Some Ideas on Future Economic Directions

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Introduction

- Debt deal
- Inflation
- Farm Program Implications

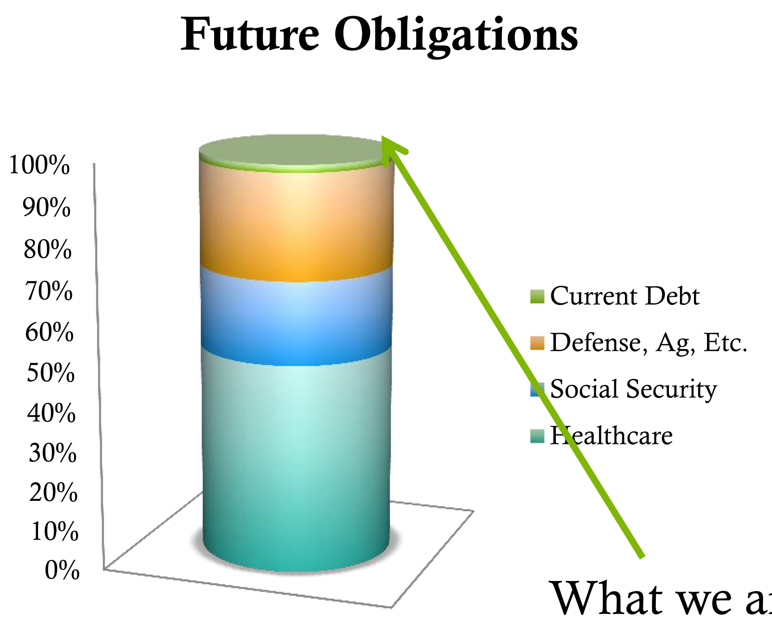
Debt Deal

- Raises borrowing limit of federal government
- Purports to cut "spending" by roughly $1 trillion now plus $1.5 trillion by end of year
- OK…but:
  - Federal budget deficit projected at $10 trillion over 10 years
  - Debt deal would only reduce that to $7.5 trillion of ***additional debt*** over next 10 years

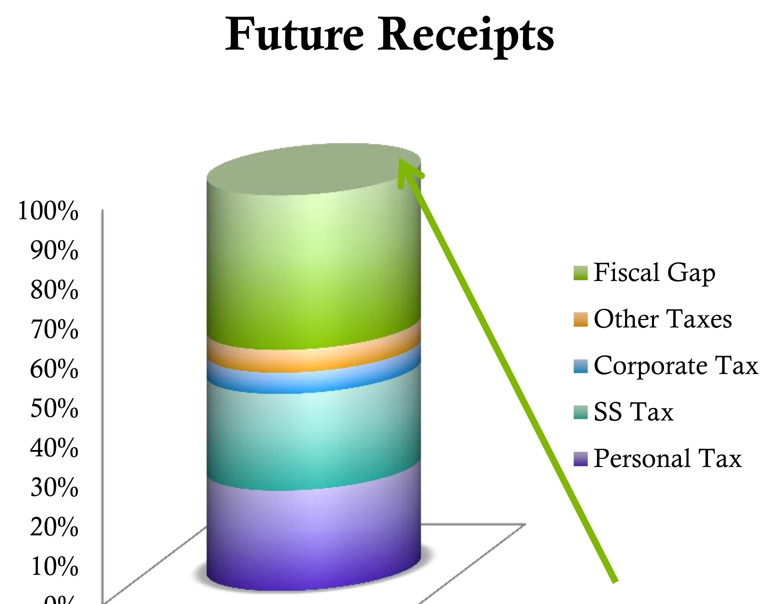
S&P Downgrade

- Why?
  - Not current debt…focused on the realistic potential of reducing debt-to-GDP ratio over the next 10 years.
  - "Spending" a problem…but gap between revenues in spending is THE problem.
- Implications?
  - Short-run—not too much other than the volatility in the market as traders try to reposition
  - Longer-run—could result in higher borrowing costs

“Debt” vs. “Fiscal Gap”



What we are talking about.

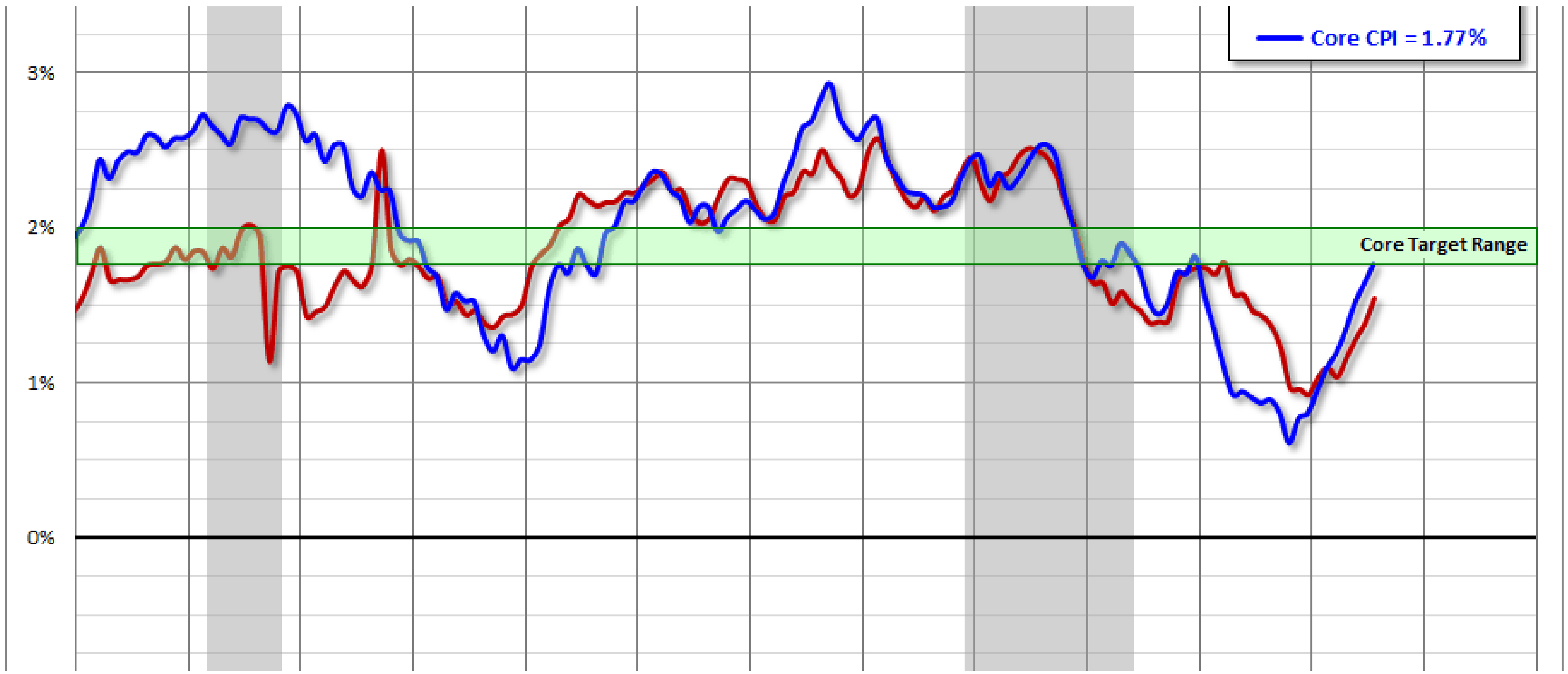


What we should be talking about.

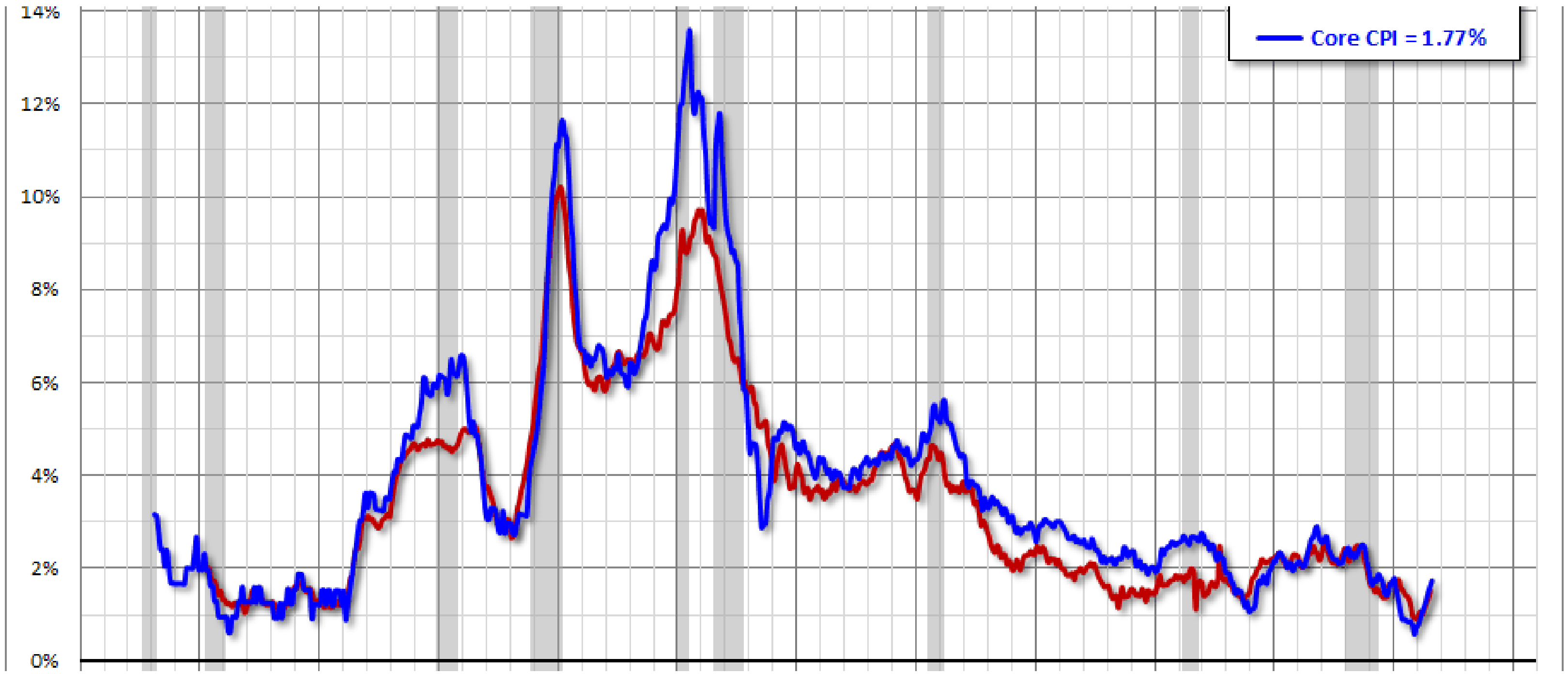
Closing the Gap

- Cannot be done with spending cuts only
- Must include additional tax revenue
  - More taxes vs. economic growth
- Expect serious challenges if not an outright slashing of farm programs

Inflation??



Inflation??



Farm Policy Implications

- Farm programs are “low hanging fruit” in the budget battle.
  - Small constituency among an increasingly urban legislature
  - Not mandatory
- Eyes on direct payments
  - Transparent; easy political target
  - With high prices, the only real source of cash for deficit reduction (except crop insurance)

Options Being Discussed

- Revamping ACRE
  - Cotton Council asking for a layered approach with area insurance and ACRE of some sort
- Shoring up SURE
  - How to handle "shallow losses"
- Modifying crop insurance

Conclusions

- Budget situation is quite dire
- Severely limits options with discretionary spending
- Likely to see significant changes in discretionary spending such as farm programs (may even see significant changes in entitlement spending)