
A Series of Papers on the 2007 U.S. Farm Bill
A FAIR
FARM BILL
for America
IATP
Institute for Agriculture and Trade Policy

The Institute for Agriculture and Trade Policy promotes resilient family farms, rural communities and ecosystems around the world through research and education, science and technology, and advocacy.

2105 First Avenue South
Minneapolis, Minnesota 55404 U.S.A.
Tel.: (612) 870-0453
Fax: (612) 870-4846
iatp@iatp.org
iatp.org
agobservatory.org
tradeobservatory.org

Jim Harkness, President

About this publication
A Fair Farm Bill for America

Edited by Ben Lilliston, IATP Communications Director

Part of a series on the 2007 United States Farm Bill

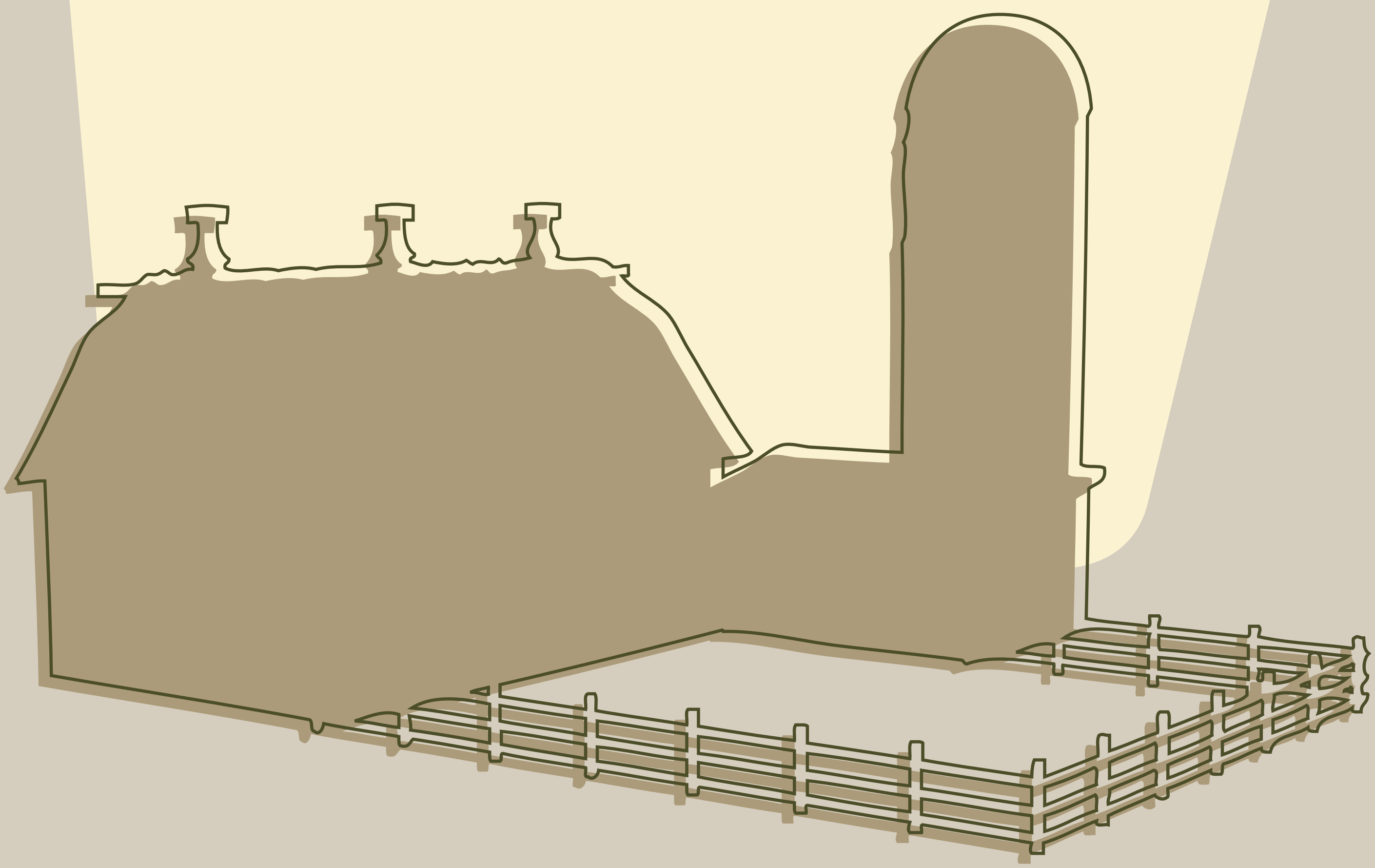
IATP would like to give a special thanks
to Oxfam America for their support of this series

Published March 2007

Cover: Artwork based on a poster for the Federal Theatre Project presentation of *Native Ground*, New York City. Emanuel DeColas for the Works Progress Administration Federal Art Project, c. 1939. Library of Congress, Prints and Photographs Division, WPA Poster Collection, LC-USZC2-5370 DLC.

Focus on the FARM BILL

For the past 75 years, ever since the New Deal programs of the Roosevelt administration, federal policy makers have taken an active role in agriculture. Every five to seven years, agricultural policies are evaluated and reauthorized through the federal Farm Bill. The last bill was passed in 2002; the next is expected in 2007. The larger public is discovering that policies in the Farm Bill affect not just farmers but rural communities, the environment, health, hunger and even immigration. Literally everyone has a stake in the 2007 Farm Bill. After providing basic information and history on the Farm Bill, we delve into some of the reasons why.



FARM BILL *basics*

The U. S. Congress writes the Farm Bill. While criticized often by budget hawks, the Farm Bill makes up less than 1 percent of the federal budget. The 2002 Farm Bill, known as the *Farm Security and Rural Investment Act of 2002*, is more than 420 pages and contains 10 separate titles:

- **Title I, Commodities:** Payment and loan programs for 20 farm commodities.
- **Title II, Conservation:** Conservation programs, wetlands protection, grasslands protection, farmland protection and incentives for farmers to improve environmental stewardship.
- **Title III, Agricultural Trade and Aid:** Food aid and meeting World Trade Organization obligations.
- **Title IV, Nutrition:** Food stamps, child nutrition and supplemental food.
- **Title V, Farm Credit:** Farm ownership loans and emergency credit.
- **Title VI, Rural Development:** Grants for rural businesses and small communities, expanding rural broadband access.
- **Title VII, Research:** Agricultural extension services, research on all areas of food production including biotechnology and organic production.
- **Title VIII, Forestry:** Funding for various U.S. forest service projects including community forestry.
- **Title IX, Energy:** Funding for bioenergy projects and research as well as federal procurement for biobased products.
- **Title X, Miscellaneous:** Includes crop insurance, disaster assistance, animal welfare/inspections and country-of-origin labeling.

The purview of the Farm Bill has expanded greatly over the years, but its core continues to be the commodity programs. How the commodity programs are structured has a ripple effect on nearly every other Farm Bill program: from providing a safety net for family farmers, to promoting or discouraging local food systems, to the environment, energy, public health and trade. Specifically, the commodity programs determine which crops the government will regulate or not regulate, which will be supported through subsidies and how production, inventories and prices of those crops will or will not be publicly managed.

A Non-Wonk Guide to Commodity Programs, written by the Rural Advancement Foundation International–U.S. (RAFI-U.S.), points out that there are essentially three ways to ensure an adequate income for farmers. One is to control supply and manage inventories. Another is establishing and enforcing a specific price in the marketplace. And the last is directly paying the farmer the difference between the market price and what the government decides is fair. All farm commodity programs are designed to do one of these three things. RAFI-U.S. writes:

> Which one of those three things they do goes a long way in determining how much of the price comes out of the market and the buyer's pocket and how much comes out of the taxpayer's pocket.[1]

Two farm programs, the sugar and dairy programs, continue to manage supply and thereby support a price floor in the marketplace. Although they work differently, both are based on correcting for inherent failures in agricultural markets. While U.S. commodity programs cover 20 different crops, eight major crops–corn, soybeans, wheat, grain sorghum, barley, oat, cotton and rice–account for 74 percent of total cropland in the U.S. And these same primary program crops receive 70 to 80 percent of all government payments.[2]

THE 20 U.S. COMMODITIES

Wheat	Corn	Sorghum	Soybeans
Oats	Cotton	Rice	Wool
Oilseeds	Milk	Peanuts	Mohair
Beet	Cane Beet	Sugar	Chickpeas
Honey	Dry Peas	Barley	Lentils

Farmers participating in commodity programs have their subsidies determined by a complicated formula that determines the specific subsidy based on base acreage, marketing assistance loans, loan deficiency payments, decoupled payments and countercyclical payments. Programs like loan deficiency payments and countercyclical payments are tied to actual market prices for each commodity and therefore are designed to increase during times of low prices and decrease during times of high prices. The higher the market price, the less government payments farmers receive. So when prices fall, government subsidies can go sky high as they did in 2005 ($24.3 billion) and when market prices rise they can decrease substantially as they did in 2006 ($16.5 billion).[3] The recent increase in corn prices is helping to raise prices in nearly all major commodity crops. Such an increase in commodity prices, combined with decreasing subsidies, will influence policy makers in writing the 2007 Farm Bill.

HOW FARM POLICY *evolved*

Henry Wallace, President Franklin Roosevelt's secretary of agriculture and a true visionary, understood how extreme price fluctuations vexed farmers and kept agricultural markets from functioning properly. Wallace realized that to mitigate low prices that left farmers reeling in the Great Depression, he needed mechanisms to provide incentives for farmers to curtail overproduction and to manage commodity inventories. Since grains and oilseeds store well, part of the harvest can be taken off the market and put into a reserve when prices are too low. Then, when prices recover, the crops could be sold for a profit. By utilizing this simple concept of buying low and selling high, government-operated storage facilities actually made money for taxpayers, while smoothing out the price fluctuations that cyclically hurt both farmers and consumers. A farmer-owned reserve was also instituted, providing farmers with more flexibility over the timing of when they sell their crops, as well as an efficient, inexpensive self-insurance program.

Wallace's agricultural policies provided the framework for some of the most prosperous and stable decades in U.S. agriculture. Throughout the second half of the 20th Century, the agribusiness sector began to chip away Wallace's policies. As a result, today the principle commodities in the Midwest–corn, soybeans and wheat–usually cost farmers more to produce than what they receive from the marketplace. The last pillars of Wallace's legacy were finally eviscerated in the 1996 Farm Bill. Now, instead of addressing market distortions inherent in agriculture, the government simply spends billions to make up some of the difference between what food processors pay and what farmers need to stay economically viable.

HENRY WALLACE

NO SIMPLE *solutions*

Henry Wallace's New Deal farm policy platform solved the most vexing problems of agricultural markets with unprecedented success that lasted for two decades. But as Wallace's platform was gradually dismantled, we return to what the late economist John Kenneth Galbraith has called "the farm problem."

Galbraith described the challenge this way:

> Industrial corporations and those engaged in technology, entertainment and most else have control of their production and, in substantial measure, their prices. Those who depend on a farm for their living, however, have no control over production. There are far too many producers providing the same thing, which eliminates any possibility of control of prices. This is the enduring nature of what is called 'the farm problem'. . . Now we have a new farm problem, especially for small ones, as they are called and celebrated, family farmers. In fact, the problem is not new and the solution—to go back to what we had before—is not either. It's as simple as that.[4]

A recent example makes the point. In January 2007, the three major meat packers, Tyson Foods, Cargill Meat Solutions, National Beef Packing Company, all decided that their margins were too low. So, all three companies pulled the switch and slowed production at their plants, in some cases closing them, until their margins went up.[5] As Galbraith eloquently points out, this management of supply is not a luxury that farmers have under the current Farm Bill.

THE FAILURE OF *ag deregulation*

The 1996 Farm Bill was written with an eye clearly on expanding agricultural trade and reforming U.S. farm policy to comply with World Trade Organization rules. The bill originally required subsidies to be phased out by 2001 through a mechanism called "decoupling," which removed the historical tie between farm payments and the crops produced. It also removed the last remaining pillar of inventory management—the requirement for farmers to set aside a percentage of their acreage to qualify for government payments. When farmers were allowed to produce as much as they could, prices collapsed. And when a promised export expansion never materialized the commodity groups and others who had supported the phase out of subsidies lobbied relentlessly to restore subsidies in the form of "emergency payments." Congress obliged with a series of $20 billion emergency bailouts over the course of the 1996 Farm Bill.[6] The 2002 Farm Bill locked in those emergency payments, largely in the form of countercyclical payments, which increased as prices dropped.

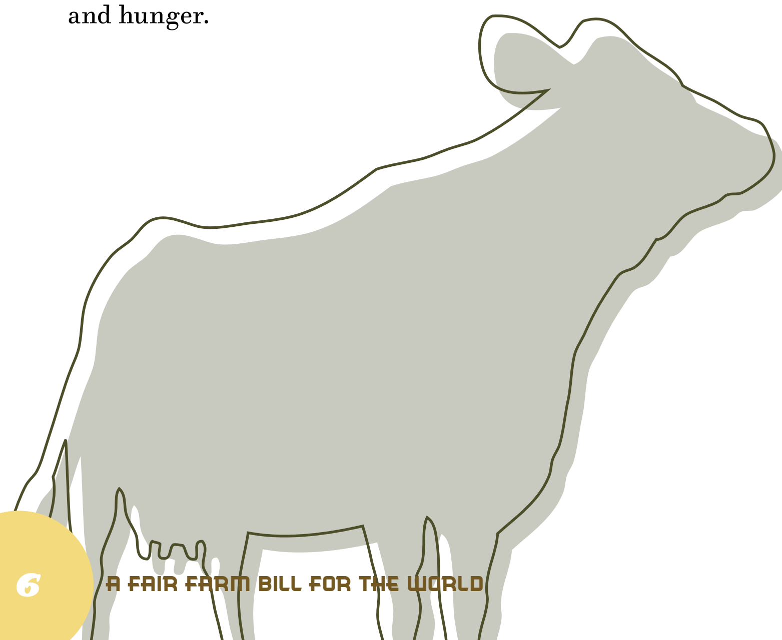
Subsidies, after all, distort markets by favoring certain crops over others. They also mask low prices and in effect represent a substantial indirect subsidy to food processors. For example, subsidy supported, below-cost feed grains represent an enormous input subsidy to industrial animal factories and give them a decided advantage over grass-fed beef operations.

Eliminating subsidies, however, does not address the root cause of the problem: low prices. Remember the sequence. First the 1996 Farm Bill cut subsidies and deregulated agricultural markets, causing increased overproduction and a precipitous 40 percent fall in prices. Then came a series of $20 billion bailouts. Subsidies were simply the symptom of a poorly functioning market.

U.S. agricultural subsidies continue to be a popular target at the WTO negotiations. U.S. trade representatives have aggressively pressured other countries to eliminate or dramatically reduce their tariffs. Poor countries have resisted, arguing that U.S. companies are dumping commodities and undermining their farmers. Poor countries are calling on the U.S. to dramatically reduce their domestic subsidies. This conflict over U.S. farm subsidies was a factor at the failed WTO ministerial in Cancun in 2003 and again during the breakup of WTO talks in July 2006.

THE FARM BILL'S *big footprint*

The Farm Bill affects more than just farmers. Recently, many different constituencies have raised concerns about the Farm Bill, including its impact on energy, health, conservation, the enviornment, market concentration, labor and immigration, and hunger.



ENERGY

Stunning growth in the ethanol market poses both threats and opportunities. The Farm Bill will help determine who will be the winners and losers in the fast growing bioenergy markets. Ethanol has had a tremendous impact on corn prices and availability and subsequently has had a ripple effect on other crops and the livestock industry. Ethanol is helping to revive what had been a struggling rural economy in the Midwest and shifted the focus of the Farm Bill from exports to domestic uses of commodities.

Will the bioeconomy shift agriculture toward more sustainable practices in the long run? Large-scale biofuel operations powered by coal and run by outside investors stand in sharp contrast to many smaller community or farmer-owned ethanol plants powered by clean energy. And an overdependence on corn as the sole feedstock for ethanol could have many negative environmental consequences. The Farm Bill is an opportunity to prioritize rural development, help farmers and communities with startup capital, invest in public research in new technologies and ensure that new sustainable biomass feedstocks are part of the bioeconomy's future.

HEALTH

The current obesity crisis has increased focus on the prevalence of high-fat, high-sugar foods and the cheap commodities used to make them. U.S. farm policy has encouraged the overproduction of commodities like corn and soybeans, which have been used to make a number of cheap sugars and fats like high fructose corn syrup and hydrogenated vegetable oil. While sugars and fats have become cheaper, prices for healthier choices like fruits and vegetables have steadily increased. U.S. farm policy sets a number of disincentives for healthy food, including a lack of support for local food systems and incentives for grain-fed over healthier grass-fed livestock. The public health community is stepping into the Farm Bill debate with recommendations for improving access to healthier food.

CONSERVATION

From programs that take land out of production to providing incentives for farmers to implement good environmental practices, the Farm Bill has become one of the most important policy vehicles for protecting soil and water quality. The Conservation Reserve Program currently takes about 35 million acres of sensitive land out of production and requires the landowner to implement specific conservation practices. The 2007 Farm Bill will consider whether to expand or reduce support for this and other conservation-related programs.

ENVIRONMENT

The current Farm Bill has encouraged the overproduction of feed crops for livestock and has forced the price of these feed crops below the cost of production. Below-cost feed crops have provided a substantial indirect subsidy to corporately owned and vertically integrated industrial animal factories, which have contributed to the shift of livestock away from grass-based systems.[7] Large confinement livestock facilities rely heavily on antibiotic use to prevent massive die-offs of their poultry, hogs and cattle from diseases that spread rapidly in such confined quarters. This over reliance on antibiotics has played a role in decreasing the effectiveness of some antibiotics used to treat humans. Additionally, these factories have been associated with air and water pollution in surrounding rural communities. The 2007 Farm Bill offers an opportunity for the environmental, public health and agricultural communities to support more diversified, healthier and environmentally sustainable farms.

MARKET CONCENTRATION

Increased market concentration, both vertically along the same sector and horizontally along different sectors, has deeply affected U.S. farmers. Fewer and fewer companies sell the inputs farmers need and buy the crops farmers produce. The price squeeze has meant that farmers' costs have gone up, while prices they receive have steadily declined. And overall net farm income has fallen substantially since 1996, despite a near tripling in government subsidies. In January 2007, over 200 organizations wrote Congress asking that they address market concentration in agriculture through a new Competition Title. The letter called for strengthening antitrust enforcement, fairness in contracts and improving price transparency. The 2007 Farm Bill provides an opportunity to debate these approaches to reigning in the growing market power of agribusiness.

LABOR AND IMMIGRATION

The recent raid at six Swift Midwest meatpacking plants by U.S. Immigration agents raised awareness once again about the pivotal role that migrant labor and undocumented workers play in the U.S. agricultural system. The raid followed a crackdown on migrant workers crossing the border from Mexico into the U.S. southwest, drawing criticism from California fruit growers who complained of not having enough workers for harvest.[8] While the presence of migrant workers is felt in rural communities, there is little understanding about the root causes behind increases in immigration. Aided by the North American Free Trade Agreement (NAFTA) and the 1996 "Freedom to Farm" Farm Bill, U.S.-based agribusiness companies have consistently dumped corn onto export markets at between 10 and 30 percent below its cost of production.[9] Mexico has been particularly vulnerable to artificially cheap corn imports coming from the U.S. The result has been up to a million small-scale farmers were forced off their land and from their communities and driven to migrate into urban centers or north to the U.S. to seek new employment.[10] The 2007 Farm Bill is an opportunity to reduce the destabilizing impact that our domestic policies have on agricultural communities around the world and also help new immigrants succeed in the U.S. by providing funds for beginning farmers and small-scale farms.

HUNGER

The U.S. is the largest food aid donor in the world. The Food Aid program, established in the Farm Bill, has helped address a number of hunger emergencies. But the program has also been highly criticized for undercutting local farmers in poor countries and hindering the ability of those countries to address hunger in the long-term. The U.S. Food Aid program has been criticized for two practices: 1) almost all U.S. aid is in the form of actual food, instead of money to source food locally; and 2) the U.S. sells some of its food aid at such a low price that it undercuts local producers.[11] The 2007 Farm Bill offers an opportunity to reform the much-needed Food Aid program to increase its effectiveness in addressing global hunger.

NEW POLITICAL CONTEXT *new opportunities*

The 2006 U.S. midterm elections resulted in a major shift in Congress that will likely have broad implications for the next Farm Bill. Rep. Collin Peterson, D-Minn., now chairs the House Agriculture Committee and Sen. Tom Harkin, D-Iowa, chairs the Senate Agriculture Committee. Both Peterson and Harkin have announced they will finish a 5-year Farm Bill before the 2002 Farm Bill expires in September 2007.

In both cases, the chairs of the committees writing the Farm Bill shifted from southerners (with regional sympathies to cotton and rice production) to Midwesterners (corn, soy and sugar beet). Both Peterson and Harkin have indicated that WTO considerations will not be a high priority in writing the Farm Bill.

Peterson and Harkin share many of the same goals. Peterson wants basically the same commodity structure as the 2002 Farm Bill, with only a few changes. Both are strong supporters of an expanded energy title, which would include money for the growth of non-corn-based, cellulosic ethanol and set incentives for locally owned facilities. Harkin is the author of the Conservation Security Program (CSP); an innovative entitlement program that supports sustainable agriculture practices and wants to ensure it is fully funded. Peterson is a strong supporter of the price support system in place for sugar farmers and will defend the program against a number of interests who would like to see it dismantled. Harkin also supports legislation that enforces a more competitive market for agricultural products, particularly for livestock and poultry producers and expanding the school lunch program to include free snacks of fruits and vegetables.

The Democratic shift in Congress appears to open up more opportunities to address renewable energy, public health, market concentration and hunger within the confines of the Farm Bill.

FINDING *common ground*

Each of the numerous interest groups interested in the Farm Bill has a specific program they want to expand. Conservation groups, for example, argue for more funds in the Conservation Reserve Program and nutrition groups argue for more funds in food stamps. This approach is commonly called a “Christmas Tree Bill”–each constituency has an ornament they want on the tree. In the case of the Farm Bill, the emphasis is mostly on the ornaments, while the tree–the functioning of the agricultural economy–has been forgotten.

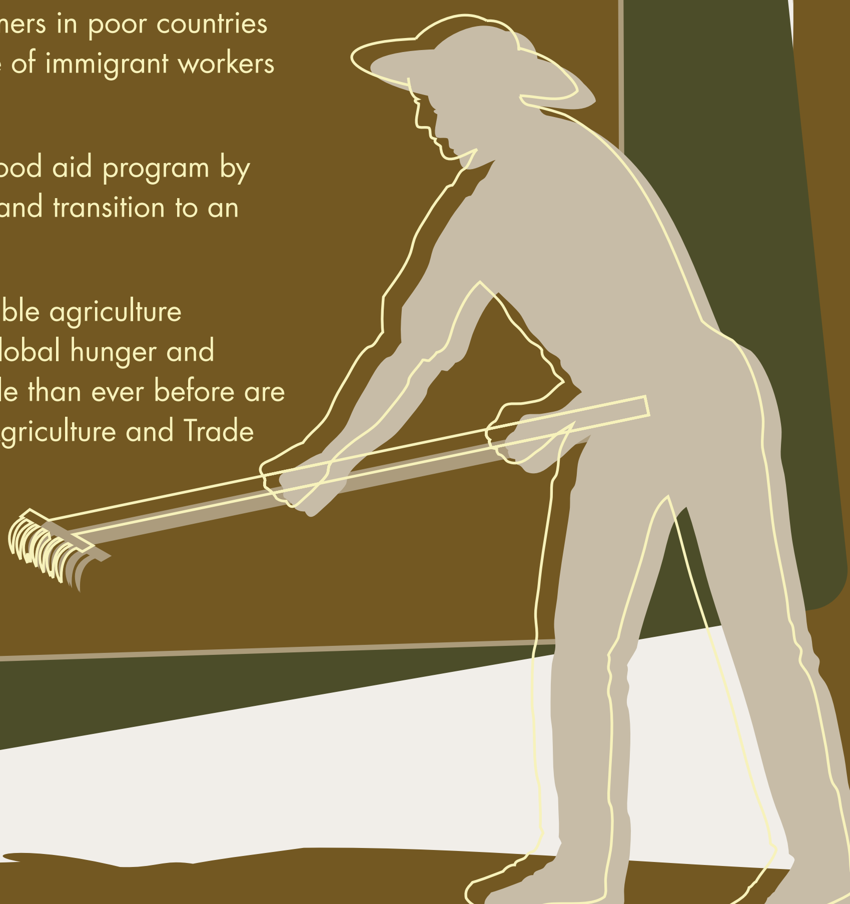
A well-functioning agricultural economy, one that provides fair prices to farmers, benefits everyone. Fair prices would benefit the environment, public health and taxpayers. The policies that support fair prices are well known. Antitrust legislation, price supports, conservation plans and supply management through acreage set-asides and grain reserves are all well tested tools. The challenge is gathering the political will to challenge the current system, instead of each individual constituency fighting simply to have its particular ornament included on the tree.

Recommendations

A new Farm Bill that constituted real reform would include the following elements:

- Reform commodity programs to establish a fair market price floor so that food companies, not taxpayers, pay their fair share to farmers
- Bolster antitrust enforcement to reverse the current trend toward the concentration of agricultural markets
- Develop a renewable energy title that prioritizes rural development, supports local ownership and promotes sustainably produced feedstocks
- Collaborate with the public health community on ways to make healthier food more accessible and reward farmers for producing healthier crops
- Protect the rights of farm workers and food industry workers in meat and poultry packing plants
- Promote local and regional food systems by keeping smaller, more diverse farmers on the land. Give new (including new immigrant) farmers greater access to land and credit for small-scale operations
- Stop the dumping of agricultural commodities onto world markets that has undermined farmers in poor countries and played a role in the increase of immigrant workers into the U.S.
- Improve the effectiveness of the food aid program by phasing out the sale of food aid and transition to an untied, cash-based system

From traditional family farm and sustainable agriculture groups, to clean energy, public health, global hunger and environmental organizations, more people than ever before are following the Farm Bill. The Institute for Agriculture and Trade Policy's Farm Bill series will offer more in-depth analysis and recommendations on areas including energy, hunger, immigration, market concentration and public health.



REFERENCES

1. Marlow, Scott. A Non-Wonk Guide to Understanding Federal Commodity Payments. Rural Advancement Foundation International. 2005. <http://www.rafiusa.org/pubs/nonwonkguide>

2. Ray, Daryll, Daniel De La Torre Ugarte, Kelly Tiller. *Rethinking U.S. Agricultural Policy: Securing Farmer Livelihoods Worldwide*. University of Tennessee Agricultural Policy Analysis Center. 2003. <http://www.agpolicy.org/blueprint.html>

3. Economic Research Service, U.S. Department of Agriculture. Farm Income and Costs Briefing Room. 2007. <http://www.ers.usda.gov/Briefing/FarmIncome/nationalestimates.htm>

4. Galbraith, John Kenneth. "The Enduring Nature of the Farm Problem." *Country Journal*. September/October 2000.

5. Johnston, Tom. "Packers Cut Slaughter Amidst Standoff With Feedlots." *Meatingplace*. January 9, 2007.

6. Environmental Working Group. Farm Subsidy Database. Accessed January 2007. <http://www.ewg.org:16080/farm/regionsummary.php?fips=00000>

7. *Below Cost Feed Crops: An Indirect Subsidy to Industrial Animal Factories*. IATP factsheet. 2006. <http://www.iatp.org/iatp/factsheets.cfm?accountID=258&refID=88122>

8. Geis, Sonya, "Border Security, Job Market Leave Farms Short of Workers." *Washington Post*. October 4, 2006.

9. Murphy, Sophia, Ben Lilliston and Mary Beth Lake. WTO Agreement on Agriculture: A Decade of Dumping. Institute for Agriculture and Trade Policy. February 2005. <http://www.iatp.org/iatp/publications.cfm?accountID=451&refID=48532>

10. Public Citizens' Global Trade Watch. "Down on the Farm: NAFTA's Seven-Years War on Farmers and Ranchers in the U.S., Canada and Mexico." June 2001. <http://www.citizen.org/documents/ACFF2.PDF>

11. Murphy, Sophia. Kathleen McAfee. *U.S. Food Aid: Time to Get It Right*. Institute for Agriculture and Trade Policy. July 2005. <http://www.iatp.org/iatp/publications.cfm?accountID=451&refID=73512>

FOLLOW THE PROGRESS
OF THE 2007 FARM BILL AT
IATP AG OBSERVATORY

agobservatory.org

Institute for Agriculture and Trade Policy

2105 First Avenue South
Minneapolis, Minnesota 55404 U.S.A.

iatp.org Tel.: (612) 870-0453