The Farm Bill Tree: Understanding the Logic of the Farm Bill

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Introduction

A few weeks ago, I found myself preparing for a talk on the farm bill, struggling to figure out how to respond to the questions that always come up whenever the farm bill is discussed. Why are all of these disparate programs, from conservation and wildlife habitat promotion to rural internet access, to international food aid to nutrition programs like food stamps, all wrapped up together in one giant piece of legislation? Why do the commodities - the 20 program crops including corn, wheat, soybeans, cotton, rice and sugar - receive billions of dollars each year, while next to nothing goes to fruits and vegetables and little is split between conservation programs, community food systems programs and others? And why do programs that have healthy food, healthy kids, and healthy environment on their side usually lose?

What I came up with was a tree, and not a very pretty tree at that. I tried it out in a couple of talks, some people liked it, and a few more asked me to email it to them. This publication is my explanation of what the tree means, and an attempt to answer those questions, and to deepen the understanding of the history of the farm bill and the historical logic that throws all of these pieces together into a multi-billion-dollar package every 5 to 7 years.

But it is also about change. I believe that in order for us to advocate for change, we need to understand what we are changing and the political and historical logic that brought us to this point. For my friends who spent recent days running between Congressional offices lobbying on farm to school programs and increases for conservation, I believe that it is important for us to understand that the commodity programs are not just a big black box that sucks up all of the money and gives it to rich people, no matter what some environmental web sites might say, and that there truly is a baby in that bathwater. What is more, the only way that we will be successful is to understand the commodity programs and the farmers who rely on them and seek change through that understanding rather than demonizing the many family farmers who receive the much-maligned Loan Deficiency Payments and direct and counter-cyclical payments.

If the tree works for you, then this is the result of many hours of teaching by farmers and mentors within RAFI and across the sustainable agriculture community who are responsible for teaching me everything I know. If it doesn't, then these ideas are all mine, and are just what I have cooked up to help me make sense of a complicated subject. Either way, I hope that it helps.

And so, in the words of Willy Wonka, off we go.

It's about National Defense.

At its core, the farm bill is a national defense bill. It is about the ability of our country to feed our military in wartime. I think few of us would argue that domestic production of food is not in our national security interest. In this situation, however, it is the feeding of the military and not the population that is of interest. As an illustration,

keep in mind the food rationing during WWII. People went without meat, sugar and other foods so that the men and women of the military did not have to. School lunch programs started during WWII to address the fact that so many young men were unfit for military service due to malnutrition. It was also no coincidence that the 2002 farm bill was the first piece of major legislation to pass Congress after 9/11.

And mitigating corporate market power.

Commodity programs also serve an anti-trust function designed to meet military needs by ensuring that farmers will remain able to supply food. For farmers to survive, they need the protection of the government against corporate power in the marketplace.

Here is how it works. Companies can store non-perishable commodities for a long time. This gives large companies the ability to alternately withhold and flood commodity markets, driving the price down when they want to buy (like from farmers) and up when they want to sell. By establishing commodity programs, legislators acknowledged that without government intervention, companies could drive the price so low that it would be impossible for farmers to survive. This is a critical point. Commodity programs were created in part to counteract the influence of powerful corporations in the market.

The key to that power is storability. That is why there is a corn program but not a tomato program; tomatoes are perishable, corn is not, although in recent years new storage and shipping technologies have made vegetable markets more like non-perishable commodity markets.

The Tree

From the root, the branches of the farm bill spread like a tree, each branch serving its own purpose, but also adding to the central purpose of keeping alive domestic production. Below is a chart that shows the branches of the farm bill, and we will work our way through it. Just to be clear, I do not suggest that the programs on this tree are not important in their own right. Nothing could be further from the truth. But their existence was, and still is tied to the central purpose, and explains why they are all found in this bill.

We have already established the trunk of the tree. We need domestic production of commodities, which means that we need farmers to grow them, and they need to make a living from those commodities. As we move up the trunk, farmers, especially farmers who are struggling with low prices, need access to credit. For this purpose, the farm bill authorizes the USDA Farm Services Agency credit programs and the Commodity Credit Corporation, which administrates some USDA credit programs. These programs form the "lender of last resort," or of first opportunity depending on how you look at it. A farmer must be turned down by a commercial lender to receive an F.S.A. loan, and these programs serve an important function in keeping farmers on the land.

2002 Farm Bill Titles

Title I. Commodity Programs
Price supports, dairy program, sugar program

Title II. Conservation Programs
CRP, CSP, EQIP, technical assistance

Title III. Trade
Export Guarantee Program, Market development, EEP, PL 480, farmer-to-farmer program, GATT / NAFTA compliance.

Title IV. Nutrition Programs
Food Stamps, EBT, CFS programs, FMNA, commodities distribution

Title V. Credit
FSA Farm Loan Program

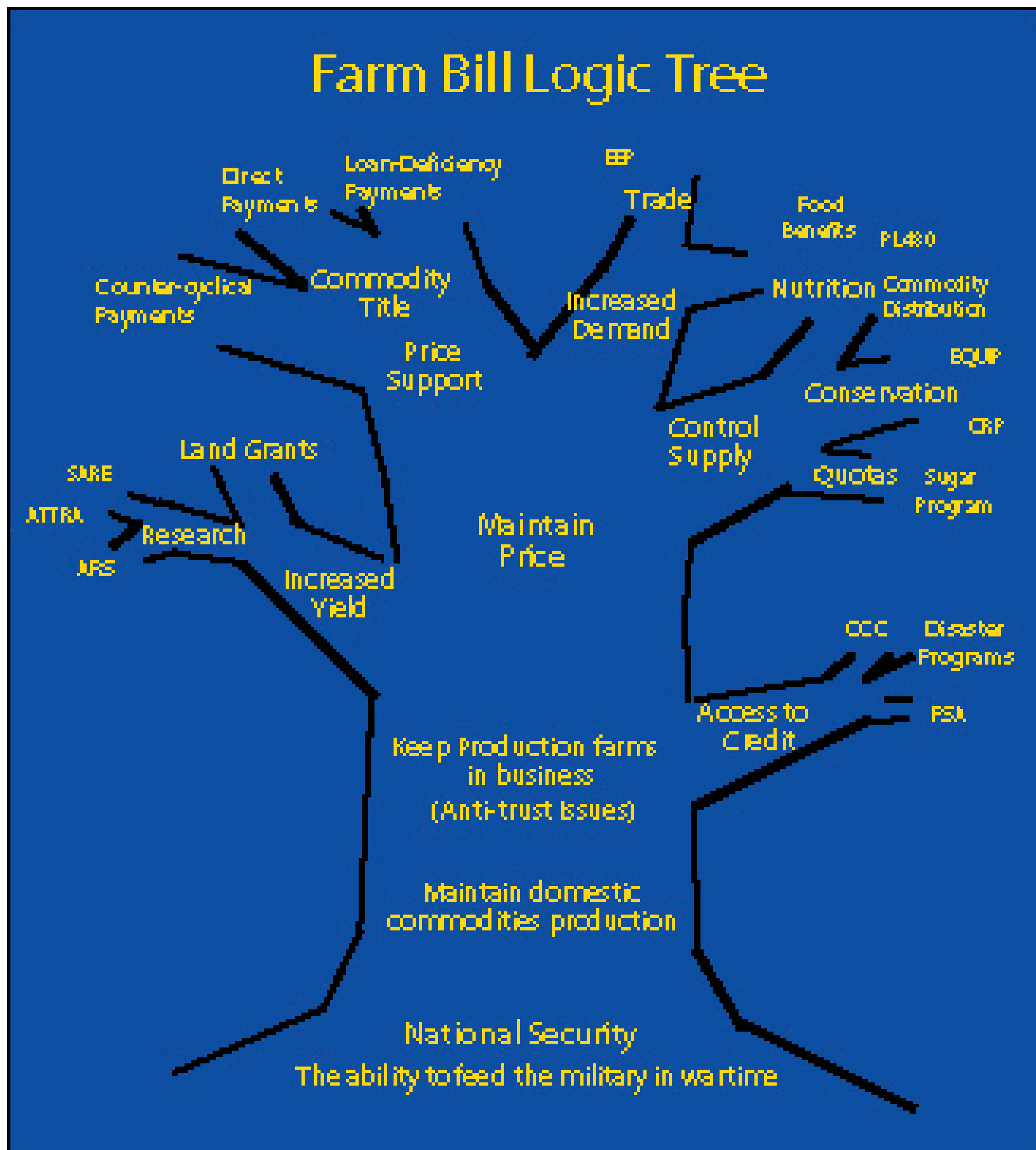
Title VI. Rural Development
Water/waste systems, telecom, Value-added, FRA

Title VII. Research and Related Matters, IFAFS, ARS, Terrorism planning, SARE, ATTRA, Organic, Land grant Universities.

Title VIII. Forestry

Title IX. Energy
Biodiesel, renewable energy

Title X. Miscellaneous
Crop Insurance, COOL, Organic Program, Plant Protection, Specialty Crops



As we move up the tree, we find several ways to improve farmer income. The first is to increase yield, and for that purpose, we have the research title, which authorizes the land-grant universities and programs like the Sustainable Agriculture Research and Education (SARE) and Appropriate Technology Transfer for Rural Areas (ATTRA) programs. The second way is to ensure a fair return for farmers, which I'll focus on now.

Maintaining Farmer Income: No matter how you slice it, it comes up peanuts!

For farmers to stay in business, they must make money on their crops. There are three ways for farmers to get a fair return. The government can enforce a price in the marketplace either directly or through market mechanisms, can control supply to boost price, or can simply pay farmers the difference. All of the rest of the major programs in the farm bill serve one of these three purposes.

Historically, the government used a series of mechanisms to support a price in the marketplace. Grain reserves, direct production quotas and non-recourse loans that removed commodities from the market if the price fell below an established price all served to keep prices up. The peanut program, which was eliminated in 2002 in favor of a Loan Deficiency Payment model program, legislated a price for the domestic edible peanut market and directly

limited the amount of peanuts that could be sold into that market based on market demand.

Over the last 50 years, the government has dismantled the mechanisms that support a price in the marketplace, and has shifted to simply paying farmers the difference. This shift has huge implications for the cost of the farm bill, who benefits, and how. We'll discuss this later in the section on Title One.

Programs serve dual roles: "It's a dessert topping AND a floor wax!"

Back to our tree. The next branch is to control the supply of commodities. It is basic economics – supply goes down and price goes up. Sugar is the last of the direct quota programs, but the farm bill controls supply in other ways as well. While they were created at the same time as the commodity programs, conservation programs traditionally have the dual rule of conserving natural resources and removing farmland from production, and thus reducing supply. An excellent example is the Conservation Reserve Program (CRP) that pays farmers for preserving marginal farmland and removing it from production. One of the reasons that the Conservation Security Program has been so controversial is that it supports conservation on working land, and so does not serve a supply control purpose.

The other major branch here represents the nutrition programs. Nutrition programs have grown to become the largest block in the farm bill, over 60% of farm bill spending and 3½ times the size of commodity programs. In addition to their nutrition benefits, these programs serve both a supply control and an increased demand function, depending on the specific program. For instance, early commodities distribution programs existed to disseminate commodities that the government had removed from the market to ensure a fair price. The same is true of the PL 480 program that sends American grain to nations overseas. These programs had and have a noble purpose, but the underlying purpose has been to reduce the supply of surplus commodities.

The role of food benefit programs, often still called "Food Stamps" although with electronic benefit transfer cards there are no stamps involved, is also to increase the demand for domestic commodities. While these programs serve vital purposes in their own right, it is this dual purpose that has created the political support for them, and kept them in the farm bill, uniting urban and rural constituencies.

New programs sever the ties that bind.

And so we get to one of our core points. Historically, advocates get into trouble politically when we disconnect our programs from their dual purposes. Farmers market nutrition programs may be a great way to achieve the goal of alleviating hunger and malnutrition, possibly even better than either commodities distribution or food benefits, but they do not achieve the underlying purpose of commodity supply control. And that is one reason why nutrition programs are over $800 billion in farm bill spending, but the FMNP s struggling to get more than $100 million for the same time period.

Our next mechanism to increase the demand – remember increased demand and reduced supply equal higher price – is the trade promotion programs. Programs like the Export Enhancement Program (EEP), which assists companies in exporting their products to other countries, exist to increase the demand for US commodities.

Title Won

Finally we get to the big kahuna; Title 1, the commodities programs. We talk about it because, as the famous bank robber once said, that is where the money is. Second only to the nutrition title and by far the largest block of agricultural spending, it is often the most controversial of the titles. I am not going to do a full explanation of the commodity programs here, but if you want one, the Non-Wonk Guide to Federal Commodity Programs is available for free in pdf from our web site, www.rafiusa.org.

If you remember our three mechanisms - support price, reduce supply, pay the difference – Title 1 is where we pay the difference. But it wasn't always that way. Commodity programs started back in the 1930's with the Marketing Assistance Loan (MAL). The concept was simple enough. Farmers had to sell their crops in the fall as soon as they were harvested because their operating loans would be due. This meant that they had to sell their crops at the time of the greatest supply (back to that supply and demand thing) and when the companies knew they had to sell. That meant that farmers always received the lowest price for their crops.

The government created MAL's to allow farmers to market their crops at a different time of year. MAL's are short-term non-recourse loans using the crop as collateral. The non-recourse part means that the government has no recourse if the loan is not paid back other than to take the crop. The farmer took out an MAL when the crop was harvested, and the crop was placed into a bonded warehouse. The loan rate was determined in legislation as an estimate of a bottom price. If the price went up, then the farmer sold the crop, paid

Federal Program Commodities

- Wheat
- Corn
- Sorghum
- Barley
- Oats
- Cotton
- Rice
- Soybean
- Oilseeds
- Milk
- Peanuts
- Wool
- Beets
- Sugar Beets
- Sugar Cane
- Mohair
- Honey
- Dry Peas
- Lentil
- Chickpea

off the loan with a bit of interest, and all were happy. If the price dropped below the loan rate, the farmer could not pay off the loan, and the government had just bought his corn. This served as a price floor, and when the government took possession of the crop, it was removed from the market and went into commodities distribution or PL 480 Food for Peace programs or other places. Sometimes it would be sold back onto the market if the price was high. Therefore the MAL enforced a price in the marketplace because no farmer would sell their crop for less that the loan rate.

That pesky variable repayment rate.

The loan rate as a price floor changed in the 1985 farm bill. Heads up, here is where it gets tricky and this is a critical point. In the 1985 farm bill, Congress authorized the Secretary of the Department of Agriculture to allow the repayment rate for Marketing Assistance Loans to fall below the loan rate. A farmer can take out a marketing assistance loan on his crop at the loan rate and pay it back at a lower market price, and keep the difference. It was as though he is turning the crop over to the government but then buying it back at the lower market price. If the price is above the loan rate, as it has been for corn recently, he just sells the crop and the government is out of it.

This is a very important point. The 1985 farm bill is where we shift from enforcing a price in the marketplace to the government paying the farmer the difference between the loan rate, which is an estimate of a decent but not very good return, and the price that companies are willing to pay. A variable repayment rate allows the price to fall below the cost of production because companies know that the commodity programs will make up the difference, and the government no longer removes commodities from the market if the price drops below the loan rate.

This small technicality, the shift from a fixed to a variable repayment rate, radically changed the nature of commodity programs and the power of corporations in the marketplace.

LDP: Lightweight Directory Protocol? Liberal Democratic Party? Licensed Doctor of Proctology?

The variable repayment rate also led to the creation of one of the least understood but most maligned terms in the farm bill, the “Loan Deficiency Payment”, or LDP. When the MAL repayment rates fell, farmers started to do what was called “popping” their crop. Popping was when a farmer took out an MAL and immediately repaid it at the lower rate, keeping the difference - “popping” the crop into and out of the system - and then held it, hoping that the price would go up. The LDP is a simplification of popping, basically allowing farmers to get the difference between the market price and the loan rate without having to go through the paperwork of taking out the loan.

This is very complicated and can be confusing, but the important information here is that the LDP is a payment for the difference between the market price and the loan rate, and is the mechanism that allows us to keep farmers in business even though prices fall well below the domestic cost of production. When you see the large amounts of money that people receive as LDP’s, it is tempting to think of that as money that goes into their pocket. Instead, almost all of it goes to pay their expenses. For instance, friends of mine who grow cotton figure that it costs them about 65 cents a pound to produce, the loan rate is 52 cents, and the price has been bumping around the 40’s and 50’s for the last couple of years.

The LDP also contributes to the dumping of commodities onto global markets at prices below the cost of production that some blame for rural poverty in the global south.

But What About Vegetables?

One of the charges that we often hear is that it is unfair to vegetable producers that commodities get all of these payments and vegetables get nothing. Another charge is that commodity payments only benefit the small percentage of the number of farms that produce program crops. I hope that by now you understand why vegetables do not have the same programs (perishable versus non-perishable, and the market manipulation that accompanies non-perishability) and why they probably do not want such a program (prices falling below the cost of production). But it is important to get a sense of the scale of agriculture, and the role that commodities programs have in keeping vegetable and fruit farmers in business.

According to the 2002 Census of Agriculture, all U.S. vegetables for sale comprised 3.6 million acres of production. That is quite a sum. But corn alone comprises almost 75 million acres. Corn, soybeans and cotton together are almost 160 million acres. That is a much bigger sum. If just three percent of the corn, soybean and cotton land were switched into vegetables, it would more than double the acreage, and likely crash the markets.   One of the little-known stipulations of the commodity programs that if a farmer switches to a non-commodity crop, they lose all commodity payments on that land, and it is taken out of the programs. Maintaining viability for commodity farmers is of the national security interest, but it is even more in the interest of vegetable producers who stand to have their markets flooded if commodity farmers switch over.

Now back to the tree, and the way the commodities programs affect farmers overseas.

Decoupling: Freedom's just another word for nothing left to lose.

Enter the free trade agreements. Here, one person's fair price in the market is another person's market distortion. The very mechanisms that enforce a fair price in the market are those that are most hated under the free trade agreements. To help US compliance on this front, the 1996 farm bill, called "Freedom to Farm" (or "Freedom to Fail" depending on your point of view) introduced the concept of decoupling.

What the free trade negotiators disliked about the US commodity programs was that the payments were based on a farmer's production, supplementing their market price. Instead of supporting a fair price in the marketplace or paying farmers based on production, decoupling introduced the idea of simply paying farmers the amount that they had been receiving regardless of what they planted. Program payments are based on yield histories called "base." Under Freedom to Farm, farmers received payments according to the amount of base, not on what they produced. As long as the land stayed in some form of commodity production (remember the vegetable stipulations above), they would get a check.

Its advocates said decoupling would free farmers from having to continuously plant program commodities to maintain their base (and thus their payments) so that they could follow the markets in their

planting decisions. It would also reduce our free trade violations. At the time, payments were planned to decline over time, "weaning" farmers from the payments and into the marketplace.

Instead, low commodity prices prompted emergency payments to farmers that more than matched expected payments under the old system, farmers continued to plant the same crops, and the 2002 farm bill moved away from decoupling. Decoupling still exists in the current farm bill in the form of direct and counter-cyclical payments. I am not going to go into detail about these payments here, but if you want more information the Non-Wonk Guide that I described above walks you through it. Suffice it to say that as long as the free trade agreements are a part of the commodity debate, there will be proponents of decoupling.

So where does all this get us?

As we head in to the 2007 farm bill, the commodity programs are the source of a great deal of controversy. A series of organizations has taken aim at commodity programs, especially the cotton program, parts of which the World Trade Organization ruled unfairly reduce world cotton prices. The Environmental Working Group has also shifted the debate by posting a web site of the amounts that all farmers or cooperatives have received in commodity payments since the last farm bill, allowing people to look at how big a check their neighbors received. This has led to a type of "sticker shock" that has people wondering about the huge checks received by the largest recipients.

In recent months, there have been farm bill proposals to reduce the costs of commodity programs by shifting the commodity programs from payments to an income insurance system or by solidifying limitations on the payments that farmers can receive. There are also proposals, heavily supported by RAFI and other organizations, to increase the role of the government in providing fairness and openness in agricultural markets. At the core of these proposals is the question of what the role of the government will be in agriculture and enforcing fairness and openness in agricultural markets.

What open markets?

Remember that back at the beginning, even though this role has been subverted, the existence of commodity programs acknowledged that in order to survive farmers needed government intervention to provide fairness in agricultural markets. While free trade proponents will claim the value of "open" markets without government intervention, we need to take a moment to reflect on the current state of open markets.

In recent years, Bill Heffernan and Mary Hendrickson at the University of Missouri have recorded what they call a CR4. This is the percentage of a market or segment of a market that is controlled by the top 4 corporations in that market. According to economists, a truly open market requires a CR4 below 40 %. In 2005, the CR4 for beef packers was 83.5%, for pork packers was 64%, for flour milling was 63% and for soybean crushing the CR3 (control by the top 3 corporations) was 71%. These averages have been steadily rising for decades, and have risen since these numbers were developed in 2005. These are not open markets, and it will take government intervention to make them open markets.

And don't think that companies do not use this market power. Corporations have used contracts, regulations, and market manipulation to stack the deck. Right now if a person wants to produce chickens, they may not even see a contract until after they sign the mortgage, they are restricted in who they can show that contract to so there is no way to compare their contract terms with other farmers and if they have a disagreement with the company, including illegal breach of contract, they must take it to arbitration of the company's choice before they can take it to court. And many of these provisions are making their way into other agricultural contracts like those for hogs and organic milk. There is no open market for tobacco or peanuts, so it is impossible to see just what the price is. Legislative requirements that companies must report beef prices to the USDA have largely been stymied. This is

a David versus Goliath battle where slingshots are outlawed, short people must wear blindfolds, and the referee is a Philistine.

Back to the Beginning

Which all brings us back to the beginning. There is little doubt that maintaining domestic production is in our country's best interest. The question is how we will achieve this goal. While commodity programs have certainly been twisted to fuel concentration of land and resources, they still provide an assurance of a fair return, even if not a fair price, that is vital to the survival of family farmers all over this country. Farmers still can't survive without the government playing referee. And that is the baby that should not be thrown out with the bathwater.

A group of organizations, including RAFI, has developed a list of proposed legislation, to be grouped under a "Competition Title" of the farm bill, that would begin the process of bringing fairness and openness back to US agricultural markets. This is not about distorting markets. We just want the government to set fair rules and get out of the way. David is willing to take on Goliath, but only if we have a fair referee. (For more information on the proposed competition title, see the web page of the Competition and Concentration Committee of the National Campaign for Sustainable Agriculture, of which RAFI is an organizing member.)

There is also a set of proposals that would increase the limits on the payments that farmers receive. That is, they would decrease the amount that farmers would be eligible for. These proposals focus on both reducing the cap and closing loopholes that the very largest producers use to get around any limits on what they can get from the government. Payment limitations are tough because geographic and commodity differences in payment structure and amounts mean that corn and beans farmers would be allowed to be twice as big as a cotton or rice farmer. The devil truly is in the details. But it does make sense to tell the largest farmers that they can get bigger, but the government will not pay them to do it.

On the other hand, a group of organizations is also bringing to Congress proposals that would completely shift commodity programs to income insurance programs. This shift continues the decoupling of commodity programs, and privatizes the government's role in keeping farms in business. While attractive in some ways, this is a full abdication of the role of government in providing fairness and openness in agricultural markets. And many proposed programs claim to be "size-neutral," which is code for not doing anything to discourage the biggest farm operations from using that power to get bigger.

To sum up, the question is not whether or not the government will have a role in commodities programs. It is what that role will be. How you evaluate proposed reforms to commodity and other programs depends on whether or not you believe that the government has a role in providing fairness in the marketplace, whether or not payments should be targeted to discourage rather than encourage concentration of farmland and corporate ownership, and how you see the security of our country.

Regardless of your beliefs around these issues, we need to get beyond the demonizing language that I frequently hear around commodity programs. Many of the family farmers who we work with, the folks who are tier three for the Conservation Security Program and have done the right thing to farm responsibly and to take care of their farms the way we would want them to, are the very farmers who stand to lose with many of the proposals being floated to "reform" commodity policy. They are also very discouraged that the programs that they rely on, and that allow them to fulfill an important role in our country, a role that they are keenly proud of, have come to be represented by millionaires that have learned to bilk the system. When we use language that demonizes family commodity farmers, we immediately lose allies and partners that we should not lose.

To close, it may be that, as fewer and fewer people farm and fewer and fewer legislators see farmers as key constituents, how we got here and why the farm bill looks like it does is increasingly irrelevant. But I believe that

there is an ethical imperative to resist the shallow analysis that has been sailing around this farm bill debate, and to understand the complex dynamics that have created the situation that we find ourselves in, and have created the environment in which we seek change. I hope that this paper has added to that understanding. Thank you for your attention and patience.