

# Where are We Going and How Are We Going: U.S. Agriculture in a New Policy Environment

Vincent H. Smith  
Professor of Economics  
Department of Agricultural Economics and Economics  
Montana State University



Mountains & Minds

## The Current Farm Bill Situation: What We Do and Don't Know

- There is a farm bill
- It has been passed by both the house and the senate
- It has been signed by President Obama
- It is over 930 pages long
- Except that the Bill is really well over 2000 pages long as much of the 2014 Farm Bill consists of amendments to previous legislation.
- And the Bill will probably be 20,000 plus pages long by the time USDA has written the implementation rules and handbooks for each program.

2



Mountains & Minds

## The Current Farm Bill Situation: What We Do and Don't Know

- Most of us haven't read all of the Bill (or any of it), and most of us never will.
- Even if we have read it all, we are pretty sure we don't understand what most of it means.
- We do know the new bill's name, the Agricultural Act of 2014
- But most of us won't remember it.
- And we know the bill's acronym, AA, has been used by other organizations, could be viewed as unfortunate, but is neither FAIR nor FACT.

3

## The Current Farm Bill Situation: What We Do and Don't Know

- We do know that the new Farm Bill creates a complicated set of choices for farmers
- For many farmers, where they have a choice about which program they can use (for example, PLC versus ARC), right now neither they nor we know what they should do.
- Not least, this is because no one knows what the prices of corn, wheat, rice, peanuts and other commodities will be over the next five years.
- And farmers choices will be affected by the implementation rules for each program currently being developed by USDA.
- Cotton producers are fortunate: they only have STAX and "orphaned base acres" to worry about

4

## Changes in Farm Subsidy Program: What is not in the 2014 Farm Bill

- Direct Payments (**gone**)
- ACRE Program (**gone**)
- Countercyclical Payments (**gone**, but not really; in practice, the new PLC program is very similar)
- SURE Program (**gone**)
- Dairy Price Support Program and Milk Income Loss Contract (**gone**)

5

## New Farm Subsidy Programs: The "Big Four " in Titles I and 11

- Price Loss Coverage Program (to be paid on historically determined payment acres with higher support prices than under the countercyclical payments program)
- Agricultural Risk Coverage Program
- Base updating (farmers' choice about whether or not to base update for payments under the PLC and ARC)
- New Group Insurance Program to be managed by the Risk Management Agency (the Supplementary Coverage Option)
- The Cotton STAX program (essentially an expanded and more heavily subsidized SCO group based insurance program for cotton not to be implemented until 2015)

6

## Changes in Farm Subsidy Programs: Other Titles

- Refunding of the Livestock Indemnity and Livestock Forage disaster aid programs (retroactive to 2012 or 2013) with some changes in participation requirements, as well as the ELAP disaster aid program
- New milk producer program called the Dairy Margin Protection Program (no supply control but larger subsidies per cwt of milk for smaller dairy farms)

7

## Changes in Farm Subsidy Programs: Other Titles

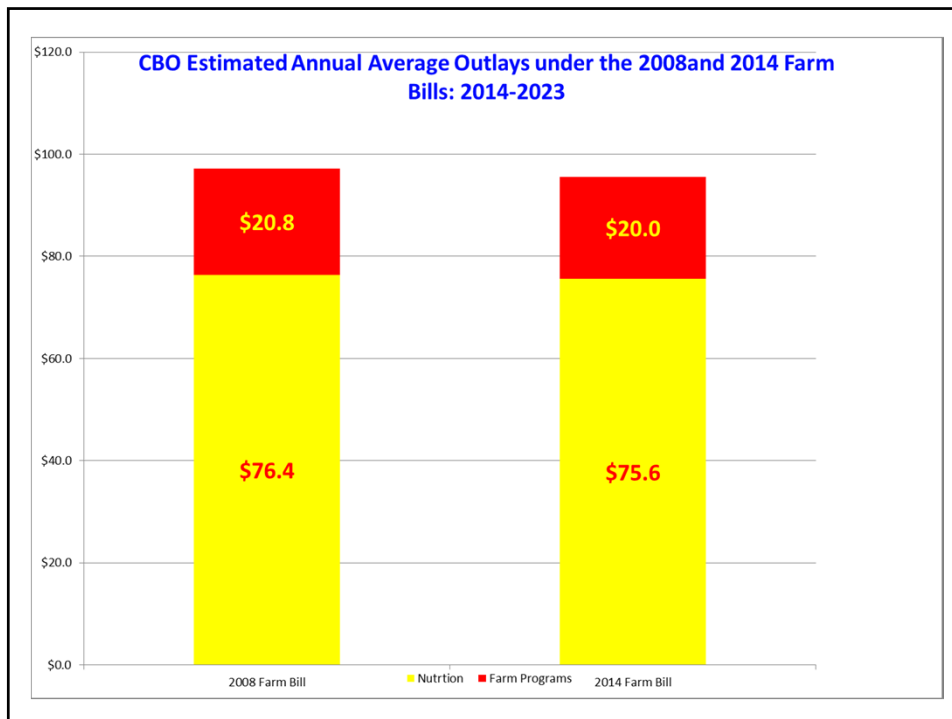
- Conservation Reserve Program continues but with funding only for 25 million acres by 2016 (about \$1.2 billion a year)
- Other conservation programs will be combined (for example the various conservation easement and reserve programs)
- R and D funding for public research may be increased

8

## Changes in Farm Subsidy Programs: Payment Limits

- No major changes to payment limits (exclusion limits may apply to households with three year annual average AGIs in excess of \$900,000)
- Payments per farm under PLC and ARC notionally capped at \$250,000 (assuming two eligible persons per farm)
- Some restrictions on disaster aid payments
- No limits on crop insurance premium subsidies

9



## The PLC-AGR Choice

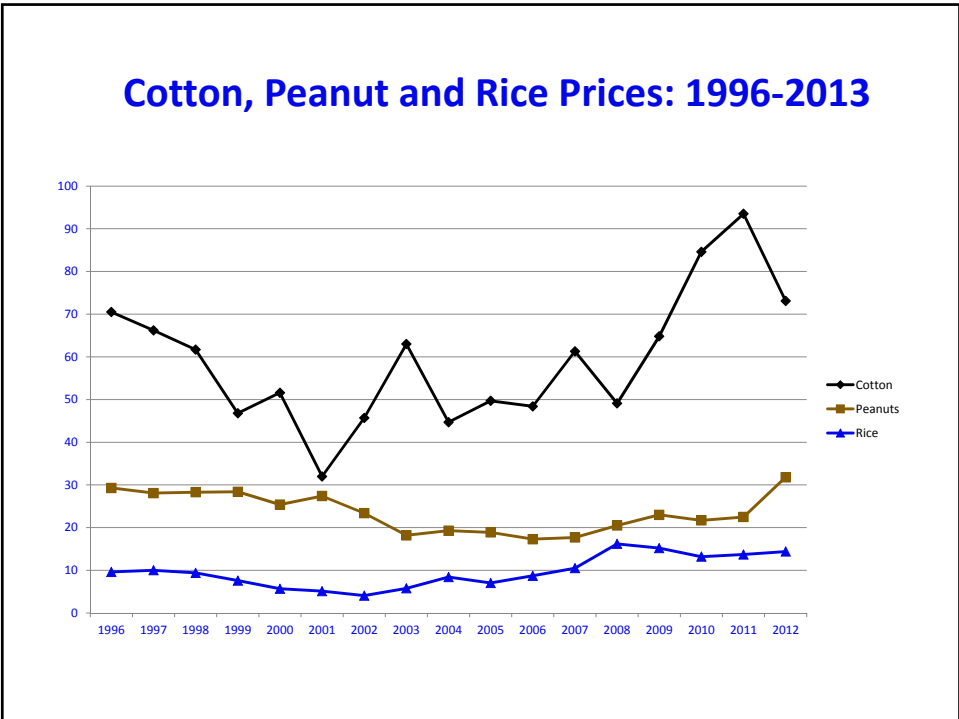
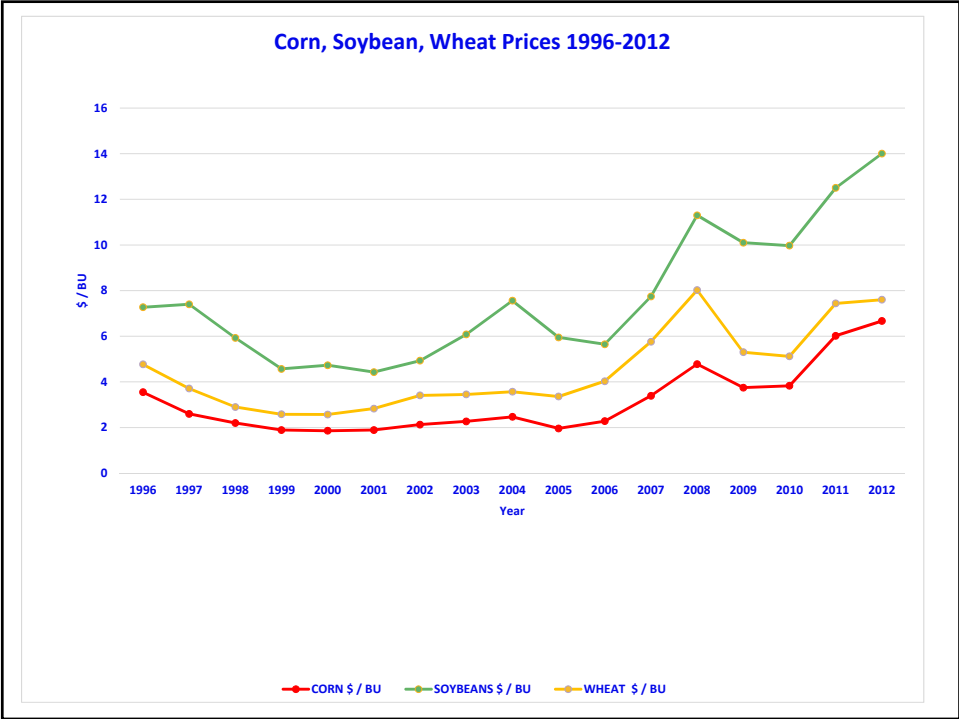
### PLC:

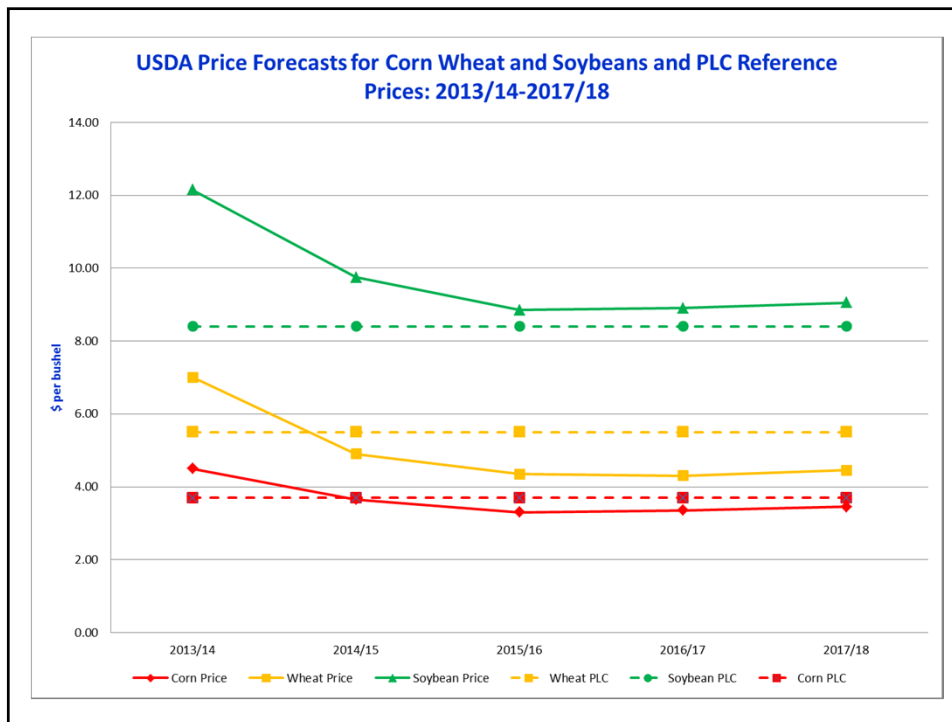
- Farm choosing PLC does so for all eligible crops
- If the farm opts for PLC, then SCO insurance coverage can also be purchased for individual covered crops.
- Payments to be made on 85% of a farm production base for each crop.
- If the farm purchases SCO, then it has to make a simultaneous choice about coverage levels in the SCO and its APH based COMBO (or other underlying) federally subsidized insurance contract for each crop (the two are linked)

### ARC:

- Farm choosing ARC does so for all eligible crops
- Has to pick the county option (paid on 85% of eligible production) or the individual farm option (paid on 65% of eligible production)
- If the farm opts for ARC it cannot participate in the SCO program
- The farm can still purchase any underlying federally subsidized crop insurance contract (APH based "COMBO" or county based Area Risk Protection policy) although, given the ARC shallow loss subsidy program, the farm may choose to reconsider the coverage levels it choose under its preferred crop insurance contract.

Commodity	CCC Payment Trigger	PLC Payment Trigger	Percent Increase
Corn	\$2.35/bu	\$3.70/bu	57%
Wheat	\$3.65/bu	\$5.50/bu	53%
Soybeans	\$5.56/bu	\$8.40/bu	66%
Peanuts	\$459/ton	\$535/ton	17%
Rice	\$8.15/cwt	\$14/cwt	72%
Barley	\$2.39/bu	\$4.95/bu	107%





## Base Updating

- Farmers will be given a choice between keeping their current base for each crop or updating yields (average of yields from 2008 to 2012) and reallocating their current total base acres using shares of land planted to program crops over the period 2009-2012.
- Choice may be clear cut for some producers and less clear for other producers.



## Estimated Impacts on Eligible Production of Base Up-Dating by Crop

	2002 Base Acres ('000s)	2014 Updated Base Acres <sup>A</sup> ('000s)	Percent Change in Base Acres <sup>B</sup>	2002 Base Yields per acre	2014 Updated Base Yields per acre <sup>A</sup>	Percent Change in Base Yields <sup>B</sup>	Percent Change in Base Production <sup>C</sup>
Barley	8807	2741	-68.9%	49 bu	70 bu	43.7%	-55.3%
Corn	88140	85013	-3.5%	114 bu	146 bu	27.7%	<b>23.1%</b>
Cotton	18939	9328	-50.7%	639 lbs	825 lbs	29.2%	-36.4%
Peanuts	1521	1242	-18.3%	2990 lbs	3675 lbs	22.9%	0.4%
Rice	4538	2844	-37.3%	51 bu	72 bu	41.0%	-11.6%
Sorghum	12142	5096	-58.0%	58 bu	59 bu	2.1%	-57.2%
Soybeans	53538	75558	<b>41.1%</b>	34 bu	42 bu	23.5%	<b>74.3%</b>
Wheat	76463	46851	-38.7%	36 bu	46 bu	26.3%	-22.6%

Source: Vincent Smith and Barry Goodwin (2014). "The Devils in the Details: Base Updating and the Cost of New Farm Programs." AEI monograph, Table 1.

## Take Home Messages

- *When farm subsidy programs change, they become more complicated*
- *The House and Senate ag committees have done their level best to ensure there will be lots of work for agricultural economists*
- *The real question for the farm sector in deciding among the new programs is what will happen to the prices of major crops over the next five years.*
- *That depends in large part on whether the Renewable Fuels Mandate will be enforced or, effectively, allowed to atrophy or be abandoned.*

