for either ARC or PLC. A new crop insurance program, stacked income protection (STAX) was created as an option for cotton farmers to receive area-wide coverage in addition to their individual coverage. See, *Agricultural Act of 2014*, P.L. 113-79 (Feb. 7, 2014), available at: <https://www.gpo.gov/fdsys/pkg/PLAW-113publ79/html/PLAW-113publ79.htm>.
- <sup>19</sup>See, Appendix, chart 5; USDA, National Agricultural Statistics Service, Quick Stats, available at: [https://www.nass.usda.gov/Quick\\_Stats/](https://www.nass.usda.gov/Quick_Stats/).
- <sup>20</sup>See e.g., Daniel A. Sumner, Julian M. Alston, and Joseph W. Glauber, "Evolution of the Economics of Agricultural Policy," *AMER. J. AGR. ECON.* 92(2), 403-423 (Jan. 2010), at 405-07.
- <sup>21</sup>More specifically, individual farmers made individual production decisions across the country (and around the world) without any ability to coordinate or control production. At the time, this was largely contrasted with industry's ability to control its production if demand slipped (e.g., closing factories and laying off workers). Coupled with unpredictable weather, farmers could produce far beyond what the market demanded and suffer depressed prices. Farmers also had general incentives to maximize their individual production. Individual farmers often responded to low prices by trying to further increase production and across all of them depress prices further. Finally, costs often exceeded crop prices because demand in the larger economy could drive up costs and, at least initially, tariff policy kept costs high. These costs were planted in the ground before the farmer knew the market and price outcome for the crop.
- <sup>22</sup>In fact, Congress consistently put floors in acreage allotments that rendered them even more ineffective. For example, the minimum acreage allotment for wheat was 55 million acres and had been established in the 1938 Act. USDA NASS data indicates that the national average wheat yield in 1938 was just over 13 bushels per acre. That allotment floor remained in effect into the 1960's when USDA NASS data indicates that wheat yields were almost double, topping 25 bushels per acre. This meant that Congress was requiring farmers to plant almost twice as many wheat acres as the market supported, resulting in billions in forfeited commodities.
- <sup>23</sup>For example, because the 1938 and 1939 corn crops did not exceed normal supply by more than 10 percent, corn loan rates were at 70 percent of parity; by comparison wheat and cotton suffered under large production and carryover such that their loan rates were only between 52 and 57 percent of parity. See, Benedict (1953), at 389.
- <sup>24</sup>For example, USDA NASS data show that acres planted to other feed grains (sorghum, oats, barley, etc.) caught up with acres planted to corn by 1957. That year, 73.14 million acres were planted to these other feed grains and 73.18 million had been planted to corn. By

comparison, in 1950 farmers planted only 64.8 million acres to the other feed grains and 82.9 million acres to corn.

<sup>25</sup>The Agricultural Act of 1958 provided corn farmers with a referendum vote for moving out of parity and basing loan rates on a three-year moving average of market prices with elimination of acreage allotments. In 1961 Congress created an emergency program to make payments to feed grains farmers, including payments in kind. A year later, Congress continued those provisions and then again in the 1965 Farm Bill. See, Agricultural Act of 1958, P.L. 85-835 (85th Congress, Aug. 28, 1958); Agricultural Act of 1961, P.L. 87-128 (87th Congress, Mar. 22 1961); Food and Agricultural Act of 1962, P.L. 87-703 (Sept. 27, 1962); and Food and Agriculture Act of 1965, P.L. 89-321 (89th Congress, Nov. 3, 1965). See also, Ruth R. Harkin and Thomas R. Harkin, "Roosevelt to Reagan' Commodity Programs and the Agriculture and Food Act of 1981," 31 DRAKE L. REV. 499, 504 (1981-82) (discussing the evolution for feed grains towards making payments instead of parity loans).

<sup>26</sup>See, S. Rept. No. 93-173, *supra* note 8, at 23-24.

<sup>27</sup>See, Deborah P. Dixon and Holly M. Hapke, "Cultivating Discourse: The Social Construction of Agricultural Legislation," ANNALS OF THE ASSOCIATION OF AMERICAN GEOGRAPHERS, 93:1, 142-164 (DOI: 10.1111/1467-8306.93110), at 149 (quoting Secretary Butz).

<sup>28</sup>Roughly, set-aside policy differed from acreage allotments. Under acreage allotments, the farmer planted the allotted acres and those not planted could be diverted into other crops. Set-aside acres were taken out of production and put into conserving uses; they were often required to be eligible to receive payments.

<sup>29</sup>This included the Wetlands Reserve Program with a goal of enrolling 1 million acres by 1995 through the use of easements to restore wetlands. See, Food, Agriculture, Conservation and Trade Act of 1990, P.L. 101-624 (101st Congress, Nov. 28, 1990), at Title XIV, sec. 1237. This also included the Agricultural Water Quality Incentives program to reduce agricultural pollutants with multi-year contracts that provided farmers with voluntary incentives (payments) and the environmental easement program. *Id.*, at sec. 1439 and 1440.

<sup>30</sup>See, FAIR1996, *infra* note 12, at sec. 334.

<sup>31</sup>See e.g., Jonathan Coppess, "Dead Zones & Drinking Water, Part 5: Farm Bill Conservation Policy," *farmdoc daily* (6):67, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign (Apr. 7, 2016), available at: <http://farmdocdaily.illinois.edu/2016/04/dead-zones-drinking-water-part5.html>; Carl Zulauf, "2014 Farm Bill Conservation (Title II) Programs," *farmdoc daily* (4):89, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign (May 14, 2014), available at: <http://farmdocdaily.illinois.edu/2014/05/2014-farm-bill-conservation-title-ii-programs.html>; and Zachary Cain and Stephen Lovejoy, "History and Outlook for Farm Bill Conservation Programs," CHOICES (4th Quarter, 2004).

<sup>32</sup>Crop insurance has grown consistently and increased in prominence in the farm policy debate since 1996. This has led some to conclude that this modern era is "trending towards risk management and the crop insurance program." James L. Novak, James W. Pease, and Larry D. Sanders, AGRICULTURAL POLICY IN THE UNITED STATES: EVOLUTION AND ECONOMICS (Routledge, New York, NY 2015), at 218.

<sup>33</sup>The CBO baseline is part of Congressional budget discipline efforts to control and prioritize spending across all areas of the Federal budget. CBO projects spending estimates over a 10-year budget window for the commodity programs based on their final year of authorization. For example, direct payments spent approximately \$5 billion in 2012, the final year of authorization from the 2008 Farm Bill. CBO baseline assumed those authorities into the future 10 years, creating a baseline of roughly \$50 billion (\$5 billion per year for 10 years). The baseline is the funding available to the committees when they reauthorize a farm bill.

<sup>34</sup>Known as premium subsidy, this is not a traditional subsidy payment to the farmer but operates to lower the cost of the insurance policies purchased by the farmer. Crop insurance provides a large range of insurance policies but the most popular involve the purchase of revenue policies that insure against losses in yields and/or prices during the growing year. In many areas, farmers can purchase coverage up to 85 percent of revenue or yields. See, Agricultural Risk Protection Act of 2000, P.L. 106-224 (Jun. 20, 2000); Christopher R. Kelley, "The Agricultural Risk Protection Act of 2000: Federal Crop Insurance, the Non-insured Crop Disaster Assistance Program, and the Domestic Commodity and Other Farm Programs," 6 DRAKE J. AGRIC. L. 141, 164 (2001). See also, Glauber (2013), *supra* note 7.

<sup>35</sup>At the time it was passed and signed into law, CBO estimated that the bill would spend \$18.7 billion on crop insurance over the 10-year budget window (2001-2010). See, Congressional Budget Office Cost Estimate, H.R. 2559, Agricultural Risk Protection Act of 2000 (Jun. 23, 2000), available at: <https://www.cbo.gov/publication/12395>.

<sup>36</sup>The Congressional Budget Office estimated that the omnibus legislation would spend \$489 billion over its five-year life (through 2018). CBO estimated that crop insurance expenditures would be \$41 billion compared to \$24 billion for commodities. See, Congressional Budget Office Cost Estimate, H.R.2642, Agricultural Act of 2014, Jan. 27, 2014, available at: <https://www.cbo.gov/publication/45049>; Jim Monke, "Budget Issues That Shaped the 2014 Farm Bill," Congressional Research Service CRS Report for Congress R42484, Apr. 10, 2014, at 2. In fact, the total liability insured by the program, the expenditures for premium subsidy and the total acres insured have all increased substantially since 2001. Data from the Risk Management Agency show that total liability insured has gone from \$36.7 billion in 2001 to \$102 billion in 2015 (down from a peak of \$123.8 billion in 2013). Premium subsidy has gone from \$1.8 billion in 2001 to \$6 billion in 2015

(also down from the 2013 peak of \$7.3 billion). Acres insured have gone from 211 million to 366 million from 2001 to 2015. See, RMA Summary of Business Reports and Data, available at: <http://www.rma.usda.gov/data/sob.html>.

<sup>37</sup>Crop prices that were above target prices would not trigger payments and spending from the farm programs decreased, which was one of the original arguments for target prices in 1973. House Ag Chairman Pat Roberts reportedly made the baseline capture argument at a USDA hearing held by then-Secretary Dan Glickman. See, Orden, Paarlberg and Roe (1999), at 148.

<sup>38</sup>The bill set fiscal year allocations (FY1996 to FY2002) and divided the total expenditure allocations amongst the major commodities. Wheat received 26.26 percent, corn 46.22 percent, grain sorghum 5.11 percent, barley 2.16 percent, oats 0.15 percent, upland cotton, 11.63 percent and rice, 8.47 percent. See, FAIR Act of 1996, *supra* note 12, at sec. 113(b). Wheat made up 37.08 percent of the total contract acres, rice 1.96 percent, cotton 11.63 percent, and corn 38.59 percent. See, C. Edwin Young, David W. Skully, Paul C. Westcott and Linwood Hoffman, "Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act," USDA, Economic Research Service, Economic Research Report Number 12 (Sep. 2005), at 27, Table 5.

<sup>39</sup>For example, dividing allocated expenditures for each fiscal year by the contract acreage for that crop, and averaging those over the seven-year life of the contract, corn acres had an estimated average value of \$28.82 per contract acre on average, cotton acres \$36.49, wheat acres \$17.04 and rice acres \$104.12 per contract acre. In reality, actual payments were made on 85 percent of the contract acreage and used program payment yields.

<sup>40</sup>The 2002 Farm Bill captured additional spending and reinstated target prices in the Counter-cyclical Payments (CCP) program. CBO's final tally was that the commodities program received an additional \$56.7 billion over the 10-year budget window, \$35.3 billion in the counter-cyclical program alone. By comparison, the conservation title received an additional \$14 billion over the same 10-year period and the nutrition title (including food stamps) received an additional \$7 billion. See, Congressional Budget Office Cost Estimate, H.R. 2646, Farm Security and Rural Investment Act of 2002, May 6, 2002, available at: <https://www.cbo.gov/publication/13637>; and Pay-as-you-go estimate, May 22, 2002, available at: <https://www.cbo.gov/publication/13695>.

<sup>41</sup>See, Appendix, Chart 5. Average prices increased for corn, cotton and wheat after the 2005 RFS but even more so after the 2007 revision. Corn and soybean acres also increased while wheat and cotton acres decreased. See, Appendix, Chart 6. It may also be notable that national average revenue per acre (calculated as marketing year average prices multiplied by national average yields) increased for all crops but average corn revenue surpassed cotton revenue for the first time in 2006. See, Appendix, Chart 7. This indicates that with the RFS an acre of corn became more valuable than an acre of cotton in terms of revenue.

<sup>42</sup>CBO's estimates for outlays indicate a significant decrease beginning in fiscal year 2007. See, Congressional Budget Office, Commodity Credit Corporation Outlays, March 2007 CBO Baseline, available at: <https://www.cbo.gov/sites/default/files/51317-2007-03-ccc.pdf>.

<sup>43</sup>For example, cotton interests accused corn and soybean interests with "trying to take . . . the money that's in the baseline for rice and peanuts and cotton in order to enrich their revenue programs." See, Ron Hays, "National Cotton Council President Mark Lange Examines Farm Bill's Progress, Prospects," OKLAHOMA FARM REPORT, Apr. 2, 2012, available at: [http://oklahomafarmreport.com/wire/news/2012/04/04515\\_LangeOnFarmBill04022102\\_172016.php](http://oklahomafarmreport.com/wire/news/2012/04/04515_LangeOnFarmBill04022102_172016.php) (quoting Mark Lange President and CEO of the National Cotton Council of America).

<sup>44</sup>For the 1981 Farm Bill debate, David Stockman who was director of the Office of Management and Budget for President Reagan was quoted as outlining the administration's farm bill strategy "to come in with a farm bill that's unacceptable to the farm guys so that the whole thing begins to splinter." Craig L. Infanger, William C. Bailey and David R. Dyer, Agricultural Policy in Austerity: The Making of the 1981 Farm Bill, AMERICAN JOURNAL OF AGRICULTURAL ECONOMICS, vol. 65, No. 1 (Feb. 1983), pp.1-9, at 4 (referencing, William Greider, "The Education of David Stockman," THE ATLANTIC (Dec. 1981), available at: <http://www.theatlantic.com/magazine/archive/1981/12/the-education-of-david-stockman/305760/>).

<sup>45</sup>The revenue program was elected for most base acres, driven by the large amount of base in corn and soybeans, but the overall decision clearly reflected the commodity policy disagreement. See, Schnitkey, G., J. Coppess, N. Paulson, and C. Zulauf, "Perspectives on Commodity Program Choices under the 2014 Farm Bill," *farmdoc daily* (5):111, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, June 16, 2015, available at: <http://farmdocdaily.illinois.edu/2015/06/perspectives-on-commodity-program-choices.html>.

<sup>46</sup>See, Appendix, chart 1 and chart 3; *supra* note 3.

<sup>47</sup>The most recent CBO baseline estimate indicates expectations for significantly lower payments for corn, soybean and wheat base in the years that will be used for the 2018 baseline. See, Congressional Budget Office, CBO'S March 2016 Baseline for Farm Programs, March 24, 2016, available at: <https://www.cbo.gov/sites/default/files/51317-2016-03-USDA.pdf>.

<sup>48</sup>The industry requested that USDA designate cottonseed as an 'other oilseed' under the farm bill, which they argue would permit cotton farmers to elect either price or revenue based income support. See e.g., Committee on Agriculture, Subcommittee on General Farm

Commodities and Risk Management, hearing, "Commodity in Focus: Stress in Cotton Country," Washington DC (Dec. 9, 2015), available at: <http://agriculture.house.gov/calendar/eventsingle.aspx?EventID=3041>; Forrest Laws, "Cotton Council continuing push to win assistance for cotton producers," Delta Farm Press (Feb. 26, 2016), available at: <http://deltafarmpress.com/cotton/cotton-council-continuing-push-win-assistance-cotton-producers>; Zulauf, C., G. Schnitkey, J. Coppess, and N. Paulson, "Cottonseed and U.S. Oilseed Farm Program Issues," *farmdoc daily* (6):18, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 28, 2016, available at: <http://farmdocdaily.illinois.edu/2016/01/cottonseed-and-us-oilseed-farm-program-issues.html>. USDA responded by providing \$300 million in a one-time program using cost-share assistance to producers. See, USDA, "USDA Provides Targeted Assistance to Cotton Producers to Share in the Cost of Ginning," press release No. 0140.16 (June 6, 2016), available at: <http://www.usda.gov/wps/portal/usda/usdahome?contentid=2016/06/0140.xml&contentidonly=true>.

<sup>49</sup>Based on NASS data for average prices received by farmers, the average price for corn in 2015 was 55.55 percent of the average price received in 2012. By comparison, cotton was at 77.35 percent, wheat at 69.43 percent and soybeans at 68 percent.

<sup>50</sup>See e.g., Erik J. O'Donoghue and Sarah A. Tulman, "The Demand for Crop Insurance: Elasticity and the Effect of Yield Shocks," selected paper for presentation for the 2016 Agricultural & Applied Economics Association annual meeting, Boston, MA (July 31-Aug 2, 2016); Harun Bulut, "U.S. Farmers' Insurance Choices under Expected Utility Theory and Cumulative Prospect Theory," selected paper for presentation for the 2016 Agricultural & Applied Economics Association annual meeting, Boston, MA (July 31-Aug. 2, 2016); Erik J. O'Donoghue, "The Effects of Premium Subsidies on Demand for Crop Insurance," USDA, Economic Research Service, Economic Research Report No. 169 (July 2014). See also, Schnitkey, G., and B. Sherrick, "Coverage Levels on Crop Insurance and the SCO Alternative," *farmdoc daily* (4):78, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, April 29, 2014, available at: <http://farmdocdaily.illinois.edu/2014/04/coverage-levels-on-crop-insurance-and-sco.html>.

<sup>51</sup>See e.g., Randy Alison Aussenberg, "Supplemental Nutrition Assistance Program (SNAP): A Primer on Eligibility and Benefits," Congressional Research Service, CRS Report R42505 (Dec. 29, 2014); and Gene Falk and Randy Alison Aussenberg, "The Supplemental Nutrition Assistance Program (SNAP): Categorical Eligibility," Congressional Research Service, CRS Report R42054 (Jul. 22, 2014).

<sup>52</sup>See, Appendix, chart 8. Data available from USDA, Food and Nutrition Service indicates that participation increased after the 2008 Farm Bill and peaked at 47 million participants in 2013. See, USDA, Food and Nutrition Service, Supplemental Nutrition Assistance Program (SNAP) Program Data, available at: <http://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap>.

<sup>53</sup>See, Coppess, J., C. Zulauf, G. Schnitkey, and N. Paulson, "Early Thoughts: 2016 Election Results and the Next Farm Bill," *farmdoc daily* (6):214, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, November 11, 2016, available at: <http://farmdocdaily.illinois.edu/2016/11/early-thoughts-2016-election-results-farm-bill.html>. This is especially true given that the initial signals from the House Agriculture Committee were already not encouraging. According to its website, the House Ag Committee has held 17 hearings on SNAP since February 2015. See, House Committee on Agriculture, <http://agriculture.house.gov/>.



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