2023 Farm Bill: CBO baseline projection sets the stage

In May 2022, the Congressional Budget Office (CBO) released its 10-year baseline projection for USDA (United States Department of Agriculture) Farm Program expenditures (https://tinyurl.com/yc5cmfwx). This baseline projection is important because it begins to give Congressional agriculture committees an idea of how much money they will have available to craft the 2023 Farm Bill. Next year's baseline projections, based on the continuation of current policies for the next 10 years, will nail down the final amount available for crafting farm programs for the 2023 Farm Bill.

We find it interesting that while the May USDA World Agricultural Supply and Demand Estimates (WASDE) (https://tinyurl.com/3caz8bvy) projects the corn price for the 2022 marketing year at $6.75 per bushel, the CBO projects a more modest $6.00. For 2023, CBO projects the season average price received by farmers for a bushel of corn at $4.45, falling to $3.95 in 2025 and remaining below $4.00 for all years but one, ending up at $3.80 in 2032.

If you are a farmer, those numbers have to be frightening after the Russo-Ukrainian War-induced highs that are well above $6.00 per bushel. Although the price of a bushel of corn is at record highs, so too are input costs like fuel, fertilizer, seed, farm chemicals, and machinery. It is very likely that while fuel prices are going to fall as suppliers other than Russia increase their petroleum output to capture current prices, seed, farm chemical, and machinery prices will decline more slowly and probably not to 2021 levels.

Even without taking these price gyrations into account, the cost of production of a bushel of corn in recent years has been in the $4.00 range. An inevitable increase in input costs makes the projection of a $3.80 per bushel price 10 years from now, downright frightening.

For us, this scenario illustrates the purpose of the farm policy portion of the farm bill. One major purpose of agricultural policy is to stabilize US agriculture in times of low prices. When crop prices are high like they are today, it is easy to forget that over the long haul, the biggest challenge farmers face are the long periods of low prices.

Season average prices paid to farmers that are below the full cost of production are the norm while the prices we are seeing today are an anomaly. If high agricultural prices were to characterize most years, we would not have to subsidize insurance companies to provide crop revenue insurance. They would be spewing ads on the air competing for customers just like auto insurance companies. Only with federal subsidies are they willing to take on the systemic risk of low farm commodity prices.

Other goals include food safety, managing the environmental impact of agricultural production, and maintaining a stable base of agricultural production in the US.

Farm policy should not be about capturing a high baseline set of government expenditures for future farm bills. Neither should the provision of farm program payments to farmers when, for instance, the marketing year price declines from 160 percent of the full cost of production to 130 percent be seen as legitimate. Unfortunately, policies like this are a byproduct of the rules adopted by Congress to keep federal expenditures under control. When prices are expected to remain above the full cost of production, these kinds of programs maintain higher baseline expenditures for future farm bills.

A sometimes neglected element of farm policy is the need to maintain a fair economic system for farmers who face the power of oligopolies when they purchase the inputs they need in their operations and oligopsonies when they go to sell their production.

As we move into the period of time when the debates over various farm commodity policy alternatives become heated, we need to remember that the top three issues are "price, price, and price" and they are usually below the full cost of production.

Policy Pennings Column 1129

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 375, June 10, 2022

Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.
Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.