

Two-year total of trade mitigation payments: \$28 billion; Estimated total government payments: \$61 billion

Recently President Trump announced a second round of trade mitigation payments bringing the 2-year total to \$28 billion. In response to that announcement we have been asked, “Could we have spent that money better with a different farm program?”

Before we answer that question, let’s look at the general situation in agriculture since 2012 and crop agriculture followed by an examination of soybean prices and exports which are subject to retaliatory tariffs by China.

Net farm income hit a peak in calendar 2013 as the result of a drought that resulted in a yield-shortened 2012 corn crop. In 2013 net farm income was \$123.7 billion which included \$11.0 billion in direct government payments. By 2016, farm income had fallen to \$62.0 billion, including \$13.0 billion in direct government payments.

In 2017 net farm income rose to \$77.7 billion and \$84.0 billion in 2018 with government payments of \$11.5 billion and \$13.7 billion respectively. The United States Department of Agriculture’s (USDA) August 30, 2019 forecast for 2019 net farm income is \$88.0 billion which includes \$19.5 billion in direct government payments. The increase in government payments is \$1.8 billion more than the increase in net farm income.

In the USDA’s spreadsheet on US farm sector income, it is not clear where or if the trade mitigation payments have been included for 2018 and 2019. The income numbers do not include federal crop insurance subsidies.

In part, soybean prices have suffered from the same decline in prices as other crops reflected in the decline in net farm income since 2012. Between 2012 and 2017, the season average corn price declined by 48.8 percent while the decline in the price of soybeans was 64.8 percent. This differential is attributable to the stabilization in the amount of corn needed for ethanol production while soybean exports increased by 60.7 percent.

Based on the USDA 2019 forecast, soybean prices will be 59.0 percent of their 2012 level and corn shows a modest increase to 52.3 percent. While soybeans have been subject to the general price malaise experienced by other crops, much of the decline over the last 2 years can be attributed to the trade dispute.

Did this price decline have to happen? No number 1. If the President had been more judicious in his handling of outstanding trade issues with China, US soybean exports to China likely would have continued to increase. As it now stands, there is a distinct probability that the US may never regain the level of China’s soybean imports that it enjoyed in recent years. As we have seen with other policy-based trade disruptions, once alternate agricultural trading relationships have been established, they are not likely to change very quickly.

No number 2. If Congress had implemented a supply management program as the core of the 2018 Farm Bill, crop prices in general would be higher than they are today. In addition, a disruption in soybean exports to China would have resulted in some soybeans being forfeited to the CCC and isolated from the market sustaining soybean prices.

In addition, the cost of this program would have cost the taxpayers significantly less. Over the four-year period of the 2018 Farm Bill the supply management program of the Agricultural Policy Analysis Center and the Texas Farmers Union was projected to cost \$25.6 billion and probably a little more because the modeling completed in 2017 did not include a trade dispute with China.

For 2018 and the 2019 USDA forecast, the 2-year direct government payments are slated to cost \$33.1 billion while the trade payments are projected to be \$28 billion for a total of \$61.1 billion.

Even with \$61.1 billion in government expenditures in addition to crop insurance subsidies, most farmers are not recovering the full cost for the crops they are producing while some are having to file for bankruptcy.

Although some want to tar supply management programs as the failed programs of the past, it can be argued they are certainly more cost effective than the current palette of programs.

Policy Pennings Column 994

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 240, September 20, 2019

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