Proposals for the 2008 Farm Bill

Chad Hart
Center for Agricultural and Rural Development
Iowa State University

March 9, 2007

Iowa NAMA Meeting
Johnston, Iowa

E-mail: chart@iastate.edu
Current Farm Support

• Three main programs
  – Direct Payment Program
  – Counter-cyclical Payment Program
  – Marketing Loan Program

• Direct payments are fixed; counter-cyclical and marketing loan payments vary with price
<table>
<thead>
<tr>
<th>Crop</th>
<th>Target Price ($/bu.)</th>
<th>Direct Payment Rate ($/bu.)</th>
<th>National Loan Rate ($/bu.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>2.63</td>
<td>0.28</td>
<td>1.95</td>
</tr>
<tr>
<td>Soybeans</td>
<td>5.80</td>
<td>0.44</td>
<td>5.00</td>
</tr>
<tr>
<td>Wheat</td>
<td>3.92</td>
<td>0.52</td>
<td>2.75</td>
</tr>
</tbody>
</table>
Farm Bill Timing

• Debate will pick up this spring

• Farm bill will likely be passed and signed this summer

• Both Ag. Committee chairmen (Harkin, Peterson) have stated they will pass a new farm bill, not an extension
Farm Bill Budget

• Budget determined by Congress, but based on projections of spending for current farm bill

• With crop prices projected to remain high, current farm support program cost are projected to be low

• This doesn’t leave much room for farm bill changes
Farm Bill Proposals

• There are many proposals out there
  – USDA
  – National Corn Growers Association
  – American Soybean Association
  – National Association of Wheat Growers
  – American Farmland Trust

• Can be divided into two camps
  – Modify current structure
  – Move to revenue-based farm support
Wheat Proposal

• Higher target price
  – Wheat: $5.29/bu., up $1.37

• Higher direct payment rate
  – Wheat: $1.19/bu., up $0.67

• No change on loan rate

• No specifics on other crops
Wheat Proposal

• Proposal would more than double direct payments

• Counter-cyclical payments would trigger at prices below $4.10/bu.
  – Currently triggered at $3.40/bu.

• Counter-cyclical payment rate would max at $1.35/bu.
  – Current max of $0.65/bu.
Soybean Proposal

• Higher target prices
  – Higher of current target price or 130% of 2000-2004 Olympic average of season-average prices

• Higher loan rates
  – Higher of current loan rate or 95% of 2000-2004 Olympic average of season-average prices

• No change on direct payments
# Soybean Proposal

<table>
<thead>
<tr>
<th>Crop</th>
<th>Target Price ($/bu.)</th>
<th>Direct Payment Rate ($/bu.)</th>
<th>National Loan Rate ($/bu.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>2.75</td>
<td>0.28</td>
<td>2.01</td>
</tr>
<tr>
<td>Soybeans</td>
<td>6.85</td>
<td>0.44</td>
<td>5.01</td>
</tr>
<tr>
<td>Wheat</td>
<td>4.15</td>
<td>0.52</td>
<td>3.03</td>
</tr>
</tbody>
</table>
Payments under Soybean Proposal

<table>
<thead>
<tr>
<th>Price ($/bushel)</th>
<th>Returns ($/acre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.50</td>
<td>$1.50</td>
</tr>
<tr>
<td>$1.70</td>
<td>$1.70</td>
</tr>
<tr>
<td>$1.90</td>
<td>$1.90</td>
</tr>
<tr>
<td>$2.10</td>
<td>$2.10</td>
</tr>
<tr>
<td>$2.30</td>
<td>$2.30</td>
</tr>
<tr>
<td>$2.50</td>
<td>$2.50</td>
</tr>
<tr>
<td>$2.70</td>
<td>$2.70</td>
</tr>
<tr>
<td>$2.90</td>
<td>$2.90</td>
</tr>
<tr>
<td>$3.10</td>
<td>$3.10</td>
</tr>
<tr>
<td>$3.30</td>
<td>$3.30</td>
</tr>
<tr>
<td>$3.50</td>
<td>$3.50</td>
</tr>
</tbody>
</table>

- Market Return less Variable Costs
- Direct Payment
- Countercyclical Payment
- Marketing Loan Benefit
- Net Crop Insurance Benefit
Payment Changes

<table>
<thead>
<tr>
<th>Price ($/bushel)</th>
<th>Returns ($/acre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.50</td>
<td>$1.50, $1.70, $1.90, $2.10, $2.30, $2.50, $2.70, $2.90, $3.10, $3.30, $3.50</td>
</tr>
<tr>
<td>$1.70</td>
<td></td>
</tr>
<tr>
<td>$1.90</td>
<td></td>
</tr>
<tr>
<td>$2.10</td>
<td></td>
</tr>
<tr>
<td>$2.30</td>
<td></td>
</tr>
<tr>
<td>$2.50</td>
<td></td>
</tr>
<tr>
<td>$2.70</td>
<td></td>
</tr>
<tr>
<td>$2.90</td>
<td></td>
</tr>
<tr>
<td>$3.10</td>
<td></td>
</tr>
<tr>
<td>$3.30</td>
<td></td>
</tr>
<tr>
<td>$3.50</td>
<td></td>
</tr>
</tbody>
</table>

- Market Return less Variable Costs
- Direct Payment
- Countercyclical Payment
- Marketing Loan Benefit
- Net Crop Insurance Benefit
Corn Proposal

• Two revenue-based support programs
  – One farm-level (Base Revenue Protection)
  – One county-level (Revenue Counter-Cyclical Program)

• Marketing loans changed to recourse loans
  (means farmers could not forfeit crop as payment for loan)

• No change on direct payments
Base Revenue Protection

- Somewhat like crop insurance

- Revenue guarantee = 70% of 5-year Olympic average of farm-level crop-specific net revenue

- Net revenue = Harvested bushels*National price – Variable costs of production

- National price = USDA price over the 1st seven months of the marketing year

- Variable costs of production from regional USDA estimates

- Payments triggered if current net revenue is below revenue guarantee
Revenue Counter-Cyclical Program

• Somewhat like current counter-cyclical program

• Revenue guarantee = County trend yield*Target price

• Actual county revenue = County yield*National price

• Payments made when actual county revenue is below revenue guarantee

• Maximum payment = 30% of revenue guarantee
Why Switch to Revenue?

- Critics of the current farm bill point to two main factors
  - Continuing need for disaster assistance
  - Possible overcompensation from price-based programs
    - Example: 2004 for corn, record corn yields, 3rd highest corn crop value, large corn government payments

- Targeting revenue, instead of price, can address these factors
USDA Proposal

- Set loan rate at minimum of loan rates in House-passed version of 2002 farm bill or 85% of 5-year Olympic average prices

- Change marketing loan program from daily price settings to monthly price settings

- Increase direct payment rates

- Change counter-cyclical program to be revenue-based
<table>
<thead>
<tr>
<th>Crop</th>
<th>Target Price ($/bu.)</th>
<th>Direct Payment Rate ($/bu.)</th>
<th>Max. Nat. Loan Rate ($/bu.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>2.63</td>
<td>0.30</td>
<td>1.89</td>
</tr>
<tr>
<td>Soybeans</td>
<td>5.80</td>
<td>0.50</td>
<td>4.92</td>
</tr>
<tr>
<td>Wheat</td>
<td>3.92</td>
<td>0.56</td>
<td>2.58</td>
</tr>
</tbody>
</table>
USDA’s Revenue Counter-Cyclical Program

• Revenue guarantee = 2002-2006 National Olympic average yield*Effective target price
  – Effective target price = Target price – Direct payment rate

• Actual revenue = National yield*Max(Season-average price, National loan rate)

• Payments made when actual revenue is below revenue guarantee

• Pays on base acres and yields, not planted acres and actual yields
Corn Example

- 2002-2006 National Olympic average yield = 146.4 bu./acre
- Effective target price = $2.35/bu.
- Target revenue = $344.04/acre

- National yield = 130 bu./acre
- Season-average price = $2.30/bu.
- Actual revenue = $299.00/acre

- Farm program yield = 114.3 bu./acre

- Current program payment = $0.05/bu.
  - ($2.35 - $2.30)
- Proposed program payment = $0.394/bu.
  - (($344.04 - $299.00)/114.3)
The Next Farm Bill?

• May look like some of these proposals
  – As time proceeds, the odds increase for packages that look like the wheat and soybean proposals

• Congress usually blazes its own trail
  – USDA proposals do not carry significant weight in Congress

• Cost will be a major consideration