



## Whither Farm Policy?

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As the U.S. Congress prepares to pump at least \$8.7 billion in supplemental aid to farmers (on top of the \$10.5 billion that has already been earmarked), many people—both in and out of agriculture—are openly wondering if there isn't a better way to run farm programs. To many, it seems that we have no coherent farm policy in the sense that tax dollars are being committed with no clear objective in mind. After two straight years of supplemental appropriations, it is clear that the current farm program (the FAIR Act of 1996, commonly known as Freedom to Farm) is not a politically sustainable policy. And, the policy objective of the ad-hoc aid is clouded by the apparent inability of Congress to pass aid packages targeting assistance to the most at-risk farmers.

In fact, because federal price support payments depend on harvested production, the largest amount of aid will go to crop producers who harvest the biggest yields. Thus, Iowa corn farmers who expect bumper crops this fall will receive higher federal payments than will drought-stricken corn farmers in the eastern United States. (It should be noted that the farmers affected by the drought will receive crop insurance indemnities—if they had the foresight to purchase crop insurance—in addition to some emergency drought aid.) Furthermore, the group suffering more financial stress than any other—hog producers—will be receiving little federal assistance.

Many critics are calling for an end to Freedom to Farm. Some see

solutions in further reform of the crop insurance program, while others are calling for adoption of a new policy made up of remnants of the former farm bills. But, before any new reform proposal can be seriously evaluated, we need to ask—and answer—"What do we want farm policy to accomplish?"

### FARM PROGRAM PROPOSALS: A CROWDED MENU

It is naive to think that achieving agreement on farm policy objectives will be an easy task, especially when we consider the crowded menu of interest-group proposals.

- Environmental groups want farm payments to be used to entice farmers to adopt environmentally-friendly production practices.
- Many rural advocacy groups want farm program payments targeted to small producers, believing that many small farmers increase rural vitality more than fewer large ones.
- Input suppliers prefer payment schemes that do not require a reduction in planted acreage.
- Non-farming landlords prefer payment schemes that are predictable so that land values and cash rents will be enhanced.
- Farm operators who rent land should prefer payments that are not automatically bid into land rental rates.
- Livestock producers—a group that has never been eligible for federal aid—simply hope that federal policy does not increase the price they must pay for their feed.
- Processors and exporters prefer a policy that encourages expanded production.

- True believers in the free market point out that the producer price floors in the FAIR Act (the loan rates) limit agriculture's flexibility. Land that should go out of production in response to low market prices stays in production because the government-guaranteed price is higher than the market price.
- Some point to the government's responsibility to maintain national food security and an affordable food supply as reasons to subsidize crop production.
- And Congress, it seems, just wants to be viewed as doing something for agriculture.

The wide reach and diversity of these collective policy preferences (the list is not exhaustive) indicate that we need to step back, gain a more unified perspective, and then discuss what the role of government in agriculture should be, and why.

### CORRECTING MARKET FAILURES

The first, and perhaps most frequently cited, reason for government intervention is to *correct market failures*. Economists deem a market to have failed when the price consumers pay for a product is significantly different from the cost of production. Agriculture faces two potential market failures: (1) agricultural pollution, and (2) the exercise of market power in input supply and output processing.

Free-market prices generally do not account for the cost of pollution because pollution damages are not borne by producers of goods and services. Thus, agricultural prices will understate the full cost of production when agricultural production leads to substantial pollution. Steps

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can be taken to make sure that the cost of cleaning up pollution is fully reflected in the price of the good. Such intervention can actually increase the benefits of a free market economy by ensuring that all costs of production are reflected in market prices.

The use of market power by large firms to enhance their profits can result in a divergence of price from production costs also. The agribusiness sector has come under fire recently for allegedly manipulating input and output prices to the detriment of farmers. To date, however, convincing evidence of excess market power exists only in specific cases, such as the one brought by the U.S. government against the Archer Daniels Midland Company for fixing the price of lysine. Scant evidence exists for concluding that farmers have been the victims of price fixing by large agribusiness firms, although the potential grows as concentration grows.

### ENHANCING FARMERS' MANAGEMENT DECISIONS

A second argument for government intervention is that farmers need support because they face tremendous variability in output prices. Market prices for raw agricultural commodities are quite sensitive to quantities produced, so that in years of bumper crops, market prices can be quite low, and in years of short crops, market prices are significantly higher. Government programs could stabilize prices by subsidizing commodity storage, or by placing a floor below which prices cannot fall. A more modern version of this reasoning is that farm incomes are highly variable from year to year because of a reliance on unpredictable export demand, and therefore government intervention is needed to stabilize income.

While it may be true that farmers face variability in yields, prices, and income, variability does not, by itself, constitute a market failure. Variabil-

ity is simply a characteristic of agricultural markets. Farmers can take action to manage income variability, including diversifying crops (oats, alfalfa, vegetables, trees), incorporating livestock enterprises, and purchasing insurance.

It must be remembered that many U.S. farmers are able to manage variability and thrive with no federal subsidies. Producers of livestock, fresh produce, tree crops, and nursery crops do not receive government support. The markets they compete in are no less variable than markets for cotton, the major food and feed grains, or milk. The question of why producers of these latter crops need federal help in managing variability while other producers do not needs to be answered before variability can be used to justify intervention.

### INTEREST-GROUP PRESSURE

A third reason for government intervention is simply that the government is responding to pressure from producer interest groups. There is nothing unique about interest groups lobbying for passage of legislation favorable to their constituents. In fact, that is the way that democracies function. One policy option is to accept this reality and design farm policy to transfer enough money to agriculture to satisfy political pressure, but do it in a way that minimizes the long-run damage to the agricultural sector.

### WHY THE FAIR ACT?

Most observers believe that the FAIR Act was passed because of a unique combination of history and circumstances. In the mid-1990s, the national political climate and robust economic conditions turned the tide away from traditional farm policies that had government both supporting prices and limiting production.

- In 1995, the Republican Party took control of the House of Representatives and vowed to greatly decrease government's role in the economy to fulfill its "Contract with America." Some

in the Party targeted farm programs from day one because they were seen as a prime example of government interference with free markets and the management of farm operations.

- Then, in the fall and winter of 1995, crop prices increased to levels such that traditional farm program payments would essentially disappear.
- Meanwhile, in Congress, Senator Lugar, chair of the Agricultural, Nutrition, and Forestry Committee, and others saw the need to continue down the path of incremental reform of farm programs toward greater market orientation and lower government costs that had been initiated with the previous farm bills.
- Responding to the strength in commodity prices, mainstream producer groups rallied behind Freedom to Farm with its fixed program payments, and it passed.

Given this history, it is not surprising that many former advocates of FAIR are calling for a return to the old farm policy now that crop prices have fallen to levels where payments would be higher under the old supply-control programs.

But wouldn't an abandonment of Freedom to Farm reduce the flexibil-

ity and competitiveness of the agricultural sector? After all, many advocates of the current policy say that by getting government out of agriculture, Freedom to Farm has forced farmers to look to the marketplace for signals about what and how much to produce, rather than to government. But this is far from an accurate assessment.

Acres were planted in 1999 solely because the government floor prices were in place. Thus, the large supply of crops in 1999 and the resulting low market prices were actually enhanced by the FAIR Act's floor prices. The supply expansion was especially significant for soybeans because the government floor price of soybeans was set high relative to the floor prices of corn and wheat in the FAIR Act.

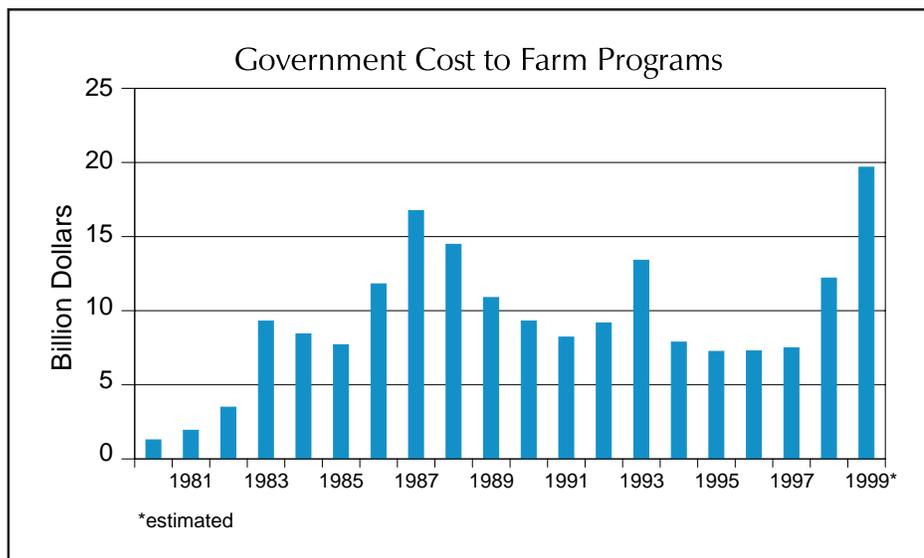
In addition, the 1999 increase in crop insurance subsidies also increased production. There is an old adage that you always get more of what you subsidize. Thus, crop insurance subsidies tend to increase risky behavior. The subsidies increase the viability of continuous wheat production in the arid Great Plains on land more suitable for wheat grown in a wheat-fallow rotation. The subsidies also increase the production of corn and soybeans on land that is more suited for crops that can better withstand drought and high heat.

## A FLEXIBLE AND COMPETITIVE AGRICULTURAL SECTOR

There are few people, if any, who believe that the current farm policy should be maintained; and at times the clamor for a new farm policy has been deafening. The loudest voices are saying that the U.S. government should dramatically *increase* its involvement in agriculture. Given that the role of government in agriculture in 1999 is already pervasive, these fervent appeals bring us back to our original question: What exactly do we want farm policy to do?

If we want policy to move midwestern agriculture to a market-oriented system, with farmers producing the commodities consumers want, in the quantities that can be profitably produced, then we should eliminate all government-guaranteed prices (the loan rates) and crop insurance subsidies. Under this policy alternative, land in low-yielding fringe production areas would come out of production in 2000, the supply of crops would drop, and the prices of corn, soybeans, and wheat would increase. The low-cost producers would be able to weather this disruption in supply and may even come out of it in better shape than if the current policy is maintained. This policy objective, however, appears to be a "non-starter," because the vast majority of opinion leaders and farm organizations are opposed to letting the market determine who should be producing crops in the Midwest.

If we want farm policy to supplement farmers' incomes in a way that maintains the long-run benefits of production flexibility and a market-driven agricultural sector, then we should eliminate the loan rates and crop insurance subsidies, and simply write government checks to farmers. The size of the checks should have no relationship to the actual production decisions that farmers implement. If Congress needs to transfer



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# Iowa's Agricultural Situation

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The combines are starting to roll in the cornbelt. The October 1, Crop Report showed that 18 percent of Iowa's corn crop and 32 percent of the soybean crop were in the bin. Current estimates for the U.S. corn crop are between 9.1 and 9.4 billion bushels and between 2.7 to 2.8 billion bushels for the soybean crop. These rather large crops will add to an already ample carryover supply.

Large red meat production this summer and the large production expected heading into the fourth quarter will force pork prices lower in the fourth quarter. In response to the continuing low farm income levels, the government is considering a second assistance package.

## CROPS

During the last week of September, elevators in central Iowa were paying between \$1.55 and \$1.65 per bushel, and the December contract for corn had declined to the \$2.10 per bushel range. This has resulted in a basis of between \$ -0.50 and \$ -0.60 for the past several weeks. As more of the corn makes its way into the bin, producers will be concerned with basis levels and current loan deficiency payment (LDP) rates. The Center for Agricultural and Rural Development (CARD) monitors LDP rates on a daily basis, and this information is available on the CARD Web site (<http://www.card.iastate.edu>) (see article on page 6). The user can evaluate three grain marketing strategies that take into account expected basis levels, LDP rates, and storage.

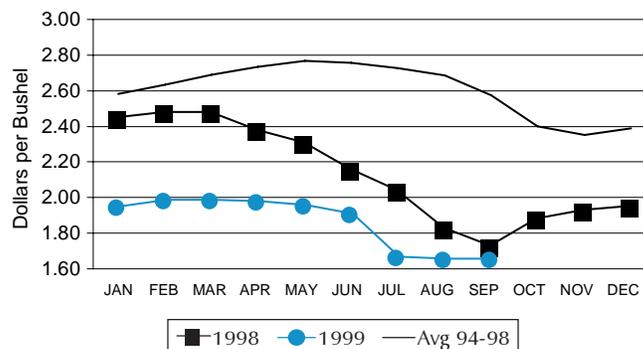
Given the current world stocks-to-use ratio (see table on page 5) and an estimated 1.8 billion bushels in U.S. old crop carryover (25 percent of which is stored in Iowa), it is going to be hard for prices to sustain a large rally. International issues concerning genetically modified organism (GMO) crops has led some grain handlers to refuse GMO corn, as some varieties have not been accepted for export to the European Union (EU) or Japan. Identity preservation of crops will be important for producers, with some grain handling facilities offering premiums for non-GMO crops.

The American Seed Trade Association (ASTA) (<http://www.amseed.org>) has established a web site containing a database of all facilities accepting GMO corn. The users enter their area code and the distance they are willing to transport their crop, and the database generates a list of all facilities within the specified distance that accept GMO corn.

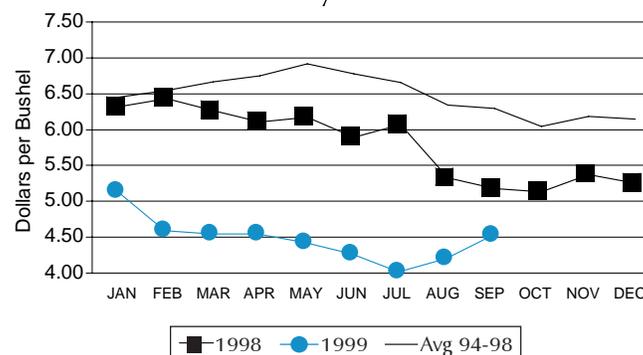
Soybeans during the last week of September at central Iowa elevators were trading between \$4.35 and \$4.45 per bushel. The market is expecting a record production year due to the largest ever soybean plantings this spring; and this is on top of a 348 million bushel carryover (26 percent in Iowa). Producers will want to watch LDP rates carefully because the LDP will amount to about 20 percent of the gross revenue for soybeans this year.

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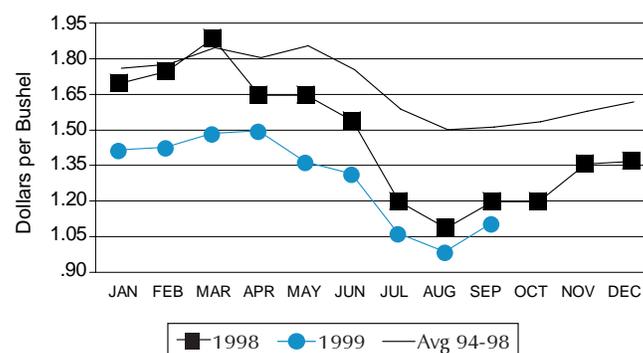
Iowa Corn Price



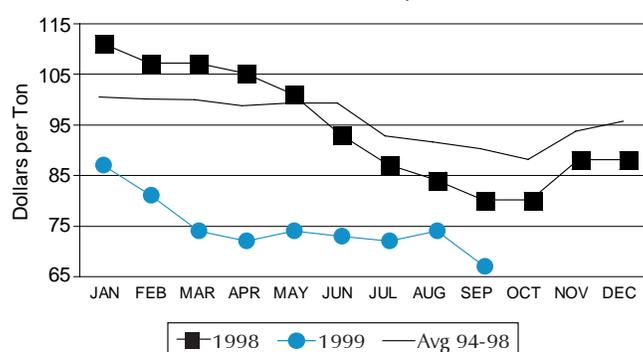
Iowa Soybean Price



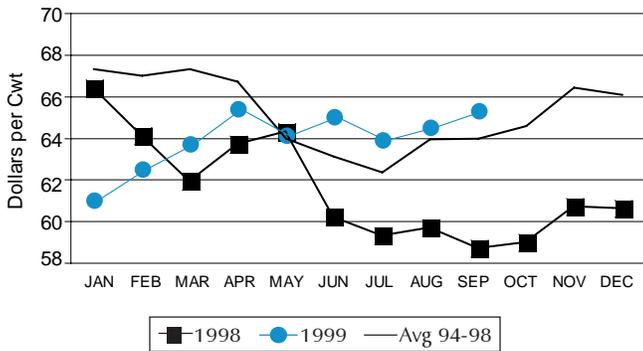
Iowa Oat Price



Iowa Alfalfa Hay Price

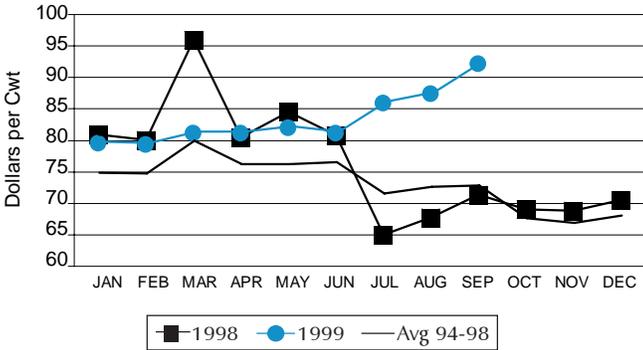


Iowa Steer and Heifer Price



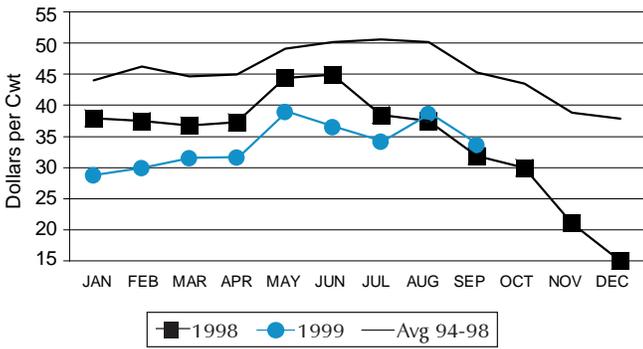
■ 1998 ● 1999 — Avg 94-98

Iowa Feeder Calf Price



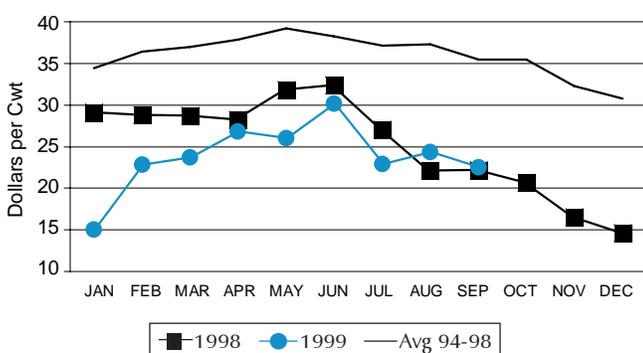
■ 1998 ● 1999 — Avg 94-98

Iowa Barrow and Gilt Price



■ 1998 ● 1999 — Avg 94-98

Iowa Sow Price



■ 1998 ● 1999 — Avg 94-98

## Iowa Cash Receipts Jan. – June 1999

	1999	1998	1997
(Million Dollars)			
Crops	2,435	3,017	3,594
Livestock	2,386	2,559	2,707
Total	4,821	5,576	6,301

## World Stocks-to-Use Ratios

	Crop Year		
	(Sept. Projection) 1999/00	(Estimate) 1998/99	(Estimate) 1997/98
(Percent)			
Corn	17.61	17.91	14.89
Soybeans	15.35	15.69	14.42
Wheat	21.14	22.97	23.81

## Average Farm Prices Received by Iowa Farmers

	September* 1999	August 1999	September 1998
(\$/Bushel)			
Corn	1.65	1.65	1.72
Soybeans	4.55	4.22	5.20
Oats	1.10	1.10	1.20
(\$/Ton)			
Alfalfa	67.00	74.00	80.00
All Hay	66.00	74.00	79.00
(\$/Cwt.)			
Steers & Heifers	65.30	64.50	58.70
Feeder Calves	91.10	87.40	71.30
Cows	38.00	38.30	33.10
Barrows & Gilts	33.60	38.60	31.90
Sows	22.50	24.30	22.20
Sheep†	29.70	30.30	27.40
Lambs†	72.60	80.00	70.10
(\$/Lb.)			
Turkeys	0.36	0.36	0.38
(\$/Dozen)			
Eggs	0.29	0.33	0.46
(\$/Cwt.)			
All Milk	14.80	12.90	16.10

\*Mid-month

†Estimate

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more money to agriculture when widespread crop or revenue loss occurs, the size of the checks could depend inversely on the level of market prices or revenue levels in a region (state or county).

At the county level, such programs already exist. For example, the Group Risk Plan (GRP) and Group Risk Income Protection (GRIP) pay farmers indemnities if county average yield or county average revenue is below a certain level. Because the payments depend on county yield, a single farmer's actions cannot affect

the level of payment. The government could give every farmer a GRP or GRIP policy. If farmers want to add individualized risk management protection, then they could pay the full cost of a business-interruption insurance plan, much like other businesses do.

The key factor in a flexible and competitive agricultural sector is that farm-level production decisions need to be reflected in farm income. Only then will we see midwestern farmers producing the crops that consumers want, at prices that cover the cost of production.

Clearly, the debate about what to do about farm policy is very much alive. But what we need to focus on is the ultimate objective of farm policy and the costs of implementing policies to meet this objective. We should build on what we have learned from our experience with the old supply-control programs, the various environmental provisions, and with Freedom to Farm to design a policy that does not hinder agriculture's ability to respond to current and future economic realities. ♦

## SELL OR STORE?

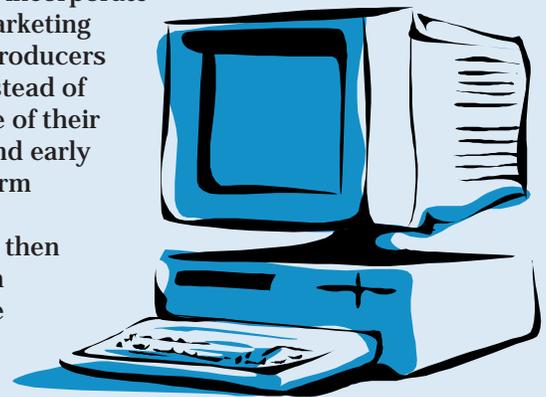
### CARD's Web-based decision aid is now available

The Center for Agricultural and Rural Development (CARD) recently launched an interactive Web site ([www.card.iastate.edu](http://www.card.iastate.edu)) to help farmers understand the risks and rewards associated with alternative marketing strategies for corn and soybeans.

Producers in the contiguous 48 states can access the site, input their county name and crop information, and receive county and crop loan rates, posted county prices, and per-bushel loan deficiency payment (LDP) figures. In addition, the site provides information that can help producers decide whether it is better to store or sell their crops at harvest.

The Web site uses sophisticated numerical procedures to calculate average returns and the riskiness of returns for three different strategies that involve crop storage. The strategies are (1) take the LDP now and store until summer, (2) put the crop under loan and store until summer, and (3) take the LDP now, store until summer, and hedge on the futures market.

"Last year many farmers did not fully understand how to incorporate the LDP and the government's loan program into their fall marketing strategies," Bruce Babcock, director of CARD, says. "Many producers ended up taking the LDP in the fall and storing their crop, instead of selling it at harvest. These producers then watched the value of their stored crop decline as prices plummeted in the late spring and early summer. Our new Web-based decision aid is designed to inform producers of the potential risks and rewards associated with common marketing strategies that involve storage. They can then be in a better position to decide if the potential rewards from storing the crop are high enough to compensate them for the increased risk."



## Can Subsidies Hurt Iowa Agriculture?

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**M**any congressional leaders want to begin hearings this winter that could lead to a new farm bill. Nearly all interest groups want to see an increase in federal involvement in agriculture. But before Iowa's farm groups push for a change in policy, they should understand that, for Iowa, some forms of government help are preferred to others, and some forms of government assistance can actually be harmful.

What could be wrong with subsidies? After all, increased government aid puts more money in the pockets of farmers. But most agricultural subsidies increase supply, which, in turn, decreases prices. The negative impact of lower prices might be greater than the positive impact of increased aid. We have outlined several agricultural subsidies below and examined their impacts.

### AMTA PAYMENTS

Agricultural market transition assistance (AMTA) payments are program payments that are completely independent of a farmer's production decisions and production levels. Hence, they do not induce an increase in supply. They simply increase cash flow to a qualifying farm operation.

### LDPs

With the loan deficiency payment (LDP) program, all U.S. corn and soybean farmers are guaranteed a minimum price for all their production. In years when farmers expect market prices to fall below the loan rate, the resulting supply is greater than it would be without the program. That is, in some years the loan

rate increases supply and reduces market price. However, this drop in the market price does no harm to farmers because per-bushel LDP payments increase to fully compensate for the price decrease.

### CROP INSURANCE SUBSIDIES

Crop insurance subsidies promote risky behavior by inducing more

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*... current policy is inconsistent in that government-mandated price guarantees and crop insurance subsidies are increasing supply at a time when the market is signaling that we have plentiful supplies.*

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acreage into production in areas where crop yields are highly variable. Thus, the increase in crop insurance subsidies in 1999 and the likely increase in 2000 will induce an increase in supply and a lower market price for corn and soybeans. How likely is it that the negative effects of a lower price will be greater than the direct benefit that Iowa farmers receive from crop insurance subsidies?

First of all, we can say that in 1999 Iowa farmers were fully insulated from a drop in market price because, as discussed above, when the market price is below the loan rate, a further drop simply increases LDP payments. Iowa farmers, therefore, should not be concerned about the supply-enhancing effects of crop insurance subsidies as long as the market price is below the loan rate. But, with any luck, market prices for corn and soybeans will soon rise above the loan rate. When this occurs, will Iowa farmers receive a net benefit from crop insurance subsidies?

Iowa corn farmers received approximately \$53 million in crop insurance premium subsidies in 1999. Soybean producers received \$27 million. Using expected 1999 production levels for Iowa, this works out to 2.9 cents per bushel for corn and 4.9 cents per bushel for soybeans. Using conservative estimates of the impact of insurance subsidies on supply, we calculate that eliminating crop insurance subsidies would increase corn prices by at least 8 cents per bushel and soybean prices by at least 30 cents per bushel. This indicates that Iowa farmers are net losers from crop insurance subsidies when prices are above the loan rate.

### SUPPLY CONTROLS

One of the bedrock principles of the current farm policy is the elimination of all government controls on supply. Proponents of the current policy thought that the free market was better at guiding production decisions than the government. But current policy is inconsistent in that government-mandated price guarantees and crop insurance subsidies are increasing supply at a time when the market is signaling that we have plentiful supplies.

One way out of this inconsistency is for the federal government to put a brake on supply by returning to acreage set-asides. This would counteract the government supply accelerator. Some farm groups have been convinced of the need for supply controls. But a full understanding of who really benefits from supply controls may cause Iowa farm groups to question the wisdom of a return to acreage set-asides.

A reduction in supply will induce an increase in price. If the price remains below the loan rate, then farmers will not benefit from the price increase because LDP payments would correspondingly decrease. If the price rises above the loan rate because of acreage set-asides, then the

benefits of the price increase are proportionate to yields. A farmer with 150-bushel yields will benefit by 50 percent more than will a farmer with 100-bushel yields. So, a Kansas corn farmer who produces 150 bushels per acre with irrigation receives the same benefit from the price increase as the Iowa dryland farmer who produces 150 bushels per acre.

The cost of acreage set-asides, however, depends on both yields and per-acre production costs. Cash rents for farmland are a good measure of the relative costs of set-

asides. If cash rents in Iowa are \$110 per acre compared to \$65 per acre in Kansas, then the cost of acreage set-asides are nearly twice as high in Iowa as Kansas. In this example, the benefits from acreage set-asides are equal in Iowa and Kansas, but the costs are disproportionately high in Iowa.

What we have learned from this brief excursion into the impacts of subsidies is that a careful examination is needed before we can conclude that subsidies are beneficial. Clearly, fixed payments are beneficial

to farmers, as are price guarantees. But, whereas the budget costs of fixed payments are known in advance, the cost of price guarantees can grow to unexpected levels. If the unexpected expense leads to supply controls, then it is questionable whether there is a positive net benefit to Iowa farmers. And, perhaps surprisingly, the net benefits from crop insurance subsidies are likely to be negative for Iowa's low-cost producers. That is, Iowa producers would be better off if crop insurance subsidies were eliminated. ♦

## European Union Agricultural Reforms: Impacts for Iowa

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*Authors' note: The results reported in this analysis are dependent on a series of assumptions relating to the functioning of EU markets and to the future world agricultural and macroeconomic situations. Changes in the underlying assumptions could significantly alter the results reported in this article. For further discussion of the Berlin Accord reforms, see CARD Briefing Paper 99-BP 24, "Analysis of the Berlin Accord Reforms to the European Union's Common Agricultural Policy," available online at <http://www.card.iastate.edu>.*

**T**he European Union's (EU) Common Agricultural Policy (CAP) is set to undergo comprehensive reforms, known as Agenda 2000, next year. The twofold objective of these reforms is to ensure the sustainability of European agriculture and to protect the livelihood of European farmers. In May 1999, the European Council officially adopted new financial and political guidelines—dubbed the Berlin Accord—that will increase government support

to farmers through direct payments while reducing support prices for cereals, beef, and dairy products.

The Berlin Accord reforms are likely to stimulate increased production in the EU and thereby create substantial changes in European agricultural markets. The overall impact on markets for Iowa crops and livestock, however, is projected to be relatively small. Farm prices for corn, soybeans, and oats are modestly changed and, on average, decline by 1 percent between 2001 and 2008. The expanded cereals production in the EU will lead to slightly lower world wheat prices and lower U.S. exports. Iowa beef and hog prices increase slightly in the first two years of the reform implementations; then, for the remaining period, Iowa livestock prices decline relative to the baseline.

FAPRI (Food and Agricultural Policy Research Institute) at the Center for Rural and Agricultural Development (CARD) conducted an analysis that estimates the impacts of the Berlin Accord for EU agricultural markets. The analysis results were contrasted with a baseline scenario that maintains pre-Accord policies. The FAPRI modeling system

incorporates forecasts of macroeconomic variables—such as gross domestic product, inflation rates, and exchange rates—that were obtained from Standard and Poors DRI, Project Link, and WEFA. Weather was assumed to be average during the projection period.

### EFFECTS ON EU AGRICULTURE

For crops, the CAP support prices for cereals is reduced by 15 percent in two steps, with the first reduction occurring during the 2000/01 marketing year. Cereals producers in the EU will be compensated for this reduction by an increase in direct payments from 54.34 to 63 euros per metric ton (1 euro = \$.93). Payments to oilseed producers will be progressively reduced to the level for cereals by the 2002/03 marketing year. Producers of legumes and pulses (protein substitutes) will receive a direct payment of 9.5 euros per metric ton on top of the basic direct payment.

For beef, the support price is reduced by 20 percent over a three-year period. Then, in July 2002, the intervention price will be replaced by a beef basic price of 2224 euros per metric ton, and a private storage aid scheme will be introduced. All

beef producers will be compensated for the decline in market prices by a phased increase in the special premium for steers, bulls, and suckler cows (beef cows). A slaughter premium is introduced (80 euros per head for adult animals and 50 euros per head for calves). All producer premiums are capped at the regional level to contain expenditures; however, national governments may supplement producer payments up to the national financial expenditure limit established for each country. Finally, there will be a premium to encourage fewer animals per land unit in an effort to improve environmental conditions.

**IMPACTS ON U.S. MARKETS**

Changes in world market prices are likely to be small. The United States and the EU compete most heavily in the world wheat markets, and, because the EU would produce and export more wheat under the Berlin Accord, the U.S. wheat prices and exports are expected to decline by an average of 2 to 3 percent. U.S. corn and soybean prices are projected to fall by less than 1 percent. The reduction in EU oilseed production increases U.S. soybean and meal exports slightly. Livestock prices and beef exports increase slightly at first and then decline by an average of 1 percent. Pork and poultry prices decline by less than .5 percent.

**IMPACTS ON IOWA**

Iowa beef and hog prices increase slightly in 2001/02. For the remaining period, up to 2008, Iowa livestock prices decline relative to the baseline. On average, both fed steer and barrow and gilt prices are projected to decline by less than 1 percent (see Figure 1). Iowa acres planted to corn, soybeans, and oats (see Figure 2) are modestly changed through the projection period. On average, corn and soybean prices are projected to decline by 1 percent.

Following the trends for prices, net farm income is slightly above the baseline level in 2000, but is projected to be 2 to 3 percent lower during the remaining period (see Figure 3). On a cumulative basis, the implementation of the Berlin Accord reforms in the EU is projected to reduce Iowa's net farm income by approximately \$475 million during the 2000 to 2008 period. ♦

Figure 1. Iowa Livestock Farm Prices

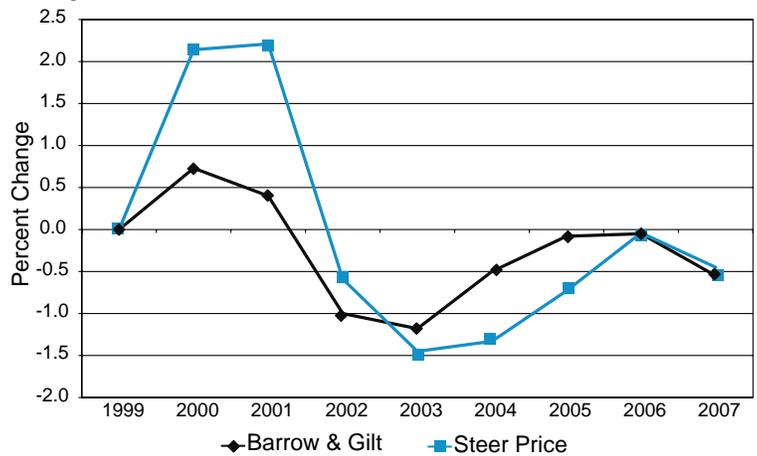


Figure 2. Iowa Crop Farm Prices

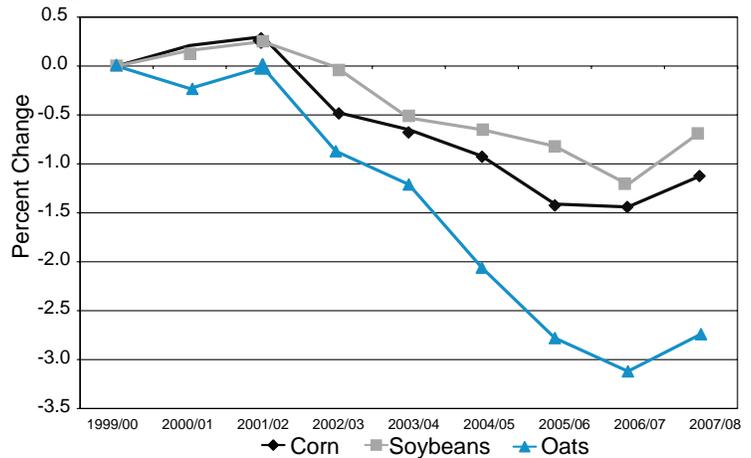
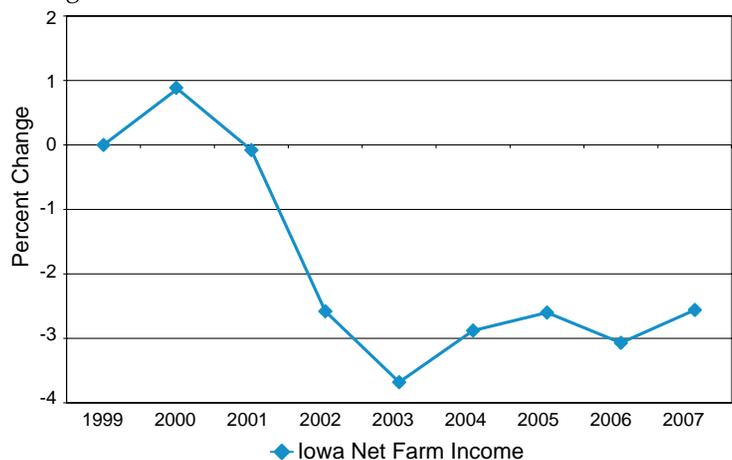


Figure 3. Iowa Net Farm Income



*Iowa's Ag Situation, cont. from page 4*

### LIVESTOCK

According to the U. S. Department of Agriculture's (USDA) latest *Livestock Slaughter*, pork and beef production set records for August. Both pork and beef production were up 4 percent from last August's records. The September *Hogs and Pigs* report indicates that producers have finally started reducing sow numbers, which should be a bullish sign for the market in 2000.

The effects of Hurricane Floyd no doubt will affect North Carolina for years to come but don't expect it to greatly affect the hog markets. Early estimates are for losses of 30,000 to 300,000 head. The short- and long-term market impacts will ultimately depend on the class of pigs or sows lost.

Pork prices on the Iowa-Southern Minnesota market have shown strength lately and have been in the \$35 to \$38 per hundredweight range. Hopefully with October being designated *Pork Month*, this will increase

demand at a time when production is expected to be large. Pork slaughter had already approached 2 million head per week toward the end of September, and it is expected to top that level in October and November. Strong retail demand will be essential in avoiding last year's debacle.

Beef demand has been solid all summer, strong enough to counter seasonal patterns and hold prices in a profitable range for feeders. As a result, placements into feedlots have been at record or near record levels since spring. According to the USDA's August *Cattle on Feed*, placements for the United States were 16 percent above 1998 levels and almost 12 percent above the five-year average. Large heifer placements indicate that the industry is still in the reduction phase of the cattle cycle, so feeder calf prices should continue to strengthen in 2000. In Iowa, August placements were up 44 percent. This suggests a large number of slaughter-ready cattle will

be moving out of feedlots through the first part of next year. As long as the overall U.S. economy remains strong, beef demand should continue strong.

On September 29, the House passed a \$8.7 billion farm income assistance package. If the payments are dispersed as an additional marketing transition payment, this would result in an approximate \$500 million influx to Iowa's farm economy. Currently, the Food and Agricultural Research Policy Institute (FARPI) is projecting Iowa net farm income for 1999 at \$1.9 billion. This is based on trend yields in Iowa for corn and soybeans of 139 and 39 bushels per acre, respectively. If current yield estimates of 150 and 50 bushels per acre for corn and soybeans hold, the government assistance package could boost Iowa net farm income to around \$2.8 billion. Under this scenario, net farm income would be just under the five-year average of \$2.9 billion. ♦

## Meet the Staff

**P**hil Kaus joined CARD in July 1998 after completing a master's degree in statistics and economics at the University of Nebraska. He is the U.S. and Iowa crops and livestock analyst for the Food and Agricultural Policy Research Institute (FAPRI), part of CARD's Trade and Agricultural Policy Division. Phil also does analysis of international sugar, and quantity and value of U.S. exports.

"One of the biggest challenges is trying to be a jack-of-all-trades," Phil says. "We are providing a variety of information to several different audiences."

One of those audience groups comprise *Iowa Ag Review* readers. Phil writes and compiles information for the "Iowa's Ag Situation" column that appears in each issue. He also

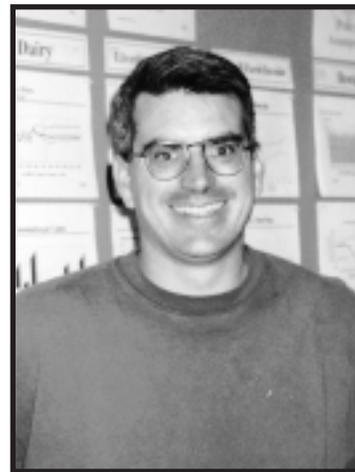
conducts analysis for the FAPRI baseline and annual 10-year outlook projection. Phil's recent research has been looking at Midwest state-level exports of agricultural goods.

"We are trying to find a better method of estimating state-level exports," he says.

Prior to graduate school, Phil worked on a 2,000-acre farm and ranch that raised Angus cattle, wheat, and irrigated hay in the northwest panhandle of Nebraska. While he misses the wide-open spaces of the farm, Phil says he likes his work at CARD.

"I enjoy being able to provide producers and policymakers with valuable information to help in their decision-making process," he says.

Phil is married to Lyndi, and they have four children, Reed, Alec,



*Phil Kaus*

Taylor, and Samantha. He enjoys spending time with his family and attending his children's sporting events. Phil also enjoys hunting and fishing in his free time. ♦

## Recent CARD Publications

### BRIEFING PAPERS

- Bruce A. Babcock. "Whither Farm Policy?" CARD Briefing Paper Series 99-BP 25, September 1999.
- Bruce A. Babcock, Mike Duffy, Robert Wisner. "Availability and Market Penetration of GMO Corn and Soybeans. CARD Briefing Paper Series 99-BP 26, October 1999. [On-line only\*]
- Bruce A. Babcock, John Beghin. "Potential Market for Non-GMO Corn and Soybeans. CARD Briefing Paper Series 99-BP 27, October 1999. [On-Line only\*]

### WORKING PAPERS

- Cheng Fang, John Beghin. "Food Self-Sufficiency, Comparative Advantage, and Agricultural Trade: A Policy Analysis Matrix for Chinese Agriculture." CARD Working Paper Series 99-WP 223, August 1999.
- Chad E. Hart, Bruce A. Babcock, Dermot J. Hayes. "Livestock Revenue Insurance." CARD Working Paper Series 99-WP 224, August 1999.

- John C. Beghin, Sebastien Dessus. "Double Dividend with Trade Distortions. Analytical Results and Evidence from Chile." CARD Working Paper Series 99-WP 225, September 1999.
- Helen H. Jensen, Laurian J. Unnevehr. "HACCP in Pork Processing: Costs and Benefits." CARD Working Paper Series 99-WP 227, September 1999.
- Laurian Unnevehr, Helen H. Jensen. "The Economic Implications of Using HACCP as a Food Safety Regulatory Standard." CARD Working Paper Series 99-WP 228, September 1999.

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- Bruce A. Babcock. "Conflict Between Theory and Practice in Production Economics: Discussion." *American Journal of Agricultural Economics* (August 1999):719-21.
- S. W. Chung, P. W. Gassman, L. A. Kramer, J. R. Williams, R. Gu. "Validation of EPIC for Two Watersheds in Southwest Iowa." *Journal of*

*Environmental Quality* 28(3) (May/June 1999):971-79; CARD Journal Reprint RP 3.178.

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- John C. Beghin, B. Bowland, S. Dessus, D. van der Mensbrugghe. "Trade, Environment, and Public Health in Chile. Evidence from an Economywide Model." In *Trade, Global Policy and the Environment*, World Bank Discussion Paper 402, edited by P. Fredriksson, The World Bank, Washington, D.C., pp. 35-54, 1999.
- J. D. Opsomer, F. J. Breidt. "Local Polynomial Regression to Survey Sampling Estimation." In *Proceedings of the 14th International Workshop on Statistical Modelling*, Graz, Austria, July 19, 1999.

\*<http://card.iastate.edu/news/briefing.html>

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