The Political Economy of the 2014 Farm Bill

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Invited paper prepared for the AAEA session The 2014 Farm Bill: An Economic Post Mortem, ASSA Annual Meetings, Boston, MA, January 4, 2015.

Abstract

This article assesses the political economy of the 2014 farm bill, which eliminated annual fixed direct payments but offers enhanced downside risk protection against low prices or declining revenue. The farm bill secured substantial bipartisan majorities in a politically contentious Congress. The countercyclical structure of U.S. support is reaffirmed and crop insurance is enhanced as a safety net pillar. Open policy issues include the distribution of benefits among crops, the design of multiple year support around moving-average revenue benchmarks versus fixed references prices, and questions related to crop insurance, including the overall level of premium subsidies. In an international context, we conclude the 2014 farm safety net likely would not have been enacted had multilateral agreement been reached on the 2008 Doha Round negotiating documents; conversely, the 2014 farm bill makes achieving those limits more difficult.

Keywords: Agricultural policy, 2014 farm bill, farm subsidies, commodity programs, crop insurance, conservation, WTO

JEL Classification: Q17, Q18, Q28, K33, N52

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This article assesses the domestic and international political economy of the *Agricultural Act of 2014* (P.L. 113-79; 2014 farm bill). Passed in February 2014 after three years of intense debate, it reaffirms through 2018 the longstanding support for U.S. farmers. The debate was framed by large federal budget deficits resulting from a deep economic recession and five years of slow recovery. Given high crop prices and farm incomes during this period of national economic stress, the time may have seemed propitious to lessen the role and fiscal cost of U.S. farm policy. Instead, maintaining public assistance remained a keen objective of farmers and their congressional allies and they mostly succeeded.

The farm safety net that emerged is complex but can be abstracted to a few points. Fixed direct payments of about $4.5 billion annually are eliminated, ending a program of nearly two decades. Instead, the safety net against two types of downside risk is strengthened: shallow losses that coincide with the deductible on individual farm insurance and multiple year losses associated with persistent low prices or declining revenue. This is a shift back toward countercyclical support that has long precedent. Also reinforced is the core role for federally subsidized, privately delivered crop insurance for individual farm, production-period risk. Fiscal cost of this revised, two-pillar safety net may prove to be more or less than if the 2014 farm bill had not been enacted. The strengthening of the downside risk safety net also highlights the fundamental question of what share of risk should be borne by U.S. farmers.

With agriculture a small but relatively prosperous and concentrated sector of the economy, it is plausible to maintain that U.S. farm policy is an equilibrium result of interest group lobbying.[1] Each farm bill is driven by specific contestation among various farm and nonfarm political interests. Yet, farm policy also retains continuity along lines best assessed in retrospect. This is the case for the 2014 farm bill. Significant evolution of risk assistance programs occurred but key past reforms that lessen the distortionary effects of U.S. farm policy were retained, in particular fixed payment bases, planting flexibility, and low loan rates.

Some observers conclude the extended debate signals a loss of political power by the farm lobby. We disagree. The 2014 farm bill reaffirms historical farm support while providing benefits to other traditional constituencies, including conservation and nutrition assistance, as well as new stakeholders. Moreover, permanent legislation is retained, setting the stage for another farm bill starting with stronger protection against downside risks.

In an international context, we conclude the U.S. is unlikely to exceed its WTO domestic support commitment, a topic addressed further by Glauber and Westhoff (2015). Support is more likely to exceed the tighter constraints of the December 2008 WTO Doha Round negotiating documents. Had a Doha agreement been reached, it is unlikely the 2014 farm bill would have been enacted as it is. Conversely, its enactment makes achieving the Doha limits more difficult. In contrast, the WTO rulings in the Brazil-U.S. cotton case led to substantive changes in the safety net for upland cotton.

Change and Continuity in U.S. Farm Policy

As shown in Table 1, the last four farm bills were enacted with large bipartisan congressional majorities; twice veto proof, once needed (2008) and once not (1996). These majorities emerged with differing control of Congress and the presidency. After extensive debates, each bill turned policy in a different direction while continuing support for farmers (Orden Blandford and Josling 2011). Under the first Republican-controlled Congress in four decades and with rising crop prices, reforms in the 1996 farm bill included an unexpected adoption of fixed direct payments, which decoupled support from prices and planting, and an end to annual supply-control and most public-stock programs. Despite budgetary pressure, the fixed payments allowed farmers to capture support that would have evaporated as market prices rose above target prices. Reform advocates hoped these payments might be a transition, or buyout, bringing an end to commodity programs, while farm program proponents noted that Congress remained the final guarantor of a safety net.

As farm support proponents had argued, Congress stepped in quickly with *ad hoc* payments when prices fell in 1998; the precursor to reviving a price countercyclical program in the 2002 farm bill. Even with low prices and farm incomes, a divided Congress retained planting flexibility and direct payment and did not reintroduce annual supply controls nor raise loan rates significantly.

During the 2008 farm bill debate, a Democrat-controlled Congress prioritized food assistance. The Food Stamp program, renamed the Supplemental Nutrition Assistance Program (SNAP), expanded eligibility criteria and signaled a shift from food access to improved nutrition. Farm groups were generally wary of changes to their safety net. Direct payments were retained, even as critics questioned their legitimacy with high crop incomes and eyed reductions to fund other priorities. The optional Average Crop Revenue Election (ACRE) program embodied

several innovations sought by Midwest grain producers including a moving-average revenue benchmark, enacted into law for the first time, and a focus on shallow losses. Enrollment was modest due to a design viewed as complex and a 20% reduction in direct payments if ACRE was elected.

Against this policy background, the 2014 farm bill was framed by divided control of Congress and a partisan fiscal debate. SNAP expenditures rose during the post-2007 economic slowdown (Wilde 2012); averaging $49.9 billion in 2008-10 then $74.2 billion in 2011-13. In contrast, the U.S. farm sector experienced a remarkable six years of prosperity. Net farm income averaged $74 billion during 2008-10, increasing to $121 billion during 2011-13. Corn and cotton prices averaged over 40% higher during the latter three years, while soybean and wheat prices averaged 27% and 14% higher.

With the farm sector prospering, support payments reached a politically unstable level. The contested direct payments continued. Crop insurance net indemnity payments rose sharply, averaging $9.1 billion for 2011-13, exceeding direct payments each year, and peaking at $13.3 billion after the 2012 drought. With high incomes, but facing yield, price and revenue variability, most farm groups endorsed wider calls to eliminate direct payments as unjustified when farm incomes were high. They argued that most of the savings should go into strengthening insurance and other downside risk safety net programs—the eventual outcome.

Similar to the 1996 farm bill, the 2014 farm bill debate became mired in rancor over competing interests within the farm lobby and the broader deficit-related stand-off. In August 2011, as a Republican House squared off with a Democratic Senate and administration, Congress empaneled a super committee to find accord and authorized across the board sequester cuts if it failed. Key farm bill funding deliberations took place in this context but the super committee disbanded without agreement. The 112th Congress ended with a stop-gap measure to extend most provisions of the 2008 farm bill one year, through September 2013.

The Democratic Senate approved a farm bill in July 2012 but the House leadership did not schedule floor debate on a bill passed by its Agriculture Committee. With continued budget gridlock after the 2012 elections, the sequester cuts took effect in March 2013, including $6 billion over 10 years to projected farm commodity and conservation spending. Ensuing stalemate culminated six months later in the first partial government shutdown since 1995. Only then, in

mid-October, did a fiscal truce emerge around continuing appropriations and an extended federal debt ceiling.

The Senate passed a second farm bill in June 2013, moving closer to the 2012 House version of commodity programs. In the House, a conservative caucus vociferously criticized both farm support and nutrition entitlement programs. The House defeated an Agriculture Committee bill then passed separate bills on farm programs and nutrition assistance. SNAP expenditures were reduced 5 percent ($40 billion), ten times the reduction proposed by the Senate. With this and other disparities, a second one- or two-year extension of the 2008 farm bill was widely expected prior to the fiscal truce. In its wake, under scrutiny to demonstrate the ability to govern, the *Agricultural Act of 2014* became one of the few major bills passed by the 113th Congress.

2014 Farm Bill Programs and Issues

Table 2 contains key features of the 2014 farm bill commodity and crop insurance programs; for further discussion see, *inter alia*, CRS (2014), U.S. Congress (2014), USDA (2014), and Zulauf and Orden (2014). Crop insurance is enhanced, including a new county level shallow loss program, the Supplemental Coverage Option (SCO), to partly cover the insurance deductible. The traditional support policies for upland cotton and dairy are replaced with new insurance-based programs. Price and revenue-based programs for multiple year losses are revised, embedding higher support parameters. Despite heated debate on recoupling crop program payments to current planting, payments largely remain decoupled and farmers retain planting flexibility on fixed program acres (with expanded options for fruits and vegetables). The marketing loan program extends price floors coupled to crop production but mostly at levels far below recent market prices. Options to reallocate program acreage and to update program yields also temper decoupling, but Hendricks and Sumner (2014) find only small production effects from past base updating. In sum, while repeal of direct payments brought a $41 billion reduction in support over 10 years, CBO's fiscal score at the time the farm bill was enacted projected that nearly 80 percent of the saving was retained in various farm safety net programs in the commodity and crop insurance titles.

Insights on the impetus to redesign the farm safety net can be gleaned by comparing crop insurance net indemnity payments and direct payments by state and crop. For 42 of 49 states (Alaska not included), their share of net indemnity payments during 2004-13 was within two percentage points of their share of direct payments. The largely similar distributions by state and

high levels of net indemnities in 2011-13 made it easier for farmers collectively to give up direct payments, while protecting crop insurance. In contrast, the ratio of net indemnity payments to direct payments varies notably by crop: from 12% and 39% for rice and peanuts, respectively, to 92%, 121%, and 135% for corn, cotton, and sorghum. This difference explains in part why rice and peanuts resisted the elimination of direct payments and argued for high target prices, while cotton could opt for an insurance program.

Redesign of Commodity Programs

Reflecting disagreement among farm groups over the design of shallow and multiple year loss programs, the 2014 farm bill authorizes four options. Shallow loss programs are SCO and Agriculture Risk Coverage (ARC), a revision of ACRE, with county (ARC-CO) and individual (ARC-IC) versions.[2] Multiple year loss programs are Price Loss Coverage (PLC), a revised price countercyclical program, and the two ARC options. Target prices (renamed reference prices) are mostly raised 30% - 50% under PLC resulting in levels that range from rice ($14 per hundredweight) and peanuts ($0.2475 per pound) nearly equal to the 2009-13 Olympic moving average of market prices to about 70% of the market average for corn ($3.70 per bushel) and soybeans ($8.40 per bushel). The reference prices are fixed values over which Congress exerts control. In contrast, ARC's revenue benchmark is based on moving averages of past prices and yields, but its price component cannot fall below the fixed PLC reference price. ARC provides assistance of at least limited duration against multiple year losses because a lagged moving-average adjusts more slowly than the market in a period of sharply declining revenue.

It is unlikely the 2014 farm bill would have been enacted without distinct programs favored by various crops and regions. The Midwest, upper Plain states, and South, in general favored the policy design of ARC-CO, ARC-IC, and PLC, respectively. Rather than force a common program, the 2014 farm bill allows a one-time irrevocable choice, to be made by early 2015 for the 2014-18 crop years.

This multi-program outcome implies several farm safety net design issues remain open. For shallow losses, they include whether assistance should be delivered by insurance (SCO) or commodity programs (ARC) and whether farmers should co-pay a share of a premium or receive payment on only a share of acres. For multiple year losses, an important design issue is whether downside risk is capped at a lower value in exchange for assistance for declines in price or revenue from higher levels. PLC provides assistance for low prices that range from the reference

price down to the much lower loan rate. ARC provides support at prices above the reference price, but only for a narrower range of losses between 14% and 24% of its revenue benchmark. Related multiple year loss design issues include whether the focus should be revenue or price and whether policy parameters should be fixed or move with the market. Farm policy has been trending toward targets that move with the market, as illustrated by the increased role of crop insurance and ACRE's moving-average revenue benchmark. Yet strong support remains among many farm groups and in Congress for fixed parameters to provide downside risk assistance. This strength is demonstrated by the integration of reference prices into the ARC benchmark.

The inter-temporal support outcomes farmers may face can be illustrated using U.S. yield and price projections in USDA's November 10, 2014 WASDE. Following the approach of Zulauf and Schnitkey (2014), these estimates are only indicative because they are based on national average, not county or farm, yields and revenue. For corn, at the projected U.S. average yield (170 bushel per planted acre) and the mid-price of the projected range ($3.50 per bushel) for the 2014 crop year, estimated payment from ARC-CO is at its cap, a level of $79 per eligible acre, versus payments of $26 per acre from PLC (Figure 1). Assuming (for simplicity of illustration) that yield and price stay constant at projected 2014 levels through 2018, ARC payments remain $79 for 2015, decline to $50 for 2016 and $0 for 2017 and 2018. In contrast, annual PLC payments do not change. This simple comparison illustrates the effects of market oriented versus fixed policy parameters; in particular the temporary nature of support from market oriented (moving average) programs.

Other crops estimated to receive payments for the 2014 crop year at the mid-price projections are sorghum and wheat from ARC-CO and long grain rice and sorghum from PLC. Payments by ARC-CO for corn and PLC for long grain rice are consistent with positions representatives of these crops took during the 2014 farm bill debate. Estimated PLC payments for corn and no payment for medium/short grain rice illustrate both the uncertainty of payments and that outcomes may not align with lobbying positions.

Estimated payments per acre also vary substantially across the WASDE projected price range. At the low-price projection for corn ($3.20), estimated payments for PLC for the 2014 crop year increase to $65 per acre but remains capped at $79 for ARC. At the high-price projection for corn ($3.80), payments drop to $36 per acre for ARC and disappear for PLC.

The notable differences in per acre payments imply a wide range of possible total program costs. At the November 2014 WASDE mid-price projections for the 2014 crop year, ARC-CO costs are $6.4 billion ($5.7 billion for corn) and PLC costs are $0.5 billion if all eligible acres are enrolled in the program that makes the largest per acre payment. Total costs are $2.4 billion for 2014 if all acres for all crops are enrolled in PLC. Producers may have to decide in early 2015 whether they prefer support from ARC-CO that, for corn in particular, will make large payments in the first few years; or support that is retained under PLC in the event of low prices that may or may not materialize over the five years of the farm bill. The likelihood of choosing ARC-CO declines with lower prices for crop year 2014 because there is less short-term advantage and it provides less protection against low prices over time. Congress has often added support if prices and revenue are sharply lower than anticipated when a farm bill is enacted, as in 1998. But this may prove more difficult to orchestrate politically after farmers have made program choices under the stipulation that their decisions cannot be reversed.

Expansion of Insurance

Insurance expenditures, which include premium subsidies, administrative and operating cost reimbursements and underwriting losses, increase under the 2014 farm bill. In addition to SCO, the U.S. upland cotton and dairy safety net programs are dramatically redesigned.[3] Other than a loan program, cotton is supported only by insurance, including a new shallow loss Stacked Income Protection Plan (STAX).[4] Its subsidy rate of 80% compares with 44% for 90% area revenue insurance, 53% for the popular enterprise insurance at its 85% highest coverage level; and the average of 62% for existing insurance. For dairy, the new Margin Protection Program (MPP), provides milk-to-feed cost margin protection from $4 to $8 per hundredweight and producers can cover 25% - 90% of their historic milk production. A proposal to include supply control measures to manage MPP costs proved controversial and was not adopted.

The redesign of cotton support compared to other program crops was driven in large part by the WTO Brazil-U.S. cotton case. In particular, Brazil opposed any fixed reference price for upland cotton, whether through PLC or by incorporation into insurance products. The U.S. cotton industry supported replacement of its traditional programs by STAX, both as necessary to seek resolution with Brazil and in anticipation of net indemnities projected by CBO at nearly $3 billion over 10 years.

On October 1, 2014, Brazil and the U.S. reached agreement on termination of the long WTO dispute. While this is a success of the 2014 farm bill, the enhanced reliance on insurance raises a number of policy issues. Introduction of the highly-subsidized STAX insurance program specific to upland cotton may signal the Balkanization of crop insurance as farm bills become a legislative vehicle to negotiate insurance plans differentiated by crop. The U.S. has notified crop insurance to the WTO as non-product-specific support, using the argument that the same program is offered to all crops. STAX is product-specific and indirectly it raises questions about the validity of the non-product-specific argument for other corps as well. Moreover, insurance products do not address multiple year price and revenue risks. If cotton prices were to stay low for several years, any attempt to add assistance could test whether resolution of the WTO cotton case is a meaningful check on U.S. farm policy.

In eliminating the cotton direct payment and countercyclical programs, Congress converted 17. 9 million cotton base acres to generic base acres. These acres can be planted to any program crop and receive payments by the program elected for that crop. Thus, for generic base acres, program payments may distort planting decisions. Using 2013 USDA cost of production data, returns for nine alternative crops suggest generic base acres may lead to more planted rice and peanuts acres if market prices for program crops are below their reference prices and returns for cotton are low. To put the potential impact for rice and peanuts in perspective, in 2012 the U.S. planted 2.7 and 1.6 million acres of these crops, respectively, compared with an average of 11.6 million acres to upland cotton over 2010-14.

Margin insurance also raises issues. In addition to the margin protection in MPP, the 2014 farm bill authorizes development of margin insurance products for crops, with 2015 rice being the initial intention. Farm organizations have tried to reintroduce production costs into safety net programs ever since cost of production adjustment for target prices was removed in the 1980 farm bill. While only initial steps are taken in 2014, it is reasonable to consider that margin insurance might evolve into a dominant insurance product.

One potential issue with margin insurance is the existence of large economies of size in costs of production. For dairy, using USDA cost and return data, the cost per hundredweight of producing milk above feed cost declines from nearly $30 for herds of less than 50 cows to under $7 for herds of more than 1000 cows. The highest insurable $8 MPP margin is effectively less than $6 given a premium of $1.36 and coverage of 90% of historic production. Nevertheless, the

variation in cost of production among farms and likelihood that non-feed cost per hundredweight will continue to decline for larger dairies raise the question of whether MPP guarantees a profit to some farms. A guaranteed profit to large dairy farms would distort the structure of production.

More general, there is the issue of the level of subsidies for crop insurance. As the 2014 farm bill attests, subsidized crop insurance is strongly supported by farmers and in the political arena. Yet, economic analysis is divided over whether any rationale exists for these subsidies (Coble and Barnett 2012; Goodwin and Smith 2012).

The need for public subsidies so crop insurance is available rests upon the cost of providing private insurance exceeding farmers' willingness to pay for it. The two most commonly-cited reasons for the high cost of private crop insurance are significant moral hazard and adverse selection in crop production and high levels of systemic risk. Even if the argument that crop insurance merits subsidies is accepted, significant opportunities exist to reduce crop insurance's current cost.

Moral hazard and adverse selection can be managed using data based on yields of individual farms. Cooper *et al*. (2012) find individual farm yield histories are preferable to current methods RMA uses to set premium rates. This finding is consistent with Goodwin's (1994) observation that individual yield histories allow premiums to reflect risk attributes idiosyncratic to the operator and land. In contrast, RMA's current method largely reflects county level risk. Using a simulation model incorporating a stylized version of current RMA methods, Cooper *et al*. find an average subsidy rate of approximately 35% is sufficient to have 80% of land insured.

It is well established that idiosyncratic risk can be managed by private insurance markets and thus is not a rationale for public subsidies. Empirical evidence from both the aggregate performance of U.S. crop insurance (Zulauf and Orden 2014) and individual farm level (Zulauf *et al*. 2013) suggest systemic risk is at most 45% of total risk in U.S. crop production. A rule-of-thumb argument might be that the average subsidy rate should not exceed the share of risk that is systemic.

Conservation, SNAP and the Broader Farm Bill Coalition

Provisions to bring together a broad coalition are evident throughout the 2014 farm bill. The environmental focus to farm policy continues. This is the first farm bill enacted with projected spending higher on the conservation title than the commodity title. Only $208 million of the

projected 10-year reductions to conservation program budget authority are slated to occur within the five-year life of the farm bill. Wetland and highly erodible land conservation are expanded as a condition to receive crop insurance premium subsidies. This latter provision underscores a basic political equilibrium in 2014—that crop insurance cannot be both a farm safety net pillar and excluded from the expectation that farmers protect the environment in exchange for subsidies.

Much of the decline in projected conservation spending comes from reducing the maximum acres in CRP but the cap is still 24 million acres in 2018. Thus, both the 2008 and 2014 farm bills continued a program whose elimination could have addressed concerns over high crop prices, in contrast to a fence row-to-fence row planting mentality that dominated during the 1970s period of farm prosperity. The conservation focus is further reinforced by increased CRP acreage in continuous sign-up, expansion of conservation programs for working lands and livestock facilities, and restored funding for conservation easements.

A key rural/urban coalition—between stakeholders in farm support and domestic food assistance programs—survived in 2014 despite intense pressure from political conservatives to reduce expenditures on entitlements and the short-lived separation of nutrition from the farm support bill in the House of Representatives. The 2014 farm bill reduces projected SNAP outlays by only $8 billion over 10 years, roughly 1 percent.

An expanding farm/environment/food assistance coalition will be important to the political economy of future farm bills. Opportunities to expand this coalition abound, but so too do challenges, as the U.S. grapples with issues over the role of farm production in nutrition, health, and environmental quality. The consolidated Regional Conservation Partnership Program in the 2014 farm bill provides coalition-building opportunities by allowing local, regional or watershed environmental issues to be identified and addressed by leveraging public with private funds through multi-stakeholder partnerships.

The 2014 farm bill was passed by strengthening other coalition partners as well. Combined projected outlays for the forestry, trade, rural development, horticulture, energy, miscellaneous, and research/extension titles increase $4 billion (39%) over 10 years. The farm safety net was extended to more crops and livestock. Notably, disaster aid for livestock, farm-raised catfish, honeybees, orchard trees and nursery stock temporarily authorized in the 2008 farm bill was made permanent at a projected cost of $3.7 billion.

Also important to the farm bill coalition is the retention of permanent legislation. Over 250 diverse organizations jointly urged Congress to retain this legislative framework. What they recognize is that permanent legislation creates a powerful incentive to pass a new farm bill, thus providing multiple opportunities to pursue their agendas.

WTO Considerations

While the Doha Round negotiation has faltered, compliance of the farm safety net programs with the existing WTO disciplines or tighter disciplines that could be negotiated remains an issue. Since ARC-CO and PLC make payments on historic program acres with planting flexibility, they likely will be notified as non-product-specific support. We conclude from simple analysis along lines of our WASDE-based calculations that it is unlikely payments under the new farm bill will cause notified non-product-specific expenditures (which have also included crop insurance premium subsidies) to exceed the *de minimis* threshold of 5% of total value of agricultural production, and hence to count against the U.S. constraint of $19.1 billion annually on certain domestic support (Zulauf and Orden 2014).[5] On this basis, we conclude it is unlikely the U.S. will face difficulty meeting its current WTO obligations.

Expenditures under the 2014 farm bill are more likely to exceed several of the proposed limits of the tighter rules and commitments on developed country domestic support under discussion in the December 2008 Doha Round negotiations. The existing support cap would be reduced, the *de minimis* threshold would fall to 2.5% of total value of production, limits would be placed on the blue box, and blue box and *de minimis* expenditures would count against a new proposed limit on overall trade-distorting support (Brink 2011). It thus seems reasonable to conclude that the U.S. would not have enacted the 2014 farm bill as it is, had a Doha agreement been reached in 2008 and phased in over six years. Conversely, enactment of this farm bill makes it more difficult for the U.S. to contribute to attaining such limits on a global level in future negotiations.

In contrast, the Brazil-U.S. cotton case may have impacts beyond the U.S. upland cotton safety net. A core complaint by Brazil was that the WTO Agreement on Subsidies and Countervailing Measures specifies that sector-specific government programs cannot cause serious prejudice to the interests of another member by significantly suppressing world prices or otherwise significantly distorting market conditions. By extension, the cotton ruling suggests PLC could be subject to potential WTO challenge if U.S. prices stay below the reference price

for an extended period. The ruling also suggests grounds may exist to file a complaint if total U.S. subsidies, including insurance, for a given crop distort trade or suppress world prices. An important policy question that could emerge from such cases is whether the declining level of support associated with moving-average programs such as ARC would be considered in determining trade distortion.

Conclusions

The U.S. farm lobby and broader farm bill coalition demonstrated their continued political power by securing a new farm bill in 2014 under difficult circumstances. A long period of crop prosperity did not bring an end to U.S. support. While not an ironclad assurance on funding, coalition partners now have their basic mandatory programs in place. The farm lobby may receive less support or more support from the enhanced downside risk safety net than from the fixed direct payments it gave up, a one-time card it has played. If expenditures prove lower, eighteen years of fixed direct payments may be the transition out of commodity programs once envisioned by reform advocates. If costs prove higher, it is unclear whether pressure to cut spending will be felt as fiscal deficits fall to a smaller share of GDP in coming years. Moreover, the permanence of permanent farm policy legislation was on display, giving farm and other stakeholders an advantage in securing a next farm bill.

The *Agricultural Act of 2014* both addresses and creates issues in this political economy context. ARC is put on a more even footing with the traditional price countercyclical program than ACRE was in the 2008 farm bill. It is not surprising that a moving-average revenue benchmark program gained stature at a time of high prices and revenue. If 2014 crop year prices are not so low as to cause ARC to be stillborn, the 2014 farm bill will provide experience and evidence about whether U.S. farm policy can move further from fixed policy parameters, trading a lower cap on downside risk protection for assistance with declines in price and revenue from higher levels.

A success of the 2014 farm bill is the termination of the WTO Brazil-U.S upland cotton case made possible by shifting from traditional commodity programs to the STAX insurance program. Yet, expansion of insurance raises many issues. Creation of generic base acres will fuel further debate on decoupling and potentially foreshadows additional lobbying for a return to support tied to current production. Upland cotton having only a loan rate as multiple year loss protection may not hold up. The whole structure of available insurance products needs to be

monitored and the parameters and size of the public subsidy for insurance could come up, and we argue should be taken up, in the next farm bill debate.

Finally, we have noted two broader contexts that surround the 2014 farm bill. The first is certain optimism that the conservation focus remains central to farm policy and the 2014 farm bill provides pathways for tackling some of the contentious nutrition, health and environmental policy and regulatory issues surrounding agriculture. Conversely, the 2014 farm bill exacerbates efforts to achieve tighter multilateral disciplines on agricultural support and protection. The U.S. may come to rue this outcome if it leads to impasses on regional trade agreements currently on the table or if newly emerging middle-income countries follow the historical pattern of expanding market-distorting support for their agriculture.

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Table 1. Make-up of Congress and Farm Bill Votes

Final Short Title	Public Law	President	House		Senate	
			Party Control	Farm Bill Vote	Party Control	Farm Bill Vote
Federal Agriculture Improvement and Reform Act of 1996	104-127 (4/4/1996)	Clinton	Republican *228R/206D/1I*	318 - 89 *211R/106D/1I*	Republican *53R/47D*	74 - 26 *52R/22D*
Farm Security and Rural Investment Act of 2002	107-171 (5/13/2002)	Bush	Republican *222R/211D/2I*	280-141 *141R/137D/2I*	Democrat *49R/50D/1I*	64 - 35 *43D/20R/1I*
Food, Conservation, and Energy Act of 2008	110-234 (5/22/2008)	Bush	Democrat *202R/233D*	316 – 108 *216D/100R* (veto override)	Democrat *49R/49D/2I*	82 – 13 *45D/35R/2I* (veto override)
Agricultural Act of 2014	113-79 (2/7/2014)	Obama	Republican *232R/200D*	251 - 166 *162R/89D*	Democrat *45R/53D/2I*	68 - 32 *44D/22R/2I*

Notes: Votes on farm bill conference report, except 2008 veto override. D is Democrat; R is Republican; I is independent. Party affiliation at time of farm bill and yea votes by party in italics. Three House seats were vacant at time of the 2014 farm bill vote.

Table 2. Brief Description of *Agricultural Act of 2014* Farm Safety Net Programs

Title I: Commodity Programs	
PLC (Price Loss Coverage) revised target price program	Price commodity program. Payment made if price is below reference price fixed by Congress. No premium is paid but payment made on a fixed historic payment yield and 85% of historic program (base) acres.
ARC (Agriculture Risk Coverage) revised revenue program	Revenue commodity program with two versions: county and individual. Revenue benchmark changes with yield and market price subject to a minimum price (PLC reference price). Payment occurs if revenue loss is between 14% and 24% of benchmark. No premium is paid but payment on only 85% (county) or 65% (individual) of historic program acres.
Marketing Loan existing program	Price commodity program. Payment made on current output if price is below loan rate fixed by Congress. Loan rates less than PLC reference prices are retained at 2013 levels except the cotton loan rate reduced from a fixed 52 cents per pound to a range between 45 and 52 cents per pound and dairy loan rates eliminated.
MPP (Margin Protection Program) new program	Replaces dairy price and income support programs. Payment made to participating dairy farmers if margin between milk prices and feed costs is below $4/cwt with no premium. Option to pay a premium to insure margin up to $8/cwt. Government purchase of dairy products for domestic food programs authorized when margin guarantee payments are triggered.
Supplemental Agricultural Disaster Assistance renewed program	Authorized retroactively and on a permanent basis four disaster aid programs first authorized in the 2008 farm bill for livestock, farm-raised catfish, honeybees, orchard trees and nursery stock.
Title XI: Insurance Programs	
Crop yield and revenue insurance existing program	Yield and revenue insurance contracts exist at farm enterprise and smaller unit level as well as at county level. Coverage elected by farmer. Farmer pays part of actuarially fair premium. All planted acres can be insured.
SCO (Supplemental Coverage Option) new program	Yield or revenue insurance program that makes indemnity payment if county yield or revenue is between 86% and coverage level elected for underlying individual farm insurance contract. Farms pay 35% of actuarially fair premium.
STAX (Stacked Income Protection Plan) new program	Revenue insurance program for upland cotton only. Insurance indemnity payment received if county revenue is between 90% and coverage level elected for underlying individual insurance contract or can be purchased on stand-alone basis. Farms pay 20% of actuarially fair premium.

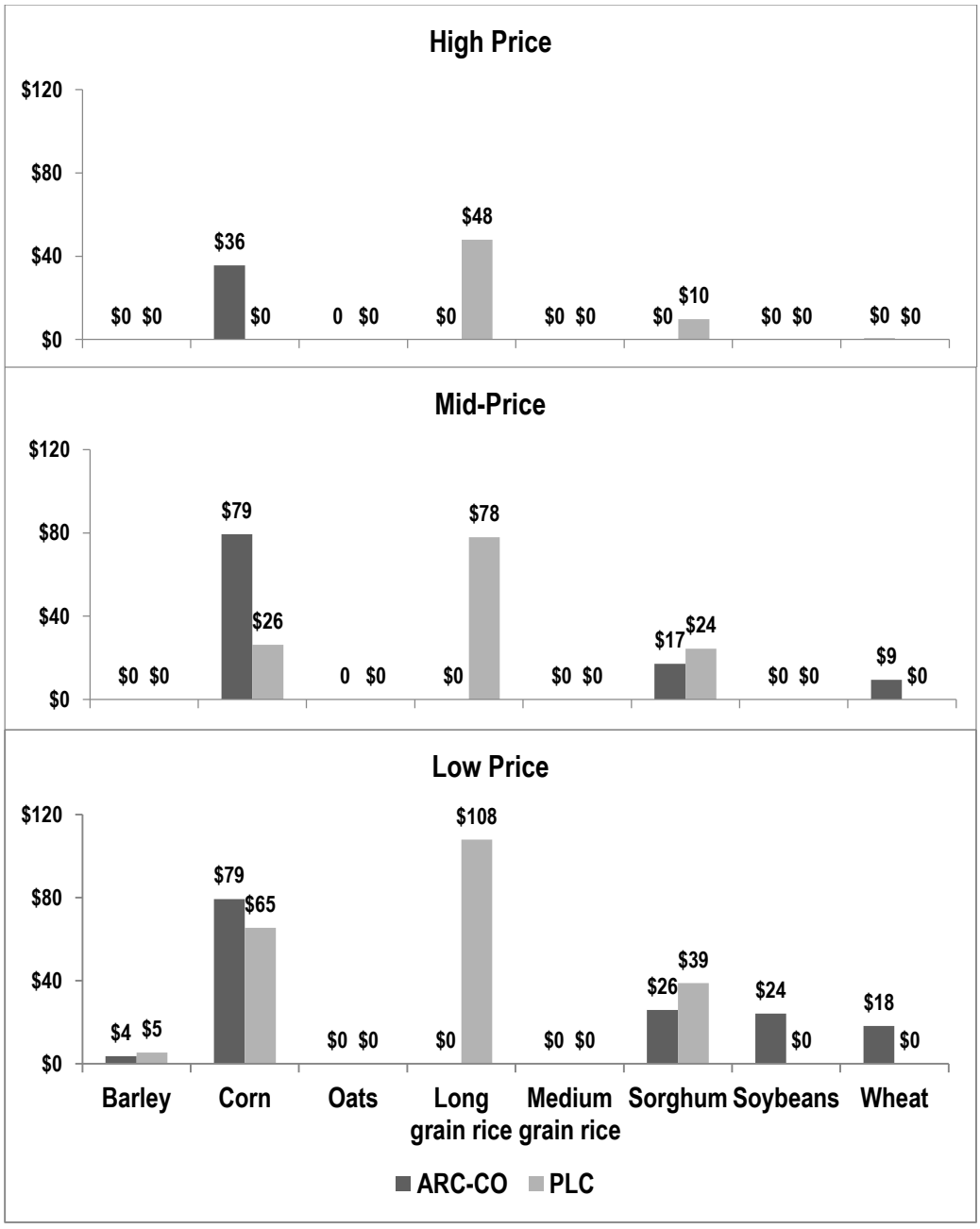

Figure 1. Estimated 2014 crop year ARC-CO and PLC payment per acre using November 2014 WASDE U.S. yield and price projections

Source: Authors' calculations

Endnotes

[1] Anderson, Rausser and Swinnen (2013) assess alternative theoretical approaches and empirical evidence on the political economy of agricultural policies across political systems. Among concepts they review that are illustrated in our narrative are interest group lobbying, status quo bias, countercyclical bias, aversion to loss, ideology, information, and obfuscation. Comparative governance concepts are not illustrated in this temporal evaluation of U.S. farm bills within a fixed institutional structure.

[2] There are several key differences with ACRE. ARC pays on a share of historical program acres while ACRE generally paid on a share of planted acres. ARC uses county or farm yield; ACRE used state yield. The coverage range is narrower for ARC. The price component for ARC is a five-year Olympic moving average (eliminates impact of highest and lowest years on its revenue benchmark) but was a simple two-year average for ACRE. ACRE had no floor on its price component.

[3] The U.S. sugar program is largely unchanged, an outcome also sought by producers.

[4] The cotton loan rate of 45 to 52 cents per pound is between 55% and 65% of the Olympic moving average of 2009-13 market prices, a level higher than for all other crops except peanuts (64% of the market price average).

[5] STAX, MPP, payments on generic acres and possibly ARC-IC are likely to be notified as product-specific support. Were the U.S. to notify all crop insurance subsidies as product-specific, payments under ARC-CO and PLC could be that much higher without exceeding the de *minimis* threshold.