

# 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

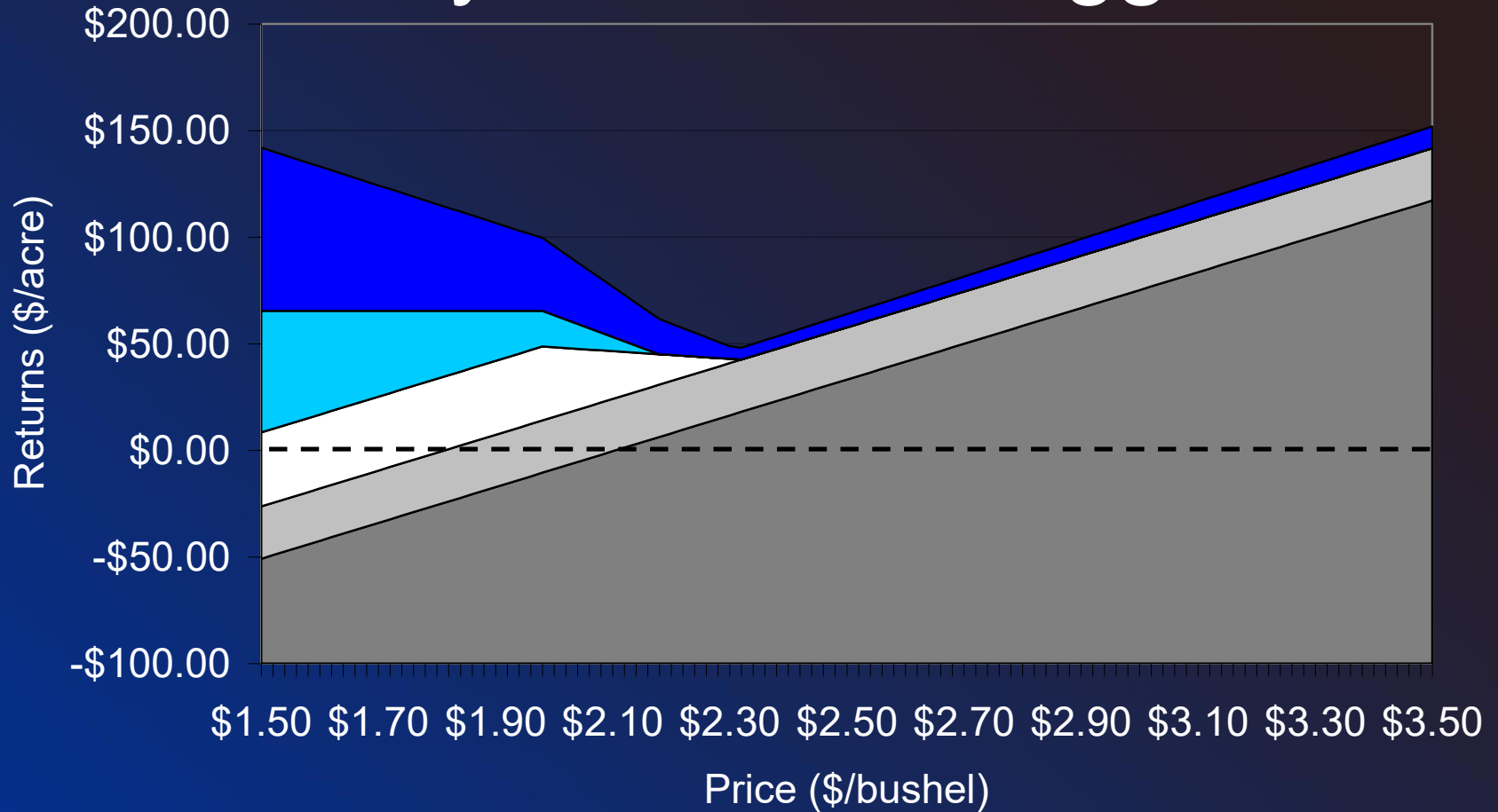
# Key Settings

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| Crop     | Target Price (\$/bu.) | Direct Payment Rate (\$/bu.) | National Loan Rate (\$/bu.) |
|----------|-----------------------|------------------------------|-----------------------------|
| Corn     | 2.63                  | 0.28                         | 1.95                        |
| Soybeans | 5.80                  | 0.44                         | 5.00                        |
| Wheat    | 3.92                  | 0.52                         | 2.75                        |

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# When Payments Are Triggered



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# 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

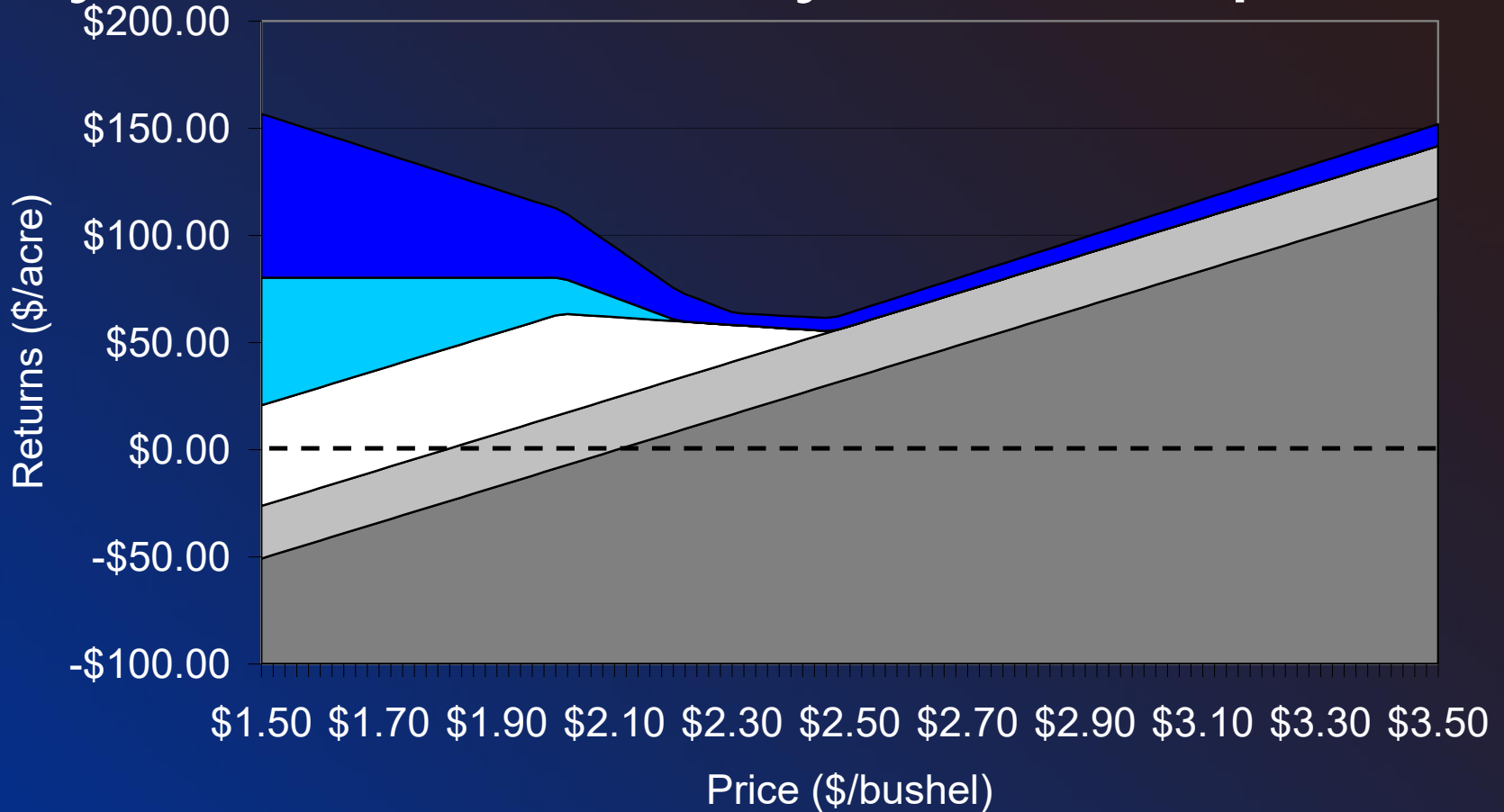
# Soybean Proposal

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| Crop     | Target Price<br>(\$/bu.) | Direct Payment<br>Rate (\$/bu.) | National Loan Rate<br>(\$/bu.) |
|----------|--------------------------|---------------------------------|--------------------------------|
| Corn     | 2.75                     | 0.28                            | 2.01                           |
| Soybeans | 6.85                     | 0.44                            | 5.01                           |
| Wheat    | 4.15                     | 0.52                            | 3.03                           |

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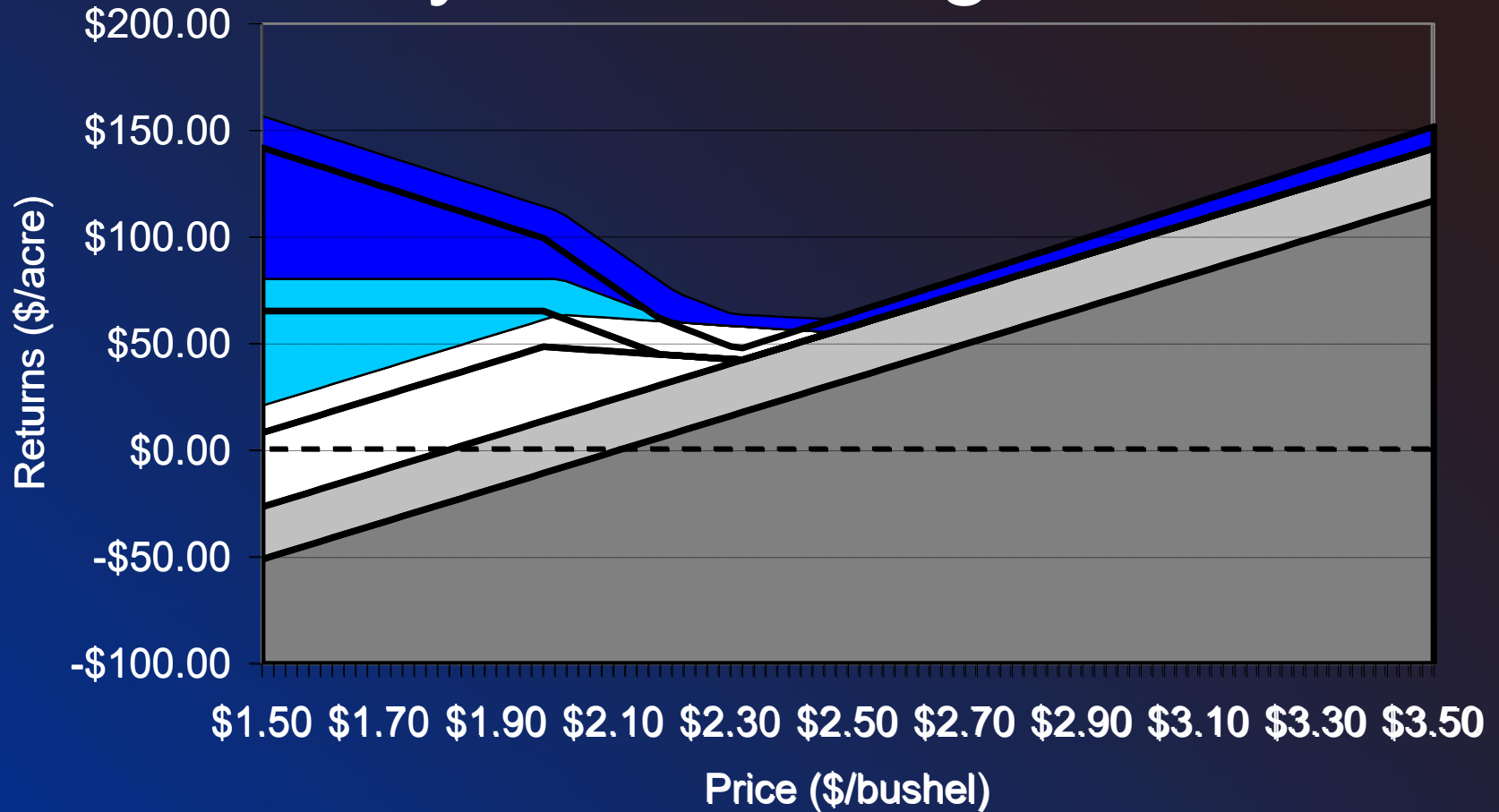
# Payments under Soybean Proposal



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



# Payment Changes



- 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, 3<sup>rd</sup> 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 =  $95\% * \text{County trend yield} * \text{Projected price}$
- Projected price based on 3-year average with caps and caps
- Actual county revenue =  $\text{County yield} * \text{National price}$
- 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

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| Crop     | Target Price (\$/bu.) | Direct Payment Rate (\$/bu.) | Max. Nat. Loan Rate (\$/bu.) |
|----------|-----------------------|------------------------------|------------------------------|
| Corn     | 2.63                  | 0.30                         | 1.89                         |
| Soybeans | 5.80                  | 0.50                         | 4.92                         |
| Wheat    | 3.92                  | 0.56                         | 2.58                         |

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# 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 1<sup>st</sup> 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