U.S. Farm Policy: Continuity or Change?

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Agenda

- The setting
  - Farm sector situation and outlook
  - Budget situation and issues

- The “continuity” option
  - Why a new farm bill may look like the current one
  - Some issues that many want to address

- The “change” option
  - What might drive a more fundamental change
Net farm income

Source: Figure 1 from author testimony before House Agriculture Committee, Feb. 15, 2017.

## Farm income and balance sheet

### Annual averages, billion dollars

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Crop cash receipts</td>
<td>147</td>
<td>209</td>
<td>191</td>
<td>203</td>
</tr>
<tr>
<td>Livestock cash receipts</td>
<td>128</td>
<td>174</td>
<td>174</td>
<td>188</td>
</tr>
<tr>
<td>Government payments*</td>
<td>15</td>
<td>11</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Production expenses</td>
<td>257</td>
<td>338</td>
<td>354</td>
<td>375</td>
</tr>
<tr>
<td>Net farm income* (in 2016 dollars)</td>
<td>69</td>
<td>101</td>
<td>74</td>
<td>85</td>
</tr>
<tr>
<td>Farm assets</td>
<td>1,910</td>
<td>2,571</td>
<td>2,794</td>
<td>2,591</td>
</tr>
<tr>
<td>Farm debt</td>
<td>239</td>
<td>306</td>
<td>383</td>
<td>408</td>
</tr>
<tr>
<td>Debt/asset ratio</td>
<td>12.5%</td>
<td>11.9%</td>
<td>13.7%</td>
<td>15.8%</td>
</tr>
</tbody>
</table>

Source: Table 1 from author testimony to House Agriculture Committee, February 15, 2017. Historical data from USDA’s Economic Research Service. Projections for 2017-2024 are unpublished point estimates by FAPRI-MU.

Note: These figures will differ from the FAPRI-MU baseline to be released in March. That baseline will report stochastic analysis of 500 future market outcomes, and will show greater average future payments and farm income than these point estimates, which assume average weather and market conditions.
U.S. farm debt-asset ratio

- U.S. farm debt-asset ratio peaked in 1985
- While debt levels have risen sharply, debt-asset ratios are much lower than in the 1980s
- Many farms have little or no debt, but those with debt are vulnerable

Sources: USDA ERS for history; FAPRI-MU Feb. 2017 deterministic projections
Corn market receipts and payments
National average for ARC participants, crop year

Source: FAPRI-MU estimates based on USDA data; 2016 is preliminary
Corn market receipts and payments
National average for PLC participants, crop year

Source: FAPRI-MU estimates based on USDA data; 2016 is preliminary
Soybean market receipts and payments
National average for ARC participants, crop year

Source: FAPRI-MU estimates based on USDA data; 2016 is preliminary
Soybean market receipts and payments
National average for **PLC** participants, crop year

Source: FAPRI-MU estimates based on USDA data; 2016 is preliminary
Wheat market receipts and payments
National average for ARC participants, crop year

Source: FAPRI-MU estimates based on USDA data; 2016 is preliminary
Wheat market receipts and payments
National average for PLC participants, crop year

Source: FAPRI-MU estimates based on USDA data; 2016 is preliminary

Crop ins. net indemnity
PLC/base a.
DCP/base a.
Market loan + ACRE
Market

Dollars per acre

Rice market receipts and payments
National average for PLC participants, crop year

Source: FAPRI-MU estimates based on USDA data; 2016 is preliminary
Peanut market receipts and payments
National average for PLC participants, crop year

Source: FAPRI-MU estimates based on USDA data; 2016 is preliminary
Cotton market receipts and payments
National average, crop year

Source: FAPRI-MU estimates based on USDA data; 2016 is preliminary
ARC Olympic average prices
With FAPRI-MU Nov. 2016 baseline prices

**Corn**

- 2014/15: $5.50
- 2016/17: $5.00
- 2018/19: $4.50

**Soybeans**

- 2014/15: $13.00
- 2016/17: $12.00
- 2018/19: $11.00
Note: CBO’s baseline assumes a continuation of current law, with producers allowed to make a new ARC/PLC election in 2019.
Corn PLC crop year costs
FAPRI-MU, 2017 baseline sneak peak

Billion dollars

- 80th percentile
- 20th percentile

Year
2014 2016 2018 2020 2022 2024 2026
Crop insurance crop year data

Cumulative net indemnities from 2010 to 2015: $36.5 billion ($6.1 billion per year)

Net indemnity payments = indemnity payments for losses minus producer-paid premiums.
CBO projections of net outlays
January 2017 baseline
## Federal budget outlook
**CBO, January 2017**

<table>
<thead>
<tr>
<th></th>
<th>FY 2016 actual</th>
<th>FY 2017 projected</th>
<th>FY 2027 projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax and other revenues (bil. dollars)</td>
<td>3,267</td>
<td>3,404</td>
<td>5,140</td>
</tr>
<tr>
<td>Outlays*</td>
<td>3,854</td>
<td>3,963</td>
<td>6,548</td>
</tr>
<tr>
<td>Deficit</td>
<td>587</td>
<td>559</td>
<td>1,408</td>
</tr>
<tr>
<td>Debt held by public</td>
<td>14,168</td>
<td>14,838</td>
<td>24,893</td>
</tr>
<tr>
<td>Tax, other revenues (share of GDP)</td>
<td>17.8%</td>
<td>17.8%</td>
<td>18.4%</td>
</tr>
<tr>
<td>Outlays</td>
<td>20.9%</td>
<td>20.7%</td>
<td>23.4%</td>
</tr>
<tr>
<td>Deficit</td>
<td>3.2%</td>
<td>2.9%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Debt held by public</td>
<td>77.0%</td>
<td>77.5%</td>
<td>88.9%</td>
</tr>
</tbody>
</table>

* Increasing costs for Social Security ($741 billion) and Medicare ($697 billion) account for 56% of the $2.6 trillion increase in total projected federal spending between FY 2017 and FY 2027.
“Continuity option”

- 2018 farm bill could look mostly like 2014 farm bill
  - Many like what they have
  - Hard to agree on alternatives
  - If no agreement on new bill, could be “forced” to extend current bill, at least for awhile

- But many would like at least some tweaks
Continuity provides a suite of options and safety net programs

- **Crop insurance**
  - To protect against drop in yields or revenue within a year

- **Agricultural Risk Coverage**
  - To protect against a drop in revenues relative to experience of recent years

- **Price Loss Coverage**
  - To protect against an extended period of low prices
Possible tweaks under a “Continuity option”

- What to do about dairy?
  - Few appear to like current Margin Protection Program
  - CBO baseline has $75 million/year in dairy outlays over FY 2018-27
  - Milk production value: about $40 billion/year
  - Hard to build a program that does much for producers if cost is <0.2% of value of milk
  - And if want to spend more, where does money come from?
Possible tweaks under a “Continuity option”

- What to do about cotton?
  - 2014 ended cotton commodity programs, other than marketing loans
  - No program to protect against multi-year low prices or returns
  - One option: cottonseed program, either by act of Secretary under “other oilseed” authority or by Congressional action
  - Possible complications: budget issues, generic base, response of countries that brought original WTO case
What to do about ARC/PLC?

- Should payments be on base or planted area? Budget and WTO implications
- Change ARC formulas?
- Change PLC reference prices?
- Do something to reduce discrepancies in county ARC payments
Some want more dramatic changes

Will someone come up with a new approach?

Are the votes there for a “continuity” farm bill?
- Need 218 in House and 51 or 60 in Senate if President will sign
- Or 2/3 in both chambers to overcome a veto

What role will budget concerns play?
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