

# U.S. Farm Policy: Continuity or Change?

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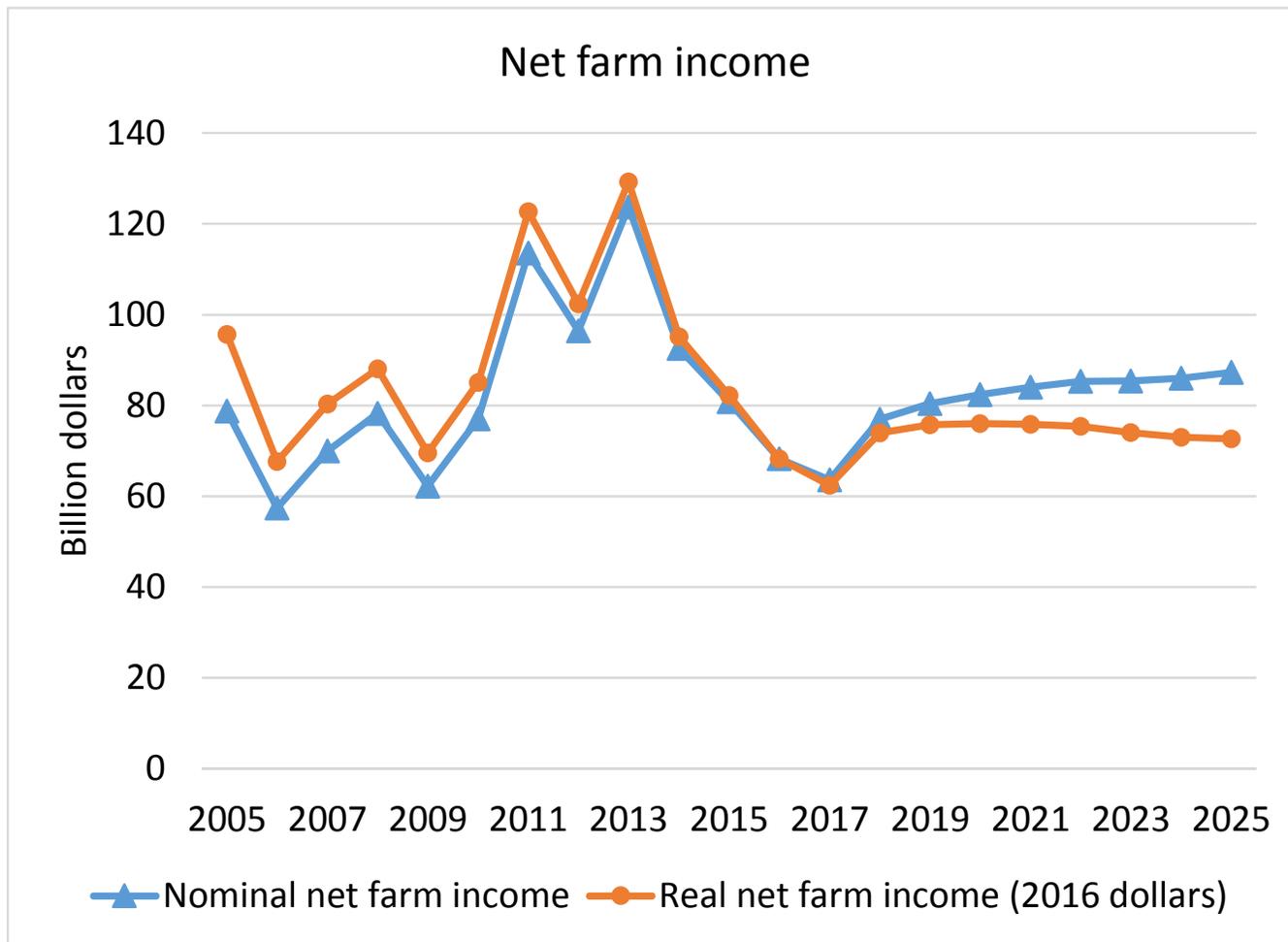


Food & Agricultural  
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# Agenda

- 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.

Data for 2005-2016 are from USDA's Economic Research Service. Projections are FAPRI-MU point estimates, February 2017.

# Farm income and balance sheet

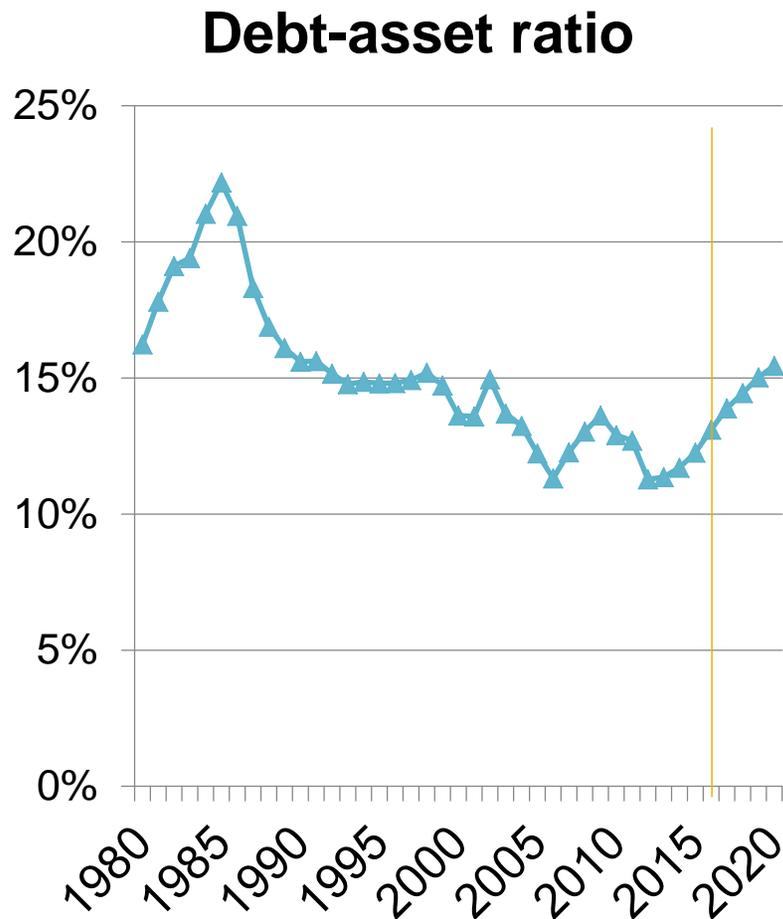
## Annual averages, billion dollars

Variable	2005-09 avg.	2010-14 avg.	2015-19 avg.	2020-24 avg.
Crop cash receipts	147	209	191	203
Livestock cash receipts	128	174	174	188
Government payments*	15	11	11	7
Production expenses	257	338	354	375
Net farm income*	69	101	74	85
(in 2016 dollars)	80	107	73	75
Farm assets	1,910	2,571	2,794	2,591
Farm debt	239	306	383	408
Debt/asset ratio	12.5%	11.9%	13.7%	15.8%

*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 Projections for 2017-2024 are unpublished point estimates by FAPRI-MU.*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

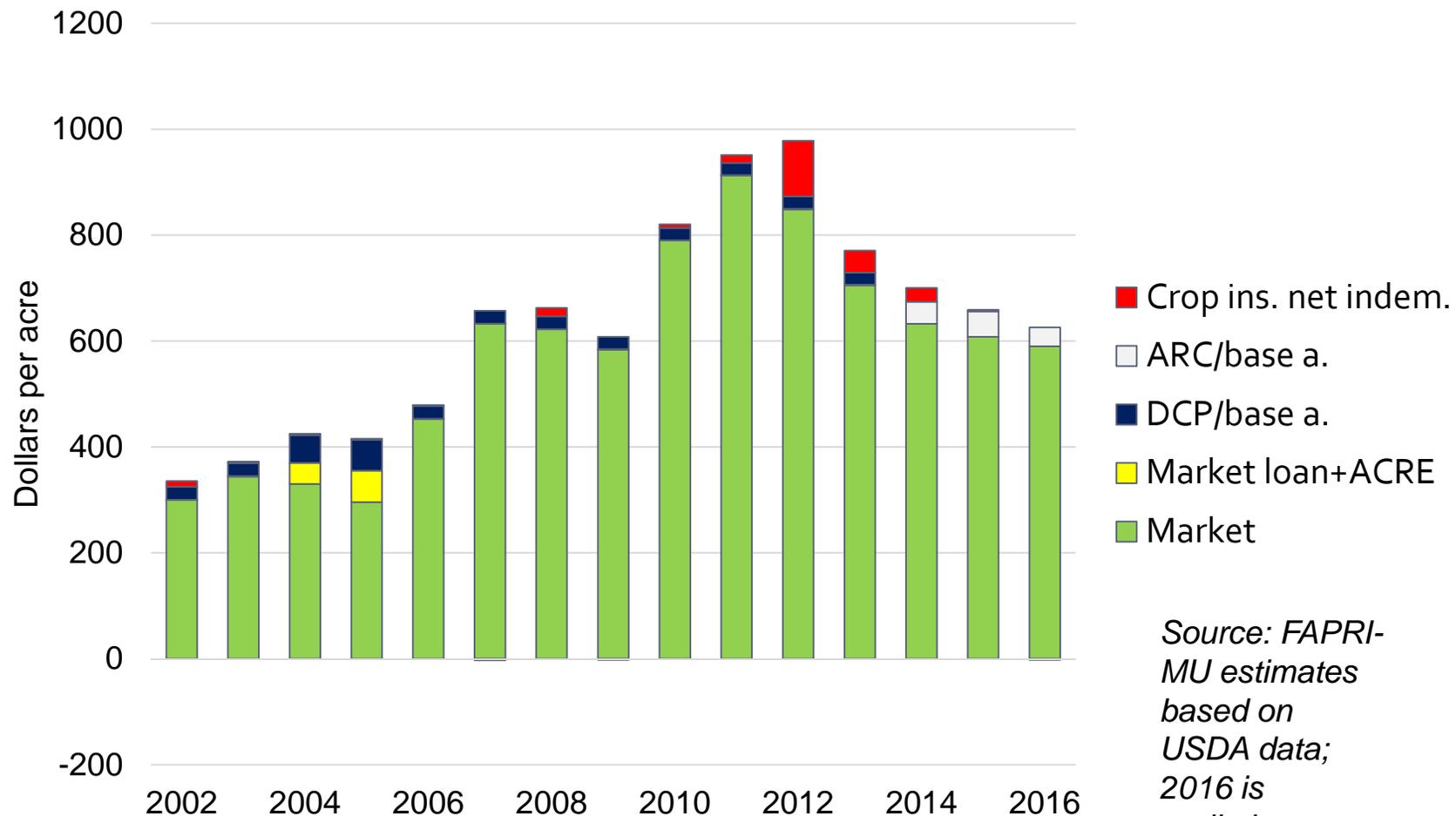


Sources: USDA ERS for history; FAPRI-MU Feb. 2017 deterministic projections

- 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

# Corn market receipts and payments

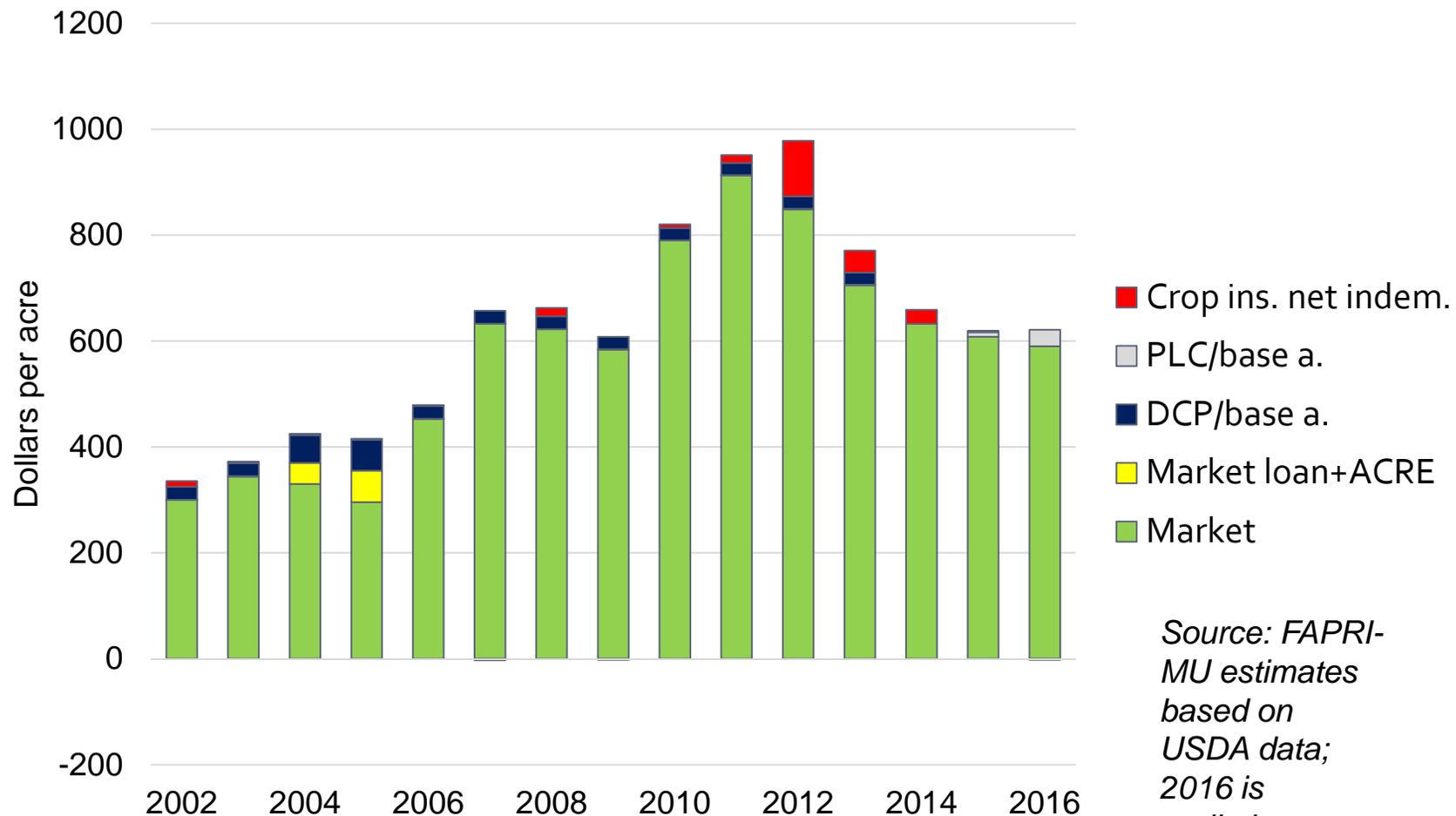
## National average for ARC participants, crop year



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

# Corn market receipts and payments

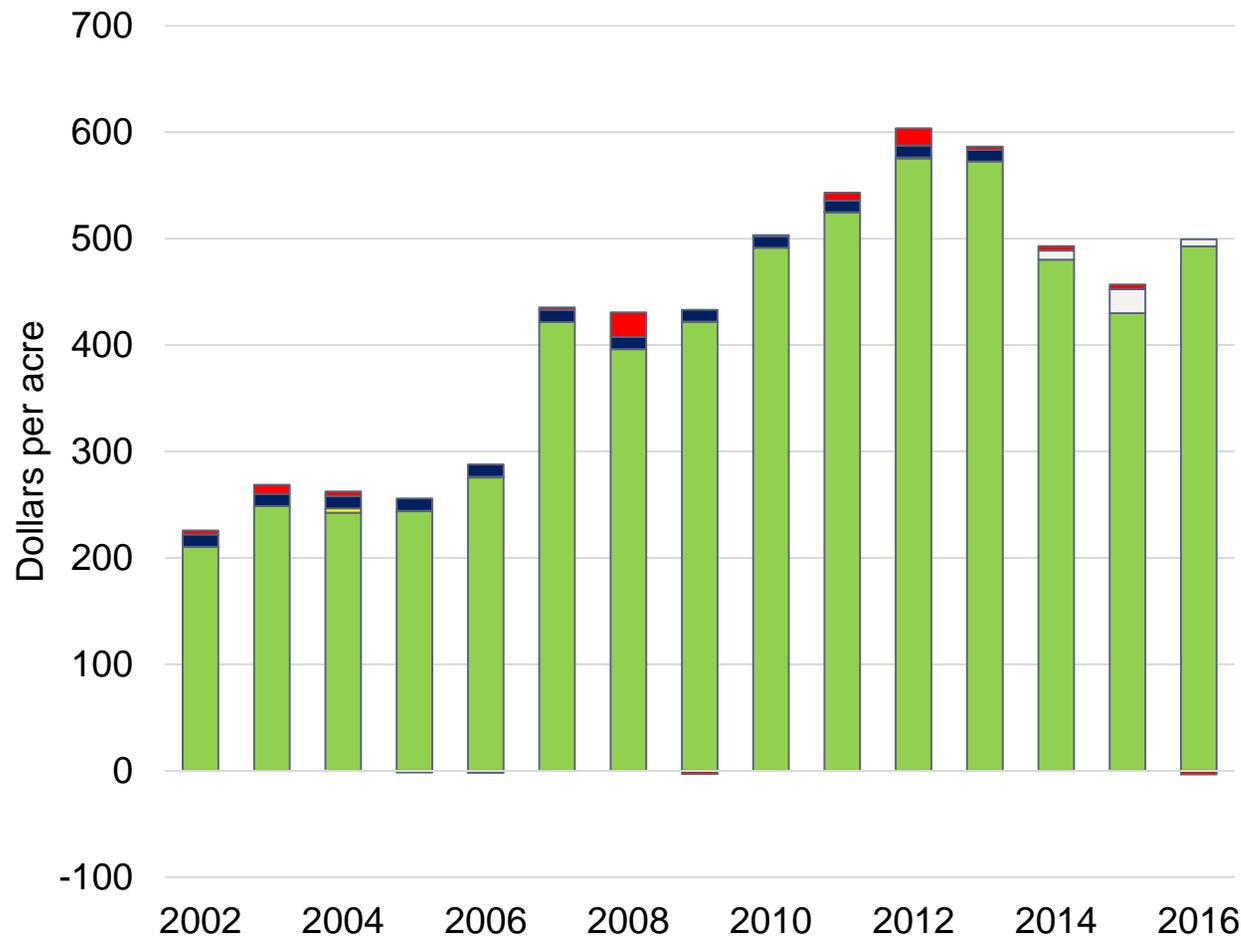
## National average for PLC participants, crop year



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

# Soybean market receipts and payments

## National average for ARC participants, crop year

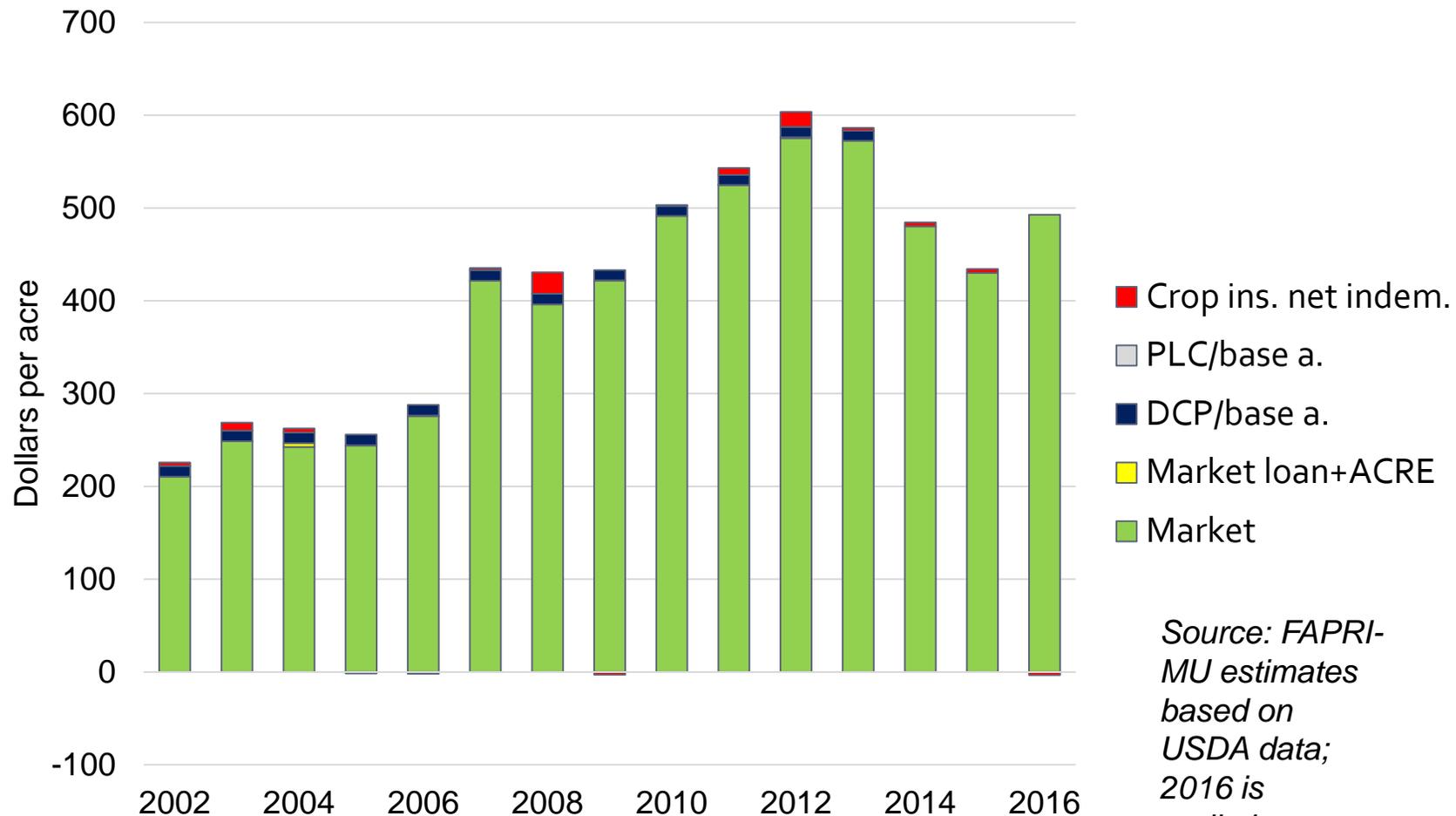


- Crop ins. net indem.
- ARC/base a.
- DCP/base a.
- Market loan+ACRE
- Market

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

# Soybean market receipts and payments

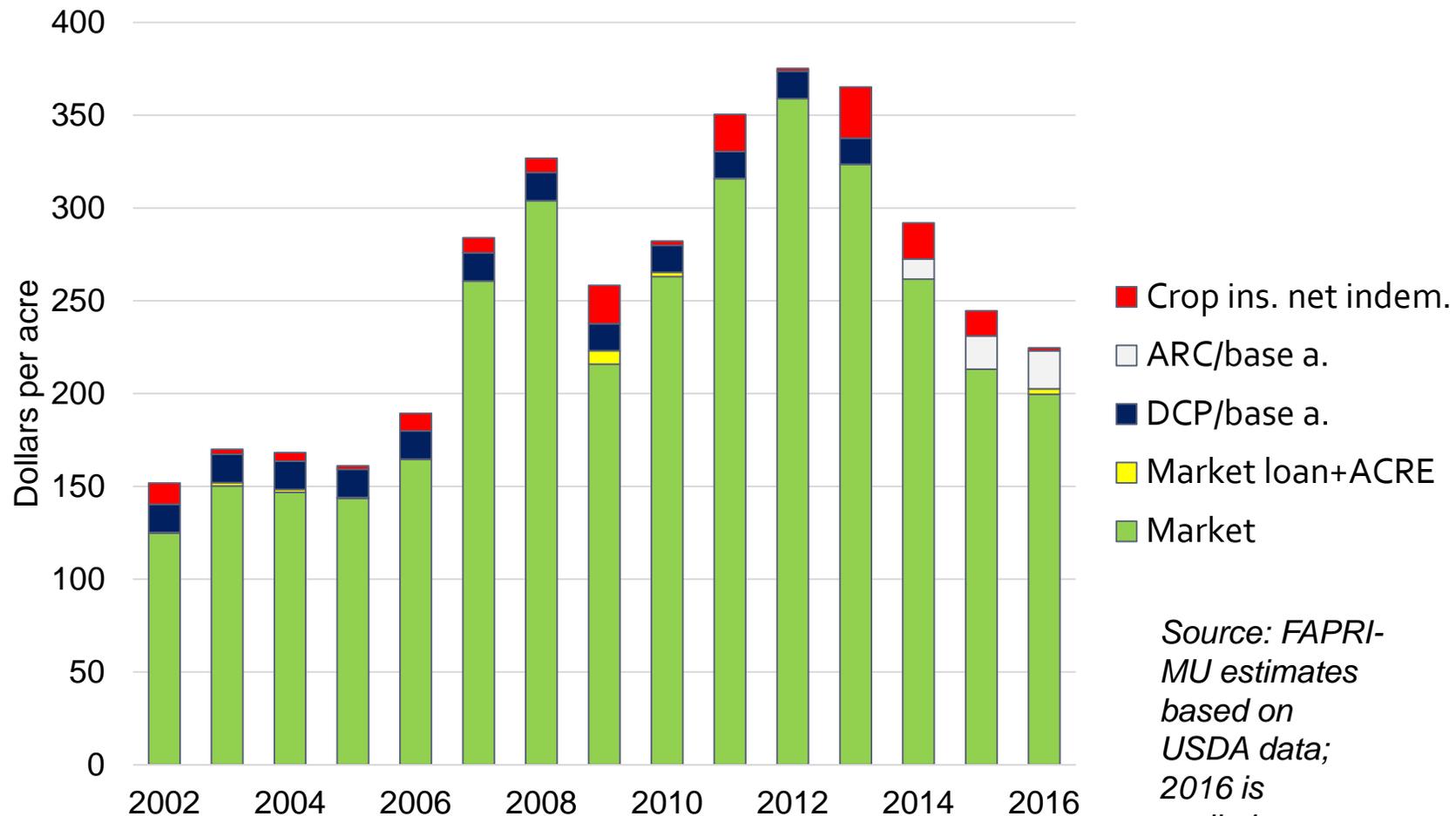
## National average for PLC participants, crop year



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

# Wheat market receipts and payments

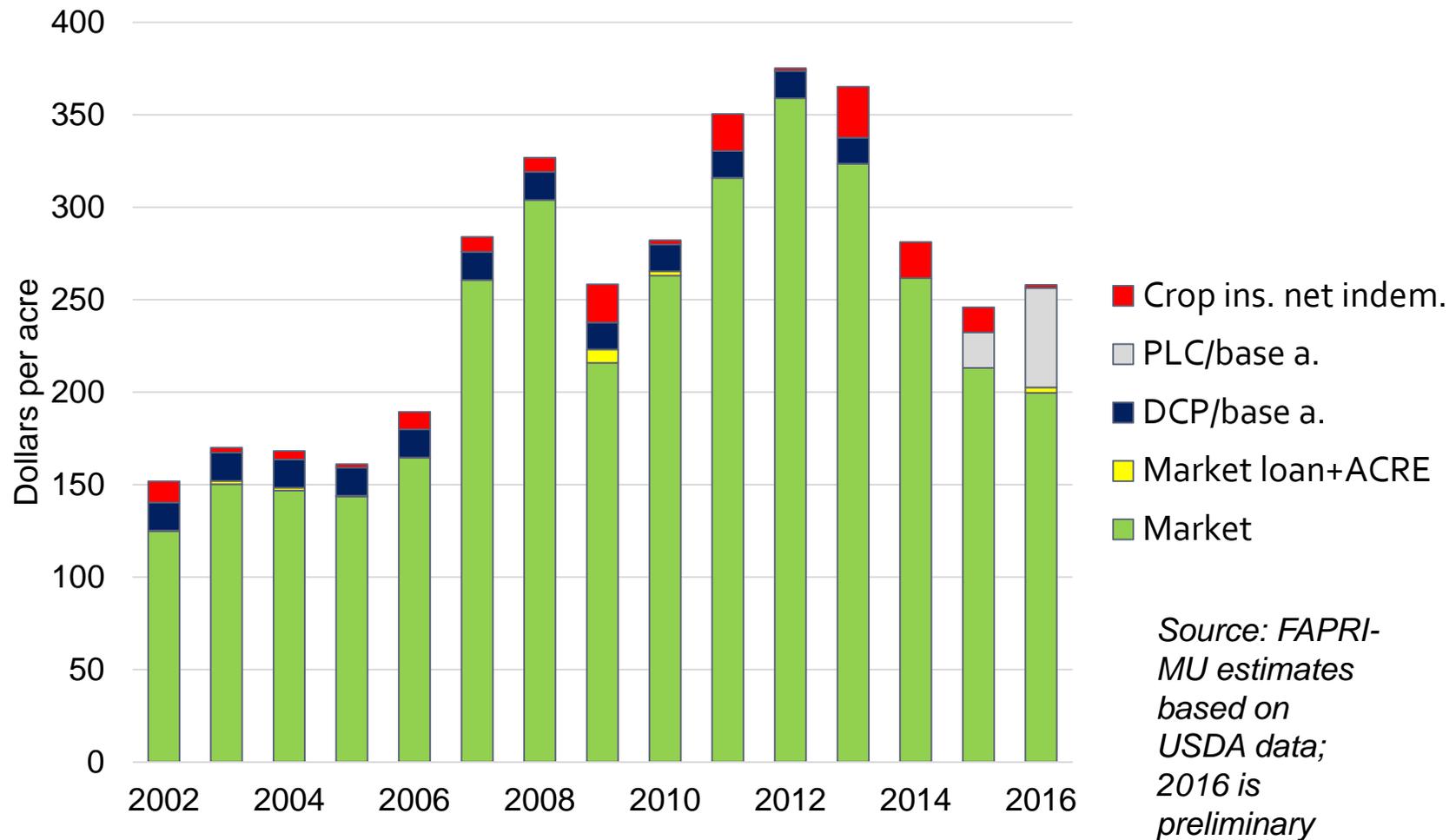
## National average for ARC participants, crop year



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

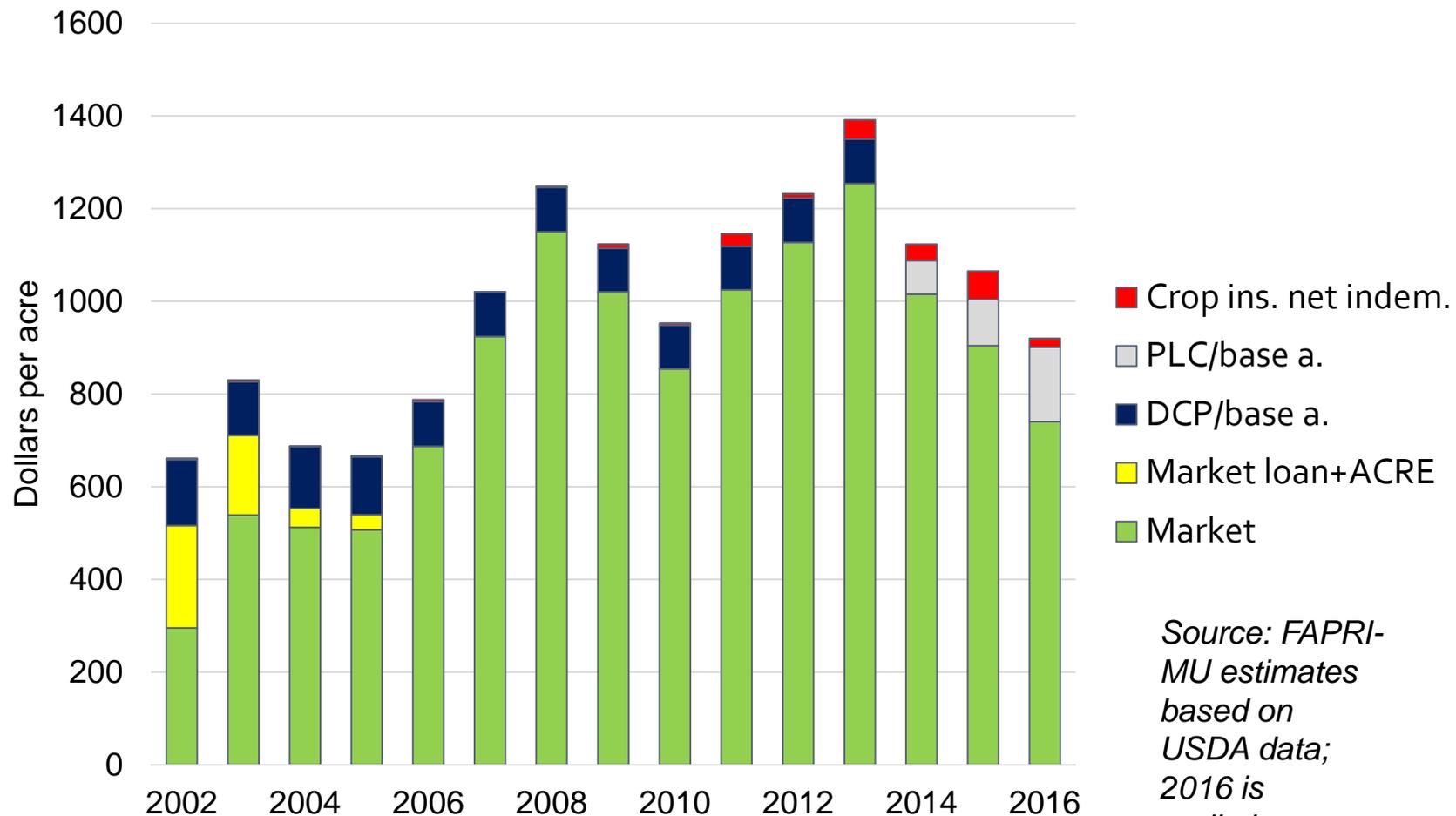
# Wheat market receipts and payments

## National average for PLC participants, crop year



# Rice market receipts and payments

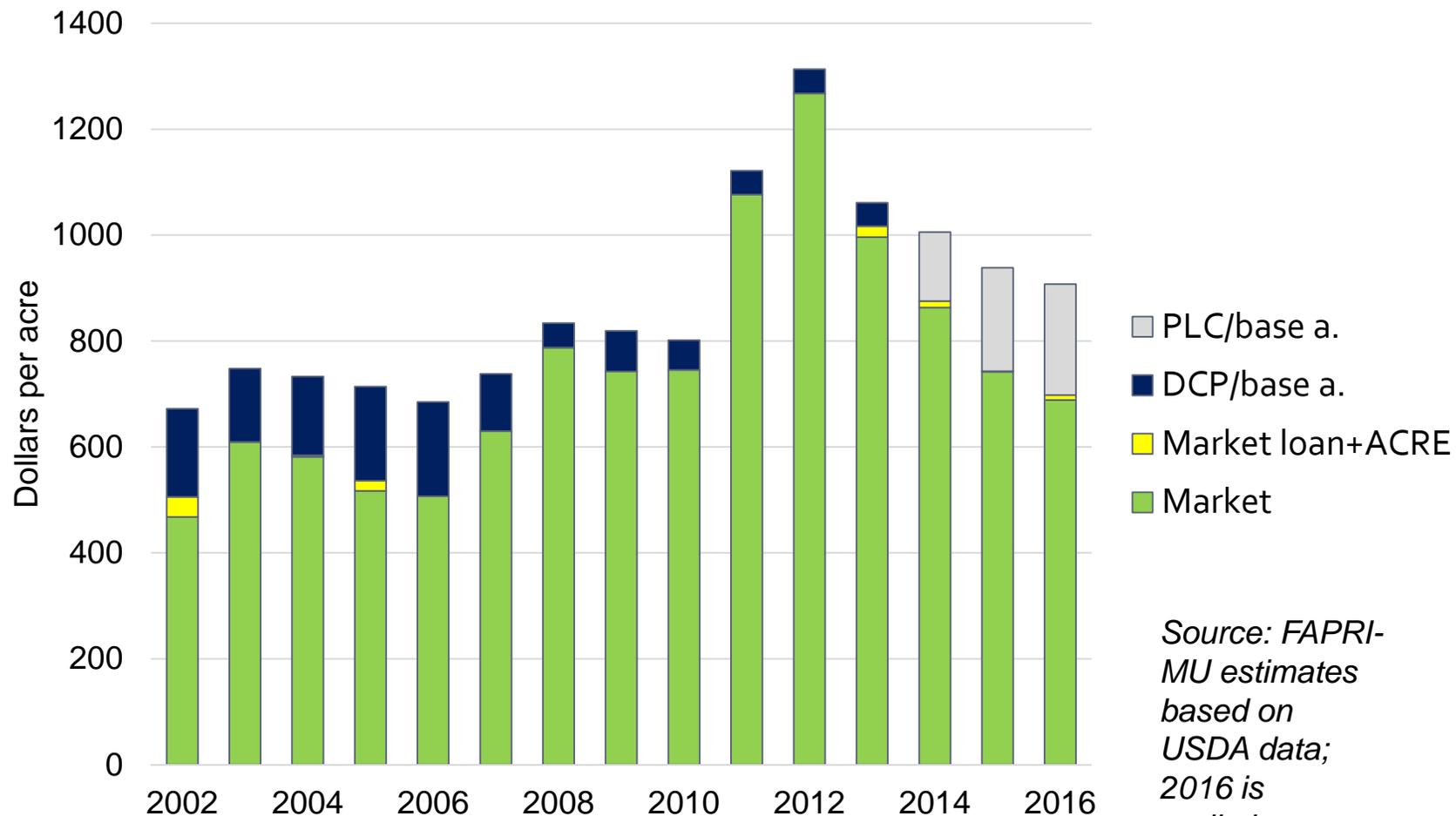
## National average for PLC participants, crop year



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

# Peanut market receipts and payments

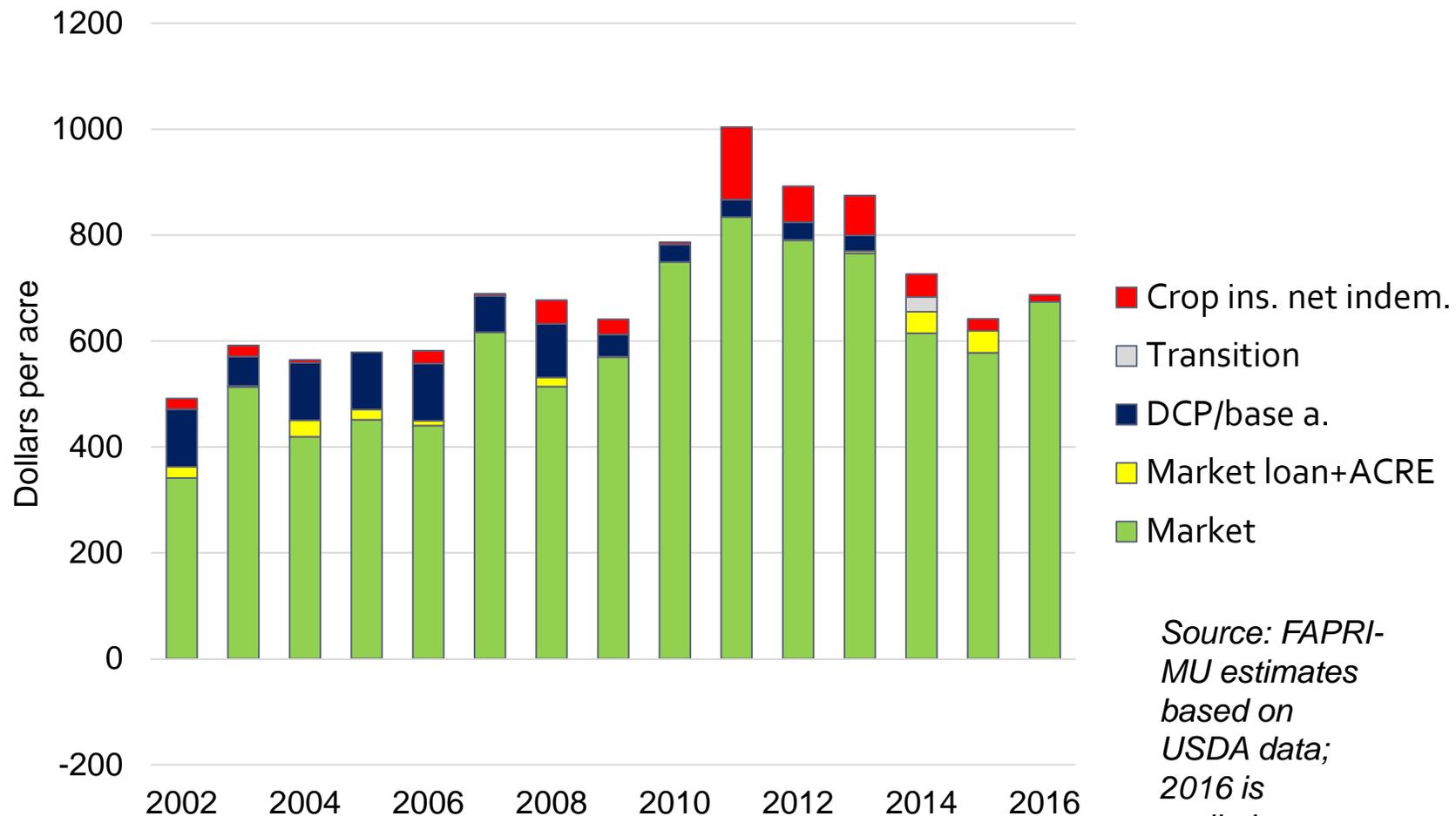
## National average for PLC participants, crop year



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

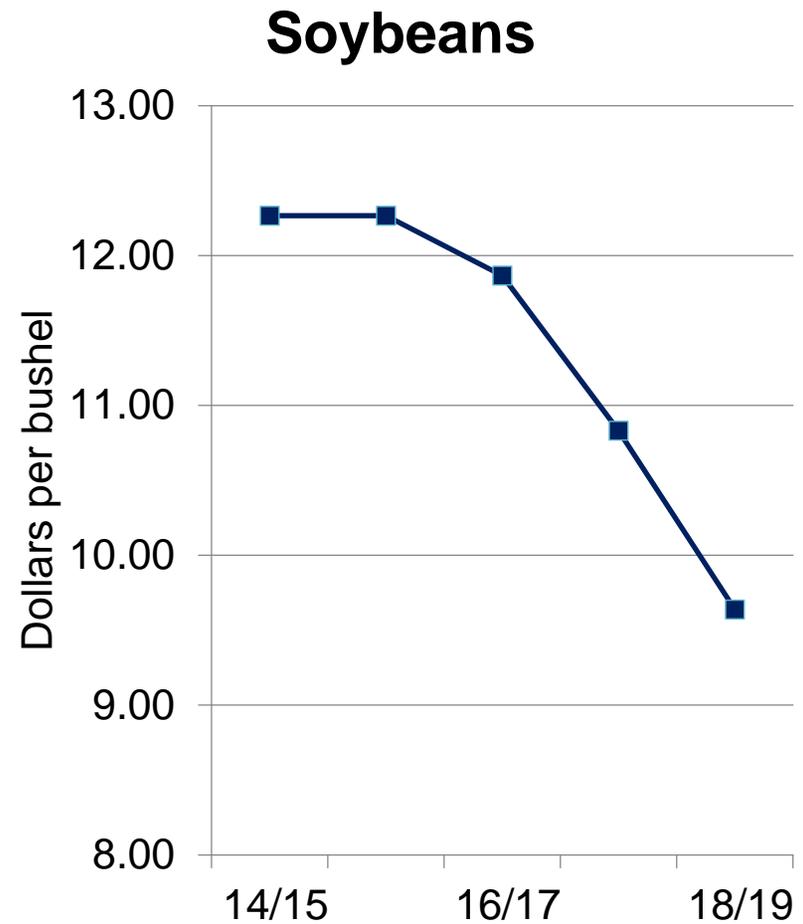
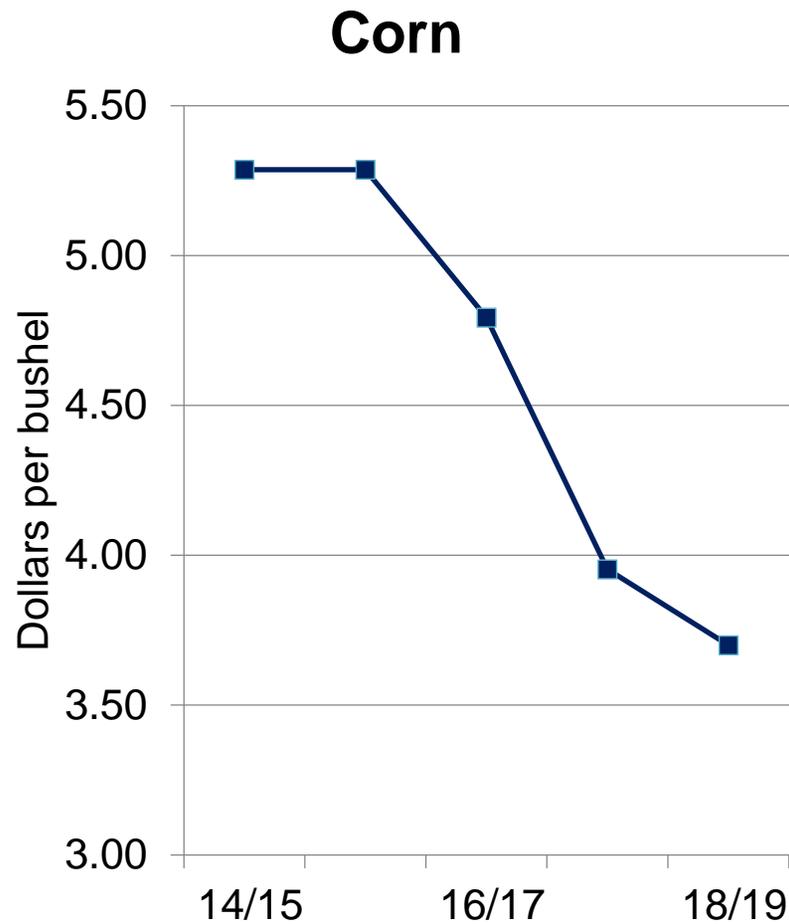
# Cotton market receipts and payments

## National average, crop year

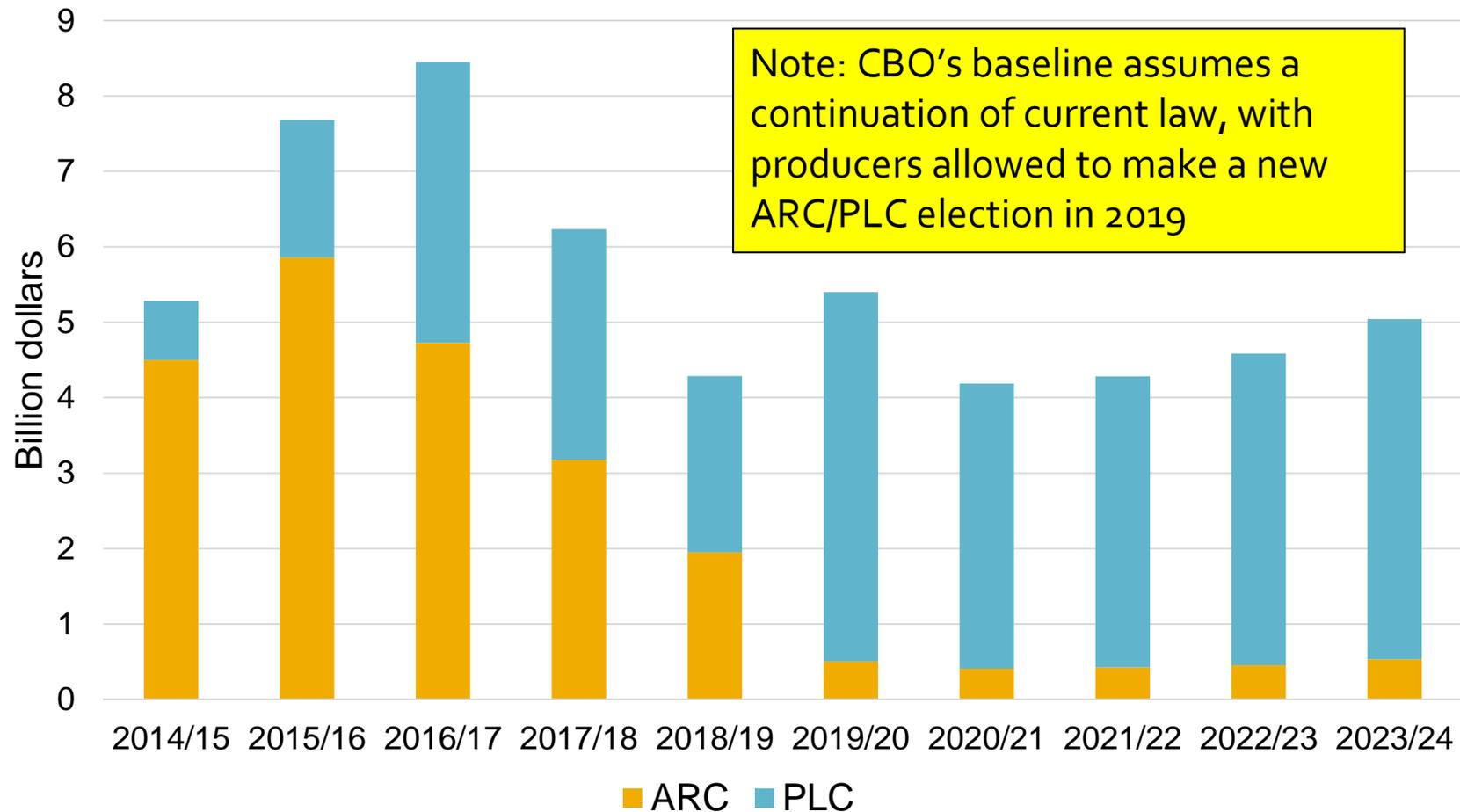


Source: FAPRI-  
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# ARC Olympic average prices With FAPRI-MU Nov. 2016 baseline prices

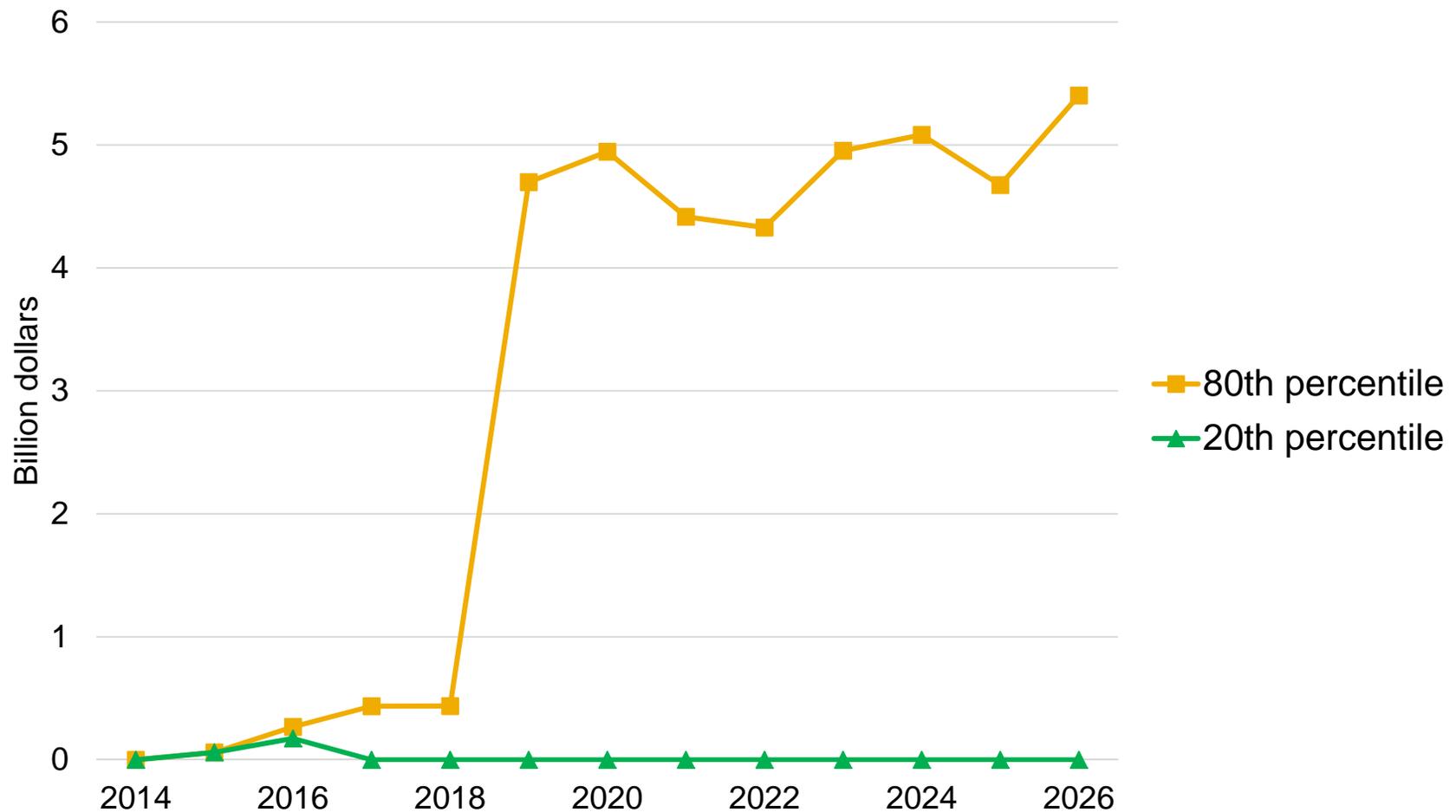


# ARC and PLC payments (January 2017 CBO estimates)

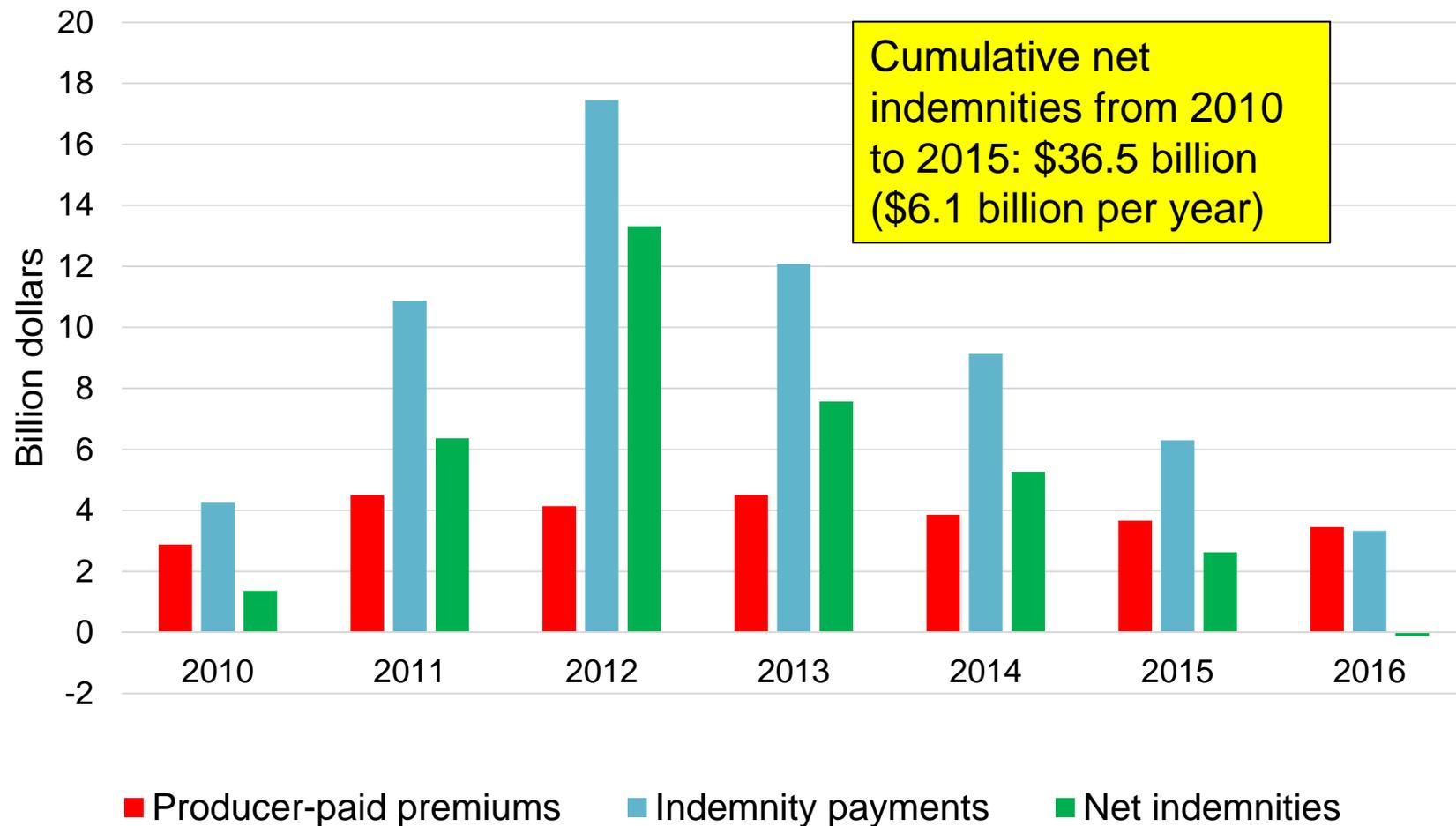


# Corn PLC crop year costs

## FAPRI-MU, 2017 baseline sneak peak



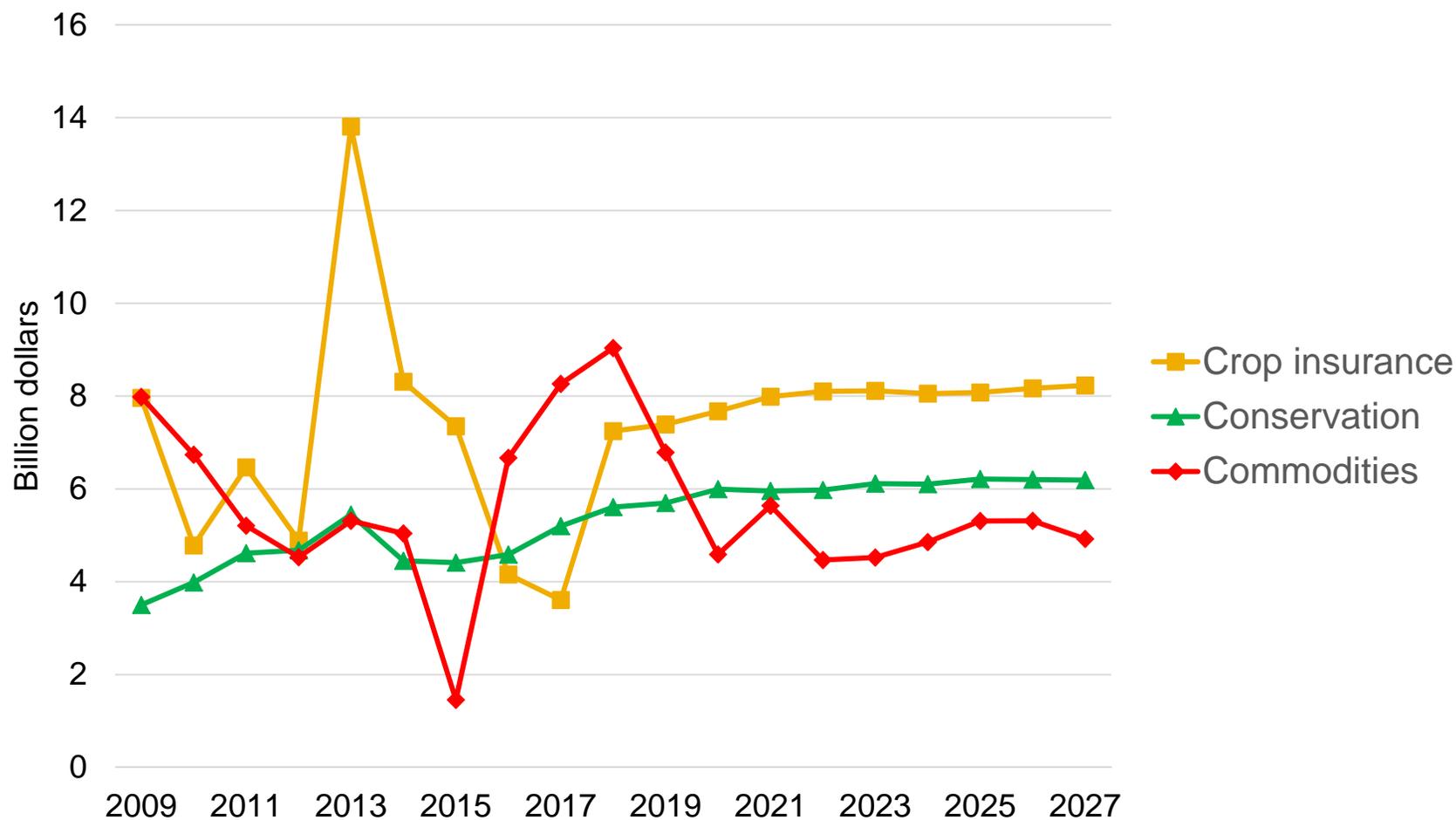
# Crop insurance crop year data



Source: RMA Summary of Business (<http://www.rma.usda.gov/data/sob.html>) data as of 2/20/17.  
 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

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

\* 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

# 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

# “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?

# Thanks!

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