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

2013 Farm Bill Update – November 2013

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November 14, 2013

***farmdoc daily* (3):218**

Recommended citation format: Zulauf, C. and J. Coppess. "2013 Farm Bill Update – November 2013." *farmdoc daily* (3):218, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, November 14, 2013.

Permalink: http://farmdocdaily.illinois.edu/2013/11/2013-farm-bill-update-november.html

Overview

The House and Senate are beginning to conference the farm bill. Conference is a committee of key farm bill senators and representatives appointed to resolve differences in the bills passed by the Senate and House of Representatives. This post will briefly examine the Conference process for the current farm bill, differences between the House and Senate farm bills, and issues that arise from the differences.

Conference Process

Because the Constitution requires the House and Senate to pass identical legislation before it goes to the President, the conference committee process was established for the two chambers to resolve differences in legislation each of them pass. Conference committees have wide latitude in resolving differences to produce a final bill. Few rules actually apply to conference. The most common guidelines for conferees are that they are not to introduce completely new matters in conference that are outside the scope of the bills passed in the House and Senate. Conferees also are not supposed to conference items where no disagreement exists between the House and Senate provisions. These rules are difficult to enforce in practice and are not significant constraints. Each chamber may also vote to instruct conferees on particular items but such instructions are not binding. They are, however, indications of support in the House or Senate and are important to making sure the final conference product can pass both chambers. The single most important procedural aspect of conference is that votes are on a delegation basis. Thus, a majority of the House delegation and a majority of the Senate delegation must agree on each provision and the final product for it to come out of conference and be considered on the House and Senate floor. This rule prevents either chamber from stacking the conference.

The 2013 conference committee is large, consisting of 41 total conferees — 29 House conferees and 12 Senate conferees (see Table). The Senate delegation contains 7 Democrats and 5 Republicans all from the Senate Ag Committee. Six of the House conferees have limited scope in conference (Foreign Affairs

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or Ways and Means) because jurisdiction for some provisions is with a committee other than the House Agriculture Committee. Of the 23 House conferees empowered to vote on all issues in conference, 13 are Republicans and 10 are Democrats. Of those, Speaker John Boehner has appointed what is known as a leadership conferee. He is Representative Steve Southerland (R-FL) whose amendment on the House floor regarding the Supplemental Nutrition Assistance Program (SNAP) is often cited for the defeat of the first version of the House farm bill. Minority Leader Nancy Pelosi has appointed Representative Marcia Fudge (D-OH) as her leadership conferee. Representative Fudge is a leading opponent of the proposed cuts to SNAP in Title IV.

Table 1. 2013 Farm Bill Conference Committee

House Conference Delegation	
Republicans	**Democrats**
Frank Lucas (OK) — Chair	Collin Peterson (MN) — Ranking Member
Steven King (IA)	Mike McIntyre (NC)
Randy Neugebauer (TX)	Jim Costa (CA)
Mike Rogers (AL)	Timothy Walz (MN)
Michael Conaway (TX)	Kurt Schrader (OR)
Glenn Thompson (PA)	Jim McGovern (MA)
Austin Scott (GA)	Suzan DelBene (WA)
Rick Crawford (AR)	Gloria Negrete-McLeod (CA)
Marcia Roby (AL)	Filemon Vela (TX)
Kristi Noem (SD)	
Jeff Denham (CA)	
Rodney Davis (IL)	
Steve Southerland (FL)	Marcia Fudge (OH)
Total votes: 13	***Total votes: 10***
For consideration of Title III (matters of agricultural trade and foreign food aid), from the Committee on Foreign Affairs,	
Ed Royce (CA) — Chair	Eliot Engel (NY), Ranking Member
Tom Marino (PA)	
For consideration of sections 1207 and 1301 of the House bill and sections 1301, 1412, 1435, and 4204 of the Senate bill, from the Committee on Ways and Means,	
Dave Camp (MI) — Chair	Sander Levin (MI), Ranking Member
Sam Johnson (TX)	

Senate Conference Delegation	
Democrats	**Republicans**
Debbie Stabenow (MI) — Chair	Thad Cochran (MS) — Ranking Member
Pat Leahy (VT)	Pat Roberts (KS)
Tom Harkin (IA)	Saxby Chambliss (GA)
Max Baucus (MT)	John Boozman (AR)
Sherrod Brown (OH)	John Hoeven (ND)
Amy Klobuchar (MN)	
Michael Bennet (CO)	
Total votes: 7	***Total votes: 5***

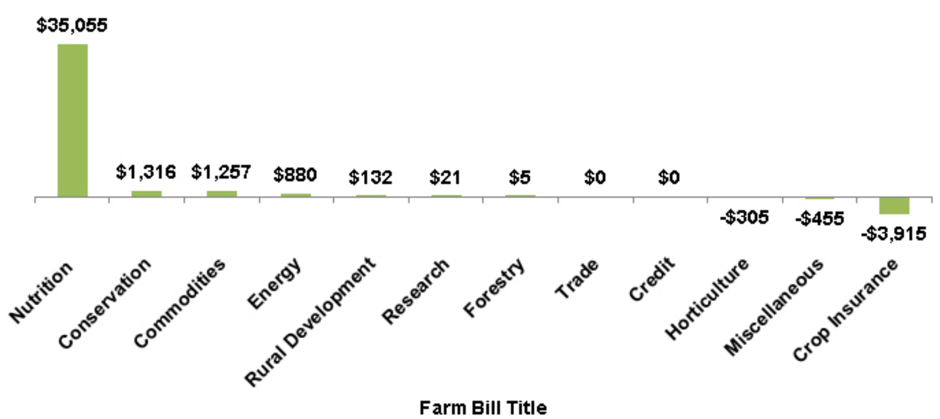
In considering the potential key differences between the House and Senate bills below, it is important to keep this information in mind. Both Chairman Lucas and Chairwoman Stabenow bring strong majorities and significant support for their positions in conference. In other words, without a comprehensive agreement and significant compromise across key differences, or unexpected shifts in votes and positions of at least two conferees in either delegation, the conference committee could easily deadlock, producing no final bill. This becomes particularly relevant to Title I differences because in the Senate, Senator Roberts is not likely to vote with Ranking Member Cochran based on his past positions and votes. In the House delegation, Ranking Member Peterson is likely to vote with Chairman Lucas on Title I crop programs based on his past positions and votes. Each chair, then, can probably count on an even stronger position for most Title I matters.

In sum, the conference process is designed to be a vehicle for finding compromises on differences between the House and Senate positions for a bill to become a law. As discussed further below, this farm bill and the process that has finally brought it to conference present some serious challenges for conferees.

Budget Comparison

Clearly, the biggest budget difference is Title 4 (Nutrition) (see Figure 1), mostly SNAP (formerly known as food stamps). Ten-year cuts total $39.00 billion by the House compared with $3.94 billion by the Senate [source: Jim Monke, "Budget Issues Shaping a Farm Bill in 2013," Congressional Research Service Report, October 21, 2013 (available here). The House achieves its cuts by reducing the number of eligible beneficiaries. The Senate does not reduce the number of eligible beneficiaries.

Figure 1. Difference: House Farm Bill Cuts Minus Senate Farm Bill Cuts, Outlays in Million $, Over 10 Years, U.S.



The second largest difference in projected spending occurs for the crop safety net, which consists of Title 1 (Commodities) and Title 11 (Crop Insurance). Both bills reduce Title 1 spending by eliminating direct payments. Both bills increase spending on Title 11 by enhancing a number of insurance features, such as allowing enterprise units for irrigated and non-irrigated crops on the same farm, and by establishing a new insurance program called the Supplemental Coverage Option (SCO) for all crops except cotton and the similar Stacked Income Protection (STAX) program for cotton. SCO and STAX are county shallow loss programs that farms can elect to add on top of their individual insurance, thus providing assistance with smaller losses.

Despite the similar direction of changes, the House spends $3.92 billion more on insurance than the Senate while the Senate spends $2.55 billion more than the House on Title 1 programs, excluding disaster assistance. These differences in spending on the two components of the farm safety net are not trivial. Crop insurance is a single year risk management program because its price component is reset each year to reflect current market conditions. In contrast, Title 1 programs provide assistance against multiple-year declines in revenue because their targets are either fixed by Congress or set by a moving average. Moving averages adjusts partially, not completely, to current market conditions. Thus, the

House proposes to spend more money on single year risk management programs while the Senate proposes to spend more money on multiple-year risk management programs. This difference reflects an important question: how much emphasis should be placed on multiple year risk vs. individual year risk?

Three other notable differences are disaster assistance (in Title 1), Title 2 (Conservation), and Title 9 (Energy). The House spends $1.29 billion more for disaster assistance; with aid for livestock producers a key difference. Adding together all proposed changes in spending on Title 1 programs finds the House proposes to cut $1.26 billion more from Title 1 than the Senate (see Figure 1). Both the House and Senate cut funding for Title 2; however, the House spends more on the Environmental Quality Incentives Program (EQIP) but less on the Conservation Reserve (CRP) and Conservation Stewardship (CSP) programs. The House allocates no new spending above the baseline for Title 9 while the Senate spends $0.9 billion more on a variety of energy programs.

Potential Key Differences in House and Senate Farm Bills

(1) nutrition programs

In the opinion of most observers, budget and content differences in the nutrition programs appear to be the biggest obstacle to a new farm bill. Senate leadership and President Obama have strongly said they will accept few, if any, cuts in the number of nutrition program recipients. For this type of Title 4 position to pass the House, 3 bridges must be passed: a majority of the 23 House conferees (13 Republicans; 10 Democrats) must accept the conferenced bill, House leadership must allow a vote on the House floor, and the House must pass the bill. Passage would likely require a coalition composed of almost all Democrats plus around 50 Republicans. Each bridge has its own considerations that collectively compound the difficulty of assessing not only whether a new farm bill can pass but also what compromises are possible on non-nutrition issues. The latter occurs because, if the final decisions on SNAP are going to be made at the leadership level of the House, Senate and White House, then it becomes difficult if not impossible for farm bill negotiators to reach compromise on other top-tier priorities such as the Commodity Title or Crop Insurance (including conservation compliance provisions noted below) as long as the outcome on the nutrition title remains unknown.

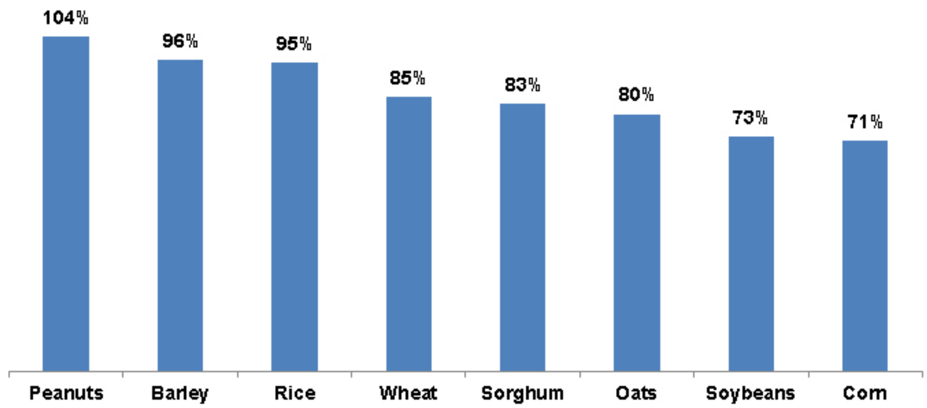
(2) type of multiple-year (Title 1) crop program

Similar to the 2008 farm bill, the House proposes a choice option on multiple-year assistance, specifically a one-time choice between a revenue program and a reference price (new name for target price) program. The House adds SCO to this choice mix by allowing SCO only for farms that choose the reference price program. The reference prices are fixed, and payment is made on current planted acres.

In contrast, the Senate proposes a return to a single Title 1 program structure for all covered crops. To simplify its description, a multiple-year revenue program, which provides assistance for smaller declines in revenue, sits atop a reference price program. Assistance is scaled up as the decline in revenue and price increases since a greater share of acres is eligible for reference price payments than for revenue program payments. The reference prices for rice and peanuts are fixed while the reference prices for all other crops and the revenue program guarantees for all crops are set by a moving average formula that declines or increases with changes in market prices over time. Reference price payments are made on historical base acres.

Most experts believe the most divisive farm safety net issue is base vs. planted acres, followed by the issue of fixed vs. moving average reference prices. Making payments on planted acres increases the distortive impact of fixed reference prices because farmers can increase any fixed reference price payment by planting more acres to the crop. Moreover, while the House increases references prices for all crops compared with the 2008 farm bill target prices, the increase differs across crops, especially relative to recent market prices. Specifically, the House reference price structure favors peanuts, barley, and rice (see Figure 2). The differential relationship to current market prices increases the likelihood that the reference prices will distort production decisions. Compounding this set of discussions is that both the Senate and House design their references prices to favor peanuts and rice in an attempt to address the concerns of southern farms about the loss of direct payments and their assessment that crop insurance does not provide adequate risk protection for them.

Figure 2: Comparison Ratio: House Reference Price to Average 2008-2012 Crop Year Prices, U.S.



This issue of whether farms should have a choice of multiple-year assistance programs largely has gone unnoticed. Selection of risk management strategies is not easy, especially when the decision covers five years. Thus, the issue of choice raises an interesting and important question: should government provide choice or instead establish a base program that is the same for all farms and crops, then allow the private market to design risk assistance programs around this base program to address the individual needs of individual farms for additional coverage?

(3) crop insurance differences

Two differences are likely to be divisive. The first and probably the most divisive is that the Senate, but not the House, requires a farm to comply with its conservation plan to qualify for the insurance subsidy. A compounding perspective is that imposing conservation compliance for the insurance subsidy may be seen as a way to offset, at least in part, the impact of relatively large cuts in conservation program spending. The second potentially divisive issue is that the Senate, but not the House, reduces a farm's insurance subsidy level by 15 percentage points if its aggregate gross income (AGI) exceeds $750,000.

(4) replacing permanent legislation

For over 50 years, Congress has written Title 1 farm programs as sunset (i.e. limited-life) amendments to the so-called permanent farm bills of 1938 and 1949. The Senate continues this tradition. For example, its Title 1 programs for field crops expire after the 2018 crop year. In contrast, the House replaces permanent laws with its Title 1 and provides no sunset. The House proposal reduces the need to pass farm bills in the future and leaves every other program in the bill in doubt because they sunset after 5 years.

(5) dairy program differences

Both the House and Senate bills replace current dairy programs with a risk management program based on the margin difference between the price of milk and feed. However, the Senate but not the House margin program contains a provision to control supply by encouraging supply reductions when margins are low. Of particular note, House Speaker John Boehner is an opponent of supply control. The two bills also differ on the structure of the margin program subsidy by herd size, with the House bill being more favorable to small farms than the Senate bill. This difference is part of a larger issue concerning how much should government subsidize risk programs for large farms (see crop insurance issues).

Summary Observations

Many paths forward exist, with these 3 spanning the possible outcomes:

1. The Conference Committee reaches an agreement that is enacted into law.
2. The Conference Committee does not reach agreement and the current 2008 farm bill is extended for another year. A 2-year extension could occur if Congress wants to avoid a farm bill debate in a Congressional election year. To help meet federal deficit reduction goals, an extension will likely include a reduction in direct payments at least equal to and probably larger than the current 8.5% cut under sequestration.
3. The Conference Committee does not reach agreement and permanent law is repealed, ending farm commodity support programs. The farm safety net becomes the insurance program, meaning multiple-year losses would not be covered by the farm safety net.

As of the writing of this post, we think the first 2 paths have about the same probability of occurring. The last path seems unlikely but we do not think its probability is zero. The last 2 paths would normally not be in the realm of possible farm bill outcomes, but much of the politics and partisanship surrounding this farm bill is consumed with cutting federal spending. If Congress reaches some form of a budget deal, it is expected to be smaller and more designed to replace the current sequestration cuts. Agriculture would be expected to make a contribution to such an agreement, with the most likely source of funds being a cut in direct payments. A much less likely and more drastic outcome would involve eliminating all Title 1 support in order to capture substantially more savings to pay for sequestration.

It is easy to point to nutrition programs as the likely reason that a new farm bill will not occur. However, we think the farm safety net issues are just as, and maybe more divisive. Compromise will require not only considerations of content differences but also process considerations of how to get a bill passed in a contentious political environment focused on the level of government spending. Whether the bill is an extension or a new bill, it is distinctly possible that the bill will be attached to the federal budget deficit and concurrent spending resolution that must be passed by Congress.