The Evolution, Current Structure and Potential Future of US Agricultural Policy

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Overview

- Over the past fifteen years, the US farm lobby, USDA administrators, and Congressional Agricultural Committee Members have increasingly chosen to describe what are now known as Title I and Title XI programs in the 2014 farm bill as risk management and farm safety net programs.
- While, unequivocally, *those programs increase farm incomes and reduce participating farms' risks of going out of business, they do anything but reduce overall risk taking by the farm sector.*
- In fact, for the most part, the impact of many of the reauthorized crop insurance programs in the 2014 farm bill is the exact opposite.

Overview

- What the most heavily subsidized programs in fact do is to *increase risk taking* by farmers and then *transfer most of the risks* to the rest of society.
- The increase in risk taking by farmers, that directly derives from incentives created by the US crop insurance program, in some important dimensions creates environmental degradation issues.
- The US agricultural insurance programs, both of the major new pure crop subsidy programs also raise WTO issues that are more severe than those associated with the now defunct direct payments program which, essentially, they replaced.
- Similar concerns exist with respect to the new "STAX" cotton program and the new Dairy Margin Protection Program.

What Did the 2014 Farm Bill Do?

- Terminated:
  - Direct Payments
  - The CCP and ACRE programs
  - Milk price support programs
  - The SURE crop disaster program
- Modified the cotton loan rate program and ended other cotton programs (but the new STAX program is clearly amber box)
- Refunds a suite of four modestly funded livestock disaster aid programs.

What Does the 2014 Farm Bill Do? Title I and SCO

Introduced:

- A new set of Title I programs, Price Loss Coverage and Agricultural Risk Coverage, for which only crops previously eligible for Direct, Countercyclical, and ACRE payments are eligible (with the exception of cotton)
- A new Supplemental Crop Insurance Coverage Option (SCO)
- A Special Subsidized SCO program for Cotton called the Stacked Income Protection Plan

What Did the 2014 Farm Bill Do?

Introduced:

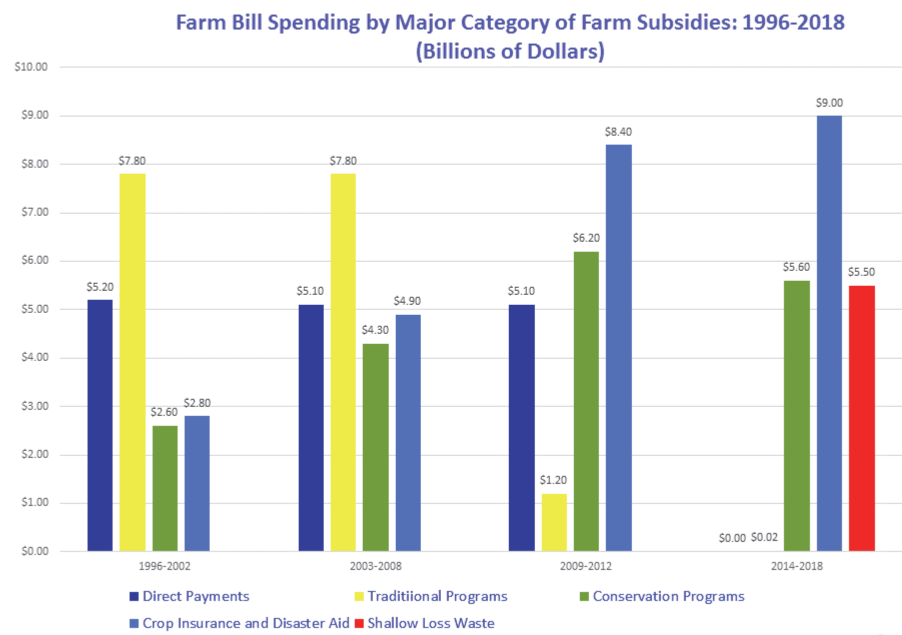
- A new dairy margin protection program for milk producers that has insurance aspects and is also clearly amber box. It also has the potential to involve substantial subsidies
- A modified program for crops and forage not covered by the federal subsidized crop insurance program known as NAP: allows for some coverage buy up instead of being a quasi disaster aid program. More moral hazard?

What Does the 2014 Farm Bill Do? Conservation

- Legislates the continued downsizing of the conservation reserve program (a paid land retirement program)
- Continues the conservation stewardship program at a relatively high level of funding even though the program is widely viewed as providing few additional environmental benefits
- Rationalizes a range of other conservation programs
- Continues the EQIP program (a cost share program related to capital improvements that have environmental benefits)
- Continues the various conservation easement programs but at levels of funding that imply only transfers and no real effects on "green space" and wild life habitat (effectively just a very small scale transfer program in the end)

What Does the 2014 Farm Bill do: Spending on Federal Subsidies

- Continues a 25 year shift in subsidies towards "crop insurance" and other "farm safety net" programs.
- A slight reduction in spending on conservation programs (mainly because of reduced spending on the conservation reserve program.
- An almost complete shift away from traditional price support (loan rate, etc.) subsidy programs.


Farm Bill Spending by Major Category of Farm Subsidies: 1996-2018
(Billions of Dollars)
$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00
$5.20
$7.80
$2.60
$2.80
$5.10
$7.80
$4.30
$4.90
$5.10
$1.20
$6.20
$8.40
$0.00
$0.02
$5.60
$9.00
$5.50
1996-2002
2003-2008
2009-2012
2014-2018
Direct Payments
Traditiional Programs
Conservation Programs
Crop Insurance and Disaster Aid
Shallow Loss Waste

9

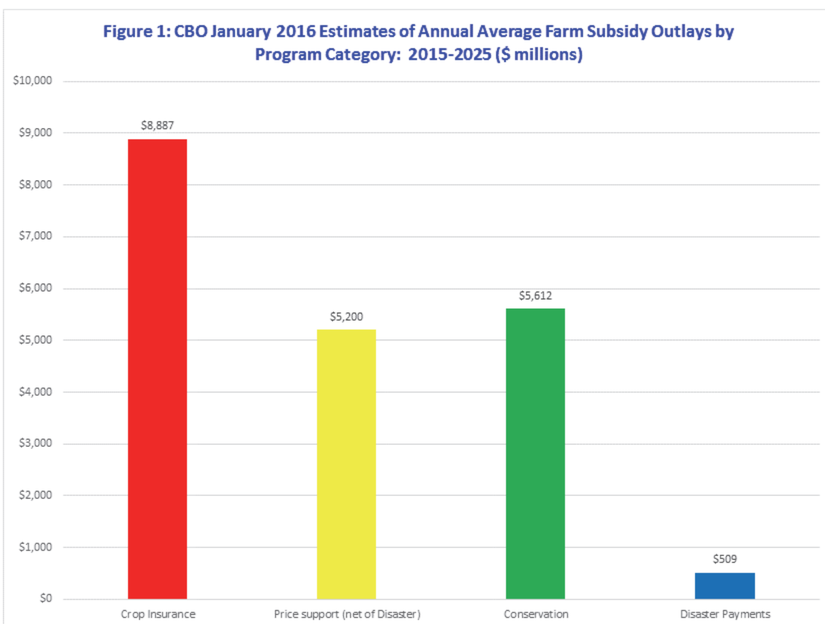


Figure 1: CBO January 2016 Estimates of Annual Average Farm Subsidy Outlays by Program Category: 2015-2025 ($ millions)
$10,000
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
$8,887
$5,200
$5,612
$509
Crop Insurance
Price support (net of Disaster)
Conservation
Disaster Payments

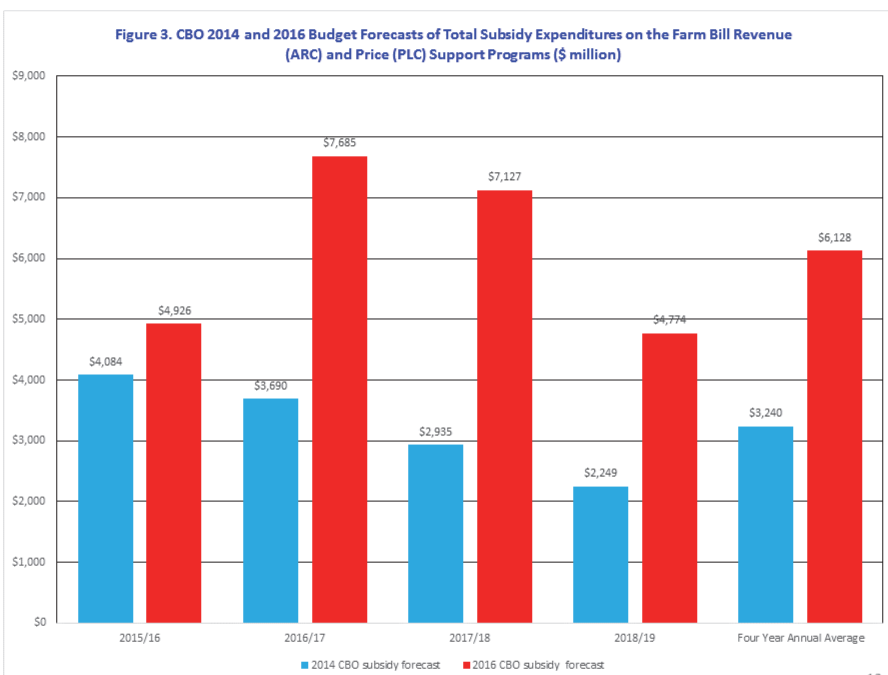
10

Why are the US CBO estimates of the Subsidy Costs for PLC and ARC so Much Higher Now than in January 2014?

1. Commodity Prices for Major Crops are Much Lower than CBO predicted in January 2014

2. Participation decisions were not known

3. Farms were allowed to update the areas and, especially, yields on which PLC and ARC payments are made in ways that were unexpected



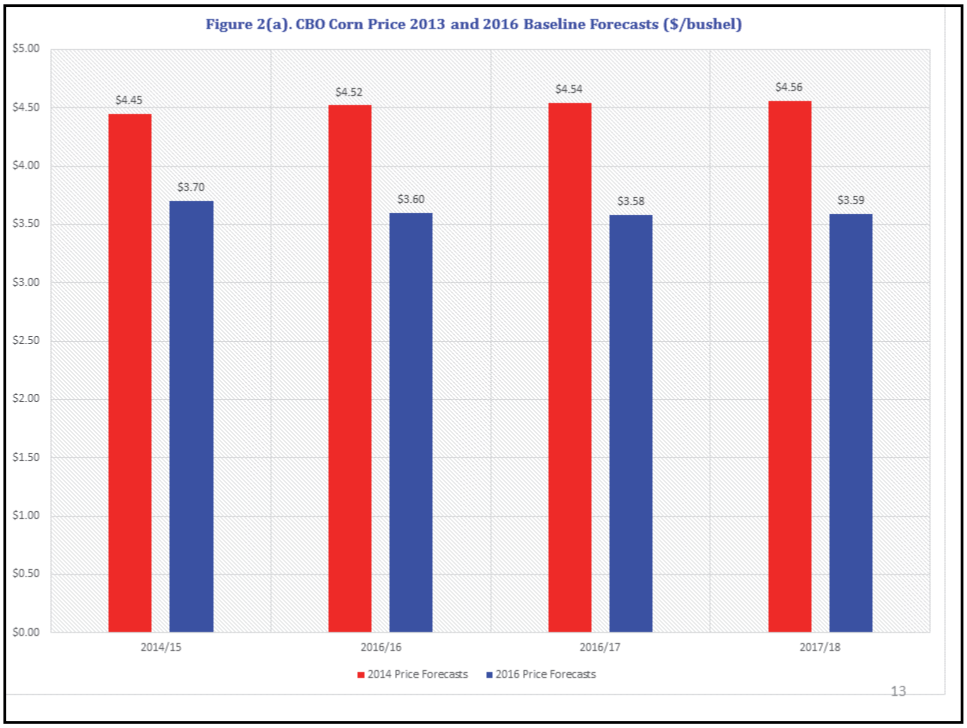


Figure 2(a). CBO Corn Price 2013 and 2016 Baseline Forecasts ($/bushel)
$5.00
$4.50
$4.00
$3.50
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
$4.45
$3.70
$4.52
$3.60
$4.54
$3.58
$4.56
$3.59
2014/15
2016/16
2016/17
2017/18
2014 Price Forecasts
2016 Price Forecasts
13

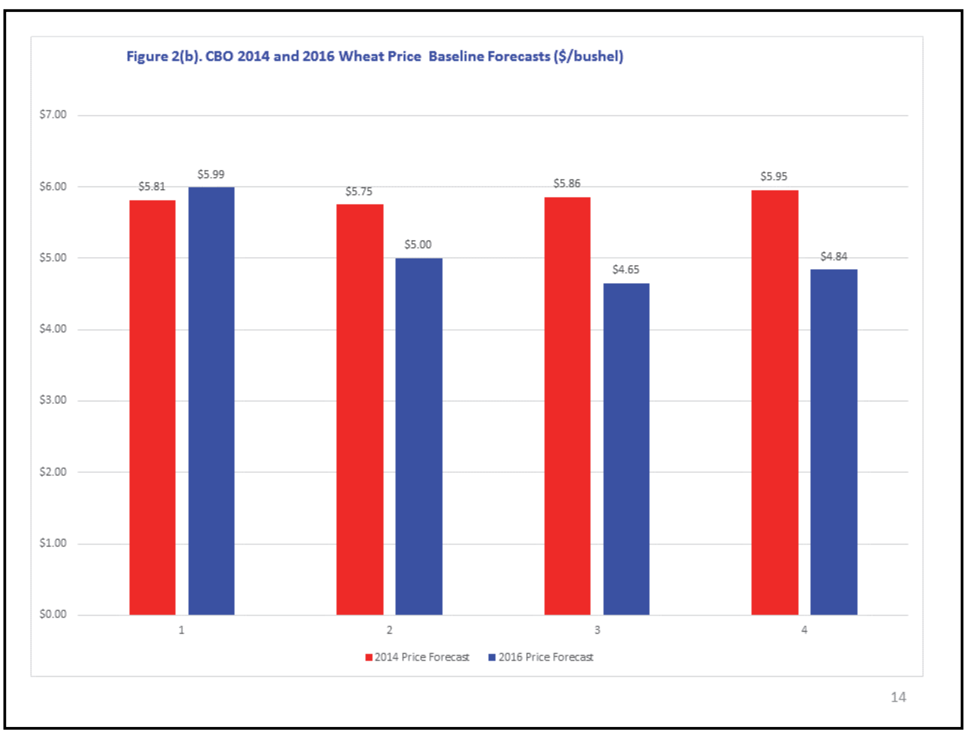
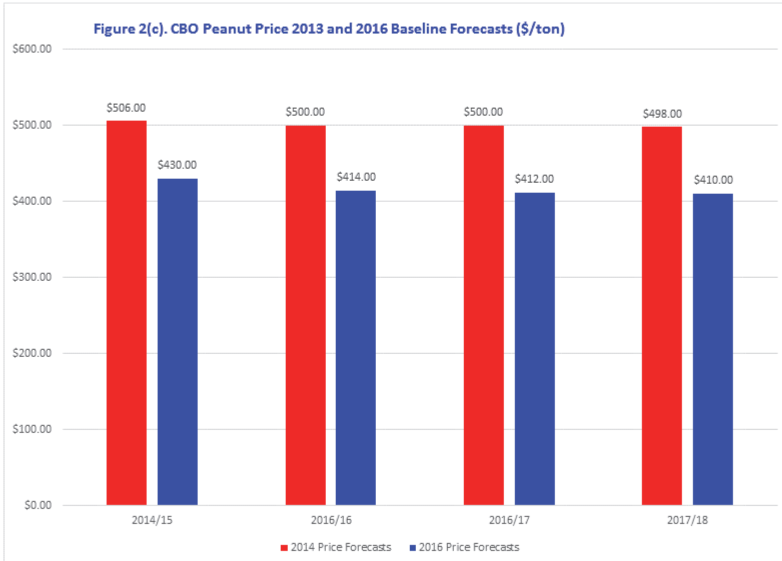


Figure 2(b). CBO 2014 and 2016 Wheat Price Baseline Forecasts ($/bushel)
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00
$5.81
$5.99
$5.75
$5.00
$5.86
$4.65
$5.95
$4.84
1
2
3
4
2014 Price Forecast
2016 Price Forecast
14



Commodity	Marketing Year	Unit	Statutory Price Loss Coverage Trigger Price
Wheat	Jun. 1-May 31	Bushel	$5.50
Barley	Jun. 1-May 31	Bushel	$4.95
Oats	Jun. 1-May 31	Bushel	$2.40
Peanuts	Aug. 1-Jul. 31	Pound	$0.2675
Corn	Sep. 1-Aug. 31	Bushel	$3.70
Grain Sorghum	Sep. 1-Aug. 31	Bushel	$3.95
Soybeans	Sep. 1-Aug. 31	Bushel	$8.40
Dry Peas	Jul. 1-Jun. 30	Pound	$0.1100
Lentils	Jul. 1-Jun. 30	Pound	$0.1997
Large Chickpeas	Sep. 1-Aug. 31	Pound	$0.2154
Small Chickpeas	Sep. 1-Aug. 31	Pound	$0.1904
Sunflower Seed	Sep. 1-Aug. 31	Pound	$0.2015
Canola	Jul. 1-Jun. 30	Pound	$0.2015
Flaxseed	Jul. 1-Jun. 30	Bushel	$11.284
Mustard Seed	Sep. 1-Aug. 31	Pound	$0.2015
Rapeseed	Jul. 1-Jun. 30	Pound	$0.2015
Safflower	Sep. 1-Aug. 31	Pound	$0.2015
Crambe	Sep. 1-Aug. 31	Pound	$0.2015
Sesame Seed	Sep. 1-Aug. 31	Pound	$0.2015
Rice (long grain)	Aug. 1-Jul. 31	Pound	$0.1400
Rice (med/short grain)	Aug. 1-Jul. 31	Pound	$0.1400
Rice (temporate japonica)	Oct. 1-Sep. 30	Pound	$0.1610

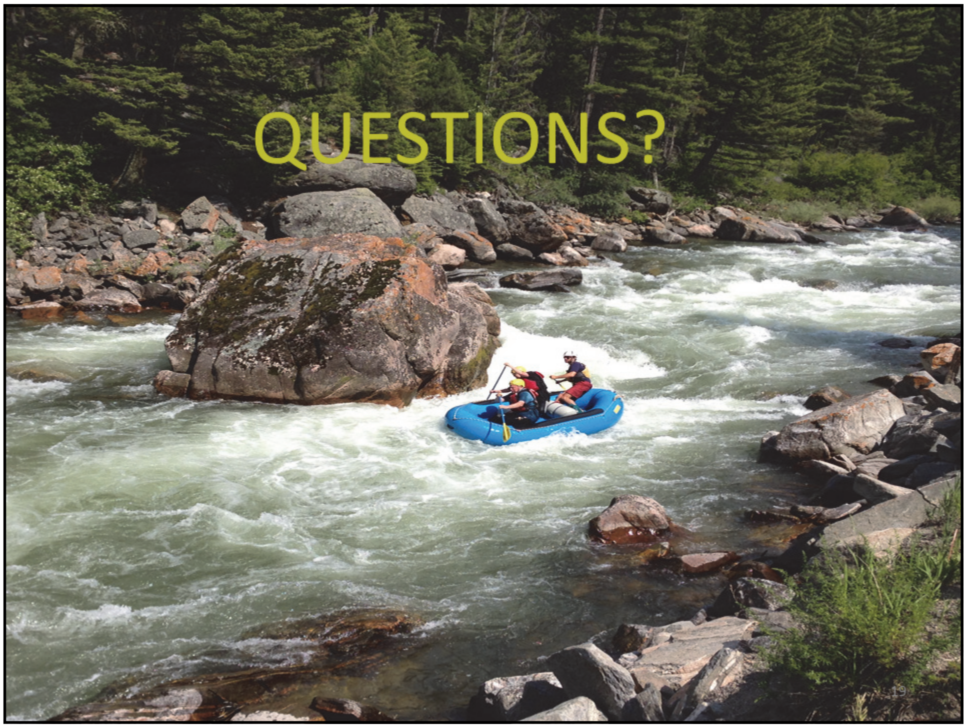
Source : USDA FSA

Eligible Crops	PLC	ARC[A]	Total
BARLEY	75%	25%	100%
CANOLA	97%	3%	100%
CORN	7%	93%	100%
CRAMBE	65%	35%	100%
DRY PEAS	44%	56%	100%
FLAXSEED	63%	37%	100%
GRAIN SORGHUM	66%	33%	100%
LENTILS	53%	48%	100%
LARGE CHICKPEAS	23%	77%	100%
LONG GRAIN RICE	100%	0%	100%
MEDIUM GRAIN RICE	96%	4%	100%
MUSTARD	56%	44%	100%
OATS	32%	68%	100%
PEANUTS	100%	0%	100%
RAPESEED	44%	56%	100%
SAFFLOWER	63%	37%	100%
SESAME	84%	16%	100%
SMALL CHICKPEAS	23%	77%	100%
SOYBEANS	3%	97%	100%
SUNFLOWERS	56%	44%	100%
TEMPERATE JAPONICA RICE	62%	38%	100%
WHEAT	42%	58%	100%
U.S. Total	23%	76%	100%

Source: USDA FSA

Policy Issues for the 2019 (?) Farm Bill

1. Will there be a 2018 farm bill: Yes, but probably it will be a 2019 farm bill.
2. ARC and PLC are likely to cost about 90% more than was claimed buy the House and Senate Ag Committees in prior to passage of the 2014 farm bill. That has been unnoticed by interest groups critical of farm spending, some of which are influential.
3. Crop insurance continues to be the largest item in the budget and, especially, many interest groups view the Harvest Price Option revenue contract as an expensive waste of money.
4. The ARC-PLC choice has been viewed as overly complicated and the structure of that program may be revisited.
5. Conservation programs may be revisited:
   a. If commodity prices remain at current or more moderate levels then farm groups may well push for an expansion of the CRP.
   b. The CSP is widely viewed as more of a straight subsidy program targeted especially to states like Iowa than a program that enhances the environment and could well come under fire.


QUESTIONS?