New farm bill in 2023? Some principles to consider

In a perfect world, the 2018 Farm Bill would be replaced with a new farm bill before its expiration in the early autumn of 2023. At this point in the legislative cycle, we would expect some visible show of life from the House and Senate Agriculture committees but given the current near paralysis in Congress we see less action than we have seen prior to the expiration of earlier farm bills.

This is not to say that everything has gone smoothly in the past. The 1995 Farm Bill ended up becoming the 1996 Farm Bill and while Congress attempted to begin working on the replacement for the 2008 Farm Bill in 2012, its replacement was two years late in arriving. The 2018 Farm Bill should have been adopted in September of that year with the expiration of its predecessor. It finally crossed the finish line in late December.

So, what should we expect this time? Given the near paralysis we have seen surrounding the legislative work of this Congress, we expect that little of significance will be attempted until after the fall elections, with each party hoping to be victorious.

Ideally a new farm bill would be adopted in early autumn 2023 to give farmers the information they need as they as they make their 2024 planting plans. Winter wheat is always the exception with planting occurring before a replacement farm bill is adopted.

While we can’t control the actions of Congress, we can use the time between today and the adoption of the renewal legislation to articulate our perspective on farm bill issues.

Prior to the 1996 Farm Bill, farm income was stabilized by commodity programs that allowed a farmer to take out a loan for crop production expenses using the new crop as collateral. They could then sell the crop during a period after harvest and pay off the loan, keeping any extra money for themselves. If the market price when the loan became due was lower than the loan rate, the farmer could forfeit the crop to the Commodity Credit Corporation (CCC) as full payment of the loan. It was called a nonrecourse loan because the CCC could not encumber other farm assets to cover any losses on the loan.

The 1996 Farm Bill expected blue skies and profitable prices stretching out for the foreseeable future, driven by ever-increasing export levels. But the historic pattern of long periods of low prices reappeared in the waning years of the century forcing policy makers to look for a way to support farm income without using commodity stock holding programs.

The result was an alphabet soup of programs and the use of crop insurance as the core of the crop portion of the farm bill. Mixed into all this was the adoption of an ethanol mandate for the domestic gasoline market which increased corn utilization and led to higher prices, providing cover for the inherent weaknesses of insurance-based farm programs.

In looking forward to the 2023 (or later) Farm Bill, we want to compare traditional stock holding/supply management programs with crop insurance programs.

Traditional stock holding/supply management programs were developed to stabilize farm income in the face of long periods of low prices interspersed with shorter periods of high prices. They basically provided farmers with a minimum price for each unit of production—bushel, bale, hundred weight—that farmers and their bankers could depend on. Ad Hoc disaster relief programs were often adopted in response to widespread production problems.

But US farmers were not the only people to benefit from stock holding/supply management programs. Because the government stocks acquired during low price periods could be accessed by the open market once a release price was reached, consumers were protected from exceedingly high prices. Thus, farmers were protected against low prices and consumers were protected from high prices.

In addition, these programs indirectly provided price stability for farmers around the world and an available stable crop supply in the face of production problems anywhere in the world.

The strong suit of crop insurance programs comes in providing farmers with protection in the face of either localized or wide-spread short-term production problem. In that way it eliminates the need for one-time ad hoc disaster relief funding. It fails to provide farmers with financial support during long periods of low prices, thus the adoption of various alphabet soup programs like ARC and PLC.

From our perspective we need both programs, supply management programs for the long periods of low prices and crop insurance programs to protect farmers against a crop failure.

Both types of programs depend on some sort of pricing mechanism. With traditional stock-holding programs this was the loan rate set by Congressional action. For insurance programs the price component has been based on the futures harvest-time price during a period before most areas plant the crop.

Historically, the loan rate has generally been too low while the insurance price guarantee has often been too high.

Our suggestion is that policy makers use the same mechanism to set the price component for both programs. For each crop, we would suggest using a price that represents 95 percent of the olympic average of the national average full cost of production for the prior five years (dropping out the high price year and the low price year).

That combination allows each program to work to its advantage providing both protection for periods of low prices and predictable compensation for farmers in the case of a production failure. Using insurance in this manner would eliminate the need for ad hoc disaster legislation, providing protection even if the affected area were small.

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