Both the House and Senate passed another short-term extension to the 2002 Farm Bill this week as lawmakers continue to work towards a new bill that can be agreed to in both chambers of Congress. A number of issues have slowed negotiations, the greatest of which have been disagreements over spending levels and financing across the Farm Bill titles. To further complicate the matter, the Bush administration has issued a veto threat unless the new Farm Bill exhibits serious levels of reform to farm policy to improve both program performance and the ability to justify U.S. farm support in trade talks among members of the World Trade Organization. Furthermore, the administration has also stated that they are unwilling to accept any legislation which finances additional spending through higher taxes.

Under the current “pay-as-you-go”, or “pay-go”, financing rules employed in the Senate, any additional program spending must be offset by reductions in other areas or through additional tax revenues. Budgetary spending levels are determined by the “baseline” estimates from the Congressional Budget Office which are based on expectations for program costs under current law. The problem is that while everyone in Washington can provide you with a number of reasons why their programs require more dollars, very few are willing to accept lower levels of funding than they have received in the past.

Currently, lawmakers in both the House and Senate have agreed on creating additional spending for nutrition ($10 billion), conservation ($4 billion), energy ($900 million), specialty crop ($1.35 billion), and beginning and disadvantaged farmer($250 million) programs. This additional funding will be partially financed by a net reduction in spending of about $7 billion for commodity and crop insurance programs.

However, members of the Senate have been adamant about including a $4 billion permanent disaster assistance program and $2.5 billion in tax cuts provisions, creating a $6.5 billion dollar gap that needs to be closed before an agreement can be made. More recent negotiations this week among Ag committee conferees from both chambers have indicated that the House has offered $2 billion for disaster assistance and $1 billion in tax cuts, which will be partially financed by a proposed $1 billion reduction in spending for direct payments, further lowering spending for commodity programs.
So what do all these billion dollar spending figures being tossed around by Congress mean for farmers in the Midwest? With prices for corn, soybeans, and wheat at their current levels producers should not expect (or hope for) any support from the price-based counter-cyclical or loan deficiency programs. Crop insurance premiums will continue to increase due to both higher price levels and the proposed reductions in program spending through lower subsidy rates. Even direct payment levels, which are relatively trade-friendly, may be reduced over time. With commodity prices and farm incomes at record highs, one is hard-pressed to argue with reduced levels of support. However, higher prices have also come with greater volatility and run-ups in production costs, arguably creating an environment of greater risk. Producers must reassess their risk management plans related to insurance, financing, and management decisions in light of reduced support from traditional government programs.