farmdoc DAILY

Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Commodity Program Spending on Dairy and Cotton: Past and Projected Perspective

Carl Zulauf

Department of Agricultural, Environmental and Development Economics
Ohio State University

Gary Schnitkey, Jonathan Coppess, Nick Paulson

Department of Agricultural and Consumer Economics
University of Illinois

January 12, 2018

***farmdoc daily* (8):6**

Gardner Policy Series

Recommended citation format: Zulauf, C., G. Schnitkey, J. Coppess, and N. Paulson. "Commodity Program Spending on Dairy and Cotton: Past and Projected Perspective." *farmdoc daily* (8):6, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 12, 2018.

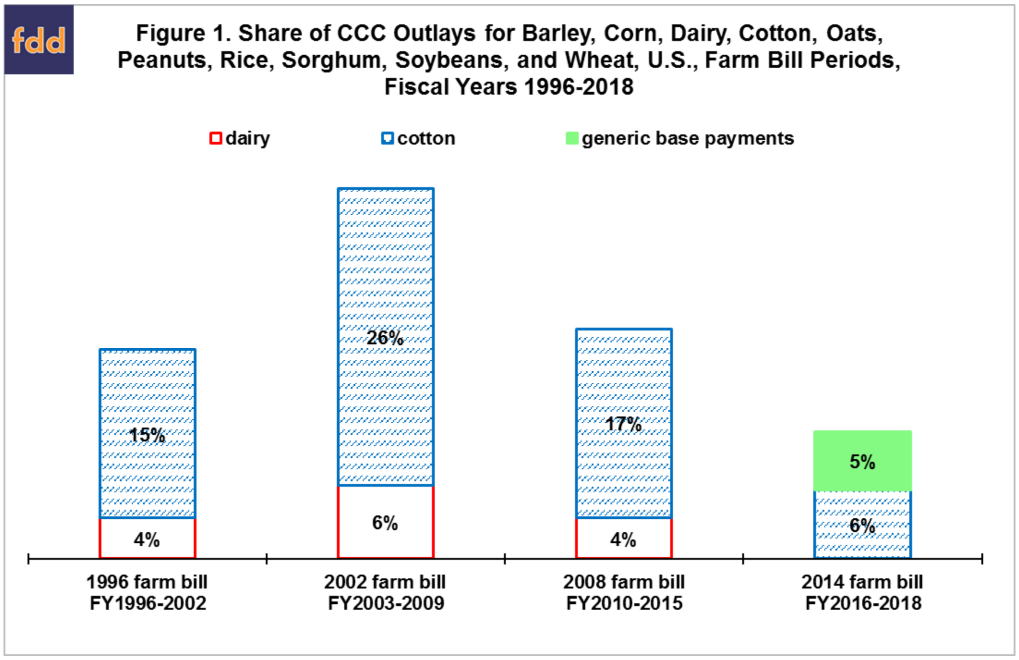
Permalink: http://farmdocdaily.illinois.edu/2018/01/commodity-program-spending-on-dairy-and-cotton.html

At this juncture in the debate over the next farm bill, two of the most discussed issues are what to do with commodity policy for cotton and dairy. Key considerations are the costs associated with (1) enhancing the dairy safety net and (2) making seed cotton eligible for ARC (Agriculture Risk Coverage) and PLC (Price Loss Coverage) payments. This article examines actual spending on dairy and cotton in the 1996, 2002, 2008, and 2014 farm bills and explores implications for future spending.

Data: The U.S. Department of Agriculture, Farm Service Agency (FSA) reports outlays made by CCC (Commodity Credit Corporation) on commodity programs in what is referred to as Table 35. CCC is responsible for the financial side and some operational aspects of commodity and other programs. Table 35 provides consistent data beginning with FY1978 (Fiscal Year 1978). However, it has not been updated since FY2016. Recent expenditures are from the CBO (Congressional Budget Office) baseline for farm programs for FY2016 and FY2017. CBO estimates for FY2018 are adjusted for differences between CBO's estimate for ARC-CO and PLC payments and actual payments reported by FSA so far for FY 2018. Spending estimates for other programs in the baseline are not adjusted. See data note 1 for additional data analysis details.

This study starts with the 1996 farm bill. It eliminated annual acreage set asides and most public stock programs. Both types of programs can provide significant support by reducing supply available to the market and increasing prices. Prior to 1996, total commodity support thus equals program payments plus the higher income due to acreage set asides and public stocks. Spending is compiled for dairy and individual crops for which data are available for all years. These crops are barley, corn, cotton, oats, peanuts, rice, sorghum, soybeans, and wheat.

Dairy: Under the 2014 farm bill, milk producers have paid slightly more in premiums than they received in payments from the MPP (Milk Margin Protection) program, resulting in spending that rounds to zero. MPP is a new milk price – feed cost margin program begun by the 2014 farm bill. Under the 3 prior farm bills, dairy's share of total CCC outlays for the 9 crops plus dairy ranged from 4% to 6% (see Figure 1).



The relatively stable share over the 1996 through 2008 farm bills is noteworthy as major changes occurred in dairy policy. CCC made net purchases of dairy products in conjunction with the milk price support program under all 3 farm bills, but the 2002 and 2008 farm bills also authorized the MILC (Milk Income Loss Contract). MILC was a milk price deficiency payment program.

Cotton: Cotton's share of CCC outlays for dairy and the 9 crops was 15% and 17% during the 1996 and 2008 farm bills (see Figure 1). Its share was 26% during the 2002 farm bill, but Brazil successfully challenged this farm bill's cotton program at the WTO (World Trade Organization). Cotton's share of spending so far under the 2014 farm bill is 6%. In addition, generic base acres have accounted for 5% of CCC spending. Generic base was created by the 2014 farm bill as a repository for former cotton base in the 2008 farm bill (see, *farmdoc daily*, April 13, 2017 and April 20, 2017). Under the settlement of Brazil's WTO case, upland cotton base acres are ineligible for ARC/PLC payments. However, generic base acres can receive ARC/PLC payments if a covered commodity is planted on the generic base and ARC or PLC is elected for the crop planted on generic base. Payments to genetic base acres total $149, $444, and $501 million for FY 2016, 2017, and 2018, respectively.

A variety of crop commodity programs have existed since 1996. Production flexibility contracts in the 1996 farm bill and direct payments in the 2002 and 2008 farm bills made a fixed payment per base acre. The Counter-Cyclical Program in the 2002 and 2008 farm bills and PLC in the 2014 farm bill made payments if price was below a statutorily fixed target or reference price. The Average Crop Revenue Program in the 2008 farm bill and ARC in the 2014 farm bill made payments if revenue was below a benchmark revenue based on market values. Relative stability of cotton's share of spending, particularly in the 1996 and 2008 farm bills, is thus noteworthy.

Summary Observations

- In historical perspective, a commodity's share of commodity program spending tends to remain relatively constant from farm bill to farm bill, although variations do occur.

- An explanation consistent with this historical observation is that political pressures mount if a commodity's share of commodity program spending varies markedly between farm bills. This political pressure leads to policy changes to bring the share closer to recent averages.

- This perspective is useful when looking at commodity policy for dairy and cotton as their shares under the 2014 farm bill so far are notably less than under farm bills since 1996.

- CBO's June 2017 baseline for farm programs projects annual spending over FY2021-2027 of $4.9 billion for dairy plus the 9 individual crops. Applying the 4.7% average spending share on dairy the 1996 through 2008 farm bills generates annual FY spending of $230 million. CBO projects annual spending on dairy of $96 million over FY 2021-2027. Returning dairy to its pre-2014 farm bill share of spending requires around $130 million per year or $1.3 billion over 10 years. This money would have to be new money added to the farm bill baseline or come from existing farm bill programs.

- CBO currently projects over FY2021-2027 annual spending of around $75 million on cotton plus $337 of annual payments to generic base. This equates to an 8.4% spending share, substantially below the 15% share for cotton during the 1996 farm bill, or before Brazil's WTO case.

- Given Brazil's successful case at the WTO, Congress may want to keep the share of spending on cotton below the 1996 farm bill share to mitigate the chance of another WTO case by Brazil.

- Given the previous point, a rule of thumb that may emerge to guide spending on seed cotton by ARC and PLC is to set it equal to the projected payments to generic base acres.

- Another potential rule of thumb is to set cotton's spending share equal to the 6.8% share of total base acres that are generic base acres under the 2014 farm bill.

- Not only are these two shares substantially below cotton's 15% share under the 1996 farm bill and thus prior to Brazil's WTO case, but the cost of the seed cotton program can be paid for by eliminating the generic base acre program.

- As discussed in yesterday's (January 11, 2018) *farmdoc daily* article, a proposal exists to authorize ARC and PLC payments to seed cotton. Annual payments of $292 million to seed cotton were estimated for this proposed program over FY2021-2027, implying a spending share of around 7.5%. This estimate falls between the spending shares generated by the two rules of thumb.

Data Note: The 2014 farm bill authorized cotton transition payments to ease the ineligibility for ARC and PLC payments. They totaled $484 million in FY2015 and $3 million in FY2016. Since these payments were authorized by the 2014 farm bill, they are included in the 2014, not 2008 farm bill. A one-time payment of $300 million to Brazil in FY2015 to settle the WTO case is excluded in this analysis since it is not program support for U.S. producers. Cotton ginning cost share payments of $328 million made in FY2016 are included in the 2014 farm bill period.

References

Congressional Budget Office. "Baseline Projections for Selected Programs – USDA Mandatory Farm Programs – March 2016 and June 2017." January 2018. https://www.cbo.gov/about/products/baseline-projections-selected-programs

Coppess, J., C. Zulauf, G. Schnitkey, and N. Paulson. "Reviewing the Latest Cotton Proposal." *farmdoc daily* (8):5, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 11, 2018.

Coppess, J., C. Zulauf, G. Schnitkey, and N. Paulson. "Beneath the Label: A Look at Generic Base Acres." *farmdoc daily* (7):68, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, April 13, 2017.

Paulson, N., G. Schnitkey, J. Coppess, and C. Zulauf. "Have Generic Acres Impacted Planting Decisions?" *farmdoc daily* (7):73, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, April 20, 2017.

U.S. Department of Agriculture, Farm Service Agency. "ARC/PLC Program." Accessed January 12, 2018. https://www.fsa.usda.gov/programs-and-services/arcplc_program/index.

U.S. Department of Agriculture, Farm Service Agency. "Commodity Estimates and Books and Reports - Table 35," Accessed January 12, 2018, https://www.fsa.usda.gov/about-fsa/budget-and-performance-management/budget/commodity-estimates-book-and-reports/index.