

U.S. Agricultural Policy in Disarray

Barry K. Goodwin
North Carolina State
University

Based on the US Farm Bill Project of the American
Enterprise Institute with:

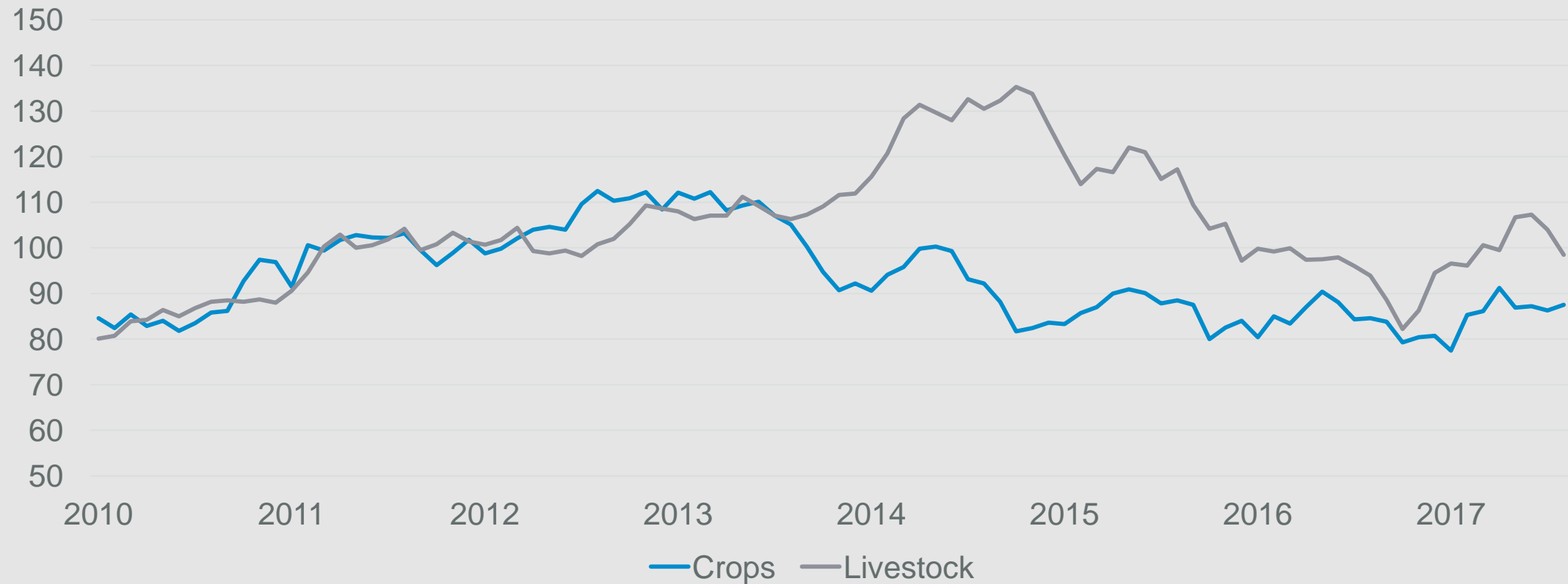
Joseph W. Glauber, International Food Policy Research Institute
Vincent H. Smith, AEI
Daniel Sumner, UC Davis

January 25, 2018

- *America's farmers and ranchers are facing very difficult times right now ... Farmers and ranchers have endured a 45 percent drop in net farm income over the last three years, the largest three-year drop since the start of the Great Depression. Overall, ERS is forecasting a 50 percent drop in net farm income since 2013. It's hard for any of us to imagine our income being sliced in half. We are told that 1 in 10 farms are now highly or extremely leveraged. Nominal debt levels are at all-time highs and real debt levels are approaching where they were prior to the 1980s farm financial crisis ... There is real potential here for a crisis in rural America.*
- Chairman K. Michael Conaway, "Rural Economic Outlook: Setting the Stage for the Next Farm Bill," opening statement to House Agriculture Committee, Washington, February 15, 2017.

Prices paid to producers

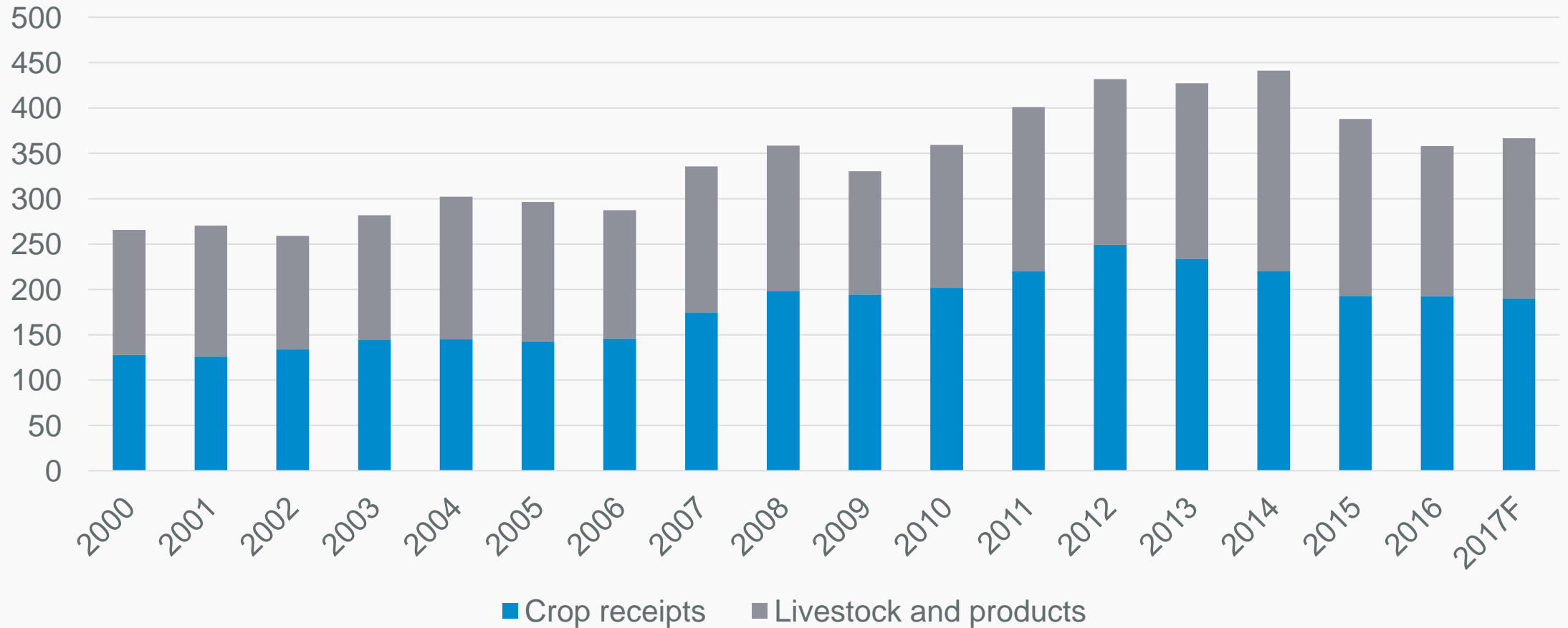
2011 = 100



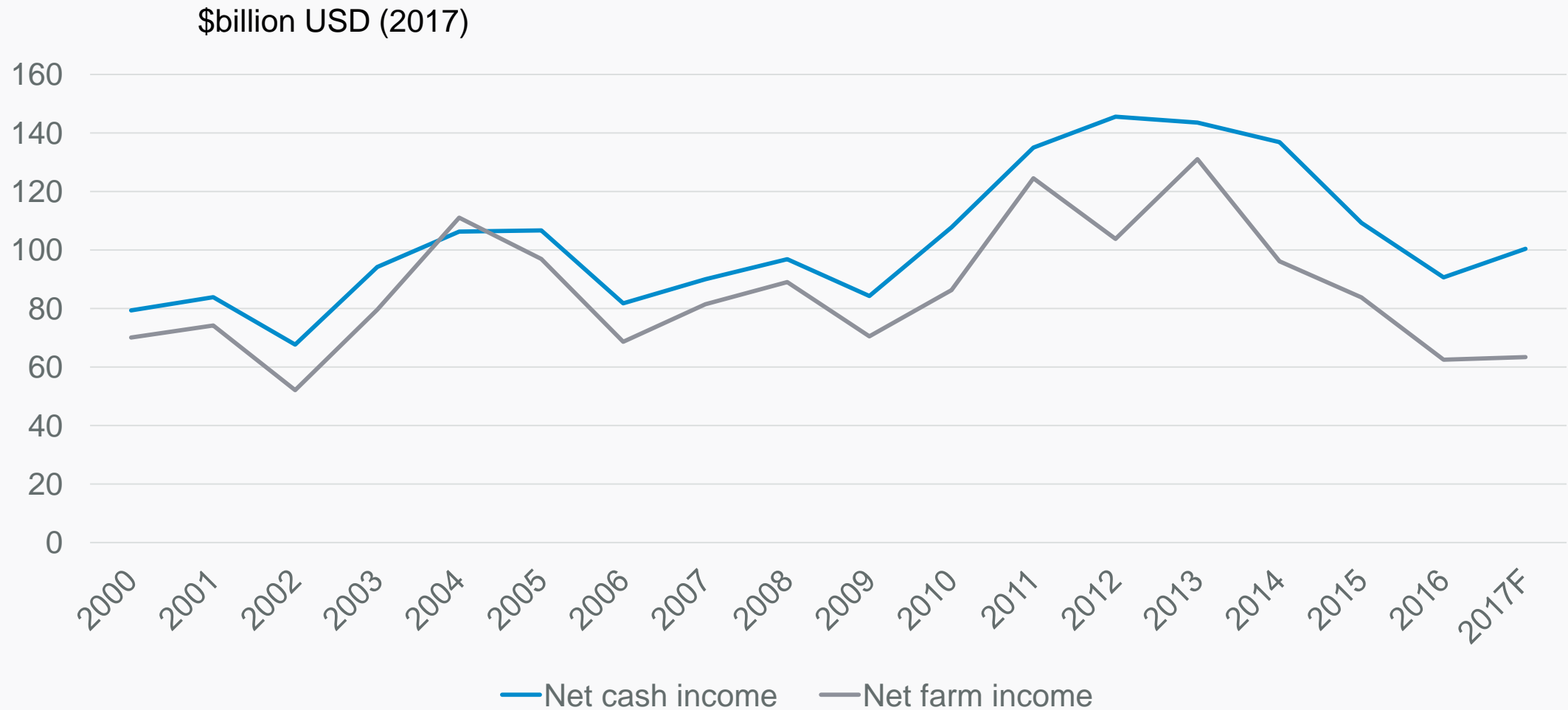
Source: NASS

Cash receipts

\$billion (2017)

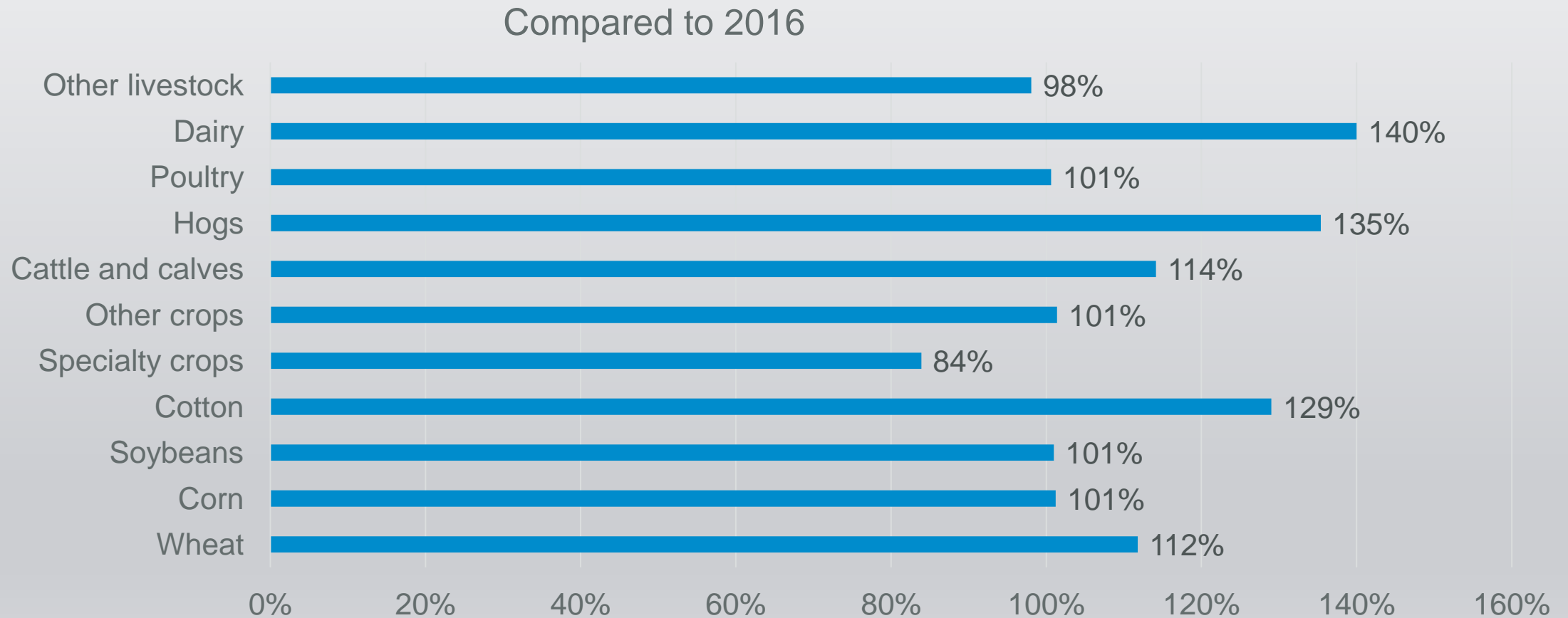


Net Cash And Net Farm Income, Adjusted For Inflation



Source: ERS

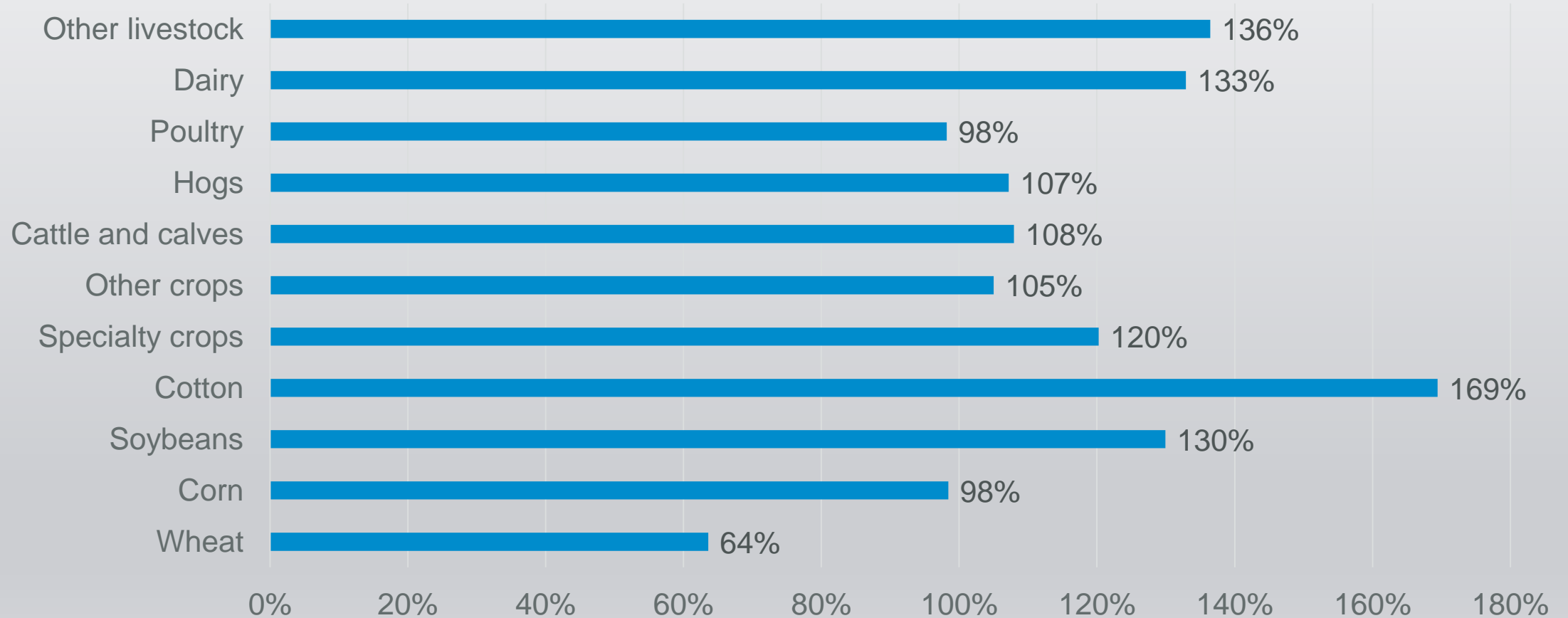
Projected 2017 farm business income compared to 2016 (adjusting for inflation)



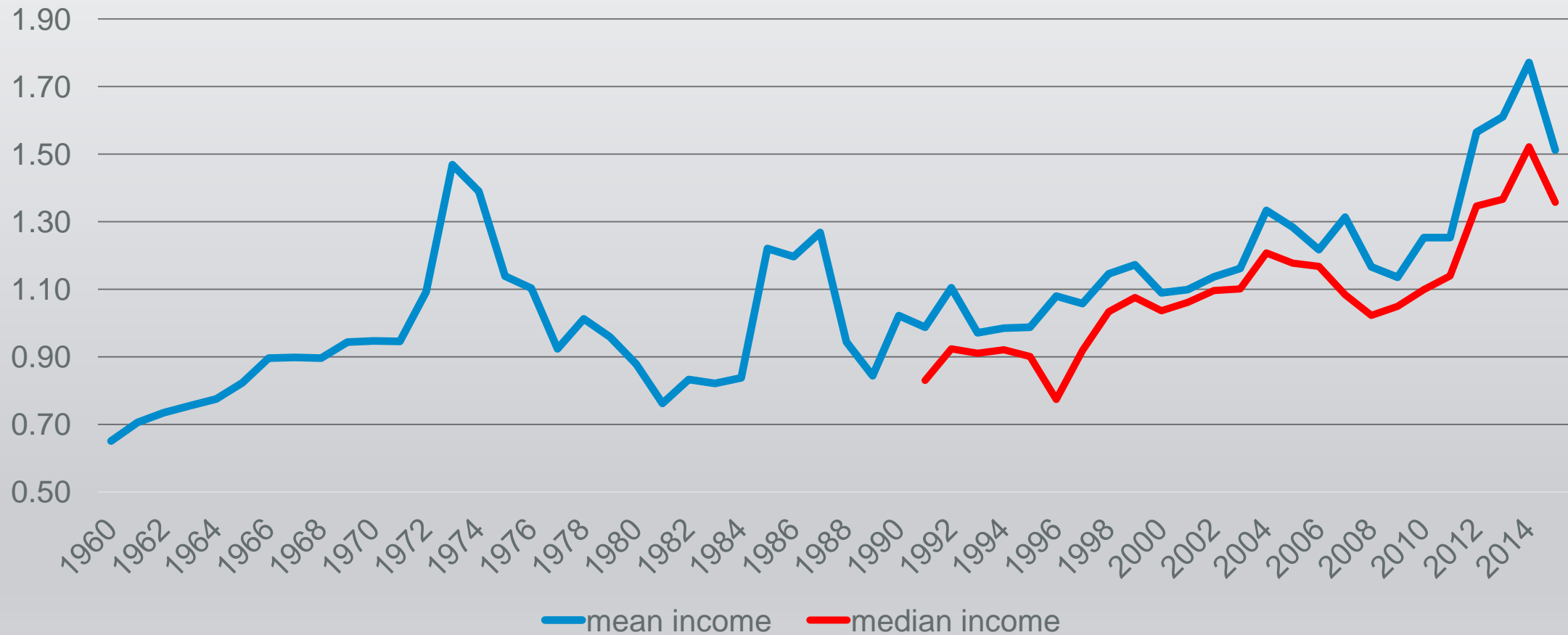
Source: ERS

2017 Farm Business Income

Relative to 2010-17 Average (after adjusting for inflation)



Ratio Of Household Income For Farm Households To Household Income For All Households

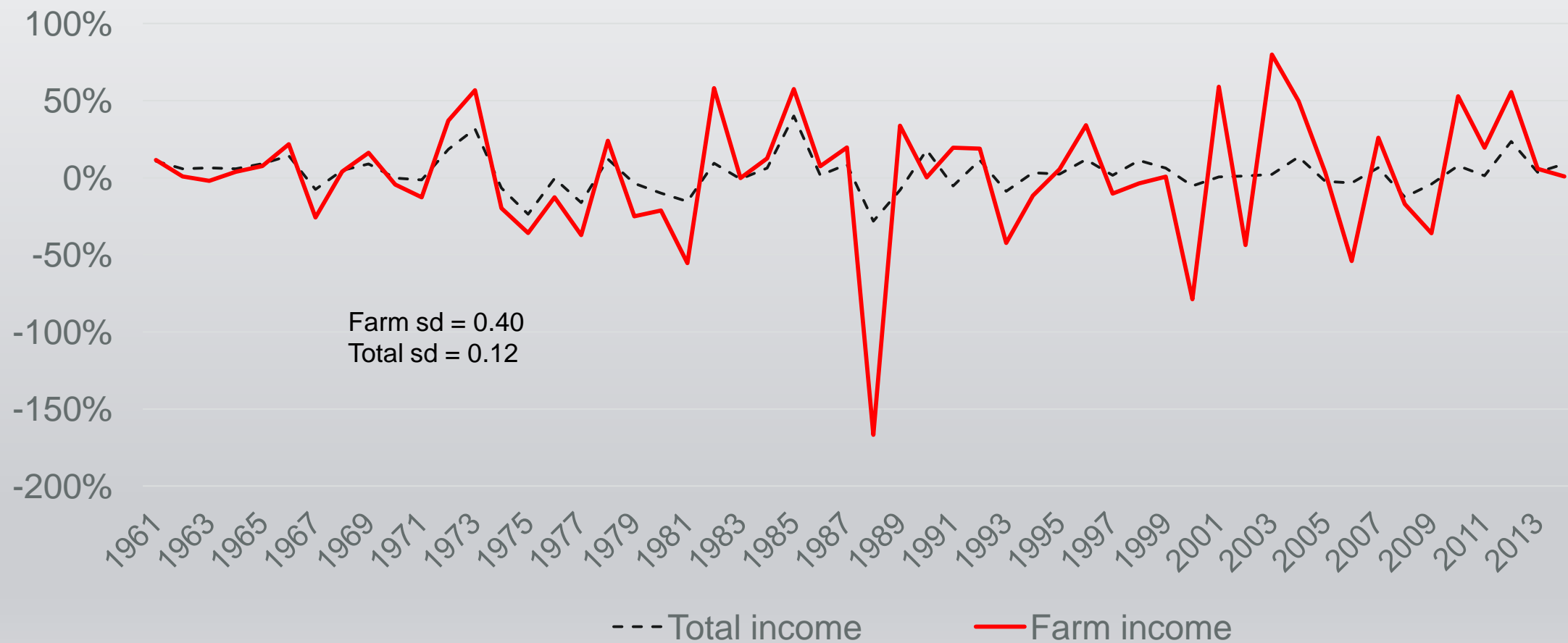


Source: ERS

Farm Household Income Compared To All Households, 2015

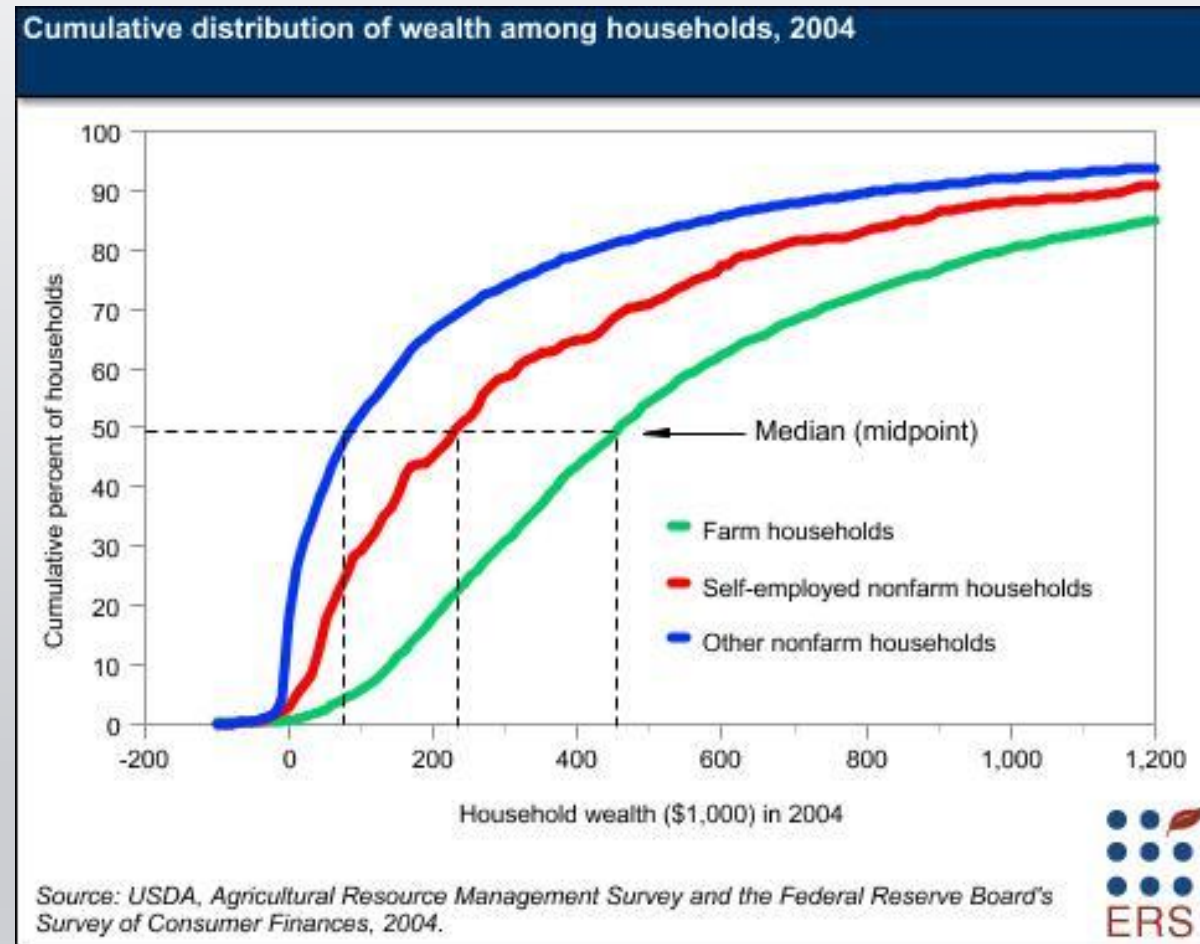
	Major occupation of principal operator		
	Farm or ranch work	Work other than farming/ranching	Currently not in the workforce
Number of family farms	918,467	784,513	329,319
percent of total	45%	39%	16%
Percent of total value of production	91%	8%	2%
Percent of farms in group receiving farm payments	35%	20%	25%
Mean household income	\$120,259	\$137,718	\$76,328
compared to all households	151.7%	173.7%	96.3%
Median household income	\$63,086	\$98,075	\$58,247
compared to all households	111.6%	173.5%	103.1%

Percent Annual Change In The Farm-portion Of Household Income Versus Total Farm Household Income (2009 Dollars)



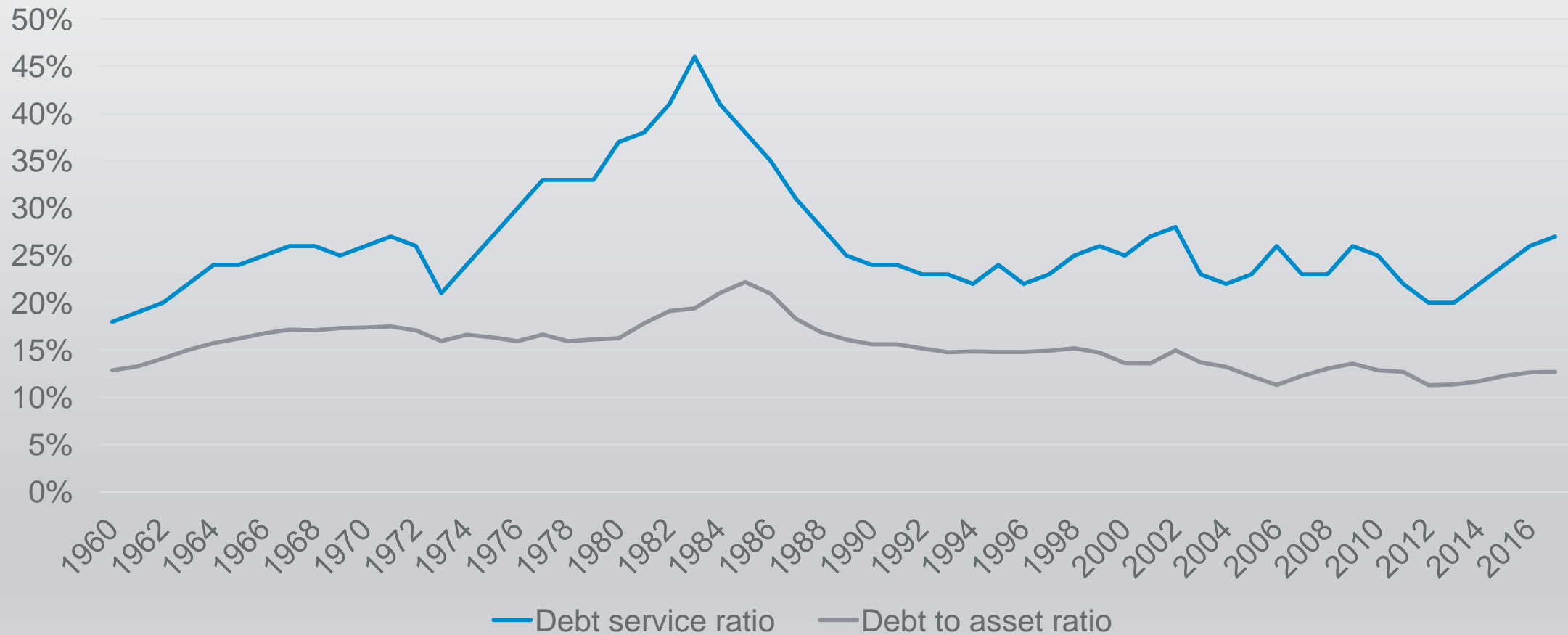
Source: USDA, Economic Research Service

Farm Wealth



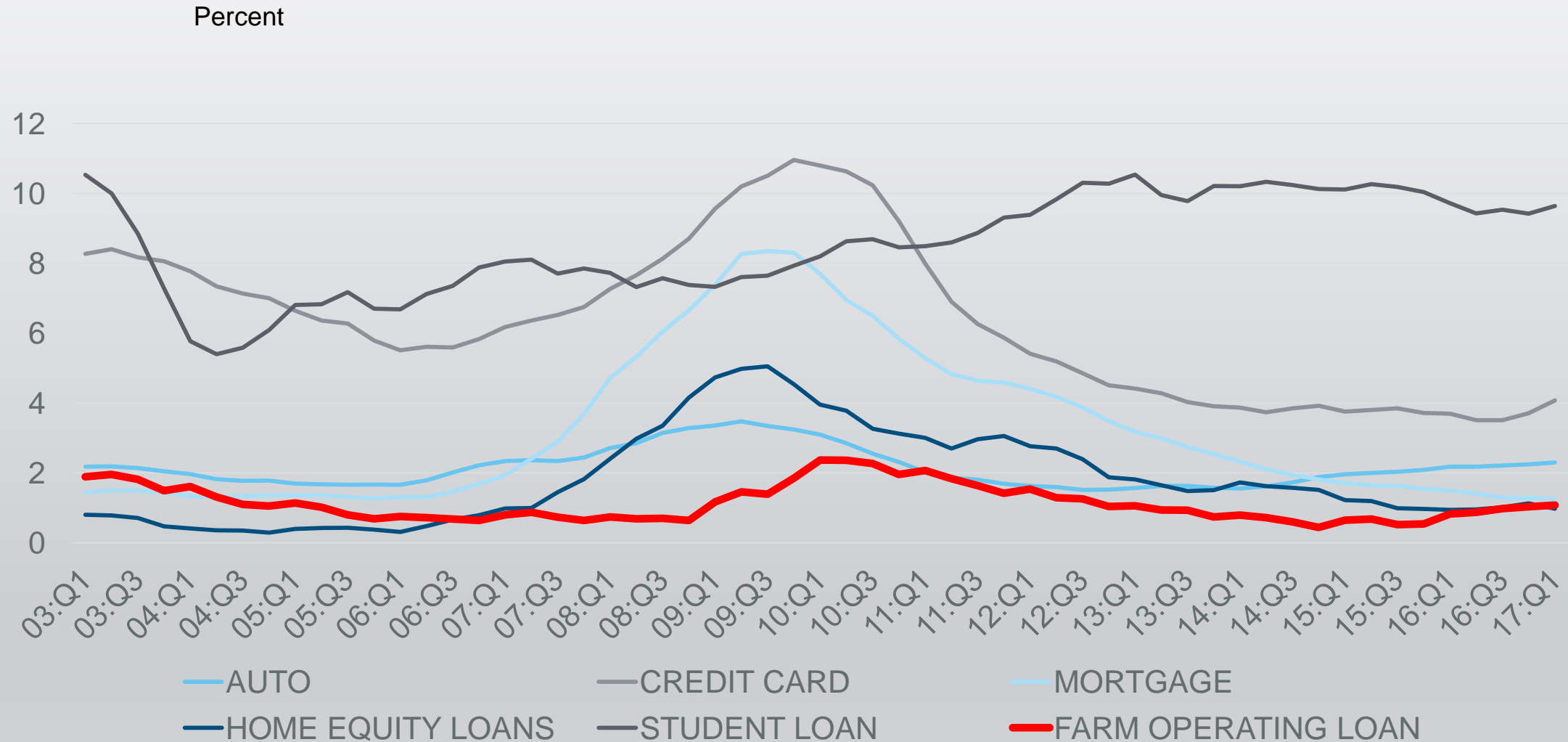
97.5% of US farms are considered high-income/high-wealth (Sources: ERS)

Farm financial indicators



Source: ERS

Percent Of Loan Balances That Are +90 Days Delinquent



Source: NY Federal Reserve Bank; Kansas City Federal Reserve Bank

2014 Farm Bill

- Longest and most contentious debate
 - Influenced by political divide: House (R), Senate (D) (but helping farmers largely non-partisan)
 - Ended fixed, direct payments
 - Replaced CCP with PLC
 - Replaced ACRE with ARC
 - Cuts food stamps by \$8 billion (House R wanted \$40 b.)
 - *“The only policy that gets bipartisan traction in Congress is Washington’s desire to hand out taxpayer money like it’s candy”*—John McCain

Commodity Programs

- Price Loss Coverage (PLC)—Triggered by market prices beneath a target price, paid on base
 - Target prices increased 50-75%
- Agricultural Risk Coverage (ARC)—Alternative to PLC that provides revenue coverage based on historical averages (new version of ACRE) and paid on base
 - County average or farm average option
- Marketing Loans / LDP's—continued
- One-time opportunity to update base acres

ARC

- Payment rates capped at 10%
- County-Level
 - Revenue Guarantee = 5-year average price * 5-year yield
 - (national prices and Olympic average county yields) * 86%
 - Paid on 85% of base acres
- Farm-Level (irrelevant)
 - Based on aggregate of all crop revenues
 - Revenue Guarantee based on farm-level equivalents to the county-level ARC program
 - Payment is 65% of revenue shortfall * base acres

ARC Enrollment

- ARC vs. PLC Election -- Nationwide, 96 percent of soybean farms, 91 percent of corn farms, and 66 percent of wheat farms elected ARC-County. Seventy-six percent of all base elected ARC-County. Over 90 percent of long grain rice, medium grain rice, and peanut farms elected PLC. Few farms, regardless of the commodity mix, elected ARC-Individual. Election results can vary significantly across states.
- Base Reallocation -- The base reallocation results indicate that corn and soybean base increased the most relative to 2013 enrolled base—by 12.8 million and 4.7 million acres, respectively. Wheat base declined by nearly 9.9 million acres.
- Yield Updating -- Updated yields are relevant only for the PLC program. For those farms electing PLC and updating yields, the yields for corn, soybeans, and wheat all increased by about 30 percent relative to the counter-cyclical payment program (CCP) yield. For some pulse and minor oilseed crops, the increase was significantly higher. Many CCP yields date back to the early 1980s.

Table 2: Percent of Farms and Base Acres that Made an ARC/PLC Election --
National by Crop

	Percent of Farms Electing ...			
	PLC	ARC-CO	ARC-IC	Total
BARLEY	57%	42%	1%	100%
CANOLA	93%	7%	1%	100%
CORN	9%	91%	0%	100%
CRAMBE	59%	40%	1%	100%
DRY PEAS	44%	53%	3%	100%
FLAXSEED	59%	40%	1%	100%
GRAIN SORGHUM	54%	46%	0%	100%
LENTILS	51%	44%	5%	100%
LARGE CHICKPEAS	32%	60%	8%	100%
LONG GRAIN RICE	99%	1%	0%	100%
MEDIUM GRAIN RICE (SOUTHERN)	94%	6%	0%	100%
MUSTARD	53%	42%	4%	100%
OATS	23%	76%	0%	100%
PEANUTS	99%	1%	0%	100%
RAPESEED	47%	50%	3%	100%
SAFFLOWER	57%	40%	2%	100%
SESAME	76%	24%	0%	100%
SMALL CHICKPEAS	28%	62%	10%	100%
SOYBEANS	4%	96%	0%	100%
SUNFLOWERS	49%	50%	1%	100%
TEMPERATE JAPONICA RICE	68%	30%	2%	100%
WHEAT	34%	66%	0%	100%
U.S. Total	1/	1/	--	100%
1/ Farms elect ARC-CO and PLC on a commodity-by-commodity basis. A given farm may have elected PLC for some commodities and ARC-CO for other commodities. Thus, calculating percent of farms electing PLC or ARC-CO at the U.S. level is not possible.				
-- Less than .5 percent.				

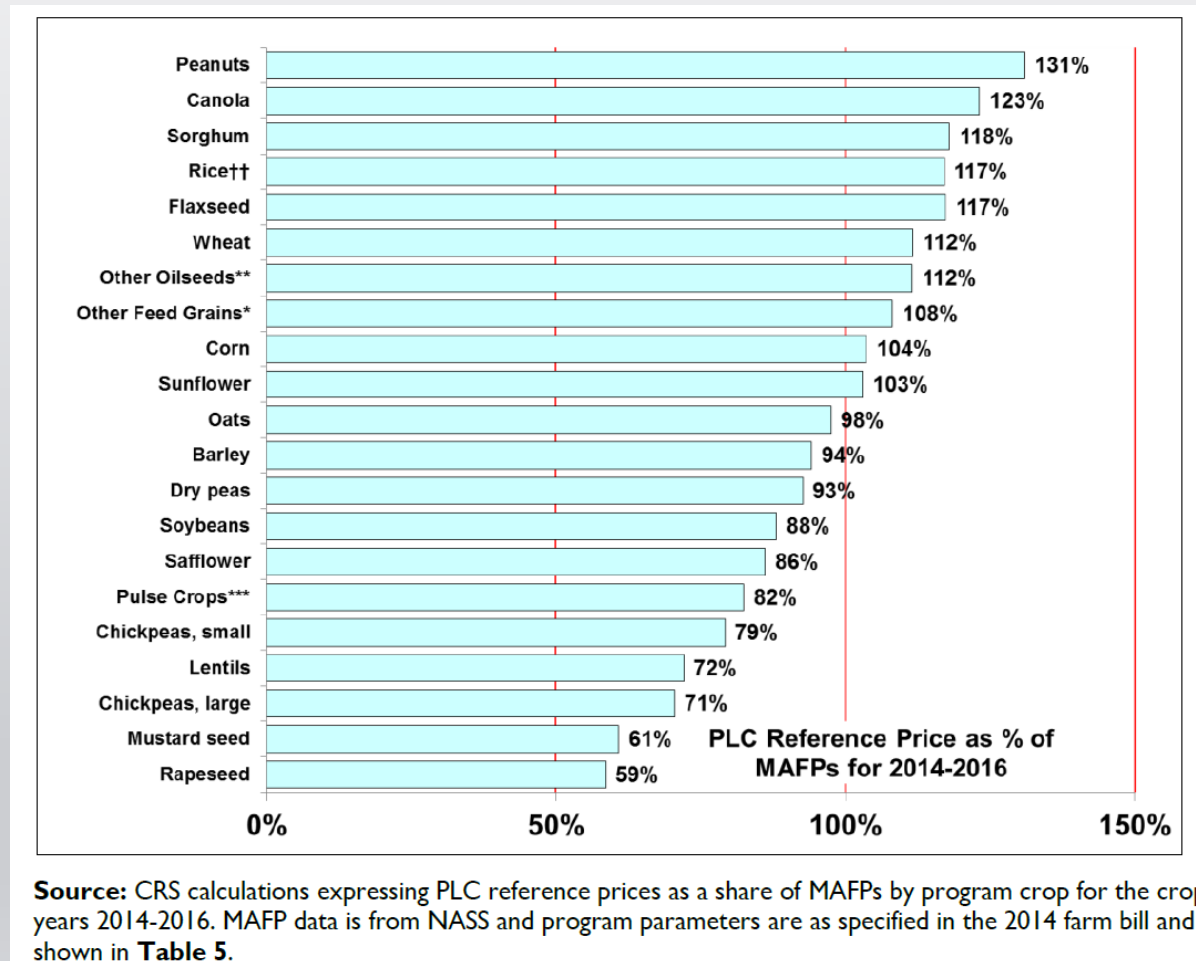
Cotton

- Key to current farm bill discussion
- No longer basic program crop and not eligible for ARC and PLC
- Cotton base acreage converted to “generic base” with payments made on basis of actual production
- Production recoupled (increased peanut production 150%)
- Cotton receives new STAX insurance plan (similar to SCO)
- Policy changes intended to address WTO issues with Brazil

Other Aspects of 2014 Bill

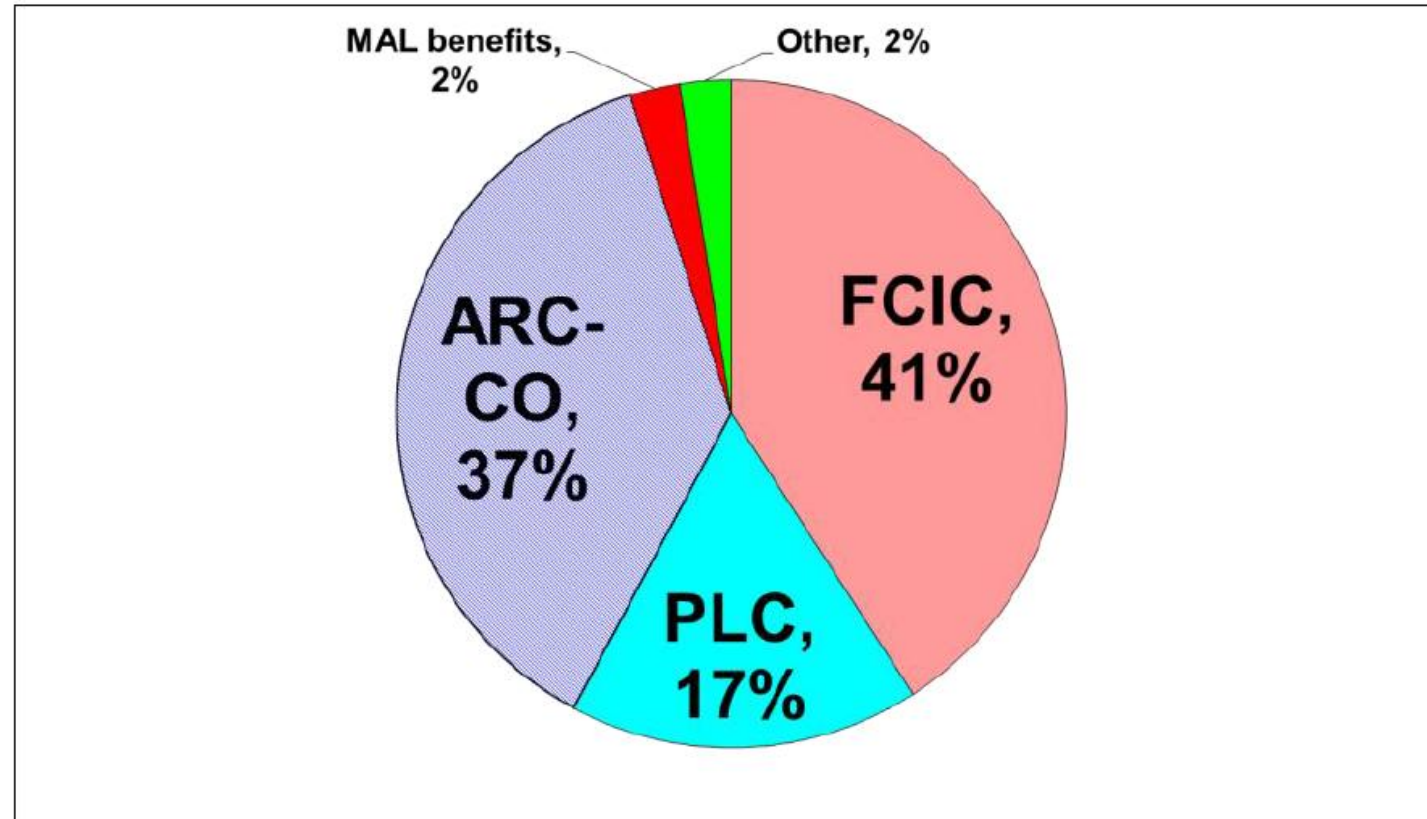
- Producers with AGI >\$900,000 are not eligible to receive payments/benefits (except crop insurance)
- Annual payment limits for PLC, ARC, LDPs, capped at \$125,000/person or \$250,000/ couple
 - Peanuts have separate \$250,000 cap
- Continues shift away from conservation reserve to conservation on working lands
 - CRP max enrollment reduced 27.5 – 24 million acres
 - Conservation program spending reduced \$2 billion
 - EQIP funding increased \$0.25 billion
 - Eligibility for crop insurance requires conservation compliance

PLC Target Price as Share of Market Price



Spending Under 2014 Farm Bill

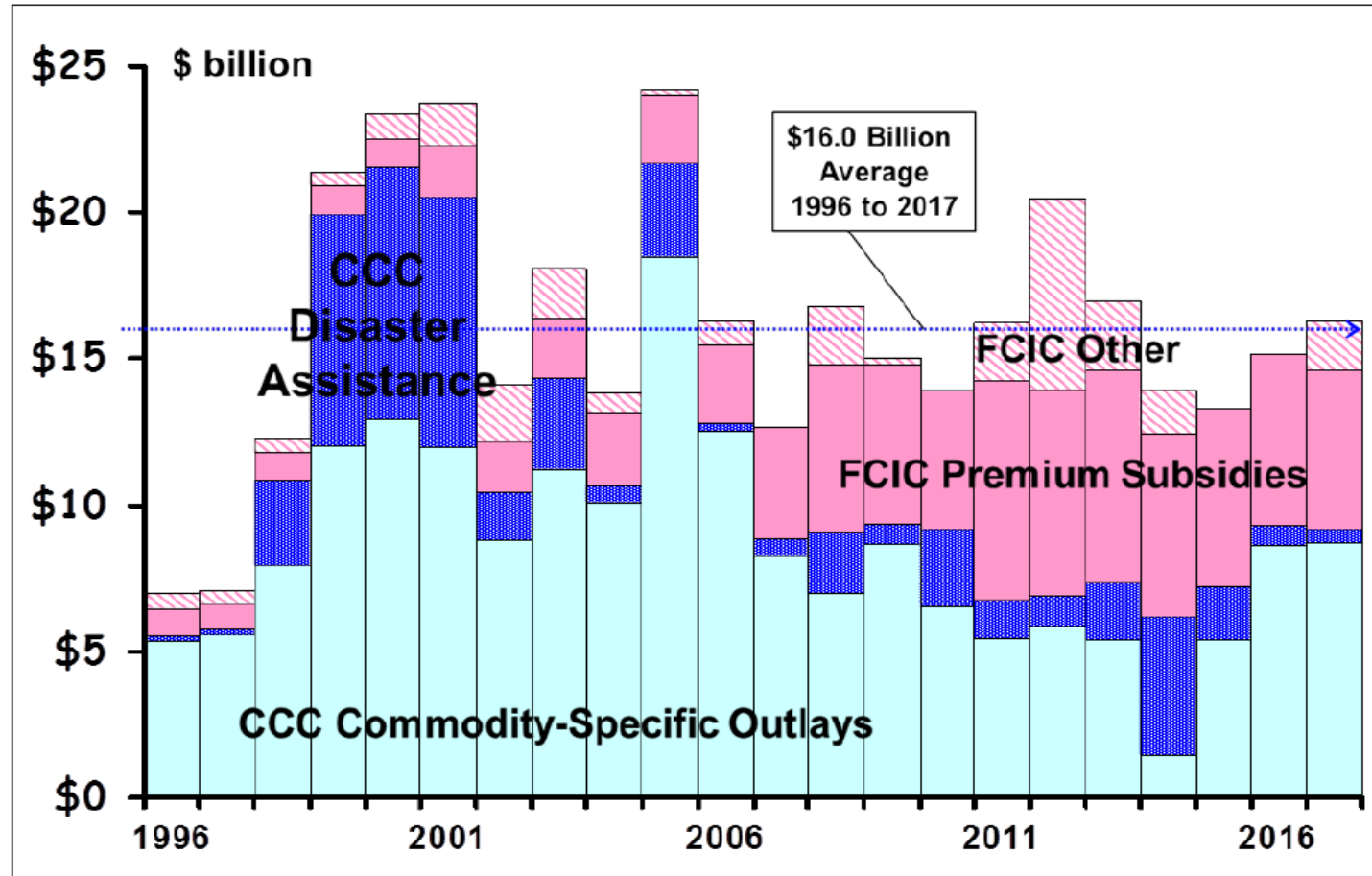
(Total combined CCC and FCIC outlays of \$38.1 billion for 2014-2016)



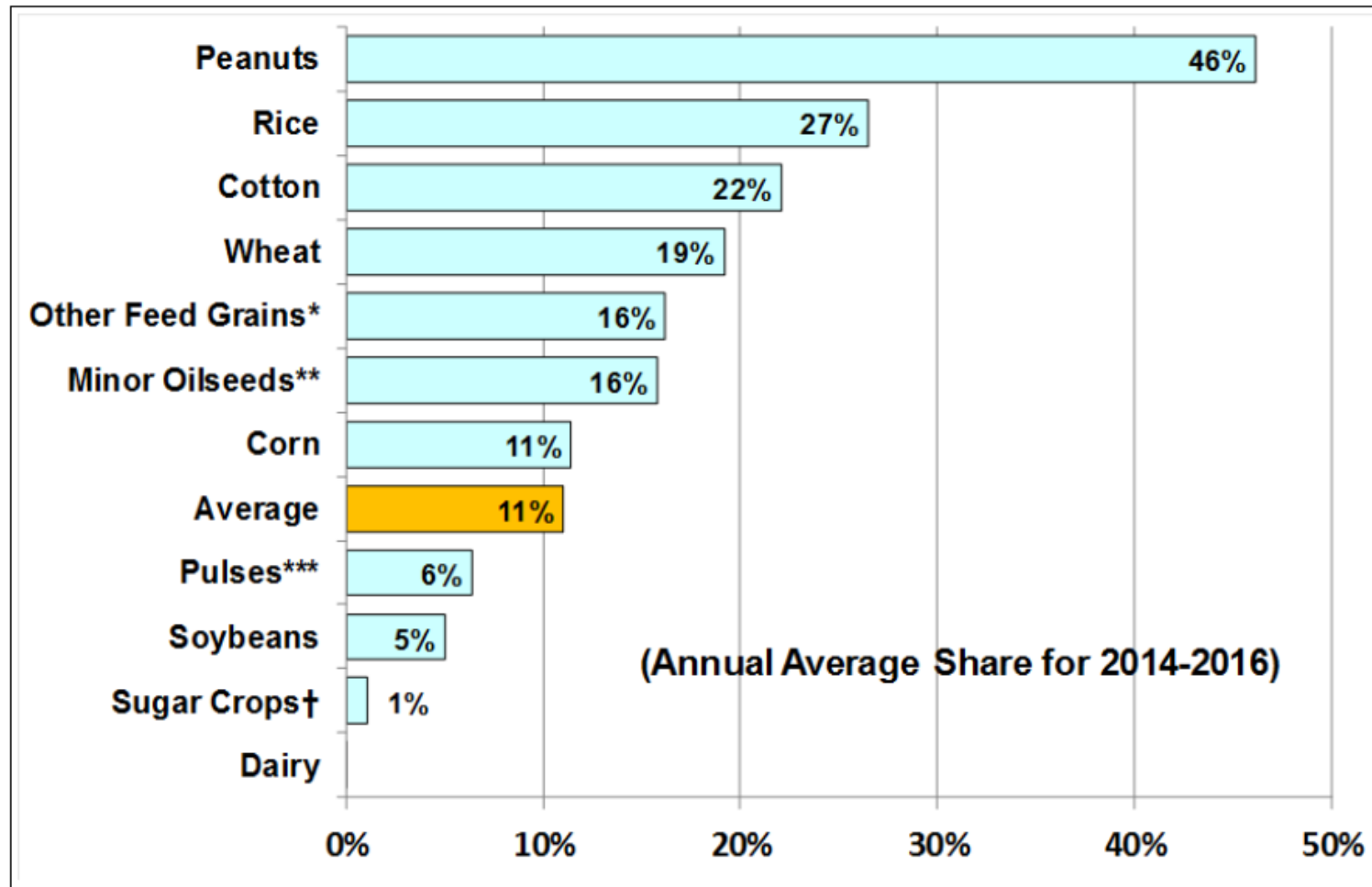
Source: CRS calculations for crop years 2014-2016 using CCC program data from FSA, CBO's June 2017 baseline of farm programs, and crop insurance data from RMA as of April 24, 2017.

“Safety Net” Spending

Figure 1. USDA Farm Safety-Net Total Outlays, 1996 to 2017

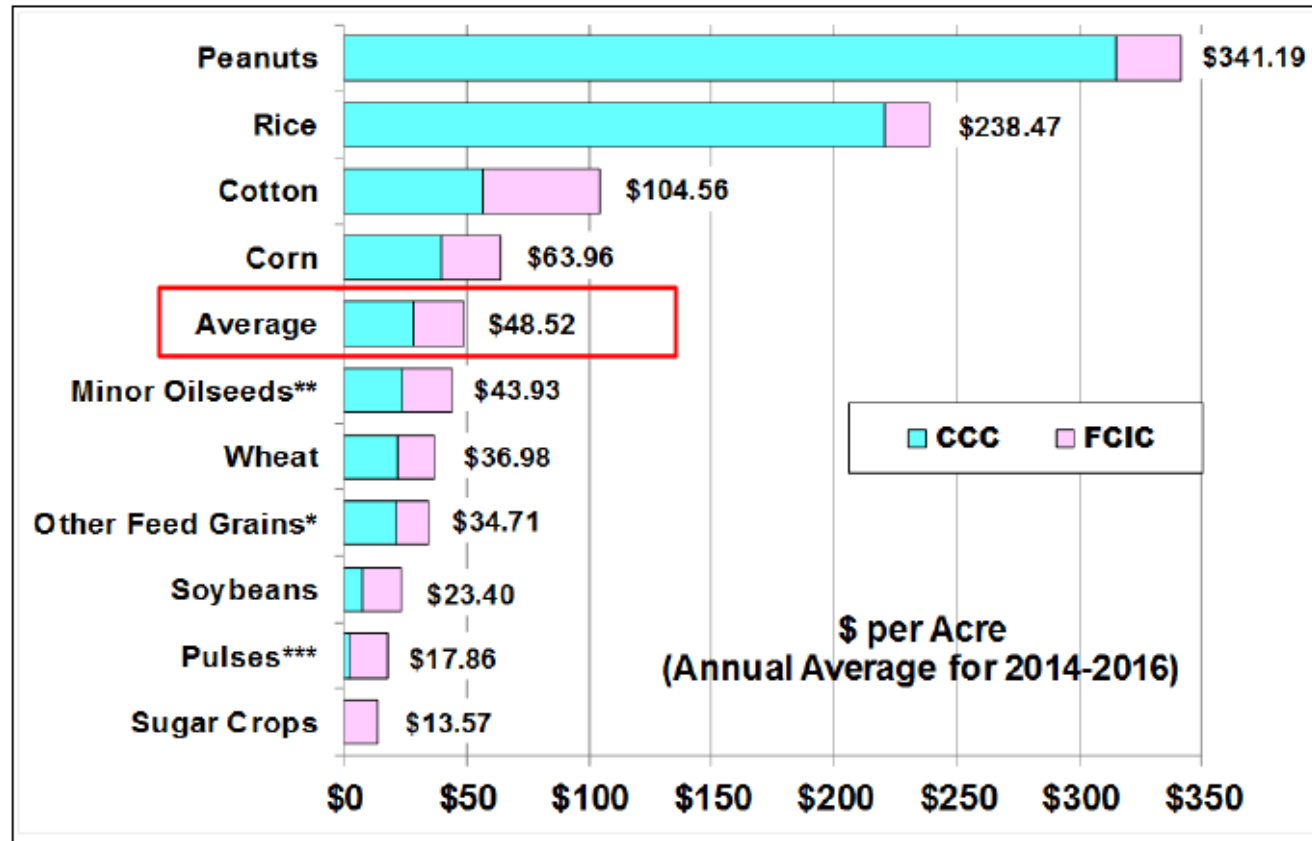


Government Support as Share of Value of Production



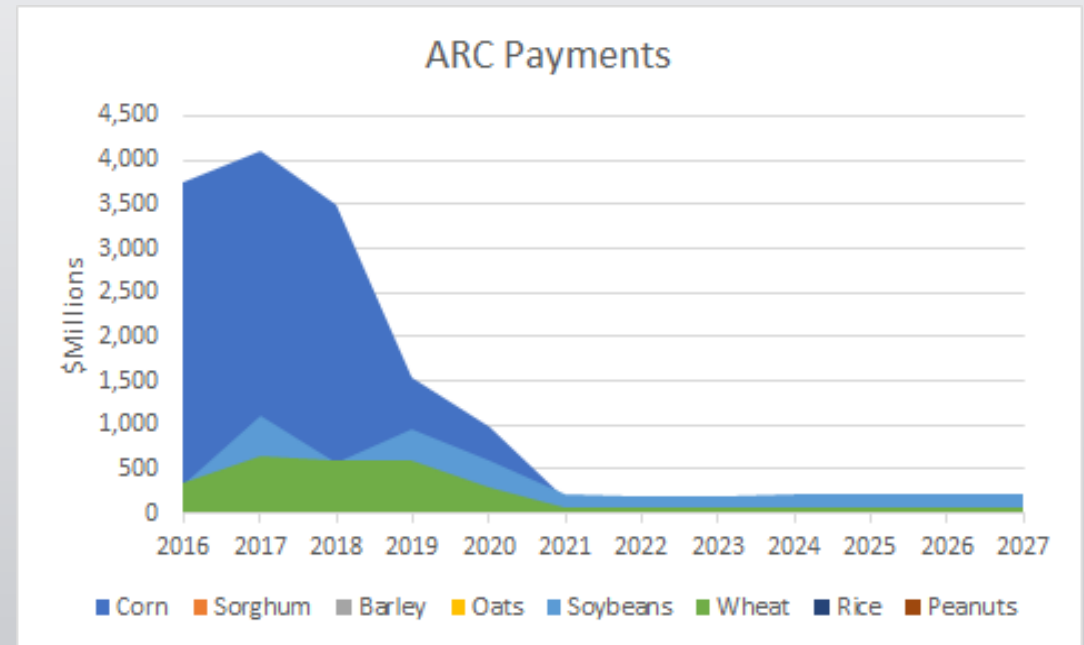
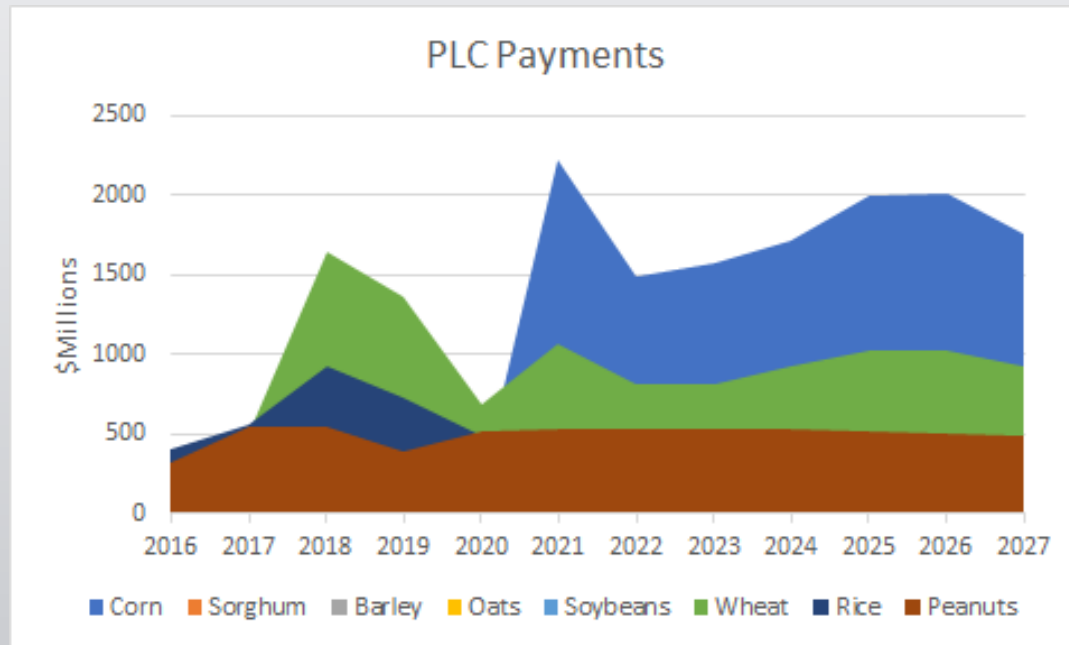
Source: CRS calculations for crop years 2014-2016 using CCC program data from FSA, CBO's June 29, 2017, baseline of farm programs, and crop insurance data from RMA as of April 24, 2017.

2014-2016 Outlays Per Acre



Source: CRS calculations for crop years 2014-2016 using CCC program data from FSA, CBO's June 29, 2017, baseline of farm programs, and crop insurance data from RMA as of April 24, 2017.

CBO Projections of ARC and PLC Outlays

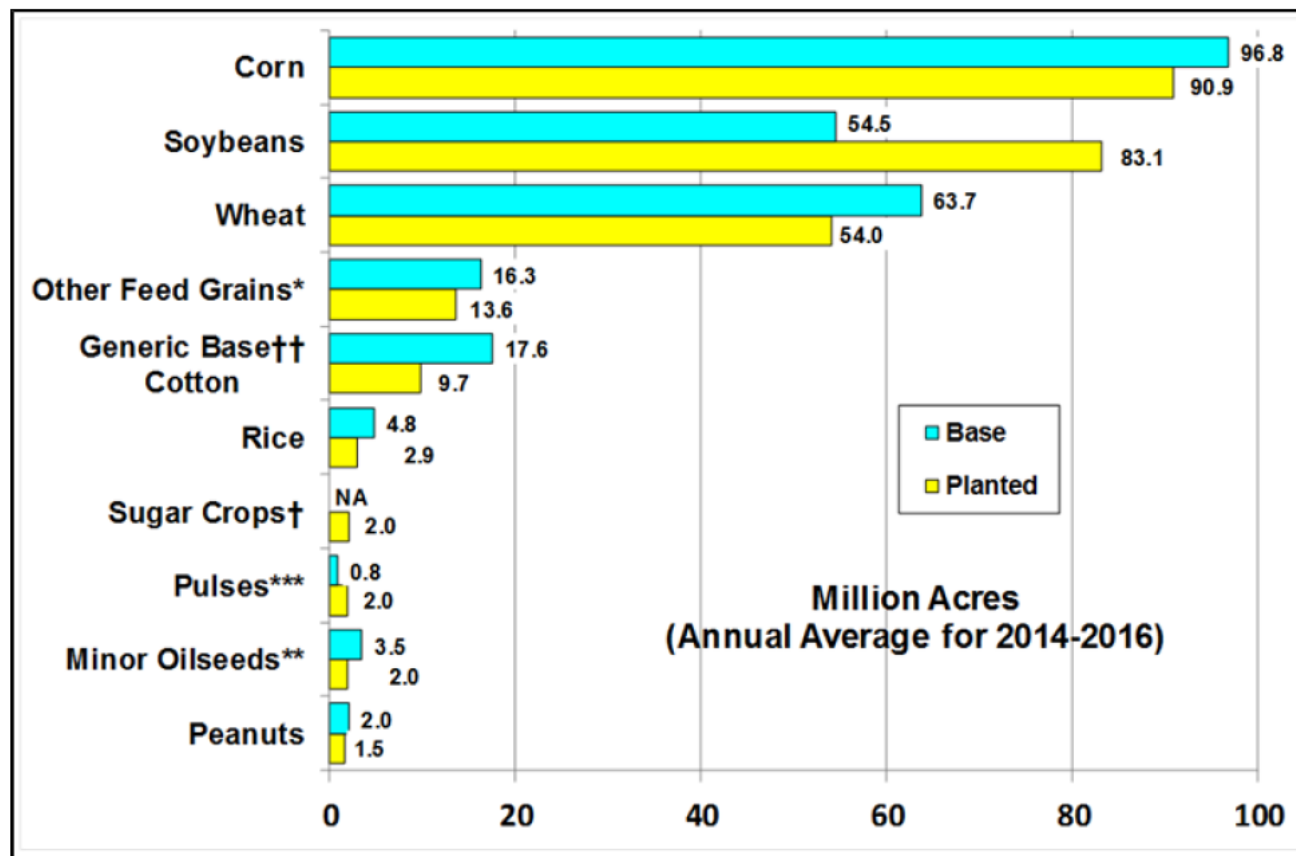


Source: CBO

Base Acres Versus Planted Acres

-- A hot button issue

-- Distortion versus risk protection



Source: 2014 farm bill (P.L. 113-79) and FSA.

Summary of the Current State of US Farm Economy

- Crop and livestock prices have fallen from record highs but remain above 10-year averages; higher yields have partially offset declines in farm prices.
- Real net cash income projected up over 2016 and remains above long term average
- The drop in net farm income reflects in part depreciation of farm machinery purchased during the boom years of 2011-14.
- Farm financial health is good. Debt/assets low and loans well-performing
- Farm household income remains high, in part because non-farm economy continues to recover.
- Off-farm income has helped farm households buffer the effects due to the more highly variable farm income.
- Farm programs were originally justified on the basis that farm household income was a fraction of that of non-farm households. Today, farm households tend to have higher incomes than non-farm families and that discrepancy has grown since 2000.

Where Are We Today? (aka, the Cotton-Dairy Battles)

- House Agriculture Chairman Mike Conaway says still on track to unveil its draft of the farm bill by March
- Waiting for the CBO score to ensure the measure won't add to the federal deficit (may require revising the legislation)
- Recent CBO score of farm bill programs, released a year ago = \$875 billion
- In December, the House passed an \$81 billion emergency spending bill, H.R. 4667 (115), ostensibly to provide aid for hurricanes and wildfires.
- Snuck in subsidies for **cotton and dairy**; Senate has not debated
- The House Bill
 - Cotton growers eligible for the PLC (as an oilseed), with reference price of \$15/cwt (a price not seen since 1980)
 - Give dairy farmers additional insurance by lifting a \$20 million annual liability cap on livestock.
- Stabenow and Leahy do not believe it contains enough for dairy

Source: **Conaway's House farm bill is waiting on a price tag**

By Catherine Boudreau 01/18/2018 (Politico)