Policy issues in 2017 and beyond

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

Some 2017 issues
- President’s budget release from yesterday
- Interest rates
- Health care reform
- Tax reform

The 2018 (?) farm bill
Farm income measures stay far below peaks

Source: page 7 of 2017 U.S. Baseline Briefing Book
Debt-to-asset ratio rises, but below 1980s record

Source: page 7 of 2017 U.S. Baseline Briefing Book
Corn market receipts and payments
National average for ARC participants, crop year

Source: FAPRI-MU 2017 baseline
Corn market receipts and payments
National average for PLC participants, crop year

Source: FAPRI-MU 2017 baseline
Soybean market receipts and payments
National average for ARC participants, crop year

Source: FAPRI-MU 2017 baseline
Moving averages reduce ARC benchmarks (corn example)

Source: page 8 of 2017 U.S. Baseline Briefing Book
ARC and PLC payments differ by crop

Source: page 10 of 2017 U.S. Baseline Briefing Book
For some crops, patterns change after 2019

Source: page 10 of 2017 U.S. Baseline Briefing Book
PLC enrollment expected to increase in 2019

Source: page 10 of 2017 U.S. Baseline Briefing Book
ARC payments fall, PLC payments increase

Source: page 5 of 2017 U.S. Baseline Briefing Book
Title I payments exceed crop insurance net indemnities

Source: page 65 of 2017 U.S. Baseline Briefing Book
Crop insurance totals $79 bil. over FY 2018-27 (all programs: $217 bil.)

Source: page 64 of 2017 U.S. Baseline Briefing Book
## 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.
Some 2017 issues: President’s budget

- USDA
  - $4.7 billion (21%) less in discretionary spending
  - End water and wastewater programs ($500 mil.)
  - “Reduce staffing in USDA’s Service Center Agencies”
  - “Reduce funding for USDA’s statistical capabilities”
  - Cut international food aid
  - Does NOT change “mandatory” programs like farm programs, SNAP (that could come later)

- Also large cuts at State, EPA, elsewhere
Some 2017 issues: Interest rates

- Federal Reserve announced a rate increase this week
- More could be coming
Real GDP growth is steady, interest rates rise.

Source: page 12 of 2017 U.S. Baseline Briefing Book
Some 2017 issues: Health care reform

- Uncertain outlook for health care reform
- Could have implications for other legislation, such as tax reform
Some 2017 issues: Tax reform

- Uncertain outlook for tax reform
- Some of the many issues of interest to agriculture
  - Tax rates (personal and corporate)
  - Interest and other deductions
  - Estate tax and basis step-up
  - Border adjustment tax
The next farm bill

- 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

- And some want major reforms
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
What to do about dairy?

- Few appear to like current Margin Protection Program
- January CBO baseline had $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
Possible tweaks under a “Continuity option”

- 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
What to do about CRP?

- Should limit on size of CRP be increased from current 24 million acres?
- Should way in which rental rates are set be changed?
- What types of acres should be targeted?
- Should there be another program with a shorter enrollment period (Sen. Thune: 5 years)?
“Change option”

- 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?
- What will the President be willing to sign?
Thanks!

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