Straining the alphabet soup:
Post-election farm policy outlook
after three years of ad hoc payments

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Poll Question

Do you expect additional COVID-related Federal support for ag?

- Another round of PPP (or similar)
- Another round of specific ad hoc support for agriculture
- Both PPP and specific ad hoc support for agriculture
- No additional support for ag
Government payments will hit record in 2020
All federal government direct farm payments, 1933-2020, (excluding crop insurance)

Note: Data not accrual-adjusted. Value for 2020 is forecast. Real values are inflation-adjusted using chain-type GDP deflator.
Share of income is high, due to ad hoc payments

Direct farm payments as share of net cash income, 1990-2020

What are ad hoc payments?
Not authorized in farm bill or given permanent funding.

In 2018-2020:
- MFP: Market Facilitation Program
- CFAP: Coronavirus Food Assistance Program
- WHIP+: Wildfires and Hurricanes Indemnity Program
- PPP: Paycheck Protection Program forgivable loans

Note: Value for 2020 is forecast.
Ad hoc payments are response to specific market and/or production disruptions

US-China trade conflict initiated 2018
MFP1 announced
2019 MFP2 announced
First Covid-19 case in US 2020
CFAP1 announced
2021 CFAP2 announced

Ad hoc government payments by program and commodity type

<table>
<thead>
<tr>
<th>Program</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFP1</td>
<td>0.4</td>
<td>0.9</td>
<td>8.2</td>
<td>0.4</td>
</tr>
<tr>
<td>MFP2</td>
<td>13.6</td>
<td>2.7</td>
<td>7.8</td>
<td>5.7</td>
</tr>
<tr>
<td>CFAP1</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>CFAP2</td>
<td>(to date)</td>
<td>(to date)</td>
<td>(to date)</td>
<td>(to date)</td>
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</tbody>
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Note: Quantities are actual payments made, not budgeted amounts.
Source: USDA via farmers.gov and FOIA requests
What determined ad hoc crop payment amount?

MFP: Predicted lost export sales

Payment = Rate ($/unit) x Quantity (units)

Payment rate:

Predicted decline in US exports to countries imposing retaliatory tariffs, relative to:
- 2017 (for MFP1)
- Decade maximum (for MFP2)

Quantity:

Estimated amount subject to loss, independent of farm acreage allocation to specific crops
- 2018 production
- 2019 planted acres of all eligible crops

Calendar year US export value by commodity and destination, 2009-2018

Source: US International Trade Commission
MFP rates did not equal trade war price impacts

MFP1-related crop price impacts
Futures prices for 2018 harvest delivery, Jan-Dec 2018

MFP2-related crop price impacts
Futures prices for 2019 harvest delivery, Jan 2018-Dec 2019

Note: Prices are indexed so the average price during March 2018 = 100.
Source: Bloomberg
What determined ad hoc crop payment amount?

CFAP: Price decline over specific period in 2020

Payment rate:
Assumed proportion of actual price decline between given dates

Quantity:

- **CFAP1**: Farmer-owned crop inventories on Jan 15, 2020
- **CFAP2**: Actual 2020 planted acres times expected yield (crop insurance APH)

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Note: Prices are indexed so the average price in the week of Jan 15 = 100.
Source: Bloomberg
Source: USDA Farmers.gov and NASS. Note: Acres are 2018 NASS planted acres of MFP1-eligible crops: corn, cotton, sorghum, soybeans, and wheat. 2019 NASS planted acres of MFP2-eligible crops: corn, cotton, sorghum, soybeans, and wheat plus alfalfa, minor grains, oilseeds, and pulses.
Source: USDA Farmers.gov and NASS. Note: Acres for CFAP1 are 2019 NASS planted acres of CFAP1-eligible crops: corn, cotton, sorghum, soybeans, durum and spring wheat, and other minor grains. Acres for CFAP2 are NASS 2020 planted acres of CFAP2-eligible crops: corn, upland cotton, sorghum, soybeans, and wheat plus many other minor grains and oilseeds.
Policy lessons from MFP and CFAP

Achieving all policy objectives is impossible: choose two? one?

**Timeliness**

Necessary (but difficult) to predict losses in advance (e.g. prior to marketing year)

**Targeting**

Payment rates and quantities not always calibrated to actual economic damages

<table>
<thead>
<tr>
<th>Difficulty</th>
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<tr>
<td><strong>Difficult to apply one methodology to measure damages across many commodities</strong></td>
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<tr>
<th>Program focus</th>
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<tr>
<td>Programs less focused on specific commodities or regions over time</td>
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</tbody>
</table>

**Decoupling**

Program design consistently seeks to avoid affecting farmer acreage allocation decision (even when program announced prior to planting)
Poll Question

How do you think the significant Federal support for agriculture since 2018 will impact future support levels?

- Increased future support for agriculture
- Reduction in future support for agriculture
- No impact
Safety Net Programs
Commodity Programs and Crop Insurance

vs.

Ad Hoc Support

Consistent design

Yield
Realized yields compared with expectations based on experienced history (trend)

Price
Average price over full year compared with recent experience (ARC) or fixed benchmark (PLC)

Price at harvest vs. expectations prior to planting (insurance)

Ad hoc = “for this”

Quick/rushed rollouts

Estimated/predicted trade damages (MFP)
Historical trade volume benchmarks
Estimated price impacts

Price decline over portion of a year (CFAP)
Pre- and post- shock time periods

PPP/EIDL
• Crop insurance program continues to evolve
• Does need/use of *ad hoc* since 2018 question effectiveness of standing programs?

Source: Economic Research Service (ERS) and Risk Management Agency (RMA) USDA
Net Crop Insurance = Indemnities less Farmer-paid Premiums
Farm Income and Perceptions

2020 NFI of $120 billion
- $46 billion in direct federal support
- Highest since 2013

All while:
- Overall recovery slows
- 10.7 million unemployed (6.7% unemployment)
- Stock market records

Stimulus round 3

Source: Economic Research Service (ERS), USDA
Poll Question

What kind of changes do you expect for commodity programs in the next Farm Bill?

- Major overhaul, with less commodity program support
- Major overhaul, with more commodity program support
- Minor changes, with less commodity program support
- Minor changes, with more commodity program support
- Status quo for commodity programs
Farm Policy Moving Forward

• New administration’s rural priorities

• Farm Bill debate
  - Budget/deficit constraints
  - Modifications to existing programs will be proposed and debated, as always
  - Conservation focus
    ▫ Agriculture’s role in climate efforts

• Consider rationale for ag support moving forward
We would like to thank all of our farmdoc sponsors:
Farmland is receiving significantly increased attention by owners and investors seeking to make sense out of the scrambled economic signals of the recent past. Historically, the conventional narrative around farmland as a financial asset is that the returns are positively correlated with inflation, have low or negative correlation with equities, and have positive portfolio benefits in well-diversified holdings due to the relative lack of response to short-term broad market movements.

The Fed has signaled an intent to target higher inflation, and the changing posture on trade and world demand could drive commodity prices, though perhaps not as clearly linked to dollar prices. This session examines the relative returns to farmland over differing macro-environment periods of the past, and suggests the strength of relationship to expect in the future to financial assets, interest rate indexes, and inflation.
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