Farm Policy Study Group
Purdue University
Beck Agricultural Center
December 13, 2011

Attendance
Present
Doug Mills  Dave Howell  Tim Foltz  Roy Fisher  Levi Hoffman
Ken Rulon  Dave Miers  Bill Gilfuis  Mike Yoder  Barbara Edmondson
Rita Sharma  Bryan Johnson  Lisa Koester  Phil Boring  Herman Rettinger Jr.
Sam Cordes  Pete Clark  Sonny Beck  Bob Jones  Terry Hayhurst

Roman Keeney

Excused Absences
JoAnn Brouillette  Will Irwin  Joan Fulton  Robert Fulford
Dave Hardin  Lowell Hardin  Adam Howell  Alan Kemper
Bryan Kirkpatrick  Jim Moseley  John Nidlinger  Marilyn Roberts
Danita Rodibaugh  Mark Townsend  Wayne Townsend  Don Villwock
Christy Welch  Kaye Whitehead  Paul Farris

No Response
Gary Reding  Dwaine Ward  Otto Doering

Guest
Josh Doan

Introductions and Crop Report
The year began with heavy spring rains and delayed planting; followed by an extremely hot and relatively dry summer. Crop maturity was delayed somewhat which delayed harvest. Despite these adverse weather conditions, most corn and soybean yields were below trend but better than expected.

Morning Program
Dr. Jerry Lynch, Professor of Economics and recent Interim Dean of the Krannert School of Management, shared his thoughts on the U.S. financial conditions, especially the federal budget debt. His power point presentation may be found at: http://www.ag.purdue.edu/arp/Pages/presentations_special.aspx

The title of his presentation was: “What’s so Super about the Super Committee?” He discussed the deficit flow and debt accumulation. The debt is now about $15 trillion. A debt ceiling was first established in 1917 and has been raised 74 times since 1962. There is no deficit limit. Social Security collects more than it spends and buys Treasury Bonds.

The Public Debt is held by Americans, foreigners, and the Federal Reserve. The Debt/GDP ratio measures the ability to service the debt. On August 5 the government debt rating was downgraded, but the US will not default on its debt. S&P was concerned about inflation and purchasing power in the future, not if the government will pay back bonds with interest.

The U.S. bond yields have actually been falling since the S&P announcement. Government spending has been increasing while tax revenues have been falling. When government spends more this reduces private activity. There have been increased expenditures on defense and homeland security. About 40% is borrowed for government spending and 60% from taxes. The sources are from savings increasing, borrowing from abroad (especially China- about 7% of US government borrowing), and reductions in private investments. There is a concern that China may increase domestic consumption and reduce savings. When the Fed buys bonds this increases the money supply. QE2 action had monetized the deficit and bid down bond yields. The Fed by purchasing long-term bonds has tried to influence the long term yield curve and lower interest rates to encourage bank lending. The Fed is concerned about inflation. Interest expenses come out of tax revenue and this means less to spend on other government programs. While financing is possible at low interest rates now, with inflation we will have higher interest costs. With the obligations for Medicare, Social Security, and bond interest payments, what does the future hold? There is a need to increase taxes and increase GDP growth. We need to deal with this problem soon. We cannot depend on China to finance the US debt.

Dr. Phil Abbott, Professor of Agricultural Economics, shared his thoughts on the topic “Why do PIIGS matter to the price of corn in Indiana?” His power point may be found at: http://www.ag.purdue.edu/arp/Pages/presentations_special.aspx

PIIGS means Portugal, Italy, Ireland, Greece, and Spain. He discussed the very dynamic situation in Europe. He stated what matters most to farmers is the exchange rates. The EU has a serious financial situation without clear solution with its large debt, banks that hold the debt, slow GDP growth, a potential recession, a concern as to whether the euro will survive, and different estimates on the size of the debt by country. The German debt is considered safe but not in Greece, Italy or Spain. GDP rates will continue to fall- - close to zero or even negative. They are experiencing very slow growth rates but not in a recession yet. There is very high unemployment in much of EU with the exception of Germany. Interest rates are relatively high.
US and German bond rates tend to move together. Japanese interest rates are lower but expect less inflation in Japan. EU banks hold most EU debt. Credit default swaps are the primary US exposure. The euro remains weak. Now the euro is $1.32, which implies a weak dollar.

Financial crisis is not new in Greece. A devalued currency reduces debt in foreign exchange, increases exports, and reduces imports. Greece cannot do this as part of EU. Germany is funding Greece and this makes Germany stronger. There is a common monetary policy in EU, but the ECB- European Central Bank- is not the US Fed. The ECB action can help counter inflation, not deal with the unemployment rate as can the US Fed. There are no euro bonds like US Treasury bonds. It is not clear if EU has this authority and whose country bonds to sell. Germany does not want inflation. There are separate Central Banks in each country. Each country regulates the banks in each country and not at the EU level. Hence the ECB may not have the authority.

Foreign capital flows matter and flow faster than trade and influence investments. The US dollar has strength since it is viewed as a safe haven. The IMF is providing stabilization loans to Greece- e.g., China and Brazil and thus they want greater voting rights.

Fiscal policy for austerity involves cutting spending and/or increasing taxes, but this can reduce economic growth- e.g., Mexico and lost decade of the 1990s in Latin America. The goal should be to cut future expenditures and not shorter term. Economic growth is needed to increase tax revenues.

It would help to have fixed exchange rates and a common monetary policy, but each country has its own fiscal policy. As each country tries to reduce deficits, it results in slower economic growth. Another problem is different social protection policies in each country, e.g., age for retirement or social security benefits across countries in the EU.

Financial crisis and recession are not the same thing. The US Fed fears a financial crisis. The US Fed holds student loans and mortgages. The stock market reacts positively to efforts by the US Fed to avoid bank failures.

A weak dollar stimulates US exports and farm income. A recession lowers foreign demand and exports. Agricultural products are more price elastic and thus less decline in quantity demanded. As the dollar weakens the price of corn increases.

Some possible solutions:

• Breakup EU. Break off Greece but this is not likely.

• Monetize the debt by selling bonds, but this would increase inflation in Germany.

• Severe austerity. This would result in recession, reduced GDP growth, reduced tax collections, and social unrest.

• Rescue EU banks. This would provide liquidity, US Fed loans to ECB, and increase bank capital requirements.
Q&A

Q: What is the role of China in the financial crisis?

Economic growth is faster in China than EU and US. This raises concerns about inflation in China and they are trying to slow growth. When China starts to grow, commodity prices start to increase - oil, metals, etc. Now China is saving less and US is starting to save more. This means fewer viable investment options in China. China will not save EU and US.

Q: What about an orderly dismantling of EU? How??

No one is talking about this. The Agreement is being driven by politics, not economics.

Dr. Abbott stated that the proposed policy is too severe on austerity and need to cut off Greece.

Dr. Lynch indicated there is a need for labor and capital mobility. Countries need to follow the EU guidelines. Greece is not following the rules.

Lunch

Afternoon Program

Dr. Ken Foster, Head of Agricultural Economics, presented a departmental overview. For his presentation go to: http://www.ag.purdue.edu/arp/Pages/presentations_special.aspx

He discussed the department mission statement and shared stories about accomplishments and awards as he shared pictures of the faculty and staff. He announced that the speaker for the Snyder Lecture will be Dr. Rob Paarlberg on April 11, 2012 on the topic “Culture Wars in Agriculture: Who is Winning?”

Dr. Roman Keeney, Associate Professor of Agricultural Economics, make a presentation entitled “Farm Bill Debate and Prospects for 2012”. You can find his power point at: http://www.ag.purdue.edu/arp/Pages/presentations_special.aspx

The Joint Committee on Debt Reduction missed the Nov 23rd deadline. A Farm Bill was proposed to be part of this package debt reduction bill. The goal was a reduction of $1.2 trillion - 50% domestic and 50% defense. The share for Agriculture would have been $23 billion over 10 years. This closed-door process was criticized. There is opposition to direct payments. Current outlays are about $4.8 million annually. The primary focus of a proposed new Farm Bill is on improved risk management and shallow loss (ACRE-like) crop insurance.

As we move into 2012 the outcome is not clear. What is most likely is the elimination of direct payments, LDP, and CCP plus a revision of ACRE with some type of shallow loss insurance. This would provide some price, yield, and income protection.
It is anticipated that the Senate and House Ag Committees will begin where the recent legislative supercommittee left off. Hearings will occur in Jan/Feb with an early vote before fall election - maybe by the end of May. While much work has been done, this is an election year. There are many tough issues to resolve and they are regional and rural-urban and not conservative versus liberal. In nature.

Agricultural policy is much more than commodity policy, e.g., nutrition, trade, biofuels, rural, tax, etc.

There will be debate on Direct Payments including:

- Purpose?
- How used by farmers?
- Impacts on agricultural markets
- Contribution of direct payments to prosperity in agriculture?
- Who is defending direct payments?

The Shallow Payments approach will also be debated relative to:

- Purpose?
- How used by farmers?
- Agricultural market impacts?
- Prosperity of agriculture?
- Who favors them?

The Shallow Programs approach will have greater budget exposure. Plus to date farmers have not selected shallow loss type programs

Will political outcome really meet policy needs?
Theses program approaches have international trade policy ramifications also. The US Public disfavors direct payments while foreign interests disfavor LDSPs and counter cycle/target prices. This is related to the WTO stance of amber vs. blue vs. green boxes. Direct Payments are green box and the other approaches are amber box.

Part of the discussion will be on the baseline for agricultural policy. It appears $23 billion will be at the low end. The Tea Party wants to eliminate farm subsidies.

It is important to put this Farm Bill debate in context. Dr. Bruce Gardner stated that agricultural commodity policy has played a smaller role than education and off farm work, relative to farm income. Some would argue that we should let markets work. Some question why there should be any guaranteed income for farmers?

**Next Meeting**

Since July 4th falls on a Wednesday, Tuesday July 10, 2012 was preferred for the next meeting of the Farm Policy Study Group

Topics for suggested for July 2012 included the following:

- Income to run the country. What % of GDP
- How to operate a farm business within these government policies
- Invite GOP/Dem candidates for Indiana Governor to speak
- Bt corn resistance issue
- Potential changes in tax structure and impact on agriculture sector

The meeting adjourned at 3:00 pm

Respectively submitted,

Marshall A. Martin

Executive Secretary