PURDUE AGRICULTURAL ECONOMICS REPORT

Title:	An uncertain horizon for farm policy
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Summary:	Agriculture enters 2021 with uncertainty about not only the markets they will be supplying but the policy options that will comprise the safety net for farm incomes.

2021 Outlook – Agricultural Policy

Economic policy for 2021 is set to be dominated by efforts to respond to the COVID-19 pandemic, both in terms of economic recovery and continued response to mitigation. Efforts to enact new stimulus and safety net extensions during the second half of 2020 made little progress as election positioning interceded and limited opportunities for negotiating legislation. The election itself yielded a change in the presidential administration and a Senate that remains undecided until runoff elections can be completed in January. All of this sets the stage for an uncertain year in economic policy in which agriculture's short term economic interests will be tied to the objectives of COVID recovery and a new presidential administration that has signaled interest in reversing course on the trade, immigration, energy, and environment actions of its predecessor. In this outlook piece we first consider the larger economic policy environment and how actions may indirectly affect agriculture. That is followed by a consideration of agricultural policy agenda items and what we might expect to see in terms of signals, actions, and policy developments in 2021.

The international economic response to COVID-19 will determine the economic outlook for 2021 and performance of the agricultural sector is no exception. How countries manage the pandemic (i.e., limiting economic activity and adopting stimulus actions) will play a key role in the level and pattern of food demand around the world and by extension the market potential for US production. A new presidential administration eager to reverse trends on some isolationist economic policies is likely to see COVID-19 mitigation as an opportunity for international cooperation. Whether it is in international assistance for food and nutrition or in promulgating treatment, vaccination, and other health services around the world one would expect the new presidential administration to position the United States as a leader coordinating efforts.

Aside from international health and disease measures, the incoming Biden administration has already signaled a desire to re-engage the United States into international climate policy by rejoining the Paris climate agreement. The carbon targets of Paris, while voluntary and not particularly ambitious, could present opportunities for incentive policies in agriculture that foster carbon sequestration and in the production of renewable energy (e.g. feedstock for fuels, wind or solar farming). Finally, re-entry into international cooperation is likely to be partnered with efforts to redress strained economic relations with China, an important importer of US agricultural products. A phase one deal with China was reached early in 2020 that brought a commitment to significantly increase Chinese imports of US products including crops but the entire phase one agenda has been impacted by COVID-19 which first closed much of China's economy and then did yielded the same result in the United States. Post-COVID economic relations with China, and particularly the market access for US farm products will be a key signal to how the new presidential administration views agriculture's importance in commodity trade and their willingness to make concessions to ensure market access for agriculture.

In terms of policies that have a more direct impact in the food and farm economy, much of the policy activity of the past three years has been directly carried out by the Department of Agriculture (USDA) with the Trump administration using existing appropriated funds and legal structures to distribute price supports to farmers and make direct purchases of commodities. Previously these payments were made on the basis of damages of the trade war and more recently as a COVID-19 relief package. Similarly, USDA and the administration were working to reduce nutrition assistance (SNAP) to payments by limiting eligibility waivers that have been extended to households participating in other low-income assistance programs. The incoming administration may have an interest in using the executive authority in continuing the direct subsidization of agriculture to bolster the farm and rural economy using similar safety net provisions and attempt to expand temporary eligibility for SNAP benefits, a policy action that was previously adopted during the Great Recession. It may be more difficult for the incoming administration to enact policy unilaterally in the same manner however as Republican legislators have expressed concerns over deficit levels in discussions of further COVID-19 economic recovery and relief actions.

The uncertain policy environment is nothing new for agriculture in the 21st century. The trade war actions of the past few years have left farm operators to plan for each year without a clear picture of what foreign markets would be available to them and whether the additional safety net measures beyond those legislated in the farm bill would be made available. An early sign of how the presidential administration sees spending in agriculture will come in the new administration's first budget publication (typically in late February or early March) that highlights spending priorities and areas targeted for reductions. While the executive branch's budget is more of an agenda outline than a firm policy proposal it does set the marker for where the White House is likely to weigh in when Congress reaches impasse. Of particular interest will be how trade assistance payments of the past few years are viewed by the incoming administration and whether they are even mentioned in that document as part of anticipated spending going forward.

Of course, farm policy is most closely associated with the writing and enactment of "Farm Bills", omnibus legislation that packages programs for nutrition, commodity support, crop insurance, conservation, and a number of other initiatives. The current Farm Bill is set to expire in October of 2022 (start of Fiscal Year 2023), so there is always the possibility that the legislative process for a replacement for 2018's law would begin in 2021. The midterm elections of 2022 would likely stall efforts to complete a large comprehensive package making an early start in 2021 with a passage in the first two quarters of fiscal 2022 the only path to replacing the Farm Bill prior to expiration. The role of trade and the lack of resiliency of the commodity programs to support incomes in the face of significant export shocks will be a key consideration when the Farm Bill is taken up again.

The guiding principle of farm program design following the elimination of direct payments has been to make commodity payments work alongside insurance products to dampen losses for farms when market revenues are weak yet limit outlays when incomes are deemed sufficient. The experience of the trade war indicates that the price and revenue support programs as written do not eliminate the need or political impulse to direct emergency spending to support agriculture. While there is debate over the size of the transfer payments and whether they were over-large relative to the trade losses they were designed to counter-act, it is clear that programmatic tweaks would be necessary to protect against precipitous price and income changes in the sector. This means the key policy questions for the commodity title of the next Farm Bill will focus on what mechanisms are needed to provide policy assurance to farmers that unforeseen shocks and disruptions in the trading environment will be met with predictable safety net payments and whether the budgeting of these comes at the expense of government's investment in using the public private partnership of crop insurance as its primary safety net mechanism going forward.