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Cornhusker Economics

Setting the Stage for the Next Farm Bill Debate

The 2018 Farm Bill is set to expire in September 2023. New farm bill legislation will be needed by then if authority is to be extended for a wide range of programs from farm support to conservation, nutrition assistance, credit, trade promotion, rural development, research and education, and more.

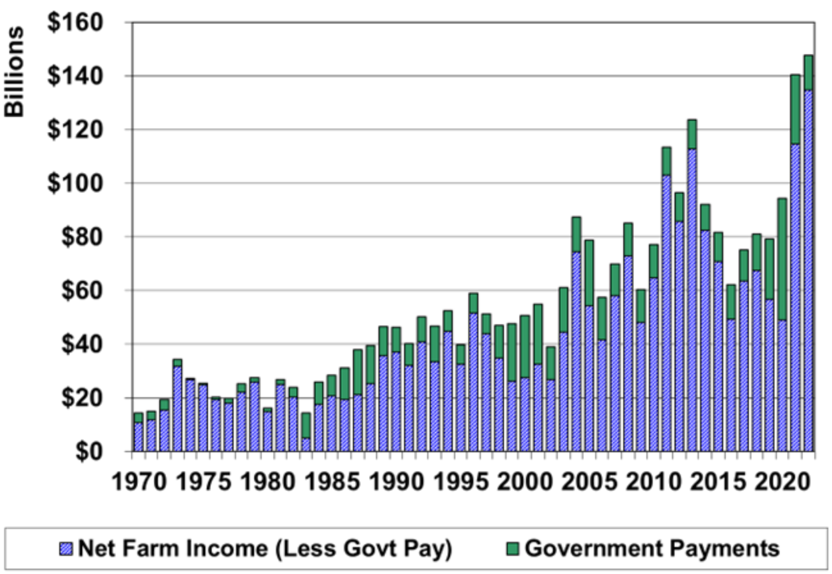
The agricultural committees in Congress have already held initial hearings and many agricultural and other interest groups have noted their policy priorities. However, formal debate on a new farm bill is not expected to begin in earnest until early 2023 when a new session of Congress convenes.

While the formal debate may still be a few months away, the framework for that debate is coming into focus in terms of the economic, budget, trade, and political setting for the farm bill debate.

Economic Setting

The general farm economy and outlook is a major driving force for the tenor of farm bill debates and for the policy options considered during the debate. The U.S. farm economy is projected to reach a record farm income above $147 billion in 2022 (Figure 1), according to recent estimates from the USDA Economic Research Service (USDA-ERS). That outlook is due in large part to strong market prices for many crop and livestock commodities that have thus far outpaced substantially higher input costs and declining farm program payments for the year.

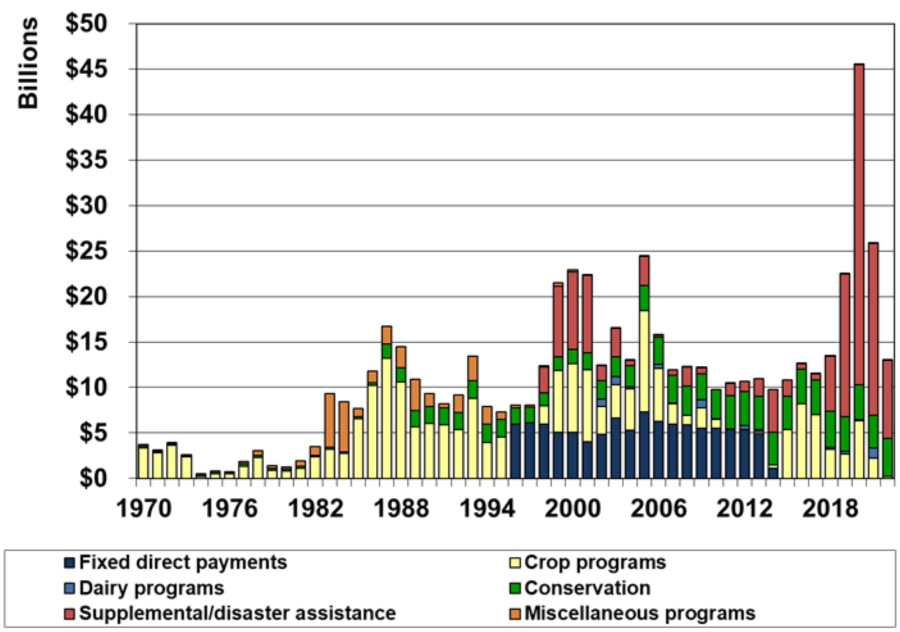
Figure 1. U.S. Net Farm Income (USDA Economic Research Service)



Farm bill debates often reflect the state of the farm economy. The 1985, 2002, and 2018 Farm Bills in particular were written in a time of lower prices and income and increased political pressure to strengthen or at least maintain the farm income safety net. The 1996 and 2008 Farm Bills were written at times of stronger price and economic projections for agriculture when the traditional price-based safety net tools appeared less relevant. That outlook helped pave the way for substantial policy changes – first the fixed, decoupled, direct payments in 1996 and then the introduction of a revenue-based commodity program safety net alternative in 2008.

The outlook at present for higher commodity prices again means the existing price-based safety net looks less relevant, drawing some calls for increases in safety net levels. At the same time, continuing increases in input costs are pressuring profit margins even as the price outlook remains relatively strong. That is leading some groups and policymakers to consider a margin-based safety net approach, similar to that used for the Dairy Margin Coverage program implemented in the last farm bill. An overriding factor in the safety net debate is the role of disaster assistance and ad hoc spending. Figure 2 shows farm program payments estimated by USDA-ERS and highlights the overwhelming role of supplemental assistance in the past five years, whether part of existing permanently authorized livestock disaster programs or due to the ad hoc assistance for trade losses, pandemic losses, or other disaster losses. While commodity program payments to producers have totaled nearly $17 billion over the 2018-2022 period, supplemental and ad hoc assistance has totaled more than $84 billion over the same time frame. With ad hoc assistance swamping the amount of traditional commodity program spending, it is difficult to determine what direction commodity programs will go and how much support is or isn't needed to get there.

Figure 2. U.S. Farm Program Payments (USDA Economic Research Service)

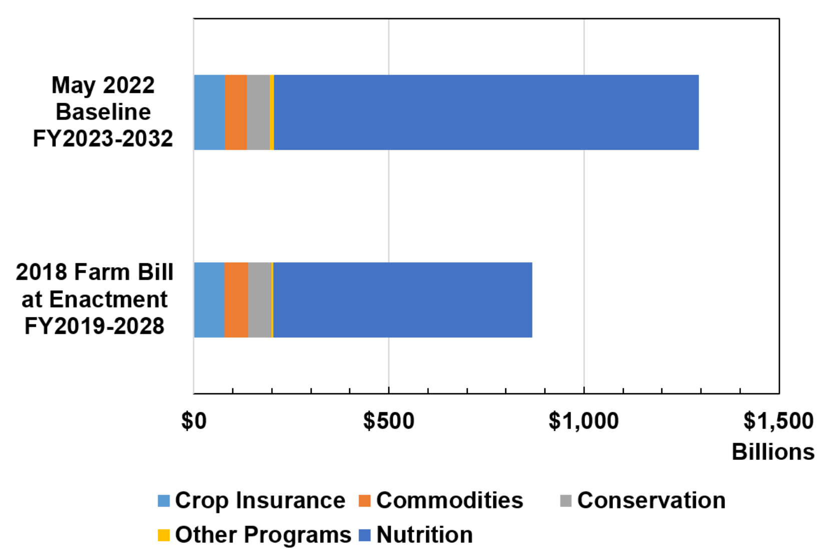


Budget Setting

The balance of commodity program spending versus ad hoc agricultural assistance is just one of the budget challenges shaping the coming farm bill debate. In just the past year or so, Congress and the Administration have passed or implemented spending to support climate-focused conservation practices, bioenergy and renewable energy practices, and broadband development that far exceeds the existing farm bill spending amounts for those programs. In the recent Inflation Reduction Act, Congress included nearly $20 billion for added conservation spending on climate practices through existing programs, amounting to more than a 30% increase if stretched over the next 10 years. Congress also included more than $13 billion for farm bill energy programs including renewable electric generation and biofuel infrastructure, far in excess of existing farm bill energy title spending. In last year's infrastructure bill, around $60 billion was committed to broadband, including $2 billion administered through USDA, an amount that far exceeds previous farm bill support for broadband deployment. Several billion has also been included in legislation this year and last to address equity and discrimination issues.

While the ad hoc support and recent legislation may signal changing or emerging priorities, they do so with one-time commitments of spending and authority. They don't automatically add to the budget baseline for writing the next farm bill. The budget baseline is the 10-year projected cost for existing farm bill programs and provides sufficient funding only to keep authorized programs in place for the coming years. A comparison of the budget baseline from 2018 when the most recent farm bill was passed and the May 2022 baseline for the existing programs shows a dramatic increase in projected spending (Figure 3). In 2018, the farm bill was projected to cost nearly $870 billion over the 2019-2028 period while the recent May 2022 baseline for the existing farm bill programs projects spending of almost $1.3 trillion over the 2023-2032 period (Congressional Budget Office).

Figure 3. Farm Bill Budget Baseline (Congressional Budget Office)



The largest share of farm bill spending and nearly all of the projected spending increase is for the nutrition title of the farm bill for food assistance, primarily the Supplemental Nutrition Assistance Program (SNAP). SNAP accounted for more than 75% of projected spending in the 2018 Farm Bill and accounts for nearly 85% of projected spending over the next 10 years. Increased support and participation during the pandemic as well as administrative changes to assistance calculations and higher projected food costs all factor into the increased spending.

While the next farm bill may begin debate with a substantially higher baseline, it doesn't mean there will be more dollars to allocate around to various titles, programs, and priorities as the higher baseline is just enough to maintain the status quo. It is possible the recent increases in ad hoc spending will mean certain issues are effectively settled for now, but it is also possible that all of the recently funded priorities will remain high priorities for further funding during the debate. Whether that debate will start with additional funds to play with or will be pushed to simply maintain the status quo for spending remains a budget question for the months ahead.

Trade Setting

Historically, the trade setting and outlook mattered to the farm bill debate in multiple ways. The growing importance of trade and international competition helped push historical farm policy shifts from price support and supply control tools toward income support and risk management tools. International trade negotiations in what became the World Trade Organization (WTO) also set limits for commodity program spending that constrained some of the policy choices made during farm bill debates.

In recent years, the trade setting has become more uncertain with ongoing trade conflicts along with a lack of progress on further WTO negotiations over agricultural supports. The recent trade assistance and pandemic assistance certainly pushed U.S. agricultural supports far beyond our commitments under the existing WTO agreement and could encourage challenges from other countries similar to the cotton support case raised by Brazil nearly 20 years ago. But, given the fact that many countries provided substantial pandemic relief to producers and the fact that the current WTO dispute process is stalled, it is unclear whether there will be any challenges to recent support levels or whether trade will have much of an impact on the next farm bill debate.

Political Setting

The legislative process necessarily involves members of both major political parties to debate and ultimately pass major legislation. However, farm bills have historically been broadly bipartisan with coalitions of farm and urban interests coming together to pass the farm bill and secure both farm and food spending. That bipartisan coalition has been tested and stretched in the past two farm bill cycles, but ultimately delivered a comprehensive farm bill across the finish line.

Having said that farm bills are generally bipartisan, that doesn't negate the fact that political leadership matters. The results of the November 2022 election will determine party control in Congress for the new session starting in January and will affect committee leadership as well. While farm bills have often been described as more parochial than partisan, any change in committee chairs from the current Democratic leadership to Republican leadership would at least bring different priorities to the forefront and would also suggest more time in the schedule to revisit some hearings before any debate begins in earnest.

Summary

Each farm bill tends to be a unique product of the debate and times in which it is debated. It is difficult at this point to even predict when a farm bill will be completed. While it is officially due before the end of September 2023, few farm bills ever get written in time and we could well spend at least a few months in limbo between the expiration of existing farm bill programs and the passage of a new farm bill wondering about something called "permanent legislation" (farm programs from the 1949 Farm Bill that would take effect if no new legislation is written). While we would ultimately not wait around for permanent legislation to take effect, we could end up extending current farm bill programs for a few weeks, months, or years to avoid it, as has happened repeatedly in the past (most notably in recent memory, what was to be the 2012 Farm Bill ultimately became the 2014 Farm Bill).

While the timing and path of the farm bill debate may still be uncertain, there are broad factors that time and again, help drive the debate. The economic setting helps define the size and the shape of the farm income safety net. The trade setting seems more uncertain than ever, but traditionally has impacted the choices made for farm supports. Finally, the budget setting and the political setting help determine the spending priorities and the necessary coalition building it takes to successfully push any policy priorities and comprehensive legislation across the finish line. All of those factors should play out over the coming months and make for an interesting farm bill debate.

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