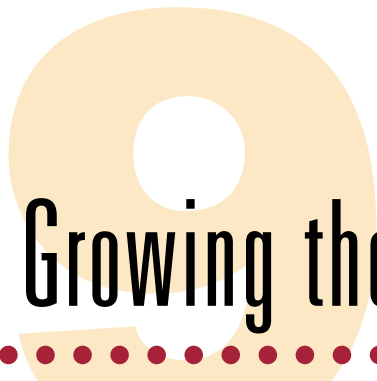




Idaho Wheat Commission

Idaho wheat farmers have received more than a billion dollars in federal farm subsidies since 1995. The state ranks fifth in wheat exports.



Growing the

FARM BILL

by Victoria Kazimir

Over the decades, the American food system has evolved from local farms that served the needs of their communities to primarily industrial-scale agricultural production. Agricultural policy also has changed with the times. Since the 1960s, these changes have been borne out by the federal government's primary instrument of agricultural policy, omnibus legislation collectively known as the farm bill. The legislation, renewed every five to seven years, is introduced as an amendment to permanent agricultural law established in 1949. The comprehensive bill authorizes and funds programs ranging from commodity subsidies and the Supplemental Nutrition Assistance Program (formerly known as food stamps) to international commodity trade, rural economic development and agriculture research. The last farm bill, passed in 2008, authorized more than \$400 billion in spending over five years. The largest share of these monies (nearly 70 percent) was allocated to nutrition assistance, while farm and crop supports were second and conservation programs were a far third.

The 2008 farm bill expired on Sept. 30, 2012, and Congress was expected to produce a new bill for the next five years. Titled the Agriculture Reform, Food, and Jobs Act of 2012, the bill passed the Senate with bipartisan support but languished in the House over disputes about nutrition assistance funding. As the year end approached, Congress increasingly focused on the impending “fiscal cliff,” a combination of sharp tax increases and spending cuts many feared would send the economy into recession set to take effect on New Year’s Day. With the new farm bill tied up in the House, at the 11th hour Congress passed a bare-bones extension of the 2008 farm bill as part of the fiscal cliff settlement, leaving few parties celebrating. The 2008 bill is now in effect until Sept. 30, 2013.

Nearly six months of work by the Senate Agriculture Committee were seemingly for naught when the 2012 farm bill languished in the House. With the extension of the 2008 bill, the 112th Congress essentially kicked the can down the road, leaving the passage of a new full five-year farm bill to the 113th Congress now in session. The 2012 Senate bill could serve as a basis for a new farm bill written by the Senate Agricultural Committee this year, but that remains to be seen. The mainstays of previous bills important to Idaho farmers—commodity supports, conservation programs and funding for a number of programs aimed at developing foreign markets for U.S. producers—are intact for the time being, while a number of smaller discretionary programs aimed at organic and specialty farmers and farmers markets were discontinued due to lack of funding. The estimate of the proposed savings is one thing that is certain to change when the new bill is drafted. In early March, the Congressional Budget Office downgraded the amount of savings in the 2012 Senate bill from \$23.1 billion over 10 years to just \$13.1 billion.

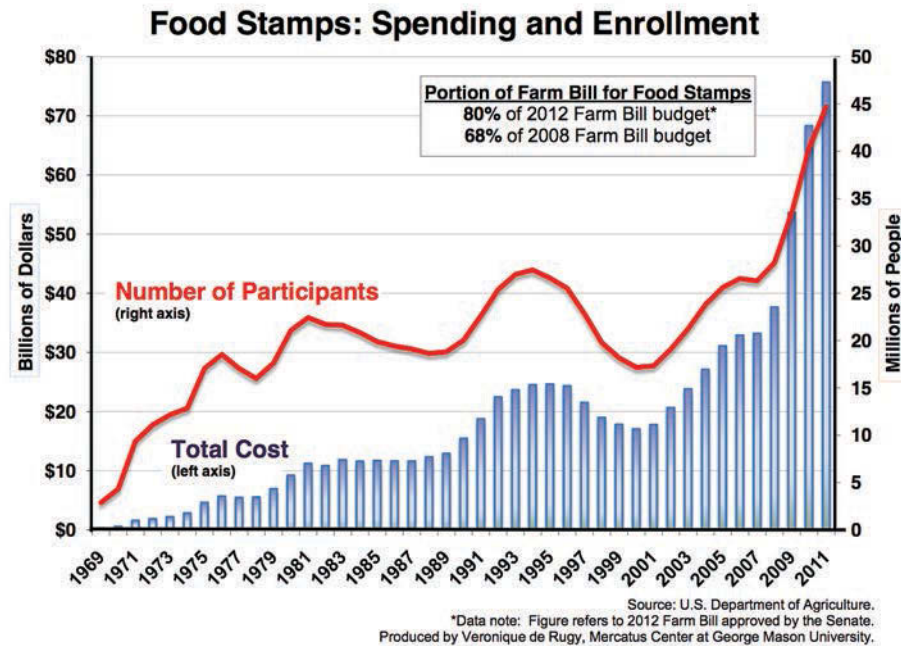
Because the 2008 farm bill provisions were temporary amendments to the permanent 1949 Agricultural Act, without a new bill in place by Jan. 1, 2013, agricultural policy was set to revert to the permanent law that authorizes federal price support levels from the 1940s, thus causing considerable disruption to the crop and food markets. That meant prices for dairy products and other commodities would soar and price supports for crops such as soybeans wouldn’t exist at all. The extension, however, prevented reversion to permanent law, thus avoiding the predicted market disruptions. But this temporary fix does little to address the need to provide farmers with longer-term certainty in regard to governmental price supports so they can make informed planning decisions about their crops. By the end of September 2013, the Congress must pass a new farm bill or once again risk reversion to permanent law.



Risch4Senate

Senator Jim Risch poses with his wife Vicki on his Boise-area farm. Although he voted to reject the Senate's 2012 farm bill, the Boisean claims to be one of the only members of Congress who actually owns a cow.

The desire to support the competitiveness of American farmers and ensure the domestic food supply has historically ensured bipartisan support for farm programs in Congress. But efforts to pass the 2012 farm bill faced significant political hurdles in the latter half of the year. Both the Senate and House agreed on the need to eliminate direct payments, reshape some commodity income supports, expand crop insurance, consolidate and reduce conservation programs, extend discretionary spending for many USDA programs and revise the Supplemental Nutrition Assistance Program (SNAP). Key differences arose between the House and Senate over the proposed shape of the commodity income supports and the extent to which SNAP should be cut. The House pushed for considerably deeper cuts to SNAP funding than the Senate approved. With the fiscal deficit looming over Congress, the House sought approximately \$12 billion more in cuts than the \$23.1 billion reduction over 10 years proposed by the Senate.



Fighting over food stamps was the roadblock that helped to derail the Senate farm bill. The number of Idahoans on food stamps has more than tripled since 2008.

The 2012 bill highlighted differences in party ideology over the necessity of nutrition assistance, which comprises more than 70 percent of the spending authorized in the farm bill. While many Democrats in Congress worried about the impact of cutting nutrition assistance to struggling families in an uncertain economy, congressmen/women who ran on platforms of reduced federal spending were uneasy with passing a bill that authorized nearly a trillion dollars in spending over the next decade. The contentious political climate of the 2012 presidential election compounded these pressures. Both Idaho Senators Mike Crapo (R) and James Risch (R) voted against the 2012 Senate bill. According to Sen. Risch's Deputy Legislative Director Darren Parker, the vote was a difficult one. While Sen. Risch was supportive

of providing support and risk management strategies to the agricultural community in Idaho, "He could not in good conscience vote for \$80 billion in food stamps in light of our nation's fiscal deficit," said Parker.

Significant changes in agricultural policy were included in the 2012 Senate version of the farm bill. It would have significantly altered commodity supports by eliminating most direct subsidies and some disaster relief payment programs. Their elimination was set to provide the bulk of the proposed deficit reduction—\$15 billion out of \$23 billion. In their place, a new set of crop insurance policies called Ag Risk Coverage would have provided a revenue guarantee for farmers at a maximum 85 percent of average revenue from previous years. Currently, farmers may take out federal crop insurance policies on their production. Under these policies, farmers pay just under half of the cost of their insurance premiums. These insurance programs are managed by the U.S. Department of Agriculture's Risk Management Agency, which works with private contractors that in turn provide insurance policies to farmers. The 2012 bill would have expanded available insurance coverage options and provided funds to develop insurance policies for underserved crops such as fruits and vegetables.

The farm bill has considerable impact on Idaho farmers. According to the Washington, D.C.-based Environmental Working Group, the most significant programs in terms of monetary impact relate to commodity supports and conservation. Between 1995 and 2011, 36 percent of Idaho farmers received subsidies totaling more than \$3 billion. About \$1.69 billion of this sum was in commodity subsidies, \$713 million in conservation subsidies, \$376 million in crop insurance premium subsidies and \$247 million in disaster relief subsidies. Of these programs, crop insurance has by far the largest participation, with nearly 200,000 policies taken out in this period. The importance of crop insurance has grown as outlays for Idaho premium subsidies have steadily increased and outlays for direct payments have decreased. While commodity subsidies between 1995 and 2011 are four times those for crop insurance, crop insurance outlays are expected to exceed traditional commodity support outlays over the next 10 years by one-third, according to congressional reports.

Since the 2012 crop season was still covered by the 2008 bill and the mainstays that Idaho farmers depend on such as crop insurance were continued, the expiration of the bill didn't have an immediate negative impact on most Idaho farms in 2012. But the uncertainties produced by Congressional gridlock remain. Interestingly, the proposed changes in the farm bill, including the elimination of the commodity subsidies and the expansion of crop insurance, received little protest from area farmers. The farming community

was prepared for these changes and was satisfied by the expansion of crop insurance. "The idea was that if they eliminated direct payments they would provide crop insurance instead as a safety net in lieu of direct payments. The farmers I met with—not all, but 99 percent—were okay with losing direct payments. They understood that that was coming and preferred to have the other safety nets in the bill," said Parker of Sen. Risch's office.

On the ground, those in Idaho most impacted by the farm bill developments of last year were the dairy operators and grain producers. The restructuring of dairy supports proposed in the 2012 bill would have impacted numerous Idaho dairy operations. Idaho dairies are typically quite large in size, so they are not eligible for many of the federal dairy support programs under the 2008 bill. In past years, the United Dairymen of Idaho have not supported the federal programs because pricing in these farm bills was not helpful to large dairies. In a departure from the norm, the United Dairymen of Idaho supported the new income loss program and corresponding supply management program in the 2012 bill. "The pricing in previous farm bills has not been very helpful to the large dairies. They (United Dairymen) took a new approach to this farm bill and supported the reforms that were included in the House and Senate bills," said Parker. This supply management program stirred some controversy because in exchange for receiving payments for a loss of income in one year, the government would get to dictate the following year how much milk product a farmer could release. The rationale is that in order for a farmer to receive income loss payments one year, he would have to participate in the supply management program to correct for oversupply the following year, thus allowing dairy prices to rise. While some were uneasy about introducing government supply controls, most came out in favor of the program. These hoped-for changes in dairy supports never came to fruition due to the extension of the 2008 bill.

Most Idaho grain growers wanted a new farm bill so they too could make farm management decisions sooner. "They (farmers) have budgets and bankers they have to answer to in order to get operating lines of credit, and the kind of crop insurance they get impacts what they plant and how much they plant. Having a farm bill provides them with financial certainty and direction, allowing them to plan what they're going to do for the next five years. It's very important to them," stated Travis Jones, executive director of the Idaho Grain Association.

For Idaho wheat producers, the extension of the 2008 farm bill has been bittersweet. Because wheat producers export about 50 percent of their crop, the reauthorization and funding of the Foreign Market Development Program and the Market Access Program included in both the 2012 bill and



David R. Day

Farm worker immigration, both legal and illegal, is an unintended consequence of federal aid to Idaho farmers. Pictured: harvesting hops in Canyon County, 2008.



SCAFCO Grain Systems

Barley growers mostly favored the House version of 2012 farm bill with subsidies for crop insurance. Pictured: storing barley.

the 2008 extension was important. The expiration of the 2008 bill sparked worries that these programs would run out of funding, and global offices could be closed and jobs lost. Grain producers feared they could lose market share to competitors in crucial foreign markets, according to Jones. In addition, grain producers, particularly wheat and barley farmers, are the largest

recipients of commodity subsidies in the state, and some 81 percent of Idaho wheat acres and about 60 percent of barley acres are insured. With the extension, Idaho grain subsidies are intact. Still, the Idaho Grain Association felt that the commodity subsidies were not necessary and that the redirection of those funds for deficit savings and more important programs such as crop insurance would be best. "In Idaho, we felt that it (direct payments program) wasn't necessary and that we could probably get some deficit saving by eliminating it and possibly use that elimination as leverage to bolster other programs that were more important, like crop insurance," said Jones. In the end, the changes spelled out in the full five-year bill were not to be.

In contrast, local farms in the area geared toward local consumption remain largely untouched by the farm bill debate. Generally, they don't use crop insurance and most don't receive subsidies, although token grants for specialty crop farming are available. As the local food movement has gained traction, the competition for these grants has outgrown their modest scale. For locovore farms, programs such as school lunch initiatives that require certain percentages of local food to be included in meals are considerably more meaningful. Generally, local demand for food is what drives these smaller farms and informs their production decisions. Their production has very little to do with national policy. The 2012 farm bill included measures to expand insurance for specialty crops. Under the 2008 law, crop insurance is only available to farmers who raise a limited variety of crops. Farms with several crop varieties currently do not qualify for crop insurance because programs for diversified farms haven't been developed yet. "In the last few years, they have been trying to develop crop insurance for all types of farmers. At this point we have too many crops, but they are working on it," said Josie Erskine of Peaceful Belly farm in Boise. From the perspective of local farmer Janie Burns of Meadowlark Farm, "The best insurance is a having a local community that we can count on to buy what we produce."

Just as the local food movement provides an excellent opportunity to analyze values related to agriculture and the nation's vision for its food system, the farm bill debate provides an occasion to discuss the policy instruments to achieve that vision. The tools of choice in implementing agricultural policy have changed over time. To understand the defining elements of current agricultural policy and our food system, it is helpful to look at how they've developed. The farm bill has its roots in legislation introduced by President Franklin D. Roosevelt in the midst of the Great Depression in 1933 as an anti-poverty measure. American society was primarily agrarian and alle-

viating on-farm poverty was a national concern. A global glut in food production caused food prices to drop drastically. The resulting loss of revenues meant many farms couldn't service their mortgages. The bill introduced a nutrition program (the precursor of food stamps and the subsequent SNAP program) and a price support system in which the government would pay farmers to leave a certain percentage of their lands fallow in order to suppress supply and keep prices stable. In addition, the government established a program to purchase grain from farmers and release it periodically as a tool to keep grain prices propped up. Disaster aid and conservation programs were introduced to help those suffering from the effects of the Dust Bowl. Some form of the bill has been passed every five to seven years since about 1938.

Following World War II, monumental societal changes transformed the American food system. Agricultural productivity rose due to mechanization and the adoption of chemical treatments for soil and crops. The globalization of markets increased pressure for economies of scale. Decreased transportation costs resulting from the interstate highway system further concentrated food production to areas of lowest production cost. These changes resulted in expanded farming operations characterized by specialization in commodity crops such as wheat, grain, cotton, rice, oilseed and seed crops. Furthermore, an increase in food processing, partially resulting from consumer demand for convenience, also followed, further shifting consumption patterns away from direct farmer-to-consumer exchanges to processed supermarket goods. In addition, the access to education offered by the GI Bill expanded economic opportunities outside the family farm for those returning home from the war. As machinery began to replace farm workers, population gradually shifted to towns and cities. Farm policy further incentivized changes in production methods and crop choices by providing support for commodity crops, largely ignoring more perishable fruit and produce. According to Burns of Meadowlark Farm, "The farm bill has clearly dictated many of the policies that have helped this migration of food production into certain areas and also has fostered the overproduction of many foods."

The 1985 and 1990 farm bills reflected some undercurrents of the present-day push to reduce the role of government in agriculture. With the 1996 Federal Agriculture Improvement and Reform Act, Congress completely did away with supply controls, dramatically reduced price supports and introduced crop insurance instead. By 1998, when commodity prices started to drop, Congress backtracked and introduced new farm subsidies, including controversial direct payments to farmers. The movement from supply and price controls to government payments has no doubt increased efficiencies in



CAFF

The Community Alliance with Farm Families (CAFF) protested when the House leadership refused to hold a vote on the farm bill.

agricultural markets. Yet, as commodity prices have again risen and as, on average, farm income exceeds non-farm income, direct subsidies and other income supports have become difficult to justify.

The 2012 farm bill proposal to insure more crops and provide more comprehensive insurance policies was part of a greater trend away from traditional farm supports. The introduction of crop insurance was preceded by measures in previous farm bills to cut supply control programs such as the grain surplus program of decades past and replace them with direct payments. Since the authorization of crop insurance in the Federal Crop Insurance Act of 1980, subsequent farm bills have amended this act to provide greater and greater subsidies for insurance premiums to encourage farmer participation. They have also increased subsidies to insurance companies for taking the considerable risk associated with insuring farms against the market. With the movement toward crop insurance and away from tradi-

tional direct payments, the question arises whether these changes are beneficial. The case for crop insurance is a seemingly simple one. Farmers take out insurance on crop production to reduce their risks in case of unforeseen events such as hailstorms. They do not receive payments unless there has been a loss and even then these payments are to compensate farmers a maximum 85 percent of average revenue under the 2008 law. On the other hand, although crop insurance is partly funded by the farmer and payments only kick in for considerable losses, many have suggested that the extensive nature of the insurance has morphed the program from one of risk management to that of an income guarantee.

Diversifying farm products provides some risk mitigation because even if one crop fails, it is unlikely that all will. Ideally, according to Burns, "It should be a group of farmers that have a portfolio of crops that they rotate through and for which they have figured out the market so they are not over producing, and if one has a crop failure it is unlikely that they all will and so you diversify ... crop insurance may be providing guarantees to people making bad decisions." A 2012 paper by Vincent Smith at Montana State University and Joseph Glauber at the U.S. Department of Agriculture suggests that subsidized crop insurance has decreased the use of traditional risk management tools such as crop diversification, pesticide use, nonfarm income and saving and borrowing. In addition, crop insurance has been shown to increase soil erosion, expand crop production to environmentally sensitive lands and generally incentivize moral hazard behaviors. On the other hand, while direct payments are politically unpopular in times of high farm incomes, simple lump sum transfers with no strings attached are wealth transfers that distort markets the least. Thus, direct payments theoretically may distort markets less than crop insurance. Furthermore, the study finds that as a mechanism for income transfer, crop insurance is extremely expensive relative to other wealth transfers. For every dollar spent, the producer receives only 51 cents in benefit. This figure is high compared to federal crop insurance programs in other countries. Canadian federal crop insurance has about one-fifth the cost of administration that the U.S. has. This suggests there is room for improvement in efficiency. While no perfect policy instrument exists, so long as it is national priority to support American farmers, the various methods of aiding farmers need to be carefully evaluated.

The journey toward a 2013 farm bill provides a prime opportunity for local and national discussion of agricultural policy methods and goals. The self-sufficient family farms of decades long past seem a distant memory, yet a similar spirit motivates the independent nature of small locovore farms. Alongside these, family-owned commodity farms also seek to carve a place

for themselves in agricultural production. These different approaches to agriculture offer different models for the U.S. food system. The exact outcome of a farm bill without government intervention in price and revenue levels is as uncertain as it is unlikely. In all likelihood, the different types of farms will continue to coexist to serve their individual customers, even as the local food movement gains steam. As efforts to create a five-year bill ensue once more, policy for both traditional crops and specialty crops will come to the forefront. While industrial production may have its role to play in the food system and will likely see continued support—although perhaps more limited than in previous years due to budgetary pressures—a unique opportunity exists to analyze policy relating to the local food movement. The increasing public interest in the quality of our perishable crops will likely further open the debate over whether traditional price and revenue supports should be extended to local farms serving their communities.

Further, if the Senate chooses to include the expansion of crop insurance to specialty crops in its new 2013 bill, the benefits of such an extension will need to be considered. The questions of whether subsidies would be more beneficial to specialty farmers than crop insurance, whether these supports would allow local food prices to decrease and the extent to which the local food movement would grow with federal support are all concerns with no clear answers. Yet as the farm bill debate continues this year, Idaho farmers will be affected by the Congress' decisions relating to these puzzles.

Although more than half of Idaho farmers do not receive subsidy payments from the farm bill, it determines the competitiveness of American farmers in certain crop markets, and has considerable impact on food prices, farmer solvency and the extent of farming in the U.S. Ultimately, it outlines the way we incentivize society's approach to food. Although unknowns concerning the text of the new bill abound, its passage this year is of primary importance to both farmers and consumers.

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