

Farm Bill - UNCERTAINTY

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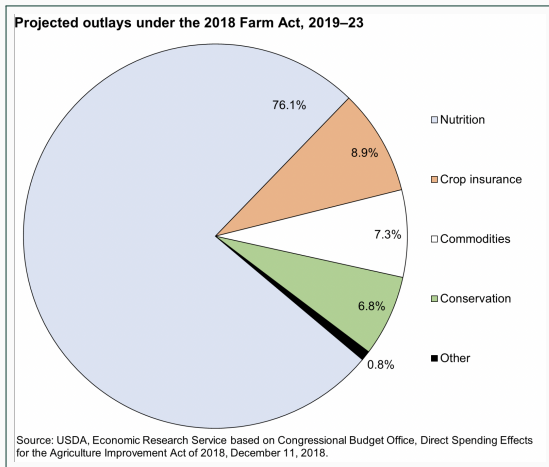
On-Going Projects with students

- ▶ Wildlife (Deer) Damage and Michigan Crops
- ▶ On-Farm Risk Management Friendly Crop Insurance
- ▶ Crop Insurance Price Elections - Michigan Apples
- ▶ Dairy Margin Coverage versus Dairy Revenue Protection
- ▶ Solar Farms and Land Use

Farm Bill - What is it?

- ▶ The Farm Bill is a multi-year law that governs spending on agricultural and food programs.
- ▶ There are both mandatory and discretionary spending programs.
- ▶ Most recent Farm Bill is the 2018 Agricultural Improvement Act.
- ▶ Consists of twelve Titles.
- ▶ Four of the twelve Titles account for 99% of Farm Bill mandatory outlays: Nutrition, Crop Insurance, Commodity Programs, and Conservation.

Background - Follow the Money

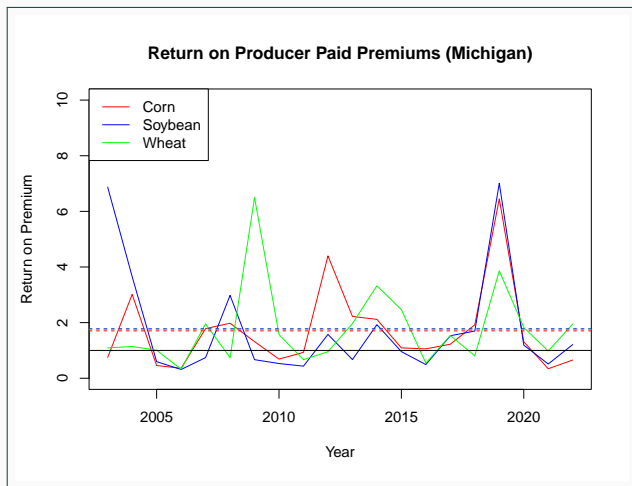


Summary of What Farm Bill Programs Do and Don't Do

- ▶ provide conservation incentives and payments (Title II)
- ▶ provide output price protection (Title I)
- ▶ provide yield protection (Title XI)
- ▶ provide revenue protection (Title I, XI)
- ▶ **do not provide margin protection (excluding Dairy)**
- ▶ **do not provide input cost protection**
- ▶ **are not designed to cover cost of production**

May not help with risk from an output price input cost squeeze; dependent on effective reference prices relative to input costs.

Title XI - Crop Insurance for Michigan Farmers



Source: USDA-RMA Summary of Business (10/18/2023)

Crop Insurance Outlook for Next Farm Bill

- ▶ overall general satisfaction with program by farm sector.
- ▶ significant constraints on how crop insurance programs can be used to incentivize producer behavior because of private insurer involvement - is a good thing.
- ▶ difficult to envision major changes in new farm bill to crop insurance program
- ▶ fully expect the same farmer ROI on crop insurance in next farm bill

Title I - Commodity Programs - Crops

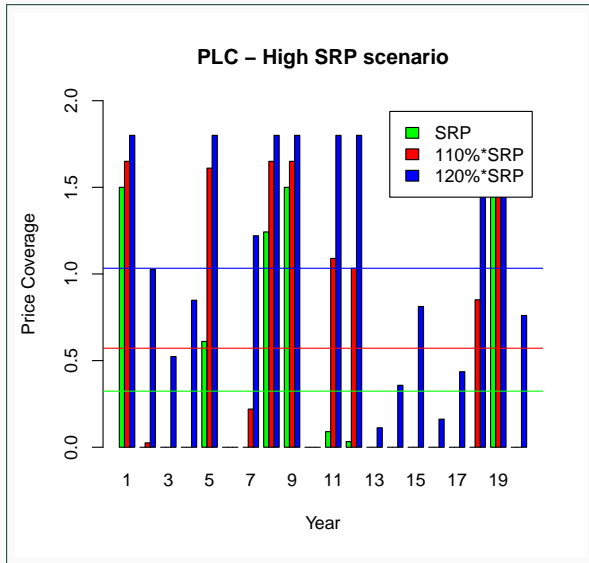
- ▶ PLC - price loss coverage (2014)
 - price insurance based on ERP (effective reference price)
 - $\max(\text{statutory reference price (SRP)}, \min(85\% * 5 \text{ year Olympic average}, 115\% * \text{SRP}))$
 - SRP is from 2014 Farm Bill
 - indemnity price based on $\max(\text{market year average price (MYA)}, \text{average loan rate})$
 - payments based on 85% of historical base
 - *general dissatisfaction with SRPs by farm sector*
- ▶ ARC - Agricultural Risk Coverage (2014)
 - revenue insurance - county or individual
 - revenue insurance is based on 86% of the historical Olympic county average
 - capped at 10% coverage
 - payments based on 85% of historical base

Increase Statutory Reference Prices (SRPs)

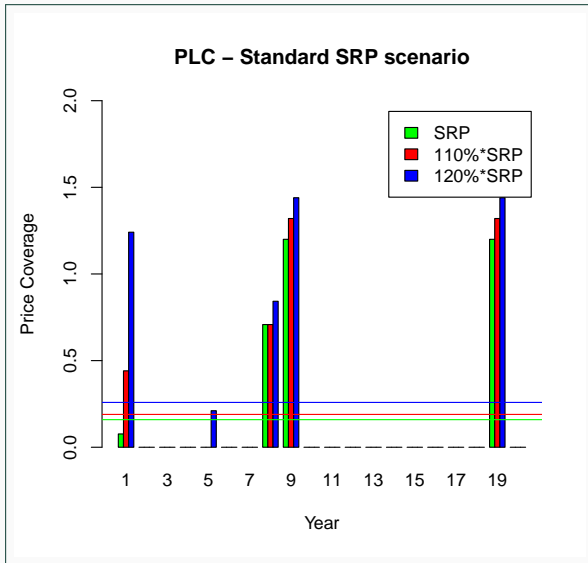
Across the board 10-20% increase in SRPs.

- ▶ notable projected differences across crops and by default across regions
- ▶ estimated cost is ~ \$20 billion (\$50 billion for 20%)
 - fund through existing baseline or IRA?
 - fund through new baseline?

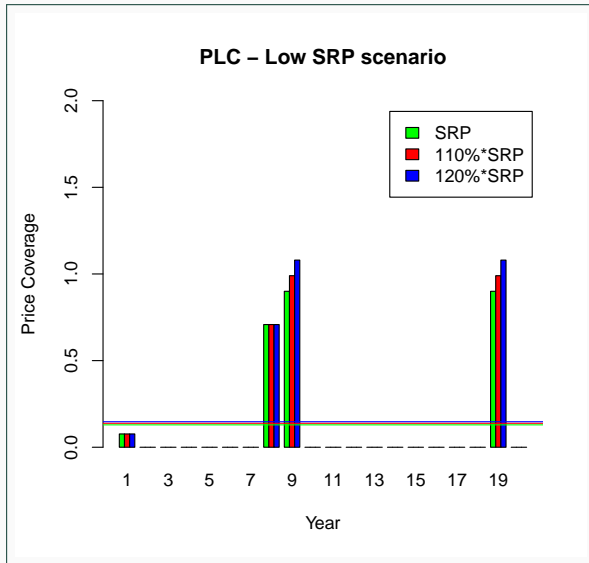
Effect of Increasing SRPs if Tends to Trigger



Effect of Increasing SRPs if Moderately Triggers



Effect of Increasing SRPs if Rarely Triggers



Commodity Program Outlook for Next Farm Bill?

- ▶ payoff to an increase in SRP is dictated by the current SRP relative to average prices on a crop by crop basis
- ▶ differential increases by crops may be warranted.
- ▶ currently farm bill does not provide any means to alleviate the risk of cost of production exceeding current prices and ERPs
- ▶ could define ERPs = $\max(\%COP, \text{statutory reference price (SRP)})$, $\min(85\% * 5 \text{ year Olympic average}, 115\%*SRP)$

2025 Farm Bill UNCERTAINTY

- ▶ possibly a reconciliation bill (one or two)
- ▶ possibly include SNAP cuts and cuts to IRA conservation programs
- ▶ possibly include farm programs as well
- ▶ if farm programs not included unlikely to get votes for a stand alone farm program - not sure what happens then
- ▶ if farm programs included - likely will be increases to SRPs and maybe with a % cost of production in ERP formula.
- ▶ if farm programs included with increased spending and SNAP receives cuts - end for the rural-urban coalition?
- ▶ farm programs get permanent authorization then? if not, unclear what happens when they expire.

Summary

- ▶ huge uncertainty
- ▶ possibly a reconciliation bill (one or two)
- ▶ likely include SNAP and IRA cuts
- ▶ potential changes to commodity programs
 - increase in SRPs
 - SRP also becomes a function of COP
- ▶ do not foresee changes to crop insurance
- ▶ return to crop insurance programs is 1.8