

Center for Agricultural Policy and Trade Studies
North Dakota State University

NEWSLETTER

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This is a special issue of the Center's newsletter focusing on the alternatives for the new Farm Bill. In this bulletin, we summarize our farm bill analyses and discuss important issues related to the Northern Plains agricultural economy.

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How Do the Two Farm Bill Proposals Differ?

The U.S. Senate and House of Representatives have passed two separate farm bills that would succeed the Federal Agricultural Improvement and Reform Act of 1996 (FAIR Act): the U.S. House of Representatives Bill H.R. 2646 and the U.S. Senate Bill S.B. 1731. Both bills incorporate the additional emergency federal funding that the agricultural sector received from 1998 through 2001. H.R. 2646 provides for the continuation of planting flexibility, fixed payments, and a commodity marketing loan program. The bill includes a counter-cyclical feature that is tied to market prices but not to current production. Oilseed marketing loan rates are reduced, but producers have the option to update their bases or to use existing bases and include oilseed planting history for calculation of direct payments and counter-cyclical payments. S.B. 1731 is similar to H.R. 2646. It has higher loan rates for commodities, smaller and descending fixed payments, a counter-cyclical payment, and allows producers to update base acres and payment yields for determining fixed and counter-cyclical payments. The program yield and base acres could be updated for the years 1996 through 2000, or current yields and acres could be maintained. Direct and counter-cyclical payments under the Senate bill are based on 100% of the base acres, compared to 85% for H.R. 2646. Both bills spend the additional \$73.6 billion allocated for agricultural support over the next 10 years. H.R. 2646 spends more funds on direct payments, while S.B. 1731 spends more funds through higher loan rates.

Table 1 shows the loan rates and direct payment levels for the two farm bills. The loan rates for wheat and corn, compared to the FAIR Act, are unchanged for the House bill, while the loan rates for barley are increased by \$0.06 per bushel and for soybeans are reduced by \$0.34 per bushel. Loan rates for minor oilseeds are reduced \$0.60 per cwt. Fixed payments are increased for wheat, corn, and barley, and soybeans and minor oilseeds become eligible for the payments. The payments increase \$0.07 per bushel for wheat, \$0.04 per bushel for corn, and \$0.05 per bushel for barley. The payment levels for soybeans and minor oilseeds are \$0.42 per bushel and \$0.74 per cwt, respectively.

Table 1. Loan Rates and Fixed Payments for the House and Senate Farm Bills							
Commodity		Loan Rates			Direct Payment Rates		
		House	Senate	House	Senate	2002/3	2004/5
-----\$-----							
Wheat	(bu)	2.58	3.00	0.53*	0.45	0.23	0.11
Corn	(bu)	1.89	2.08	0.30	0.27	0.14	0.07
Soybeans	(bu)	4.92	5.20	0.42	0.55	0.28	0.14
Minor oilseeds	(cwt)	8.70	10.50	0.74	1.00	0.50	0.25
Barley	(bu)	1.65	2.00	0.25	0.20	0.10	0.05

*Effective rate is 85% of Direct Payment

The Senate bill, compared to the House bill, would raise loan rates 16.3% for wheat (from \$2.58 to \$3.00), 10.1% for corn (from \$1.89 to \$2.08), 5.7% for soybeans (from \$4.92 to \$5.20), 20.7% for minor oilseeds (from \$8.70 to \$10.50), and 21.2% for barley (from \$1.65 to \$2.00). Direct payments would continue under the Senate proposal but would decrease in future years. The Senate bill is a five-year farm bill with the option of being renewed for another five years.

Both bills have a counter-cyclical program in which payments are made when commodity prices are low. Payments under the Senate Bill are calculated by taking the target price minus the direct payment, minus the higher of the 5-month average of market prices or the loan rate. Under the House bill, the payment is determined by taking the target price minus the direct payment and subtracting the higher of the 12-month average of market prices or the loan rate. Table 2 shows the target prices for both bills. The House bill target prices are higher, but payments are made on 85% of base acres, compared to 100% under the Senate bill.

Table 2. Target Prices for the Senate and House Farm Bills

	Senate	House
	-----\$/bu-----	
Corn	2.35	2.78*
Soybeans	5.74	5.86
Wheat	3.45	4.04

*Effective rate is 85% of the Target Price

Both bills increase the Conservation Reserve Program (CRP) to about 40 million acres and establish rules for the Environmental Quality Incentive Program. The Senate bill has a \$30,000 payment cap per fiscal year and a \$150,000 payment cap for multi-year contracts. The House bill has a \$50,000 payment cap per fiscal year and a \$200,000 payment cap for multi-year contracts. The payments are designed to spend \$1.25 billion over 5 years for the Senate bill and \$1.5 billion over 10 years for the House bill.

Impact of the Two Farm Bills on North Dakota Farm Income

The North Dakota Representative Farm model was used to evaluate the impact of the two farm bill proposals on North Dakota farms. The model divides the state into four regions for the analysis, but only statewide results are reported in this study. This analysis is based on the Food and Agricultural Policy Research Institute’s (FAPRI) price forecasts for commodities produced in the United States. The prices are expected to increase throughout the forecast period. The increasing prices will reduce government spending during the latter part of the forecast period. A second scenario was conducted using commodity prices that are 10% lower than the FAPRI forecasted prices. The net farm income is calculated under the two scenarios for the 2002-2010 period (Table 3).

The House bill provides an average of \$124 thousand to large farms, compared to \$119 thousand under the Senate bill; \$69 thousand to medium farms, compared to \$66 thousand under the Senate bill; and \$31 thousand to small farms, compared to \$29 thousand under the Senate bill. The difference between the two farm bills is less than 4% over the 9 years of the forecast. When prices are lowered by 10%, the

Table 3. Average Annual Net Farm Income Under the Senate and House Farm Bills With Two Different Price Scenarios, 9 Year Average

	Senate			House		
	Large	Medium	Small	Large	Medium	Small
	-----\$-----					
FAPRI price scenario	119,597	66,247	29,058	124,399	68,831	31,036
Low price scenario	117,660	65,118	28,687	111,720	62,810	29,301

Senate bill provides higher net farm income for all farms except the small farm. Under this scenario, the Senate bill would provide more support to agriculture because the marketing loan is based on all current production, while direct payments are based on past or historical production. If prices tend higher than forecasted, the House bill should provide more support because of the higher direct payments.

Both proposals provide substantially higher net farm income than the continuation of the FAIR Act. Regions of the state which produce row crops, corn, and oilseeds would have higher net farm income under the Senate proposal, while areas which grow mainly small grains would benefit more from the House bill.

Important Issues

There are several important issues which have created controversy during the formulation of the new farm bill. They are: levels of loan rates, updating yields, and payment limits.

Loan Rates: It is being argued that the higher loan rates in the Senate bill would increase production and add to the large supplies that are on hand. Higher loan rates would not increase production as long as the loan rates cover only variable production cost of individual crops proportionally. There may be shifts in production from one crop to other crops when loan rates are not comparable to variable production costs. Table 4 shows the estimated cost of production for various commodities in North Dakota. In the short run, producers will typically plant if returns will cover variable or direct costs. The loan rates for both farm bills are higher than the direct costs of production for all crops. The Senate loan rates for oil crops are higher than those for other crops and cover the total cost of production. In this case, production shifts will be directed toward oil crops.

	Spring Wheat	Durum Wheat	Barley	Sunflowers	Canola	Corn	Soybeans
	-----\$/unit-----						
	-----bu-----		-----lbs-----			-----bu-----	
Direct cost/unit	1.72	1.88	0.98	0.046	0.057	1.22	2.07
Total cost/unit*	3.67	3.83	2.21	0.096	0.096	2.14	4.44

*Does not include charges for unpaid operator labor and management
Source: Farm Management Planning Guide, 2002.

Yield Updates: The House bill updates acres but maintains established yields for the calculation of direct payments. The Senate bill updates both acres and yields. If full federal funding is available, North Dakota producers could receive \$230 million in direct payments in 2002 with updated yields, compared to \$221 million with historical yields, under the Senate bill. There are major shifts in payment levels within the state. Corn and soybean producers will receive 51% and 21% more, respectively, under updated yields, while wheat and barley producers would chose not to update yields.

If North Dakota's wheat yields are compared to crop yields from other major commodity producing states, a different picture emerges (Table 5). When comparing yield increases for Texas cotton, Arkansas rice, Illinois soybeans, Iowa corn, and Kansas wheat to changes in the wheat yield in North Dakota, the other major commodity producing states have shown substantial yield increases, while average yields for North Dakota wheat have fallen over the past 15 years. If yields are updated with limited funds, the largest gains will go to Texas cotton and Arkansas rice, followed by Illinois soybeans and Iowa corn. The losers will be the North Dakota wheat growers.

Table 5. State Average Yield Changes for Various Commodities Grown in the United States

		81-85 avg	96-00 avg	% change
Iowa corn	bu	114.0	142.8	25.3
Arkansas rice	lbs	4,578.0	5,922.0	29.4
Kansas wheat	bu	35.6	41.6	16.9
North Dakota wheat	bu	31.2	29.9	-4.1
Illinois soybeans	bu	36.0	42.7	18.6
Texas cotton	lbs	357.2	484.6	35.7

North Dakota producers, however, would benefit from updated yields so long as government funds were available to fully finance the farm bill, since North Dakota produces not only wheat but also corn and soybeans. If direct payments are limited, as in the 1985 Graham-Rudman Act, North Dakota producers could receive less money in direct payments under updated yields.

Payment Limits: The Senate bill includes a payment limit of \$275,000, whereas the House bill has a limit of \$550,000. The Senate bill also removes the three entity rule, while the House retains it. The payment cap is a major issue in the rice and cotton growing regions of the country. However, less than 1-2% of farms in North Dakota may be affected by the payment limit under the Senate bill. The House bill's payment limit may not affect any except a few farms in North Dakota. If the payment limit cap is included in the new farm bill, there will be a shift of crop land from rice and cotton to other crops, which may affect market prices in the coming years. If the purpose of the farm bill is to give aid to family farms in the United States within a fixed budget, the payment limits should be enacted to assist the farms that truly need government support.

Recent CAPTS Publications on the Farm Bill:

Economic Analysis of the U.S. House of Representatives Farm Bill, the Senate Agriculture Committee Farm Bill Proposal, and the Agricultural Conservation Rural Enhancement Act of 2001 - Agribusiness & Applied Economics Report No. 475, by Richard D. Taylor and Won W. Koo.

Economic Analysis of the U.S. House of Representatives Farm Bill and Senate Agriculture Committee Farm Bill Proposal - Agribusiness & Applied Economics Report No. 471, by Richard D. Taylor and Won W. Koo.

Economic Analysis of Alternative Farm Bill Proposals - Agribusiness & Applied Economics Report No. 468, by Richard D. Taylor and Won W. Koo.

To obtain these publications, contact Beth Ambrosio, Center for Agricultural Policy and Trade Studies, NDSU at (701) 231-7334 or download from this website: <http://www.ag.ndsu.nodak.edu/capts/publication.htm>

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