farmdoc DAILY

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

2013 Farm Bill Update

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

January 11, 2013

***farmdoc daily* (3):5**

Recommended citation format: Zulauf, C. "2013 Farm Bill Update." *farmdoc daily* (3):5, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 11, 2013.

Permalink: http://farmdocdaily.illinois.edu/2013/01/2013-farm-bill-update.html

Overview

The farm bill debate remains unresolved at present. Congress chose not to pass a new farm bill but to extend most of the 2008 Farm Bill through September 30, 2013 as part of the agreement to avoid the so-called "fiscal cliff." This farmdoc post briefly discusses the extension, changes in the farm bill environment, and potential future policy paths. It ends with summary observations.

Farm Bill Extension

All programs in the 2008 Farm Bill were extended from September 30, 2012 through September 30, 2013 except for the 37 programs with no baseline. These 37 programs include agricultural disaster assistance, the Wetland Reserve and Grassland Reserve Programs plus 3 other conservation programs, 8 energy programs, and 7 programs related to horticulture and organic agriculture. The extension means that the direct payment, target price, and ACRE programs are in place for the 2013 crop year.

Among the tax provisions included in the broader legislation that contained the farm bill extension were (1) Section 179 deduction of expenditures on capital inputs up to $500,000 and continuation of bonus depreciation for 2013, (2) a $1 tax credit per gallon of biodiesel retroactive for 2012 and extended through 2013, and (3) an estate tax exemption of $5 million for individual estates and $10 million for family estates with a top tax rate of 40%. Also, the alternative minimum tax (AMT) was addressed permanently and the revised AMT was indexed to inflation.

Changes in the Farm Bill Environment

A key feature of the 2012 Farm Bill debate was the division between southern and midwest agriculture over the future structure of the farm safety net. Southern agriculture was more concerned about the loss of direct payments and more skeptical about the ability of crop insurance to meet its needs. Thus, a 1-year extension of the 2008 farm bill is more closely aligned with the desires of southern agriculture.

Senator Cochran of Mississippi replaces Senator Roberts of Kansas as Ranking Minority Member (Republican) on the Senate Committee on Agriculture, Nutrition, and Forestry. Three of the five subcommittee chairs in the House Agriculture Committee are now from southern states. In contrast, two of six subcommittee chairs in the House Agriculture Committee were from southern states in 2012. Representative Conaway of Texas remains as chair of the Subcommittee on General Farm Commodities and Risk Management.

It is not clear what happens to the budget baseline and thus the cost scoring of existing farm bill provisions. The budget baseline is the point of departure for determining costs allowable for proposed programs. In addition, revisions of existing proposals and new proposals are possible.

Last, the farm bill remains intertwined with the larger federal debt debate, but this debate has now shifted its focus from taxes to spending on government programs, including safety net programs. The tax side of the federal debt debate probably has been largely addressed for the time being.

Potential Future Paths

First, let me acknowledge that I was wrong with my forecast that the farm bill would be completed by the end of 2012. Therefore, I may be overly cautious, but at the present time I see 3 potential paths in 2013. Each has a distinct possibility. One path is that the farm bill is included in the legislation that will address the federal debt ceiling and spending on government program. Current expectations are that this legislation would need to be passed sometime in March, maybe as late as early April. A second path is that the farm bill is passed as a stand-alone bill sometime before September 30, 2013. The third path is that the 2008 Farm Bill is extended for another year.

The particular path followed will depend on a number of factors. One key factor will be how spending on farm programs is treated within the broader discussion over spending on government programs. It is possible that more cuts will be required from farm programs than was contained in either the Senate or House Agriculture Committee's farm bill drafts. Moreover, decision regarding the future of the 37 program without a baseline could affect the amount available for farm programs. If additional cuts are required in farm programs they might include cuts to existing insurance programs, but a more likely approach to insurance-related cuts would be to scale back proposed enhancements to crop insurance contained in the proposed 2012 farm bills (see farmdoc post here for a discussion of these enhancements).

A second key factor is when outstanding farm bill issues are resolved. These outstanding issues include (1) the aforementioned debate over Title 1 and crop insurance programs between southern and midwest agriculture, (2) the size of the cuts in nutrition programs, and (3) the structure of the new dairy policy. Major concerns and disagreements exist in each of these three areas. It is reasonable to speculate that the cuts in nutrition programs will likely be resolved as part of the debate over federal spending and the increase in the federal debt ceiling. It is not as clear how and when the debates over the farm safety net between southern and midwest agriculture and over dairy policy will be resolved. My sense is that a key issue for dairy policy is the role of supply control in the new dairy proposal, which is controversial and of course influences other aspects of the program because of its impact on cost. My sense is that key issues in the southern-midwest debate over the crop safety net is the distribution of expenditures among the regions and the role of fixed target prices vs. market oriented targets.

Summary Observations

To this observer, it appears the position of southern agriculture is stronger in the 2013 farm bill debate than in the 2012 farm bill debate. If this assessment is correct, then a 2013 farm bill is likely to be more favorable to southern agriculture. In particular, this assessment suggests that the target prices for peanuts and rice will be higher than current target prices and may be similar to those contained in the draft bill of the House Agriculture Committee. Because of the involvement of Brazil in the farm bill deliberations due to Brazil's successful World Trade Organization cotton case, it is less clear that cotton will have a target price. The assessment also means that spending on farm safety net programs for midwest agriculture may be smaller than in the 2012 farm bill proposals. A key question then becomes how the lower spending will be distributed among the farm programs favored by midwest agriculture: crop insurance, Supplemental Coverage Option (SCO), and Agriculture Risk Coverage option (ARC) (see farmdoc post here for a discussion of these programs). One potential answer to this question is to combine SCO and ARC into an integrated program in which the combined program's price is the higher of that year's insurance price or a five year moving average of the crop's season average price. In short, midwest agriculture is likely to face some interesting decisions on farm safety net programs over the next year.

This publication is also available at http://aede.osu.edu/publications.