2018 Farm Bill Outlook ▬ November 7, 2017

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Overview and Timing

► The 2014 farm bill's crop commodity programs end with the 2018/19 crop year.

► Congress is expected to enact a new farm bill or extend the 2014 act, in part because, if no action is taken, commodity programs revert to the 1938 and 1949 laws each farm bill amends. These "permanent laws" generate support prices far above current market prices for some commodities, notably milk.

► Consistent with history, the next farm bill is expected to be written with broad, bipartisan support.

► Tax reform is a focus of Congress this fall. Other items include appropriation bills for Fiscal Year 2018 and the U.S. debt ceiling. Congress' agenda likely leaves little room for other efforts, but the Agriculture Committees, especially in the House, may take up the farm bill this fall.

Farm Bill Issues

► At present, the broad general tone is to make limited changes in all farm bill titles. Many farm bill actors desire to avoid the rancorous process that characterized the 2014 farm bill. Moreover, sources of new money appear limited. Nevertheless, difficult issues do exist or may emerge.

► Since 1970, an evolutionary trend has been to redistribute commodity program spending to other farm bill titles. However, counter-trend farm bills are written if farm prices/income are low. Current prices/income may be low or normal, but clearly are less than when the 2014 farm bill was written. The latter will likely frame the debate, implying commodity baseline redistribution is unlikely.

► Cotton and dairy policy have attracted early interest. Both sectors are vocal that current policies do not work. If changes are made via the farm bill, a difficult question emerges: "Who pays the nontrivial cost of change?" Another potential path has emerged, make changes via the Fiscal Year 2018 appropriations process. This path could increase the farm bill's budget baseline, thus tempering the cost issue. It is important which path ends up being taken.

► Partial list of other potential issues:

(1) Should the 24 million acre cap on CRP (Conservation Reserve Program) be increased? [30 million is commonly mentioned]. Counterpoints are impacts on agribusinesses and exports. Water quality is also drawing attention. It is unclear if a consensus on policy actions will emerge this farm bill. Increasing CRP with emphasis on water quality may be a compromise.

(2) Reducing cost of food assistance has resonated among many House Republicans. But, the issue is receding as costs decline with an improving U.S. economy, notably the job market.

(3) Research funding is drawing attention, but critical mass is unclear. History suggests farm bill actors will chose immediate assistance over uncertain, longer term benefits from research.

(4) Concern exists about the future of young farm operators, but lack of consistent, non-anecdotal evidence regarding which current programs work hampers policy decisions.

(5) Peanuts and rice are expected to have higher future payments/acre as their reference prices are higher relative to market price. Payment/acre is only one perspective on equity across crops, but history suggests a divisive debate may emerge, particularly if the budget is tight. Also, participation will likely shift notably to PLC (Price Loss Coverage) if, as history suggests, farms are allowed to elect a new program beginning with 2019 crop and since current prices are close to or below the reference prices for many crops. Debate is thus likely on adjusting ARC (Agricultural Risk Coverage) so it is more competitive with PLC. PLC's higher expected cost provides an umbrella to change ARC without increasing crop program cost by much. Resolving this issue may help mitigate the potential debate on crop equity.

Farm Safety Net Payments to farms, billion $, 2014-2016 crops

	ARC	PLC	net insurance indemnities	Total
Corn	$10.55	$0.25	$2.23	$13.03
Peanuts	$0.01	$1.35	$0.17	$1.53
Rice	$0.01	$0.94	$0.34	$1.29
Soybeans	$1.61	$0.00	-$1.37	$0.24
Wheat	$1.63	$1.73	$1.94	$5.30
All Program Crops	$14.01	$5.01	$8.07	$27.09

NOTE: PLC is Price Loss Coverage program. ARC is Agriculture Risk Coverage program. ARC and PLC payments for 2016 crops are currently available only for barley, canola, corn, lentils, oats, peanuts, dry peas, grain sorghum, soybeans, and wheat. Note, 2016 rice ARC and PLC payments have not been made yet.

Crop	loan rate	reference price	average 2014-16 crop year price	ratio: reference price to crop year price	2017 estimated payment per base acre, U.S. yield		ratio: reference price to WASDE 2017 price range	
					PLC	ARC	low	high
corn (bu)	$1.95	$3.70	$3.56	104%	$52	$10	132%	103%
soybeans (bu)	$5.00	$8.40	$9.51	88%	$0	$0	101%	84%
wheat (bu)	$2.94	$5.50	$4.92	112%	$32	$19	125%	115%
barley (bu)	$1.85	$4.90	$5.26	93%	$17	$24	120%	96%
oats (bu)	$1.33	$2.40	$2.46	97%	$0	$16	107%	87%
sorghum (bu)	$1.95	$3.95	$3.40	116%	$56	$19	158%	120%
peanuts (lb)	$0.1775	$0.2675	$0.2033	132%	$218	$55	NA	NA
rice: long (cwt.)	$6.50	$14.00	$10.87	129%	$76	$0	117%	108%
rice: medium/short (cwt)	$6.50	$14.00	$11.93	117%	$66	$84	115%	106%
rice – Japonica (cwt)	$6.50	$16.10	$17.77	91%	$6	$18	104%	98%

TABLE NOTES: (a) WASDE (World Agriculture Supply and Demand Estimates) does not report data for peanuts; hence, no 2017 peanut price estimate is listed. (b) Japonica rice data is for medium and short grain rice in California. USDA does not report production of Japonica rice, but almost all rice grown in California is Japonica. (c) Estimated 2017 payments are adjusted for 85% payment acre factor and 6.8% sequester. Payments are per base acre, using U.S. base yields and U.S. yield estimates in USDA's October 2017 reports.

TABLE INTERPRETATION: It pays when U.S. average price is less than 100% of the reference price. Payment is based on a Farm Service Agency farm's base acres and base yields. PLC is a low price program, where low price is defined as the reference price. ARC has county (ARC-CO) and farm (ARC-IC) options. Data in the table are for the county version using U.S. yield. ARC-CO pays when actual revenue for a crop in a county is less than 86% of the county's benchmark revenue. Benchmark revenue is based on an Olympic average for the 5 prior crop years of county yield and U.S. crop year price. ARC is a revenue decline program, where revenue decline is defined relative to its benchmark revenue. Low yields can trigger payments by ARC but not PLC. This is often called ARC's shallow loss component. Since ARC can make payments on yield declines and since yield usually declines somewhere in the U.S, ARC-CO rarely makes no payments in a given year. $0 appears in the table because a specific yield, U.S. yield, is used. Value of ARC's shallow loss component varies by year, but likely ranges from 1% to 5% of the crop's ARC benchmark value.

Sources to follow: (1) *Farm Policy News* by Keith Good [http://www.farmpolicynews.illinois.edu/] and *farmdoc daily* [http://www.farmdoc.illinois.edu/] ▬ both published by University of Illinois at Urbana-Champaign, Department of Agricultural and Consumer Economics. (2) Library of Congress, Congressional Research Service publications (also use agricultural policy or farm bill in search).