Proposals for the 2008 Farm Bill

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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>
When Payments Are Triggered

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

Price ($/bushel)

Returns ($/acre)
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
  – American Farm Bureau

• 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>
### Payment Changes

<table>
<thead>
<tr>
<th>Returns ($/acre)</th>
<th>Price ($/bushel)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$200.00</td>
<td>$1.50</td>
</tr>
<tr>
<td>$150.00</td>
<td>$1.70</td>
</tr>
<tr>
<td>$100.00</td>
<td>$1.90</td>
</tr>
<tr>
<td>$50.00</td>
<td>$2.10</td>
</tr>
<tr>
<td>$0.00</td>
<td>$2.30</td>
</tr>
<tr>
<td>-$50.00</td>
<td>$2.50</td>
</tr>
<tr>
<td>-$100.00</td>
<td>$2.70</td>
</tr>
<tr>
<td>-$150.00</td>
<td>$2.90</td>
</tr>
<tr>
<td>-$200.00</td>
<td>$3.10</td>
</tr>
<tr>
<td>-$250.00</td>
<td>$3.30</td>
</tr>
<tr>
<td>-$300.00</td>
<td>$3.50</td>
</tr>
</tbody>
</table>

- **Market Return less Variable Costs**
- **Direct Payment**
- **Countercyclical Payment**
- **Marketing Loan Benefit**
- **Net Crop Insurance Benefit**
Iowa Soybean Association

• Proposed reducing direct payments to pay for target price and loan rate changes

• Also suggested the balance of direct payments could be directed to risk management vouchers
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
Corn Proposal

• Revenue-based support program
  – 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
Revenue Counter-Cyclical Program

• Somewhat like current counter-cyclical program

• Revenue guarantee = 95%*County trend yield*Projected price

• Projected price based on 3-year average with cups and caps

• Actual county revenue = County yield*National price

• Payments made when actual county revenue is below revenue guarantee

• Integrated with crop insurance
  – Premiums and indemnities reduced by payments from revenue counter-cyclical program
American Farmland Trust Proposal

• Similar to National Corn Growers’ Proposal
  – Revenue-based counter-cyclical program

• Revenue guarantee = Percentage*National trend yield*Projected price

• Actual revenue = National yield*National price

• Payments made when actual revenue is below revenue guarantee

• Integration with crop insurance
  – Premiums and indemnities reduced by payments from revenue counter-cyclical program
American Farm Bureau Proposal

- Maintain target prices, direct payments, and loan rates from current farm bill

- Move to state-based revenue counter-cyclical program

- Revenue guarantee = (Target price – Direct payment rate) * 2002-06 Olympic average state yield

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

- Payments made when actual revenue is below revenue guarantee
American Farm Bureau Proposal

• Paid on current CCP base acreage, not base production

• County-based standing disaster program
  – 50% of 5-year Olympic average yield*5-year Olympic average price

• CAT and NAP eliminated

• Paid for via crop insurance savings and producer fees
  – $0.80 per $100 of crop receipts

• Crop insurance savings generated because insurance payments are capped at a 50% loss
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
## USDA Proposal

<table>
<thead>
<tr>
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<th>Max. Nat. Loan Rate ($/bu.)</th>
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<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)
Congressional Ideas on Disaster Assistance

• Several packages have been proposed to establish permanent disaster assistance

• One package is built like past disaster packages
  – 35% loss threshold
  – Paid at 65% of insurance price
  – Must have purchased crop insurance or agree to purchase crop insurance during the next two years
Congressional Ideas on Disaster Assistance

- Other option limits disaster assistance completely to those buying crop insurance and helps cover “shallow losses”
  - Expected yield = Max (APH yield, CCP yield, 5-yr Olympic county average yield)
  - Expected price = Crop insurance price
  - Farm guarantee = Expected yield*Expected price*Crop insurance coverage level*120%
  - Actual revenue = Actual yield*Price (from 1st 5 months of marketing year)
  - Combined payments from crop insurance and disaster assistance limited to 90% of expected revenue
- Disaster assistance payments reduced by crop insurance payments (reverse of NCGA and AFT plans)
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