Farm Bill Issues, Options, and Management Perspectives

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The Ag Policy Outlook

- Policy Drivers
  - Economics
  - Budget
  - Trade
  - Politics
The Economic Setting

U.S. Net Farm Income and Government Payments

Source: USDA Economic Research Service, August 2017

Source: USDA-ERS
Federal Budget Challenges

Total Federal Spending and Revenue, FY 2017

Source: CBO
Farm Bill Budget Outlook

✦ Big 4 account for 99% of spending
  - Commodities
  - Crop Insurance
  - Conservation
  - Nutrition (Supplemental Nutrition Assistance Program)

✦ Everything else fits in the 1%
  - Trade
  - Credit
  - Rural Development
  - Research, Extension, and Related Matters
  - Forestry
  - Energy
  - Horticulture
  - Miscellaneous
The Budget Challenge
Government Spending – 10-Year Baseline Projections

Source: CBO
The Budget Challenge
Government Spending – 10-Year Baseline Projections

Source: CBO
Farm Bill Outlook

- Commodity program safety net has evolved over time
  - Price support and supply control
  - Income support tied to price and revenue
  - Risk management

- Future program directions
  - Crop insurance as the foundation
  - Revenue safety net to complement crop insurance
  - Price safety net as an alternative
  - Underlying marketing loan
  - Supplemental crop insurance
  - Disaster assistance
  - No direct payments
Farm Program Support

- ARC
  - Revenue-based support tied to average prices and average yields
  - Substantial payments on 2014, 2015, and 2016 crops
  - Sharply declining protection for 2017 and 2018 crops as average prices have fallen

- PLC
  - Price-based support tied to fixed reference price
  - Little payments on 2014 crop
  - Substantial payments and protection for 2015-2018 crop with lower price projections, particularly for wheat and grain sorghum
## Farm Program Sign-Up Results
By Crop Base Acreage in the United States

<table>
<thead>
<tr>
<th>Commodity</th>
<th>PLC</th>
<th>ARC-CO</th>
<th>ARC-IC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barley</td>
<td>75%</td>
<td>22%</td>
<td>4%</td>
</tr>
<tr>
<td>Corn</td>
<td>7</td>
<td>93</td>
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<tr>
<td>Grain Sorghum</td>
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<td>33</td>
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<tr>
<td>Oats</td>
<td>32</td>
<td>67</td>
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<tr>
<td>Soybeans</td>
<td>3</td>
<td>97</td>
<td>0</td>
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<tr>
<td>Sunflowers</td>
<td>56</td>
<td>43</td>
<td>1</td>
</tr>
<tr>
<td>Wheat</td>
<td>42</td>
<td>56</td>
<td>2</td>
</tr>
<tr>
<td>Peanuts</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Long Grain Rice</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: USDA-FSA
Farm Income Safety Net
Commodity Prices and Target/Reference Prices

Source: USDA-FSA and USDA-NASS
Farm Income Safety Net
Corn Prices, PLC, and ARC Price Protection*

* Price projections for 2017 from USDA-WAOB and USDA-FSA as of December 2017. Price projections for 2018 from USDA-OCE as of December 2017. ARC 5-year effective Olympic average price based on 86% of ARC 5-Year Olympic average price for illustration only as ARC protection is tied to revenue. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.
Farm Income Safety Net
Wheat Prices, PLC, and ARC Price Protection*

* Price projections for 2017 from USDA-WAOB and USDA-FSA as of December 2017. Price projections for 2018 from USDA-OCE as of December 2017. ARC 5-year effective Olympic average price based on 86% of ARC 5-Year Olympic average price for illustration only as ARC protection is tied to revenue. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.
Farm Bill Outlook

- Commodity programs
  - ARC yields – data and history
  - Reference prices
  - ARC v. PLC decision
  - Dairy and cotton

- Crop insurance programs
  - Program features
  - Eligibility limits
  - Premium subsidy

- Conservation
  - CRP enrollment cap
  - CRP rental rates

- Nutrition (Supplemental Nutrition Assistance Program)
  - Supports and eligibility levels
  - Not a source of funds for farm program spending
North Dakota 2016 ARC-CO Payments*  
Wheat Payments

* Payments per base acre adjusted for 85% paid acre factor. Total payments subject to 6.8% budget sequestration not factored into estimates. Sources: USDA-FSA and author calculations.
North Dakota 2016 ARC-CO Payments*
Wheat Payments Compared to Wheat Revenue with Payments

* Payments per base acre adjusted for 85% paid acre factor. Total payments subject to 6.8% budget sequestration not factored into estimates. Sources: USDA-FSA and author calculations.
North Dakota 2016 ARC-CO Payments*
Corn (In Blended Counties) Payments

* Payments per base acre adjusted for 85% paid acre factor. Total payments subject to 6.8% budget sequestration not factored into estimates. Sources: USDA-FSA and author calculations.
North Dakota 2016 ARC-CO Payments*
Corn (In Blended Counties) Payments Compared to Wheat Revenue with Payments

* Payments per base acre adjusted for 85% paid acre factor. Total payments subject to 6.8% budget sequestration not factored into estimates. Sources: USDA-FSA and author calculations.
Farm Income Safety Net
Commodity Prices and Target/Reference Prices*

* Estimated national marketing year average price for 2017 projected from USDA-WAOB as of November 11, 2017. Projected prices for 2018-2023 from USDA estimates as of November 2017 and author’s calculations.

Source: USDA-FSA, USDA-NASS, USDA-WAOB, and USDA-OCE
Farm Income Safety Net
Corn Prices, PLC, and ARC Price Protection*

* Price projections for 2017 from USDA-WAOB and USDA-FSA as of December 2017. Price projections for 2018-2023 from USDA-OCE as of December 2017. ARC 5-year effective Olympic average price based on 86% of ARC 5-Year Olympic average price for illustration only as ARC protection is tied to revenue. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.
Farm Income Safety Net
Soybean Prices, PLC, and ARC Price Protection*

* Price projections for 2017 from USDA-WAOB and USDA-FSA as of December 2017. Price projections for 2018-2023 from USDA-OCE as of December 2017. ARC 5-year effective Olympic average price based on 86% of ARC 5-Year Olympic average price for illustration only as ARC protection is tied to revenue. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.
Farm Income Safety Net
Wheat Prices, PLC, and ARC Price Protection*

* Price projections for 2017 from USDA-WAOB and USDA-FSA as of December 2017. Price projections for 2018-2023 from USDA-OCE as of December 2017. ARC 5-year effective Olympic average price based on 86% of ARC 5-Year Olympic average price for illustration only as ARC protection is tied to revenue. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.
Farm Program Payments
Budget Projections, June 2017

Source: USDA-ERS, CBO, and author calculations
Farm Income Safety Net
Corn Prices and Price Projections*

* Estimated national marketing year average price for 2017 projected from USDA-WAOB as of December 2017. Long-run price projections from USDA annual baseline estimates for various years.

Source: USDA-NASS, USDA-WAOB, and USDA-OCE
Farm Bill Outlook

- **Commodity programs**
  - ARC yields – data and history
  - Reference prices
  - ARC v. PLC decision
  - Dairy and cotton
- **Crop insurance programs**
  - Program features
  - Eligibility limits
  - Premium subsidy
- **Conservation**
  - CRP enrollment cap
  - CRP rental rates
  - Working lands funding
- **Nutrition (Supplemental Nutrition Assistance Program)**
  - Supports and eligibility levels
  - Not a source of funds for farm program spending
Crop Insurance Proposals

- Crop insurance policy proposals
  - Program features
    - Subsidized harvest price option/coverage
  - Eligibility limits
    - Premium subsidy limit
    - AGI cap for premium subsidy rate/eligibility
  - Premium subsidy
    - Reduction in average 62% subsidy rate
Farm Bill Outlook

◆ Commodity programs
  ● ARC yields – data and history
  ● Reference prices
  ● ARC v. PLC decision
  ● Dairy and cotton

◆ Crop insurance programs
  ● Program features
  ● Eligibility limits
  ● Premium subsidy

◆ Conservation
  ● CRP enrollment cap
  ● CRP rental rates
  ● Working lands funding

◆ Nutrition (Supplemental Nutrition Assistance Program)
  ● Supports and eligibility levels
  ● Not a source of funds for farm program spending
Conservation Reserve Program
Enrolled Acreage and Corn Prices

Source: USDA-FSA and USDA-NASS
Conservation Reserve Program
Enrolled Acreage by Category

Source: USDA-FSA
Conservation Reserve Program
Comparable Rental Rates

Source: USDA-FSA and USDA-NASS
Conservation Program Payments

***Includes the Wetland Reserve Program, Farmland Protection Program, and Grassland Reserve Program (easement portion) for 1996-2013.

Working Lands Programs
Budget Authority and Outlays

Source: Selected legislation, CBO, and author calculations
Beyond the Farm Bill

- Trade
- Regulations
- Taxes
- Spending/Entitlement Reform
- Energy
- Infrastructure
- Health Care
- Immigration Reform

- Societal Demands
Policy Outlook

- **Trade**
  - Renegotiation of NAFTA
    - On-going talks with continued challenges
  - Post-TPP or TPP-11
    - TPP negotiations ongoing without the U.S.
  - TTIP
    - Little recent progress or activity reported
  - WTO
    - 11th Ministerial Conference in Buenos Aires, Argentina in December

Source: USDA-ERS
Policy Outlook

- Regulations
  - Environment – WOTUS, energy, air
  - Food – biotech, labeling
Policy Outlook

- **Taxes**
  - Marginal tax rates
    - Corporate
    - Individual
  - Expenses and deductions
  - Estate tax
Policy Outlook

Food policy and societal demands
- Food security
- Nutrition
- Biotechnology
- Antibiotics
- Animal welfare
- Labeling
- Legislation and regulations vs. market standards

![Chart showing food spending and share of income spent on food across U.S. households, 2016.]


Highest income households spend more on food than lowest income households have income.
Food Policy
The Social License

Earning and maintaining Social License, the privilege of operating with minimal formalized restrictions, depends largely on building trust based on shared values. Of the three primary elements that drive trust—Confidence (shared values and ethics), Competence (skills and ability) and Influential Others (family, friends and credentialed individuals), our peer-reviewed research shows that Confidence, or shared values, is three-to-five times more important than Competence in building trust.

Source: Charlie Arnot, Center for Food Integrity (www.foodintegrity.org)
Ag Economic and Policy Outlook

- Price, income, and financial challenges
  - Make sound management decisions based on economic principles
  - Factor in substantial, but declining support of farm income safety net programs
  - Manage portfolio of risks with portfolio of tools and management strategies

- Policy risks and uncertainty
  - Prepare for budget pressure and changes in farm income safety net
  - Watch, engage, and manage for policy developments in other areas that impact agriculture, including trade, regulations, taxes, energy, infrastructure, immigration, and health care, and societal demands on agriculture