Agricultural Policy in 2013 and Beyond

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Agriculture in Uncertain Times
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A New Farm Bill in 2012 or 2013?

- We have no clue right now
- Outlines of a new bill could be developed, but if nothing happens by Memorial Day then nothing is likely to happen until 2013
- Difficult policy environment for farm groups
- Program baseline funding for farm and nutrition programs is likely to fall by at least $23 billion and may decline by more
- We will almost certainly see major changes in farm programs

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What Makes the Policy Environment Tough

- **The Federal Budget Deficit**
- **Skepticism about the need for farm subsidies in Congress and elsewhere:**
  - Record farm gate prices,
  - Record farm incomes
  - Concentration of farm program benefits among the largest farms
  - Public and media resentment/disapproval over direct payments

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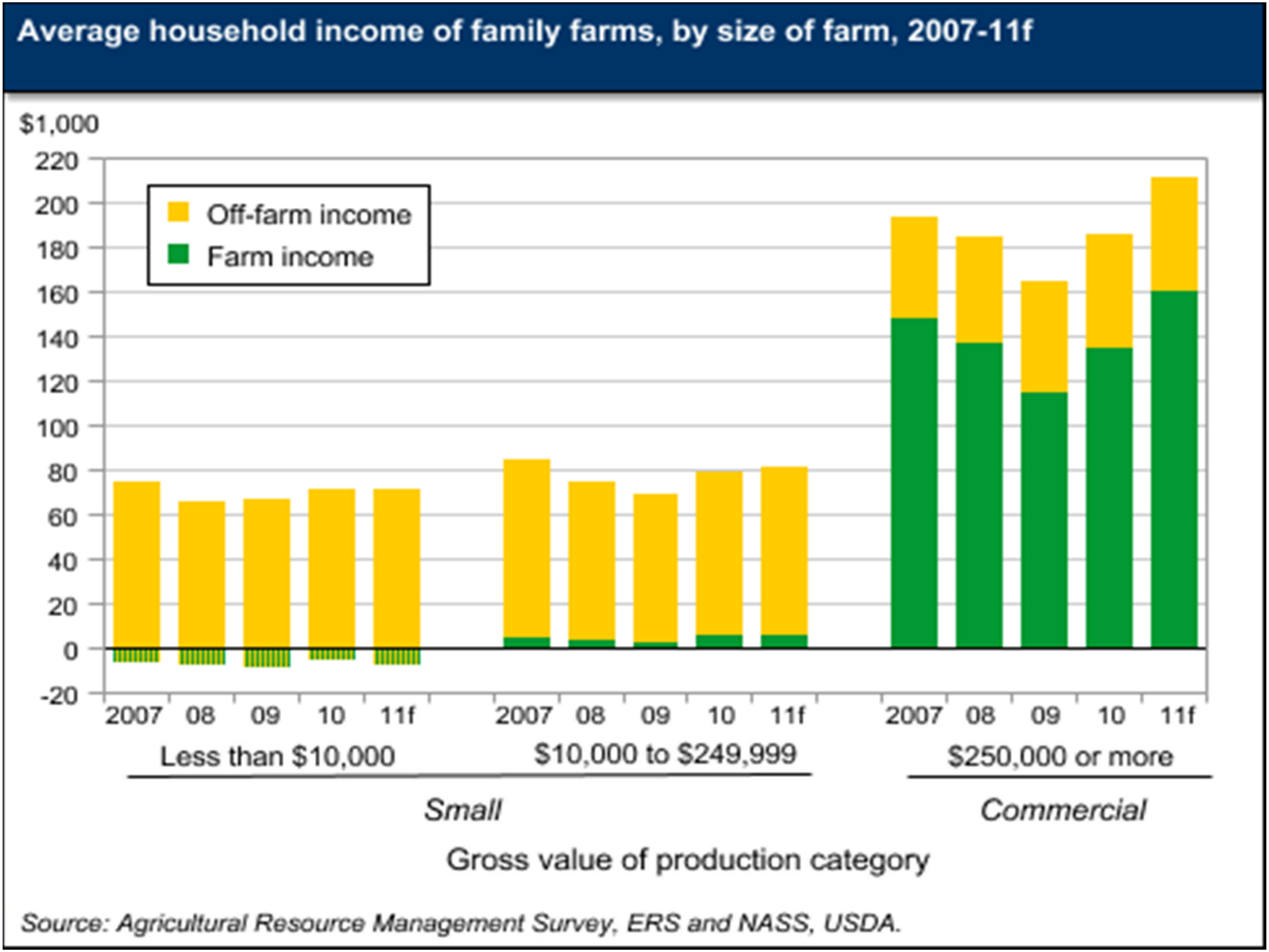
Median farm operator household income compared with median U.S. household income, 2000-2010

Source: *Agricultural Resource Management Survey, ERS and NASS, USDA and the Current Population Survey, U.S. Bureau of the Census.*

ERS



Average household income of family farms, by size of farm, 2007-11f
$1,000
220
200
180
160
140
120
100
80
60
40
20
0
-20
Off-farm income
Farm income
2007
08
09
10
11f
Less than $10,000
$10,000 to $249,999
$250,000 or more
Small
Commercial
Gross value of production category
Source: Agricultural Resource Management Survey, ERS and NASS, USDA.

Average Household Wealth in 2010

Farm Household Wealth: About $650k

Non-Farm Household Wealth: About $130k

What Makes the Policy Environment Tough

- Congressional delegations from non-farm districts and states unsupportive of farm programs, not least because they want to protect other programs, including nutrition programs (SNAP, etc.) which are big farm bill budget programs, but not farm focused programs.

What Makes the Policy Environment Tough

- **Disagreement among major farm groups about:**
  - What programs should be on the table for cuts
  - How large cuts in specific programs should be
  - What new programs should be introduced
- **Disagreement among House and Senate Ag, Committee members about the same issues**
- **The Tea Party: means uncertainty about where the Republican leadership will end up on all budget issues (not to mention a presidential candidate)**

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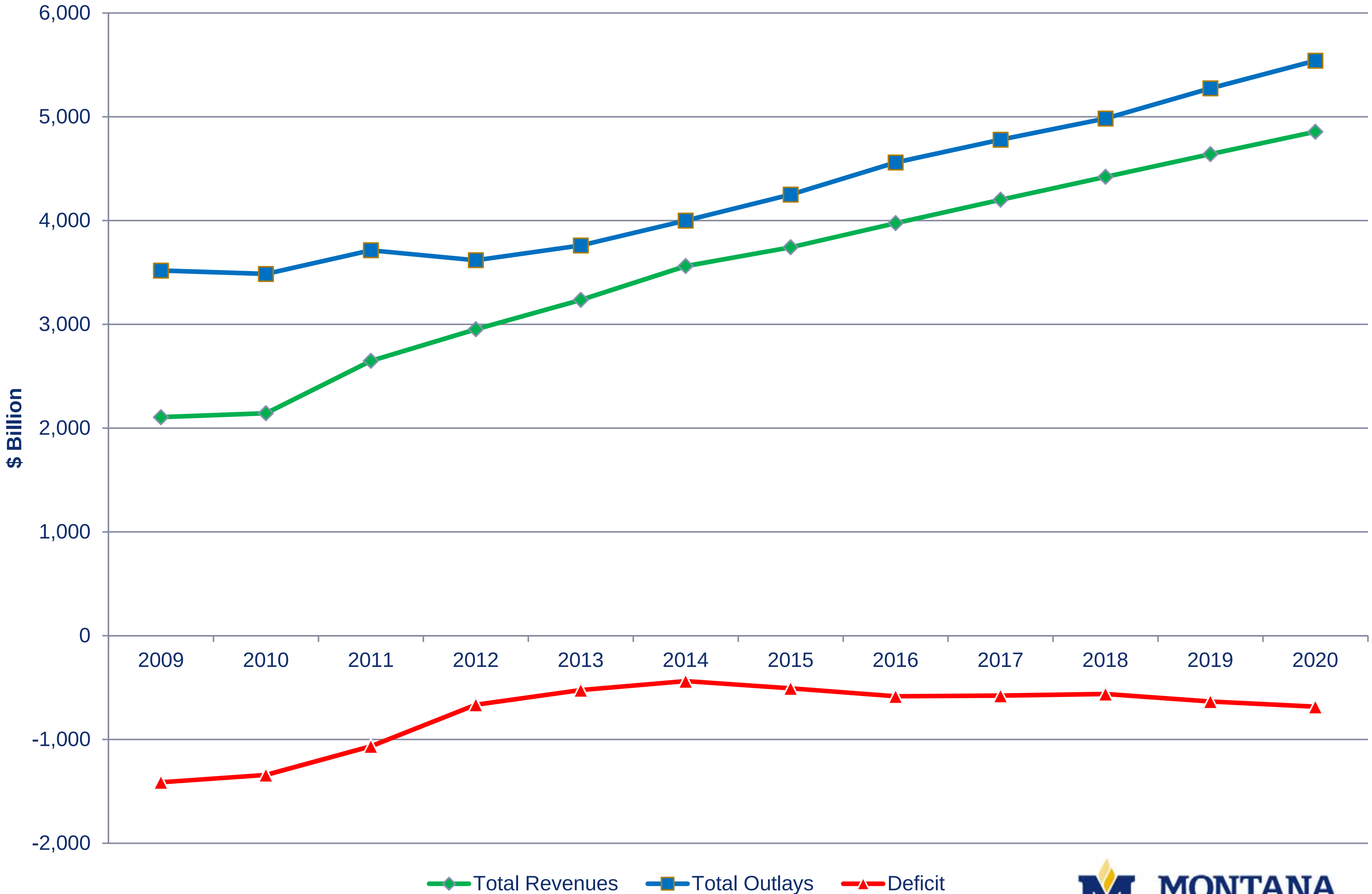
THE FEDERAL BUDGET ISSUE

CBO Government Revenue, Expenditure and Deficit Forecasts for 2009-2020



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What The Two Trillion Dollar Deficit Reduction Really Means

- **It is an annual cut in the annual federal deficit of about $200 billion**
- **An across-the-board cut in all federal spending would reduce total farm bill spending by about $15 billion**
- **A readjustment of finances that would *remove* the structural deficit would require a reduction of between $600 billion and $800 billion (through tax increases and spending cuts).**

What Serious Federal Deficit Reduction Really Means

- **Tax increases for everyone (not just Governor Romney, Speaker Gingrich, and President Obama)**
- **Entitlement cuts**
  - Reductions in social security payments
  - Reductions in Medicare and Medicaid reimbursements and, perhaps, coverages
  - Very substantial cuts in many “discretionary” programs, including farm bill programs (up to $10 billion a year).

Deficit Reduction and the Congressional Ag Committees

- Lucas and Stabinow wanted to have a 2011 Farm Bill with a ten year cut of $18 billion to farm oriented programs (and $23 billion in total) because:
- They perceived that bigger cuts would likely be required if Congress and the Administration became more serious about deficit reduction and,
- Congress and the Administration could well become more serious as a result of election year politics
- Further, farm subsidies have few friends in the general media (the Wall Street Journal, New York Times, Washington Post, etc.)

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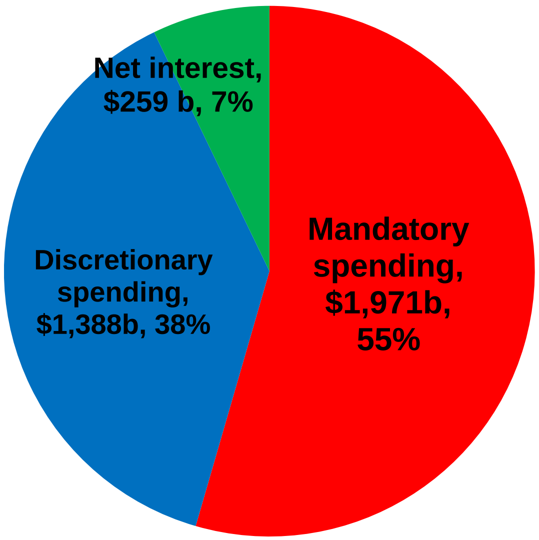
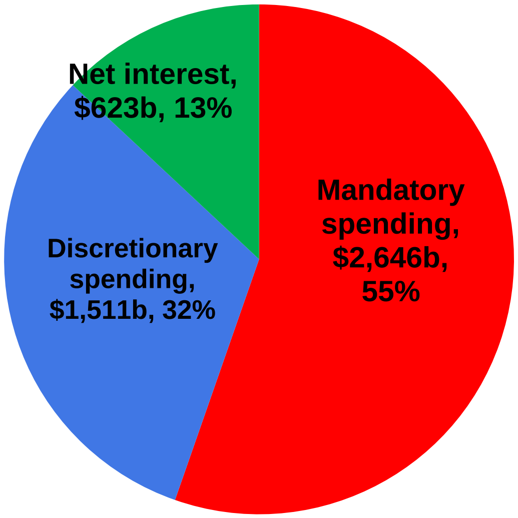
The Current Agricultural Policy Set

Distribution of Government Spending in 2012



Distribution of Government Spending, 2017



Where is the Farm Bill Money Being Spent?

	Payments to Farmers	Food and Nutrition Assistance
2008	$18.7 billion	$60.9 billion
2009	$14.1 billion	$78.8 billion
2010	$20.2 billion	$93.2 billion

Farm Payments By Major Program

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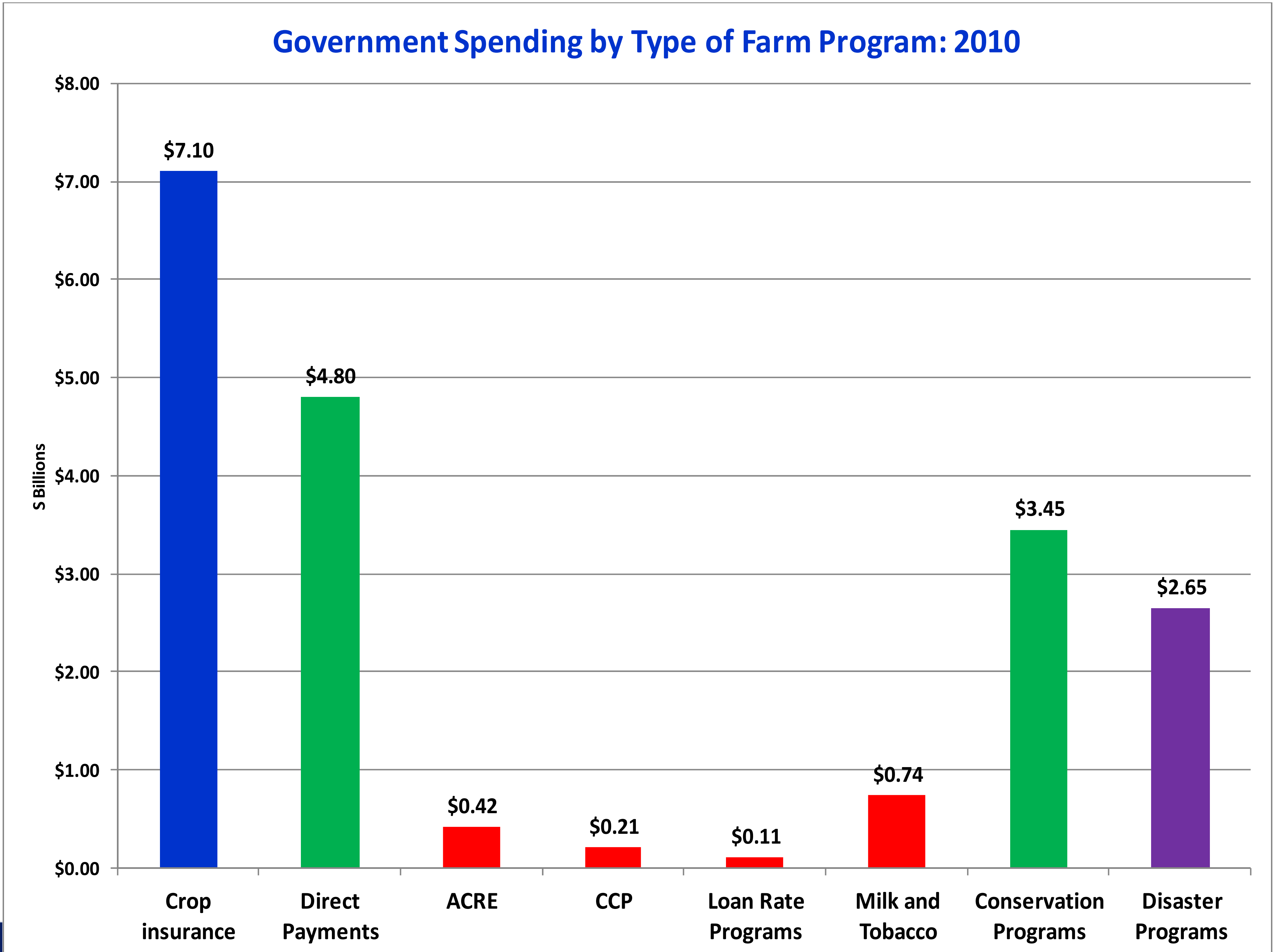
Government Spending by Type of Farm Program: 2010
$ Billions
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00
$7.10
$4.80
$0.42
$0.21
$0.11
$0.74
$3.45
$2.65
Crop insurance
Direct Payments
ACRE
CCP
Loan Rate Programs
Milk and Tobacco
Conservation Programs
Disaster Programs

Policy Trends and Possible Changes: Where the Senate and House Ag Committee Chairs were in November

- **Overall, spending on farm programs would be reduced by at least $1.8 billion a year ($18 billion over ten years)**
- **Nutrition would be cut by 0.5 billion a year ($5 billion over ten years)**
- **Cuts could have been larger: the White House proposed a $33 billion cut in September and the House Budget chair (Ryan) proposed a $48 billion cut in July**

Key Proposals from the Ag Committee Chairs to the Super Committee

- **End Direct Payments**

- **No attempt to continue the SURE disaster program**

- **The ACRE program would also likely be discontinued, but:**

Key Proposals to the Super Committee

- **Introduce commodity specific programs including:**
  - Shallow loss program of some sort for wheat, corn, soybeans and some other commodities
  - The STAX program for cotton
  - Replace the countercyclical program with a new production related program (essentially a new price support program).

Which Programs Will Go

- **Direct Payments**
  - Farm Bureau has voted to get rid of them:
  - Only rice, peanuts and cotton really want to keep them
  - They are public relations nightmare for the Ag. Sector
  - In Super Committee negotiations, farm groups were told by Congressional leaders that if they wanted to keep direct payments, total cuts would substantially exceed $23 billion over ten years (more like $40 billion)

Which Programs Will Go

- The ACRE program: to be replaced by either a shallow loss program (e.g. Lucas-Stabinow Super Committee proposal) or a deep loss program (Farm Bureau)
- SURE program (no CBO budget score for 2012 and beyond) with some of its principles perhaps to be included in a shallow loss program (Senator Conrad, ND)
- Countercyclical Payments (again to be replaced by a shallow loss program and/or a new “supplementary” price support program)

Which Programs Will Experience Reduced Funding

- The CRP, with a reduction to a cap of 25 million enrolled acres (or thereabouts), with annual federal budget savings of about $0.5 billion.
- The CSP, although several influential groups want to keep it in place at current CBO baseline funding levels.
- Nutrition programs (although cuts, about $0.5 billion would be minimal in a proportional sense).

Which Programs Will Be Retained "As Is" or with Increased Funding?

- **EQIP (very popular with all farm groups)**
- **Loan rate programs (either with current loan rates or increased loan rates, although the latter change is subject to some question)**
- **We don't know how R and D will fare.**

Major New Programs

- **Shallow loss programs are being proposed by many commodity groups**
- **Farm Bureau has a “deep loss” proposal**
- **Commodity groups want different things:**
  - Cotton wants a STAX program
  - Rice and other commodity groups want much higher loan rates
  - Peanuts and Rice want to keep direct payments (at least for them).

Other New Farm Program Ideas

- Free crop insurance at 70 percent coverage for all program crops and nothing else (weather insurance vouchers of equivalent value, relative to crop values, for fruits and vegetables that are difficult to insure)
- Reform crop insurance delivery system, which currently costs tax payers about $3.5 billion a year.

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Other New Farm Program Ideas

- Whole farm conservation programs (wrapping CRP, CSP and EQIP together)
- Secretary Vilsack and some farm groups are now pushing for substantially increased spending on R & D targeted to on-farm productivity.


QUESTIONS?