THE OHIO STATE UNIVERSITY
DEPARTMENT OF AGRICULTURAL, ENVIRONMENTAL, AND DEVELOPMENT ECONOMICS

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Nationwide & Ohio Farm Bureau 4-H Center

Farm Policy: 2012 and Beyond

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Overview: The 2012 Farm Bill has become entwined with the debate over federal budget priorities at a time of large fiscal deficits. This debate is commonly called the fiscal cliff (see associated article). The 2012 farm bill process most closely resembles the 1991 farm bill process, which also became entwined in a debate over budget priorities and deficits. This discussion briefly examines the current status of the 2012 Farm Bill process and offers a peek at future farm safety net issues.

Current Status: In June 2012, the U.S. Senate passed the *Agriculture Reform, Food and Jobs Act of 2012.* In July 2012, the U.S. House Committee on Agriculture passed the *Federal Agriculture Reform and Risk Management Act*. The full House has not taken up the bill. Potential next steps in the 2012 farm bill process include passage of a House-Senate compromise farm bill, either as a separate bill or as part of a larger package to address the fiscal cliff, or a short-term extension of all or part of the current farm bill. An extension probably will not exceed a year, and could be less.

Comparison of Existing Bills: Most provisions in the House and Senate farm bill drafts are similar. In terms of the crop safety net, both bills eliminate direct payments, retain marketing loans, make risk management the safety net's central focus, make individual crop insurance the central safety net program, enhance individual crop insurance coverage, add a county insurance Supplemental Coverage Option (SCO), implement a multiple-year county revenue option as a complement to insurance, and give farms a choice over their multiple-year risk management program.

In my opinion, the major differences in the drafts are: (1) the size of cuts to nutrition programs: $4 billion (Senate) vs. $16 billion (House) over 10 years, (2) whether the Farm Service Agency should administer a farm level risk management program, and (3) whether the multiple-year risk management program should focus on price (House) or revenue (Senate) and have benchmarks that are fixed (House) or change with market conditions (Senate). The last two differences are integral to the debate over the share of spending by crop; in particular the argument by Southern crops that a market oriented safety net does not work for them.

Summary Observations: I think the two most important proposed changes in the farm safety net are SCO and the Dairy Production Margin Protection Program. The latter is the first farm safety net program since the 1970s to include cost of production in its design. If adopted, it will be important to monitor how this program performs, including its costs and its impact on different farm sizes.

SCO allows a farm to buy county insurance as an add-up to its individual farm coverage. Coverage can be bought up to 90%. For example, a farm could buy coverage for losses at the county level that occur between the 75% individual insurance coverage bought by the farm and 90%. SCO has no payment limit, a 70% subsidy level, and, unlike current county products, no payment multiplier. I think many farms will look carefully at SCO, especially in areas of lower yield variability, such as the Midwest, and larger farms, whose yield variability usually more closely tracks county yield variability. I also think farms may consider buying down individual insurance and replacing it with SCO.

The search for a multiple-year program to complement insurance remains on-going. It is unlikely this farm bill will resolve this policy issue and thus farms will be given a choice. In addition, the cost and design of crop insurance likely will become a key future policy issue. Crop insurance no longer is a small budget program. Its cost has exceeded $5 billion in 3 of the last 4 years. We as a nation look differently at large budget programs than at small budget programs. In particular, we become as interested, if not more interested, in the question, "What does the public gain from the program in exchange for the tax dollars spent on a program?" compared with the question, "What do beneficiaries of a program gain from the program?"

"Agriculture and the "fiscal cliff": Part 1" by Carl Zulauf
This article was published on the *Ohio County Journal* website on November 16, 2012,
see http://ocj.com/2012/11/agriculture-and-the-fiscal-cliff-part-1/

Overview: The U.S. fiscal cliff refers to the combination of 2 events that will occur in late 2012 and early 2013: (1) implementation of federal budget cuts resulting from the compromise to extend the U.S. federal debt ceiling and (2) expiration of many of the tax cuts enacted since 2000. The name, "fiscal cliff," stems from the widely-held concern that these 2 actions may cause an economic recession. However, the fiscal cliff is actually a symptom, not the problem.

Underlying Problem: The U.S. has been using fiscal spending and tax policy to stimulate the U.S. economy. This stimulus, in particular the second set of so-called Bush tax cuts, pre-dates the financial crisis of 2007, but the stimulus expanded substantially with the *Economic Stimulus Bill of 2008*. Between 2007 and 2012, federal spending increased from $2.7 trillion to $3.5 trillion. In contrast, federal tax receipts actually decreased from $2.6 trillion to $2.4 trillion. A key reason for stagnate tax revenue is that, since 2007, deflated U.S. gross domestic economic product increased only 3%, from $13.2 trillion to $13.6 trillion. The poor economic growth reflects many factors, but a key one is the lack of international competitiveness of many U.S. industries. As a result, U.S. jobs and wage rates have been under pressure. Thus, the underlying problem is the use of a broad range of government fiscal policy to stimulate an economy that lacks international competitiveness in many industries.

Implications for U.S. Agriculture

- An immediate implication is that, similar to the 1991 Farm Bill, the 2012 Farm Bill is intertwined with a national debate over budget priorities and the federal debt. The U.S. House, in particular Republican House members, will have to decide the size of cuts they want from nutrition programs and the farm safety net. These cuts must then be negotiated with the U.S. Senate.

- Most experts believe that solving the longer-term federal debt problem will require both spending cuts and tax increases. In such a grand bargain, both tax breaks used by farmers, such as expensing and accelerated depreciation, as well as spending on crop insurance may be curtailed.

- While speculative, resolution of the U.S. competitiveness problem could rest upon reducing energy costs, in particular from developing the large U.S. (and world) reserves of shale gas and oil. Lower gas and oil prices will benefit farms on the input side but likely dampen demand for biofuels. Animal producers will generally benefit while the impact on crop producers will depend on the relative rates of decline in input and output prices. A softening, maybe end, of this period of farm prosperity could potentially result.

- Last, while the exact amount is not known, there is a limit to how much public debt the U.S. can accumulate. If the U.S. exceeds this limit, U.S. interest rates will increase, the U.S. dollar will depreciate, and large cuts in U.S. government spending will be required. This is not a situation in which U.S. agriculture is likely to flourish. However, the U.S. has time to avoid these outcomes. Let's hope it finds the will to do so.