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IFES 2017: Farm Policy Review and Outlook for the 2018 Farm Bill

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This is a presentation summary from the 2017 Illinois Farm Economics Summit (IFES) which occurred December 18-22, 2017. A complete collection of presentations including PowerPoint Slides (PPT) and printable summaries (PDF) are available here.

The Agriculture Act of 2014 -- three years and two Congresses in the making -- is scheduled to expire with the 2018 crop and fiscal years. Congress is on the clock to reauthorize the programs by September 30, 2018, and has taken initial steps but the bill waits behind other legislative priorities. The following is a review of current farm policy and a discussion of the outlook for a new farm bill.

The 2014 Farm Bill provided farmers a choice between the Price Loss Coverage (PLC) program and the Agriculture Risk Coverage (ARC) program. PLC is a traditional fixed-price policy that provides deficiency payments when average prices are below a fixed statutory reference price. ARC is a revenue-based program that makes payments when actual revenue was less than 86% of a historic benchmark revenue. One ARC option was coverage at the county level, which used county average yields and national average prices to set the benchmark. These were calculated on a five-year Olympic moving average basis, dropping each of the highest and lowest years in the average.

The decision between ARC and PLC was a negotiated outcome in Congress due to an intense regional commodity dispute over the direction of farm policy after direct payments were eliminated. Midwestern commodities sought the revenue program and were opposed by Southern commodities that demanded the price program; a policy disagreement with a long history that dates to the parity era as it emerged from World War II.

For corn and soybeans, the ARC-CO program has performed largely as expected, although issues have been raised about the yield component of the program. With multiple years of relatively low prices, ARC-CO has made significant payments on corn base but some counties with high yields have received lower payments or have not received payments. Those payments are expected to decline under project price scenarios as the benchmark adjusts to the market prices; it is unlikely that ARC-CO will trigger payments for the 2018 crop.

The Federal Crop Insurance program has experienced significantly reduced indemnities after the 2012 drought, as well as decreases in outlays for premium discount. With lower prices, the cost of insurance premiums has decreased. The program insured nearly 300 million acres with liability above $100 billion in 2017. Premium discount continues to constitute the bulk of Federal outlays in this program.

The conservation title of the farm bill is the other major source of mandatory funds for farmers. The 2014 Farm Bill reduced the acreage cap for the Conservation Reserve Program (CRP) to 24 million acres. Conservation policy continues to be divided in three categories: (1) reserve or retirement programs, like CRP; (2) working lands programs, such as Conservation Stewardship (CSP) and Environmental Quality Incentives (EQIP); and (3) compliance on highly erodible lands and wetlands. CRP, CSP and EQIP make up the bulk of all Federal outlays in this title.

The outlook for a farm bill in 2018 is complicated and there are at least seven major issues likely to dominate the debate. First and foremost is the Congressional Budget Office (CBO) Baseline. This is a 10-year forecast of spending under existing programs and it limits the funds available to the Agriculture Committees; increases in one area require offsets from others.

Second is crop insurance, with approximately $6 billion per year in premium discount it is likely to remain a primary political target for any spending offsets or reductions. Others will look for reforms to the program that also reduce expenditures.

Third and fourth are the commodity title issues. Commodity groups that supported ARC-CO in 2014 are likely to seek revisions to the program that improve the yields used (e.g., trend yields and RMA data), as well as potential changes in response to forecasts for lower prices. The cotton industry is seeking to have cottonseed added as a covered commodity, returning its base acres to the Title I payment programs. Dairy producers seek fixes to the Margin Protection Program. These raise significant issues, not the least of which is how any additional costs will be offset.

Some conservation interests are pushing to increase the CRP acreage cap which will have substantial costs in the CBO Baseline and require offsets. This is the fifth issue that Congress will need to resolve in the farm bill.

Sixth, the Supplemental Nutrition Assistance Program (SNAP) remains the largest item for participation and expenditures. Partisan politics over this program resulted in the farm bill's defeat in the House in 2013 and remains to be seen how Congress will deal with the program; history and vote counting counsel against efforts to make drastic changes to the program.

The seventh and final issue for the farm bill are the unknowns that could result if Congress agrees to tax legislation. Current estimates are that the bill would add more than $1 trillion to the deficit and debt. This could trigger automatic cuts through sequestration that would wipe out farm bill baseline or it could put pressure on Congress to seek to take drastic action to reduce spending; a situation similar to the previous farm bill debate.

Additional Resources
The slides for this presentation can be found at:
http://www.farmdoc.illinois.edu/presentations/IFES_2017

USDA, Office of the Chief Economist, "Long-Term Agricultural Projections," Early-Release Tables from USDA Agricultural Projections to 2027, available online: https://www.usda.gov/oce/commodity/projections/

Coppess, J., C. Zulauf, G. Schnitkey, and N. Paulson. "Reviewing the June 2017 CBO Baseline." *farmdoc daily* (7):127, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, July 14, 2017, available online: http://farmdocdaily.illinois.edu/2017/07/reviewing-the-june-2017-cbo-baseline.html

Paulson, N., G. Paulson, N., G. Schnitkey, J. Coppess, and C. Zulauf. "Comparing ARC-CO and PLC Payments from 2014 to 2016." *farmdoc daily* (7):196, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 25, 2017, available online: http://farmdocdaily.illinois.edu/2017/10/comparing-arc-co-plc-payments-2014-to-2016.html