

International Agri Insights

with Professor Bill Bailey

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US Mid-term results divide legislature

In this latest edition of *International Agri Insights*, our US-based expert, Prof. Bill Bailey, gives his insider's take on the US mid-term election results, the consequences for US farm legislation as well as the potential impact on New Zealand agriculture.

- US elections result in divided legislature – Democratic House and Republican Senate.
- Gridlock is not expected as Congressional leaders assume the mantle of responsibility for their actions.
- A new Congress is expected to approve Trump's trade agreement with Canada and Mexico.
- Potential farm legislation changes could have positive impacts on NZ agriculture.
- Overall, national elections were much more supportive of the Trump Administration than many analysts expected.

US mid-term elections: a Presidential report card of sorts

While the most recent US national election was not a Presidential election, its influence has national and international significance. Control of the US Congress – the Senate and the House of Representatives – was dependent on the outcome of the elections. Further, for the country's 50 states, 36 states had elections for their state's governor. Although the election was not for a new President, the results will be interpreted, by some, as a judgment of President Trump's two years in office.

Every two years, all 435 members of the House of Representatives are up for election. The party with the most Representatives elects leadership for the House. In 2016, there were 241 Republicans and 194 Democrats elected. With the majority, the Republicans controlled the House, and, consequently, the House's legislative agenda.

In this year's election, leadership of the House has shifted to Democratic control. All of the leadership of the House will change to Democrats and the legislative agenda will be under their control.

Although US Representatives are up for election each 2 years, US Senators are elected to 6-year terms. In 2016, the Republicans also controlled the US Senate, with 51 Republican Senators, Democrats held 47 seats with 2 independent Senators. In this year's election, 26 [Democrats](#) and two independents, who [caucus](#) with the Democrats, were up for election. Nine seats, currently held by Republicans, were up for election. As with the House, if the Republicans lost their majority, they lose control of the Senate leadership.

The US Senate, following the election, remains under Republican control.

36 states held elections for their governor. Currently 26 of those Governorships are held by Republicans, 9 by Democrats and one independent. While state governors do not have a direct role in the legislative and governing

process of US agricultural and trade policy, they are important to the implementation and discussion of national policy at the local level. The number of Democratic governors increased this election as Republican governorships declined. The exact number is not yet clear as votes are still being tallied.

The elections resulted in the US Senate remaining under Republican control and the US House of Representative shifting to Democratic control. Previously, both the House and Senate were under Republican control.

The Democrat house win has policy implications

The change in House leadership will have policy and legislative implications. When Democrats were in the minority, their positions could be for purely political reasons since the authority, and responsibility, of legislative actions were under Republican control. Because Democrats will be in a leadership position in the legislative process, it is anticipated their positions on a number of issues will moderate as they become part of the solution to issues rather than simply complaining.

Given the attention Democrats have expressed about Russia and their belief of Russian interference in President Trump's election, it is expected they will continue their push that Russian sanctions should increase. While the change will not be large, Democrat pressure on President Trump will force him to expand US sanctions on Russia.

US farm legislation remains unresolved

A key, and unresolved, legislative issue is US farm legislation, which is paired with domestic feeding program funding. Both the Senate and the House have their own versions of farm and feeding legislation – with the farm legislation similar and the feeding program sections quite different. Republicans wish to cut spending on domestic feeding programs and Democrats wish to strengthen the program. It is expected Congressional negotiations will resume early 2019 with the sitting of a new Congress. However, there are some who wish to consider the Farm Bill before a new Congress is in place. It is not believed this quick movement, which was possible before the elections, will take place.

However, farm financial stress may force the both the House and Congress's hand

The delay in addressing new farm legislation could be met with the reality of severe financial stress at the farm level. US farm income has declined steadily for the past 6 years and currently sits at a 12-year low. Current farm legislation does little to reverse that trend.

A Republican Senate will be reluctant to increase spending but farm state financial stress could force them to do so. The House would support such an effort. A new, and divided, Congress will be faced with an expired farm bill and severe farm level financial challenges. While some see gridlock in the legislative process, it is expected Congress will quickly pass legislation to shore up farm finances. One idea to do so is to return to production controls on a variety of crops, including dairy.

Another unresolved issue is the trade agreement between the US, Canada and Mexico (USMCA). While some see the trade agreement dying in Congress because of the Democrats anti-Trump positions, a failure to confirm the agreement, with significant financial and political consequences, would be seen as a direct consequence of Democratic petulance rather than leadership. Consequently, it is expected USMCA will be implemented by mid-2019.

The potential reintroduction of production controls is good news for NZ agri

All of the above have consequences, some greater than others, for New Zealand agriculture. A new Farm Bill that addresses the bad US farm financial situation could result in reduced US production and, as a consequence, higher world prices for a variety of commodities, including dairy. It is expected the Senate and the House could reach agreement on the legislation, in part because the Democratic House is now a part of the solution.

Trade, broadly reviewed, could be more politically contentious. As noted, the House could increase its pressure to reduce ties and trade with Russia. Such a move, depending on its focus, could open up new opportunities for New Zealand agriculture. The probable agreement to USMCA would be neutral to New Zealand exports, in large because of

the limited changes to the agricultural part of the agreement from the earlier agreement.

Meanwhile, President Trump retains his powers over US-China trade negotiations

The big trade issue is with China. Assuming limited Congressional movement, because of a divided Congress, President Trump could easily continue to apply trade pressure on China. Since the US initially applied tariffs to Chinese imports, there have been no substantive negotiations between the two countries. A new Democratic Congress will not change that process and President Trump will use his Executive Authority, as did President Obama, to accomplish things without Congressional approval.

In summary, the elections resulted in a divided Parliament (Congress). That division will change the discussions from parties deeply critical of the President and the other party, to recognition they are part of the solution and will lead to positive legislation. Such an outcome is good for New Zealand agriculture.

About the author

William C Bailey was Chair of Agribusiness at Massey University for 13 years. He has written weekly world dairy market columns for ASB Bank for almost 15 years. He currently is President of Topker Consulting, specializing in agricultural market research and supply chain issues relevant to agriculture. He retired as Dean, College of Business and Technology, at Western Illinois University, in Macomb, Illinois, in July, 2017. Bill spent 5 years in the US Marine Corps and received his PhD in Agricultural Economics from the University of Missouri. Before shifting to New Zealand, Bill was Chief Economist for the US Senate Committee on Agriculture, Nutrition and Forestry, served as Deputy Undersecretary of Agriculture and was Vice President and Director of Research for World Perspectives in Washington, DC. His beer of choice is Tui. Contact Bill: topkerconsulting@gmail.com Phone: +1 309 333 5117



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