U.S. Farm Policy Choices in 2007

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Corn Market Prices and Support Levels

|$/bu$
Cotton Market Prices and Support Levels

Market Price
Support Price

cents/lb


Market Price
Support Price
Structure of Program Payments for Corn

Target Price

- Direct Payment
  - Not Tied To Prod
  - $2.63
- Loan Rate
  - $0.28
- Counter-Cyclical Payment
  - Regardless Of Market
    - $2.35
  - Only if price is here
    - “Effective” Target Price
  - $1.95

Prod Req.
How Market Oriented Are U.S. Wheat Farmers?

Season Average Price Forecast
How Market Oriented Are U.S. Wheat Farmers?

Season Average Price
Adjusted Loan Rate
Forecast

How Market Oriented Are U.S. Wheat Farmers?

Season Average Price
Effective Target Price
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Forecast
How Market Oriented Are U.S. Corn Farmers?

Season Average Price

Forecast of '06 and '07 crop years
How Market Oriented Are U.S. Corn Farmers?

Season Average Price

Adjusted Loan Rate

Forecast of '06 and '07 crop years
How Market Oriented Are U.S. Corn Farmers?

Season Average Price
Effective Target Price
Adjusted Loan Rate
Forecast of '06 and '07 crop years
How Market Oriented Are U.S. Soybean Farmers?

Season Average Price
Effective Target Price
Adjusted Loan Rate
Forecast of '06 and '07 crop years

Current Situation

• Corn, soybean and wheat farmers will receive only direct payments in 2006 and 2007
• Cotton farmers will still receive high payment levels
• Livestock receives no support, but will be hurt by high feed costs
Who Determines Farm Bill?

- Congress writes a farm bill by balancing interests of commodity groups, environmental groups, and nutrition advocates
  - Southern U.S. legislators have disproportionate influence on commodity programs
Three Farm Bill Options

• A simple renewal of current commodity programs

• “Rebalance” target prices

• Reform farm programs
Renew Commodity Provisions

- At current prices and projected prices, only cotton and rice farmers would obtain payments
  - American Farm Bureau biggest advocate of an extension

- Almost no chance that corn, soybeans, and wheat (more than 200 million acres of crops) will support a program renewal
<table>
<thead>
<tr>
<th></th>
<th>Direct Payments ($ Million)</th>
<th>Countercyclical Payments ($ Million)</th>
<th>Marketing Loan Payments ($ Million)</th>
<th>Total (Million)</th>
<th>2005 Acreage (Million)</th>
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<tbody>
<tr>
<td>Corn</td>
<td>8,464</td>
<td>5,743</td>
<td>7,614</td>
<td>21,821</td>
<td>81.8</td>
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<td>Soybeans</td>
<td>2,432</td>
<td>0</td>
<td>333</td>
<td>2,765</td>
<td>71.2</td>
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<td>Wheat</td>
<td>4,604</td>
<td>0</td>
<td>209</td>
<td>4,813</td>
<td>57.2</td>
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<tr>
<td>Cotton</td>
<td>2,532</td>
<td>4,500</td>
<td>3,811</td>
<td>10,843</td>
<td>14.0</td>
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<tr>
<td>Rice</td>
<td>1,724</td>
<td>599</td>
<td>1,473</td>
<td>3,796</td>
<td>3.4</td>
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</table>
Rebalance Target Prices

• American Soybean Association and the National Wheat Growers Association:
  – Higher target prices for wheat and soybeans

• What about rice, cotton and corn?
Farm Bill Reform

• Objectives:
  – Better safety net for farmers; or
  – Adequate safety net for farmers and
    • more rural development spending, or
    • more spending on conservation
National Corn Growers Association’s Proposal for Two Revenue Programs

• Green Box Income Insurance
  – Brings a farmer up to 70% of a five year Olympic average of net income on a crop specific basis

• Target Revenue Program
  – Gives every farmer a modified Group Risk Income Insurance policy at the 100% percent of county target revenue
  – County target revenue = effective target price x expected county yield
  – Maximum payment when county revenue falls below 70% of county target revenue
What Prices to Use?

- Effective Target Prices for 2002 Farm Bill

Wheat - $3.40/bu
Corn - $2.35/bu
Soy - $5.36/bu
Peanuts - $0.2295/lb
Barley - $2.00/bu
Cotton - $0.6573/lb
Rice - $8.15
Grain sorghum - $2.22/bu
Oats - $1.416/bu
Y% of Effective Target Price \times Expected County Yield

70% of Effective Target Price \times Expected County Yield

Guarantee = 70\% of past 5-year Olympic average of crop-specific income
Impact of Election

• Chair of the House Ag Committee goes to Colin Peterson of Minnesota

• Chair of the Senate Ag Committee goes to Tom Harkin of Iowa

• Winners: Sugar, corn, soybeans, wheat and conservation, country of origin labeling

• Losers: Reform advocates, cotton and rice
Where Will We End Up?

• Baseline budget “score” for current programs will be quite low
• Farm groups will argue for additional money
• Without it, no funds for new safety net or higher target prices.
• With it, easiest policy will be to rebalance target prices, continuing a tradition.