

Factors influencing the shape of the 2007 farm bill

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Conference
September 19, 2007

Summary

- Brief history of U.S. farm bills
- Domestic attitudes toward U.S. farm policy
- Budget considerations
- International factors
- Concluding remarks

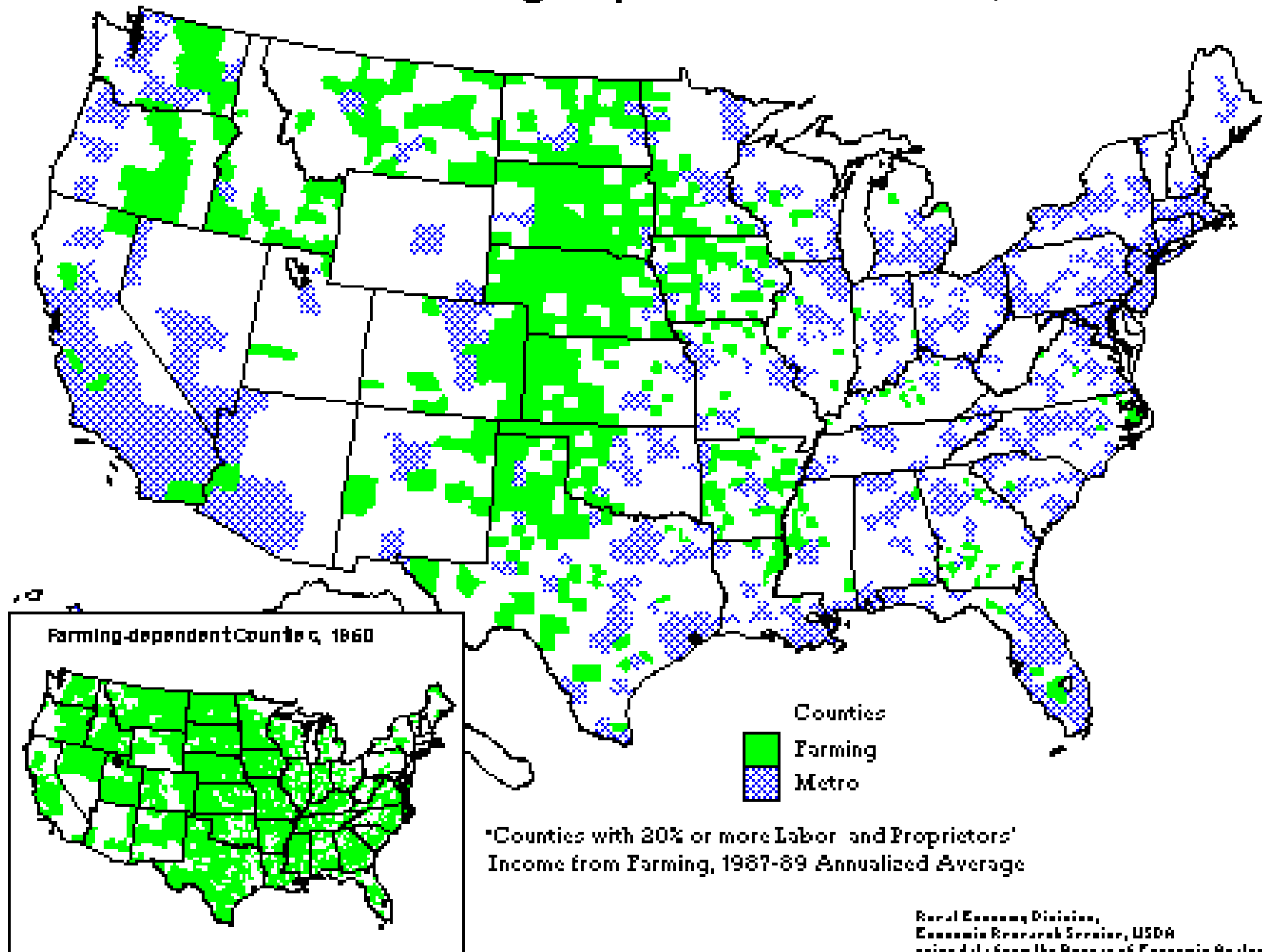
U.S. farm bills

- Primary vehicle for setting medium-term U.S. agricultural policy
 - Range in lifetime from 18 months (1948 Act) to 7 years (1941 Act, 1996 Act)
- Scope of farm bills expanded over time
 - 1981-1990 farm bills separate titles for each commodity; 2002 single commodity title, total of 11
 - Broadened in part to create coalition to pass bill
- Margin of victory shrinking over time
 - Senate passed 1977 Act 63-8; 64-35 for 2002 bill conference report

Demographic trends

- At the same time that U.S. population has been growing, the number of farmers has been shrinking. During the 20th Century,
 - U.S. population grew 270 percent, while
 - Number of U.S. farms fell 60 percent
- Share of U.S. counties in which agriculture is a significant economic engine is declining
 - In 1950, the vast majority of counties nationwide, except in NE and SW, received at least 20 percent of their income from farming
 - Since 1989, most such counties are located in narrow belt between Eastern Montana and Texas panhandle

Nonmetro Farming-dependent Counties*, 1989



Agricultural voting impact

- These demographic changes have had an impact on the farm voting bloc in Congress
- Almost all Senators represent some farmers, but not so in the House
- More than half (221 of 435) of Congressional Districts in 2002 Census of Agriculture had fewer than 1,500 farms (farms w/ >\$1,000 market receipts)

U.S. media attitude toward farm policy

■ Among metropolitan newspapers, the 2002 farm bill was widely panned:

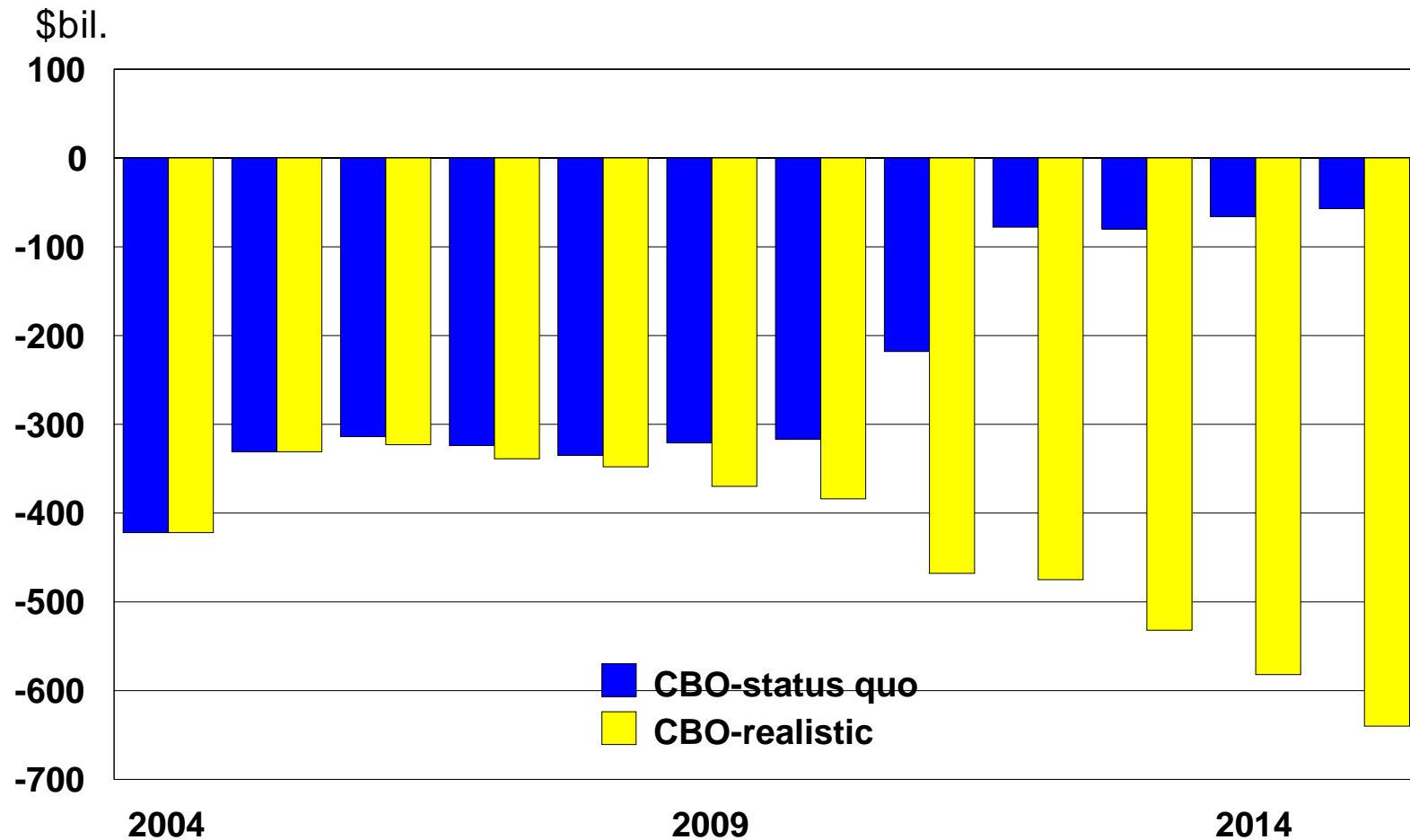
--“...I am referring to the 2002 Farm Security Act, which recently emerged from the legislative process very much the way a steaming wad of processed vegetation emerges from the digestive tract of a cow,” Dave Barry, Miami Herald columnist

- “But last week, a 280-141 majority of the House voted to slide backward some 70 years, choosing socialism and abandoning market-based reforms in the nation's Stalinesque farm policy,” Las Vegas Review Journal
- “The farm bill just signed by President Bush shows all the courage of a wilted cabbage.” Providence Journal.
- “The 2002 farm bill that President Bush signed yesterday doesn't have a catchy name like the 1996 law. It also contains not so much as a nod to the idea of rolling back ag supports.” Seattle Post Intelligencer.

Budget implications



U.S. Budget Projections, 2006-2015

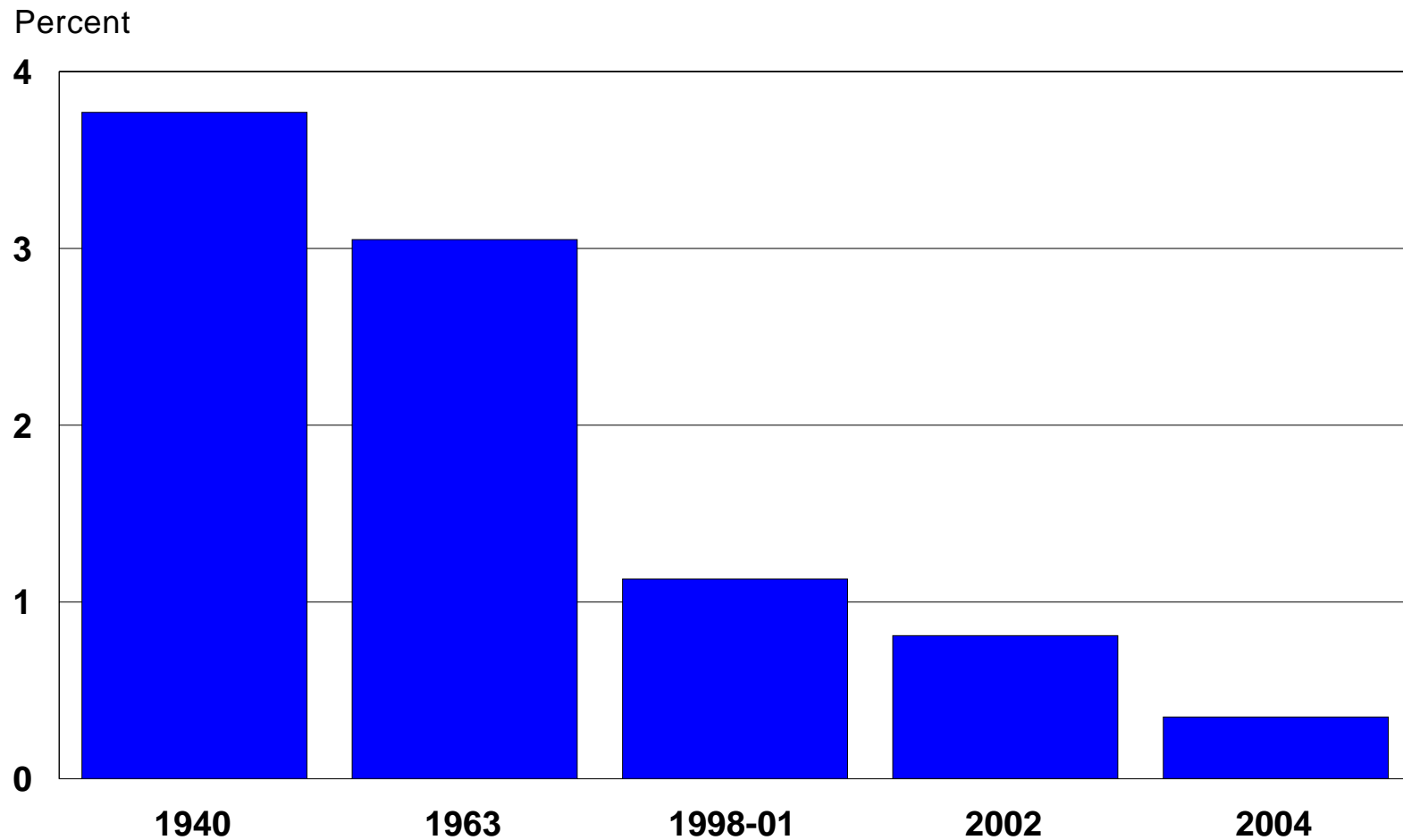


Sources: CBO budget baseline, Aug. 2005, and CBO study requested by Rep. Spratt (D, SC)

Budget outlook not rosy for farm programs

- In three years, 10-year federal budget outlook worsened by \$9 trillion cumulatively
 - Tax cuts
 - Soft economy
 - Lower tax revenue
 - Higher entitlement spending
 - Higher discretionary spending (Defense, Homeland Security, etc.)
- Budget reconciliation likely to force cuts in farm programs in next few years

Farm program spending as share of Federal budget



Source: CBO, OMB, USDA budget projections and historical budget documents

International factors



Doha Development Agenda

- Uruguay Round (1993) envisioned continuing negotiations to further reform agriculture, trade in services in 1999
- Doha Round launched after WTO Ministerial meeting held in Nov. 2001
- Key issue areas:
 - Agriculture
 - Non-agricultural market access
 - Trade in services
 - Implementation issues from Uruguay Round

WTO framework agreement

- Completed in July 2004
- Covers agriculture and other key areas
- Long on principles, short on numbers
- Reflects U.S. priorities of greater cuts from higher levels (harmonization) in domestic support and market access
- No cuts committed, but likely to occur if final deal made
- Not clear if final deal possible if value of lost domestic support < value of market access opportunities gained by U.S. farmers
- Next step toward completion is 'modalities' agreement, hoped to be achieved by Hong Kong ministerial meetings in December 2005

WTO Dispute Settlement

- Crucial aspect of Uruguay Round
- U.S. frustrated with lack of enforcement mechanism under GATT
- U.S. single largest participant in WTO dispute settlement process
 - Complainant in 70 cases (21 agric.)
 - Respondent in 85 cases (13 agric.)
- Brazil cotton case pivotal for future of U.S. farm policy
 - First to call U.S. commodity programs into question
- May be similar cases to follow

Concluding Remarks

- All of these factors will shape the farm bill debate in 2006 or 2007, either directly or indirectly
- Framers of the next few farm bills will have to embrace a broader view of agricultural policy than in the past
- I have always said that agricultural policymaking is an 'evolutionary process' rather than a 'revolutionary process'. Evolution may speed up in the next 5-10 years, but changes will still likely be based on policies we are already familiar with.