Farm Policy - Why a New Direction is Needed

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October 31, 2005

Issues to Address

- 1. Is real farm income at a high, near record level?
- 2. Do farm program payments, especially the direct payments, get capitalized into land values?
- 3. Do liberalized trade agreements improve or harm U.S. producer income?
- 4. How important are farm programs to farm income?
- 5. Do U.S. farm programs hurt farmers in developing countries?

1. “U.S. Farm Income is at high or near record levels….”

Can this be true? - Maybe its how you compile the numbers….

USDA Statements

- “Record net farm income last year and projected to be down slightly this year, but overall continued good profitability” - Keith Collins
- “Farm household income continues to be well above average household income for the rest of our country’s consumers” - USDA ERS

Table 30—Income Statement for U.S. Farm Sector

	2001	2002	2003	2004	2005F	1995-2004 average
			$ billion			
Cash income statement						
1. Cash receipts	200.1	195.0	216.6	241.2	239.6	202.5
Crops [1]	93.3	101.0	111.0	117.8	116.0	102.9
Livestock	106.7	94.0	105.6	123.5	123.7	99.6
2. Direct Government payments [2]	20.7	11.2	17.2	13.3	21.4	14.1
3. Farm-related income [3]	14.8	14.8	15.7	17.2	18.3	13.9
4. Gross cash income (1+2+3)	235.6	221.0	249.5	271.7	279.3	230.5
5. Cash expenses [4]	175.5	171.6	177.9	186.2	194.0	168.9
6. Net cash income [5] (4-5)	60.1	49.5	71.6	85.5	85.2	61.6
Farm income statement						
7. Gross cash income (1+2+3)	235.6	221.0	249.5	271.7	279.3	230.5
8. Noncash income [6]	**12.0**	**12.3**	**12.8**	**13.6**	**14.2**	**11.4**
9. Value of inventory adjustment	1.1	-3.4	-2.5	7.0	-3.0	0.6
10. Gross farm income (7+8+9)	248.7	229.9	259.8	292.3	290.5	242.5
11. Total production expenses	197.1	193.4	200.3	209.8	218.7	190.1
12. Net farm income (10-11)	51.5	36.6	59.5	82.5	71.8	52.4

F = forecast. P = preliminary. Numbers may not add due to rounding. 1. Includes commodities placed under CCC loans and profits made on loans redeemed. 2. Direct government payments include only payments made directly to farmers, including realized marketing loan gains. In publications prior to May of 2001, marketing loan gains were included in cash receipts rather than in government payments. 3. Income from custom labor, machine hire, recreational activities, forest product sales, and other farm sources. 4. **Excludes depreciation and perquisites to hired labor**. 5. Excludes farm operator dwellings. 6. **Value of farm products consumed on farms where produced plus the imputed rental value of farm dwellings**. [Information contacts: Roger Strickland, E-mail: rogers@ers.usda.gov] Note: The current farm income forecast and historical statistics can always be found at http://www.ers.usda.gov/Data/FarmIncome/finfidmu.htm

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(USDA ERS data.....)

Table 31—Average Income to Farm Operator Households [1]

	2001 [2]	2002	2003	2004P	2005F
	Dollars per farm				
Net cash farm business income [3]	14,311	11,331	14,578	20,638	18,285
Less depreciation [4]	7,609	8,189	7,346	8,085	--
Less wages paid to operator [5]	932	758	682	747	--
Less farmland rental income [6]	477	621	592	806	--
Less adjusted farm business income due to other household(s) [7]	1,083	1,248	1,401	2,909	--
	Dollars per farm operator household				
Equals adjusted farm business income	4,211	516	4,556	8,091	--
Plus wages paid to operator	932	758	682	747	--
Plus net income from farmland rental [8]	--	--	--	--	--
Equals farm self-employment income	5,143	1,273	5,238	8,838	--
Plus other farm-related earnings [9]	396	2,199	2,411	5,363	--
Equals earnings of the operator household from farmi	**5,539**	**3,473**	**7,649**	**14,201**	**12,077**
Plus earnings of the operator household from off-farm	**58,578**	**62,285**	**60,865**	**72,871**	**76,028**
Equals average farm operator household income com to U.S. average household income, as measured by the CPS	**64,117**	**65,757**	**68,515**	**87,072**	**88,105**
	Dollars per U.S. household				
U.S. average household income [11]	58,208	57,852	59,067	60,528	--
	Percent				
Average farm operator household income as percent of U.S. average household income	**110.2**	**113.7**	**116.0**	--	--
Average operator household earnings from farming activities as percent of average operator household income	8.6	5.3	11.2	16.3	13.7

P = Preliminary. F = forecast. -- = not available. * = The relative standard error exceeds 25 percent, but is no more than 50 percent.

[1] This table derives farm operator household income estimates from the Agricultural Resource Management Study (ARMS) that are consistent with Current Population Survey (CPS) methodology. The CPS, conducted by the Census Bureau, is the source of official U.S. household income statistics. The CPS defines income to include any income received as cash. The CPS definition departs from a strictly cash concept by including depreciation as an expense that farm operators and other self-employed people subtract from gross receipts when reporting net cash income.

[2] Prior to 2000, net cash income from operating another farm and net cash income from farmland rental were included in earnings from farming activities. However, because of a change in the ARMS survey design, net cash income from another farm and net cash income from farmland rental are not separable from total off-farm income. Although there is no effect on estimates of farm operator household income in 2000 and beyond, estimates of farm self employment income, other farm related earnings, earnings of the farm from farming activities, and earnings of the farm from off-farm sources are not strictly comparable to those from previous years. In 2002, net cash income from operating another farm is once again included as earnings from farming activities.

[3] A component of farm sector income. Excludes income of contractors and landlords, the income of farms organized as nonfamily corporations or cooperatives, and income of farms run by a hired manager. Includes the income of farms organized as proprietorships, partnerships, and family

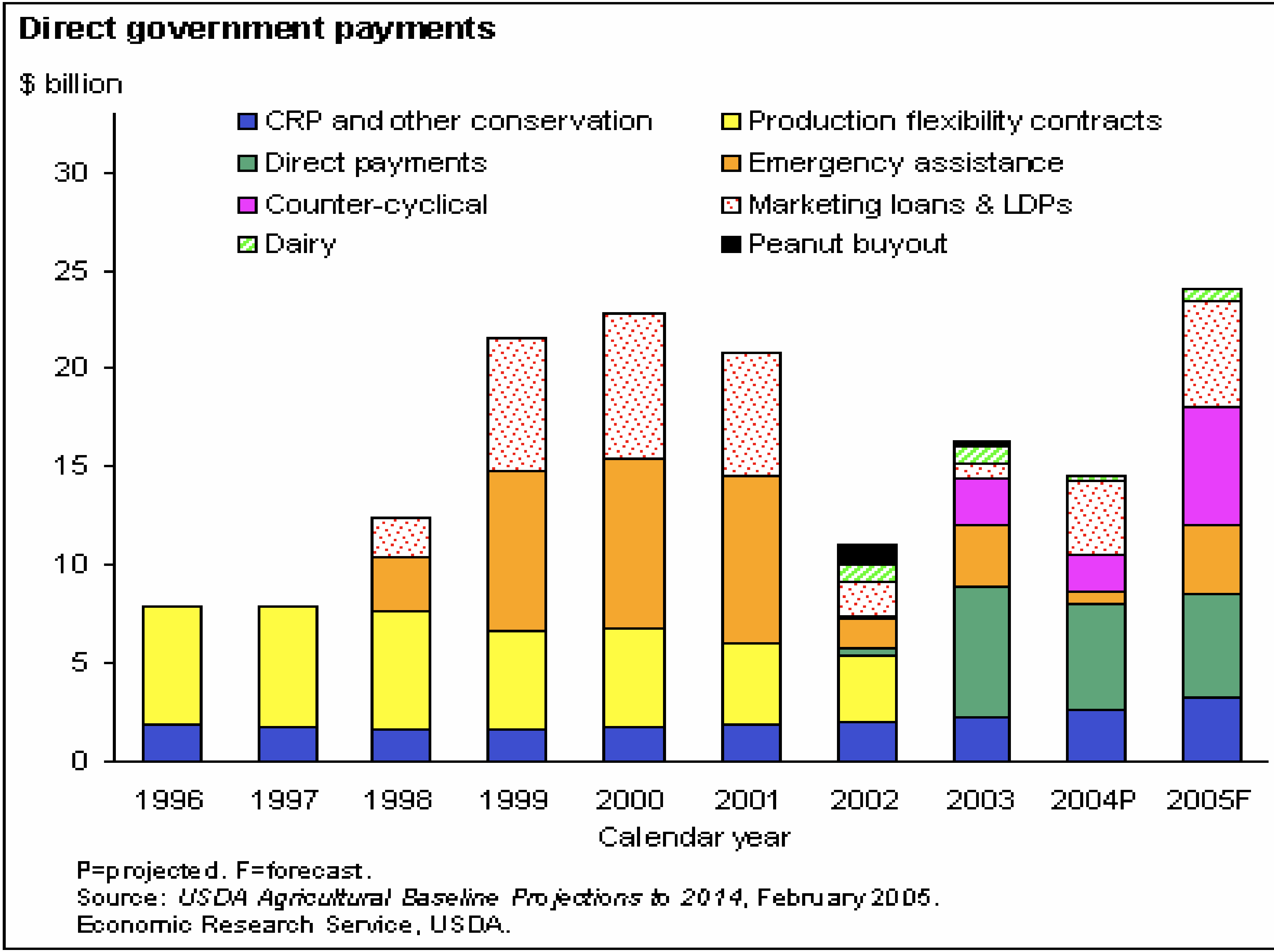
(USDA ERS Data)

2. We have been told: "Decoupled payments support farmers without impacting production"

So, market prices alone will determine acreage use, and farmers will have extra money to spend on family living…

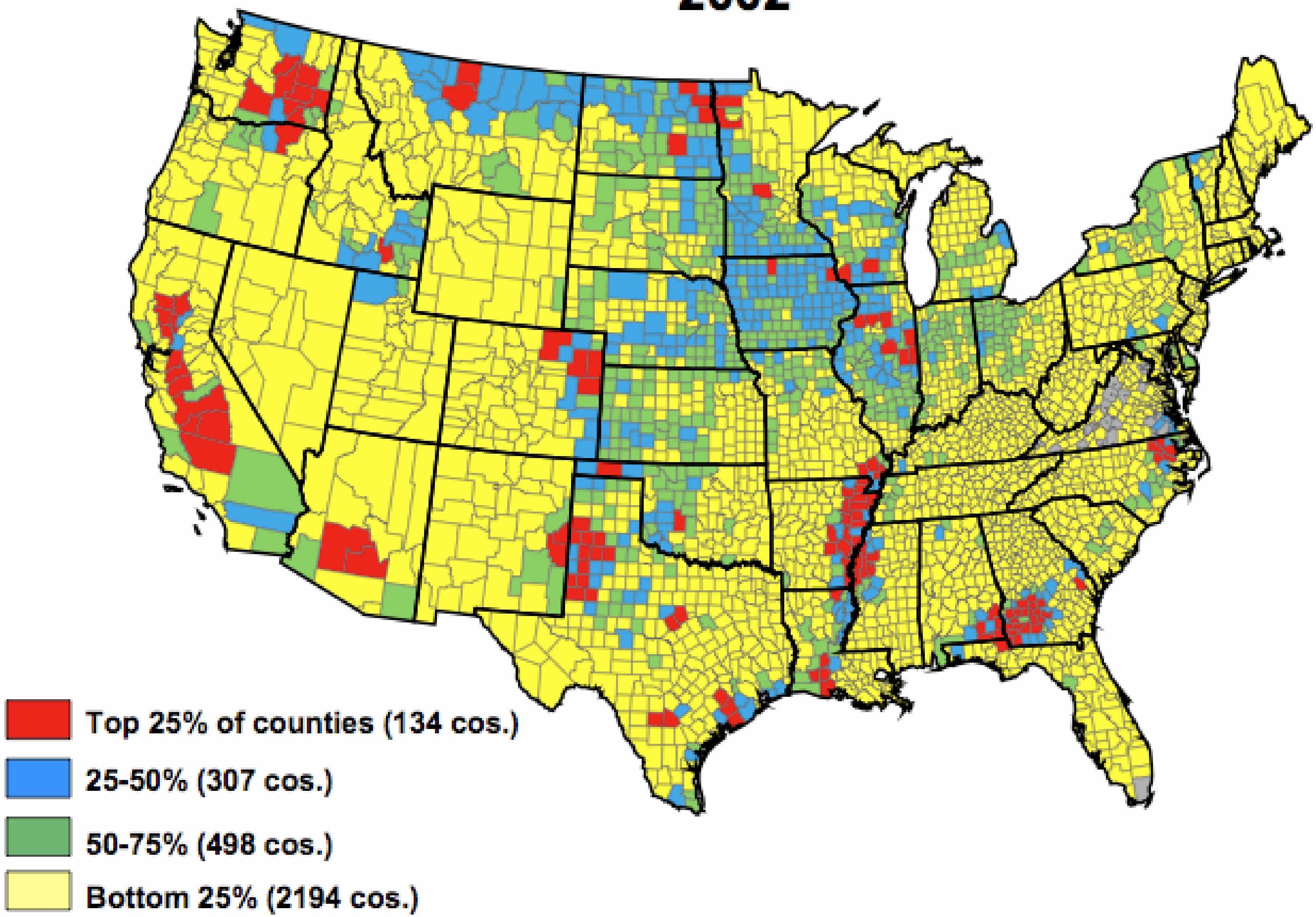
Farm Program Payments- Last 9 Years plus 2005 Estimate

- Commodity and CRP payments have ranged between 8 billion and 25 billion dollars annually
- Since 2002 have been somewhat countercyclical with commodity prices
- The 1996 farm bill was to "transition" producers out of support payments and would be the end of most commodity payments?
- Let's go to the numbers….


Direct government payments
$ billion
CRP and other conservation
Production flexibility contracts
Direct payments
Emergency assistance
Counter-cyclical
Marketing loans & LDPs
Dairy
Peanut buyout
30
25
20
15
10
5
0
1996
1997
1998
1999
2000
2001
2002
2003
2004P
2005F
Calendar year
P=projected. F=forecast.
Source: *USDA Agricultural Baseline Projections to 2014*, February 2005.
Economic Research Service, USDA.

Farm Payments Distribution

2002

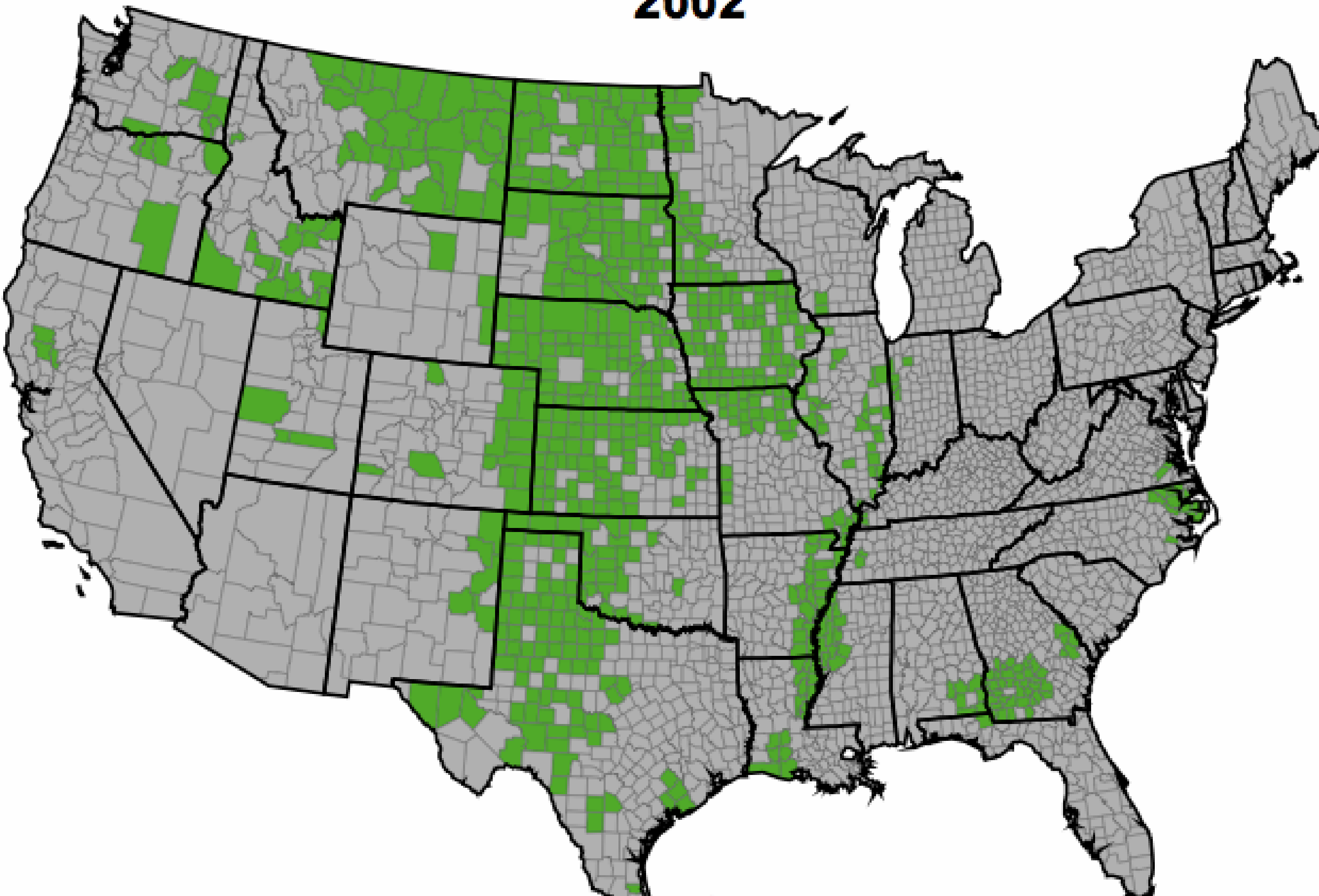


Source: Bureau of Economic Analysis, REIS

Center for the Study of Rural America, FRBKC

Top 25% of Counties Dependent on Farm Payments

2002



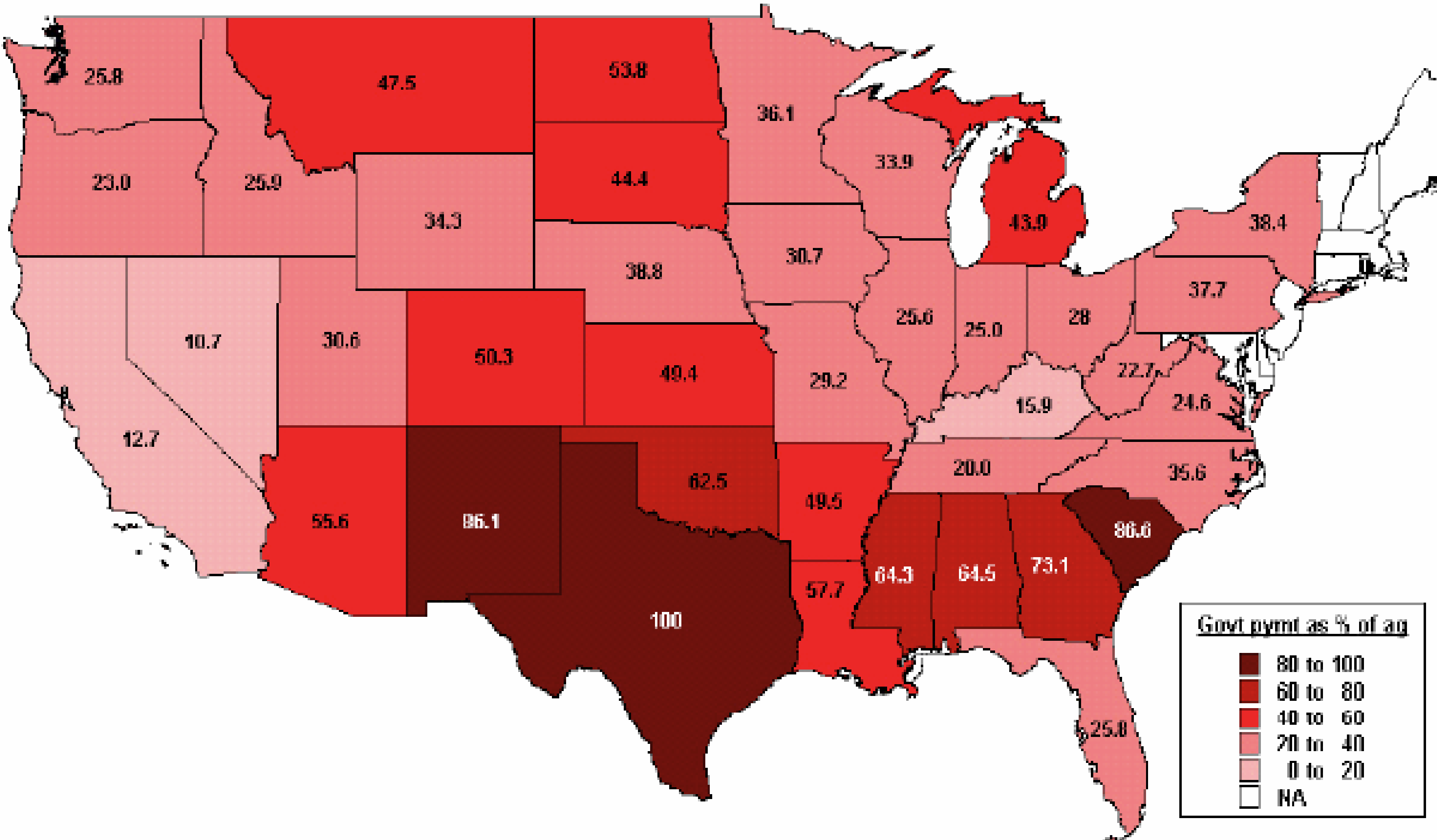
*Note: Dependency determined by Farm Payments as share of Personal Income
Source: Bureau of Economic Analysis, REIS

Center for the Study of Rural America, FRBKC

Are commodity payments doing what we want?

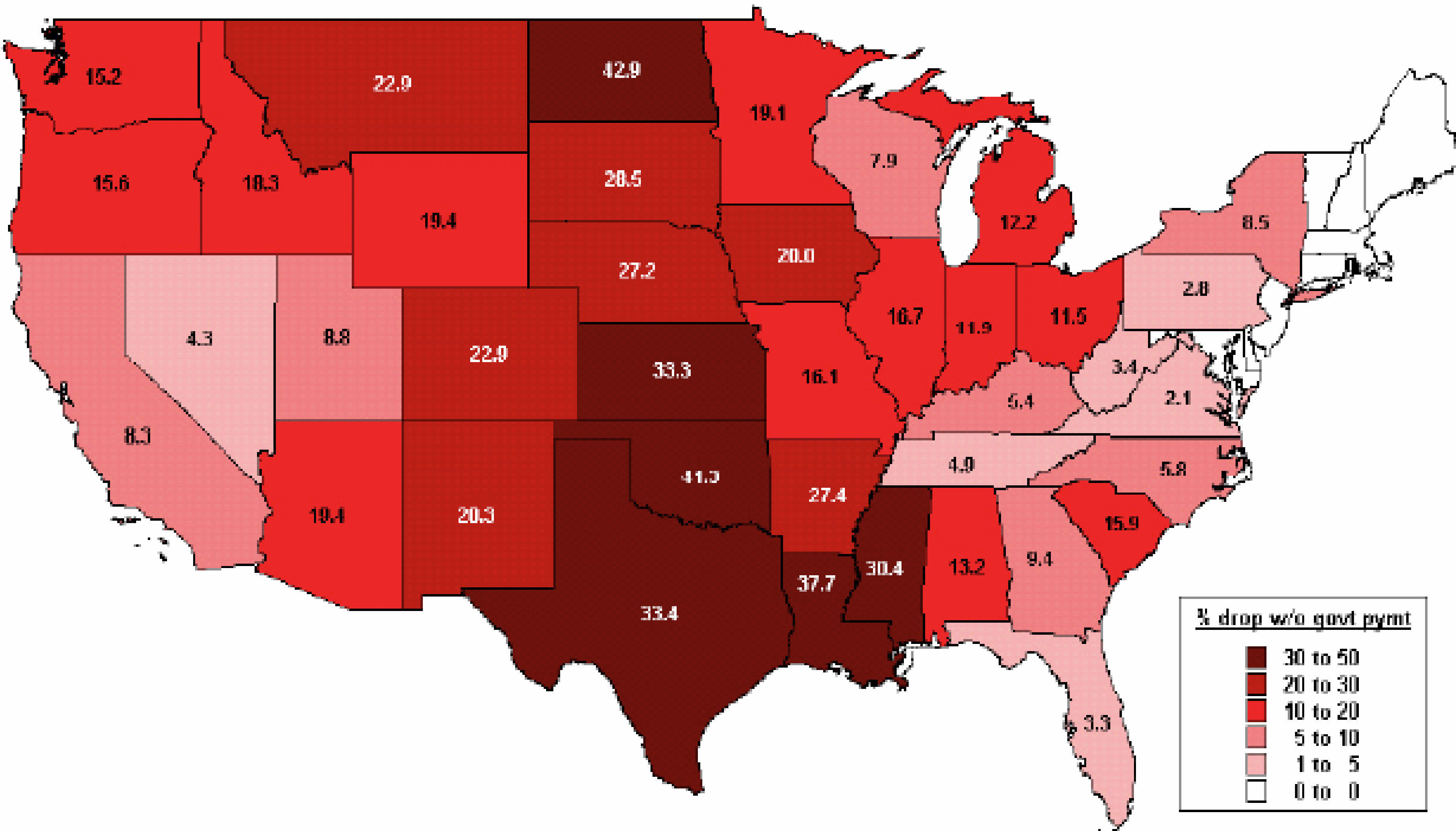
- While these counties likely would be suffering a lot more without supports, the concern is that the government payments are just being capitalized into land rather than bridging an income gap in production.
- According to KSU, these same areas are most susceptible to large decreases in land values if government payments stopped.

Figure 2. Portion of 2005 Agricultural Crop Land Value Attributed to Government Payments



Source: Kastens and Dhuyvetter, September 2005

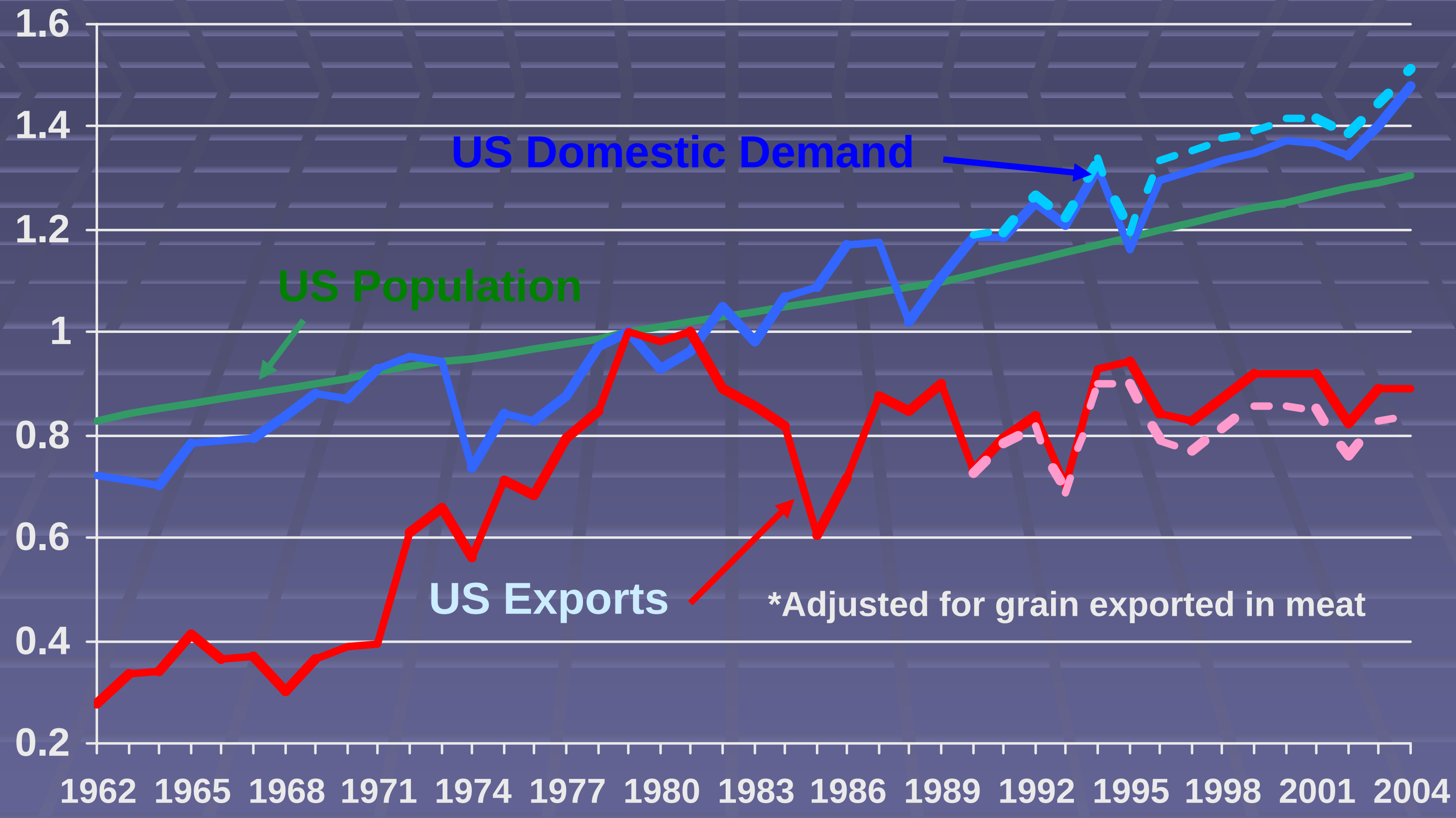
Figure 3. Estimated Reduction in 2005 Crop Land Values with the Elimination of Government Payments



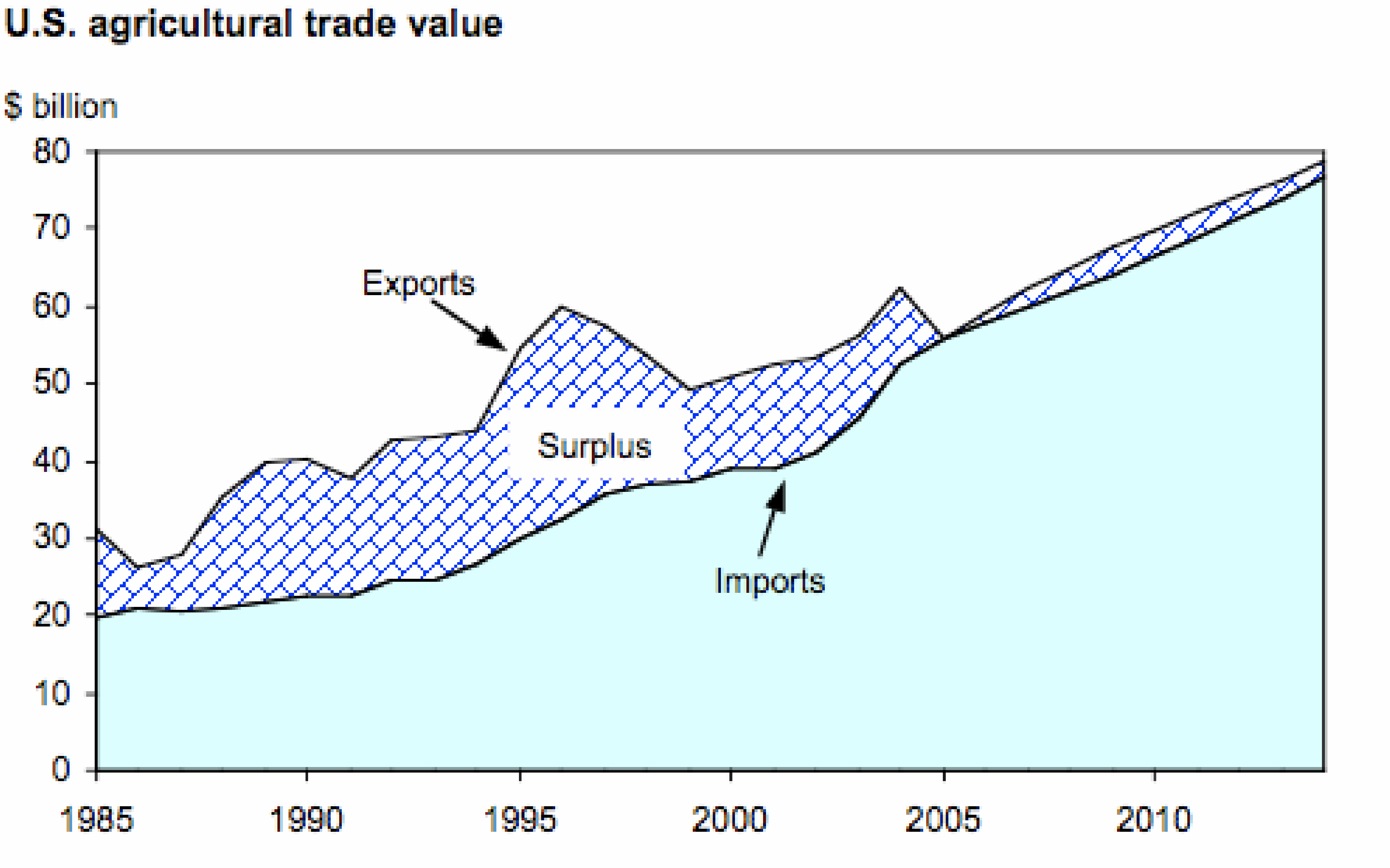
Source: Kastens and Dhuyvetter, September 2005

Are liberalized trade agreements beneficial to producer incomes?

Exports Did Not Deliver

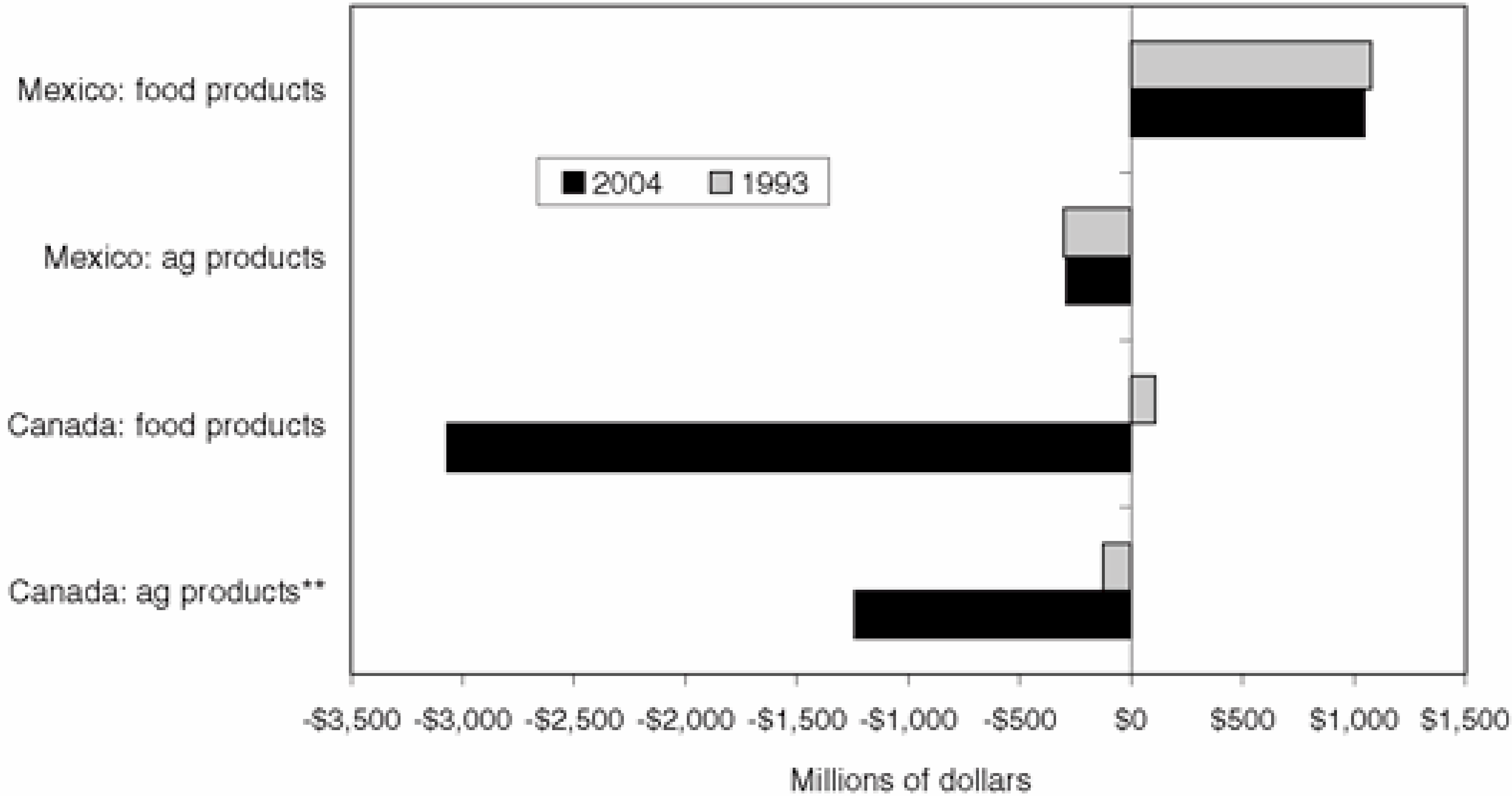


Index of US Population, US Demand for 8 Crops and US Exports* of 8 Crops 1979=1.0



USDA ERS information….

U.S. trade balance with Canada and Mexico in agriculture and food products, 1993 and 2004*



* Trade balance represents domestic exports minus consumption imports.

** Canadian ag products include cattle net exports for 2002.

Source: USITC and author's analysis.

4. Farm programs are essential to net farm income.

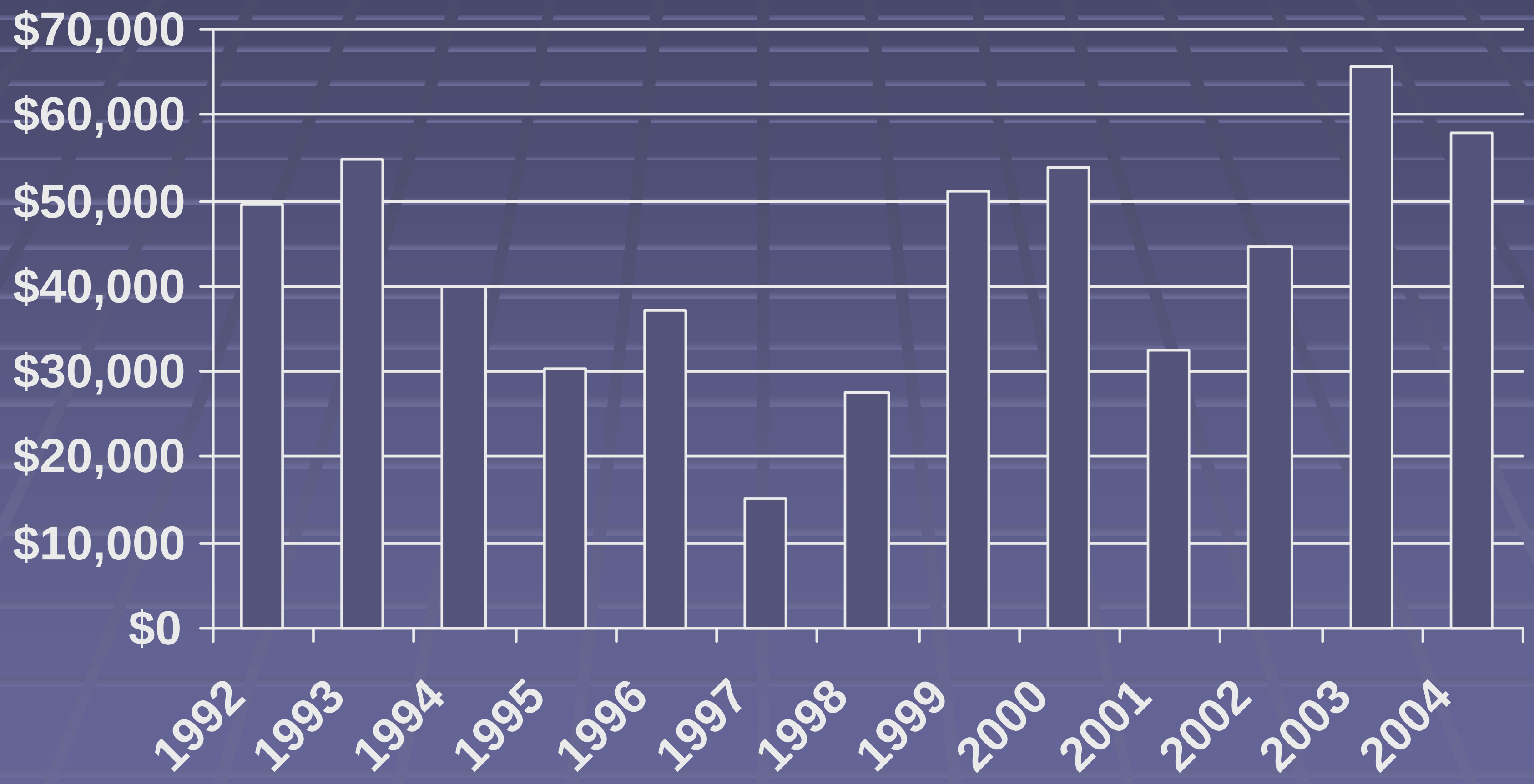
Let’s look at some North Dakota data…

An Average of Detailed Records of Farms Annually Enrolled in Farm Management Programs located throughout North Dakota Excluding farms located in the Red River Valley for the years 1992-2004

NDFBM averages - www.finbin.umn.edu/

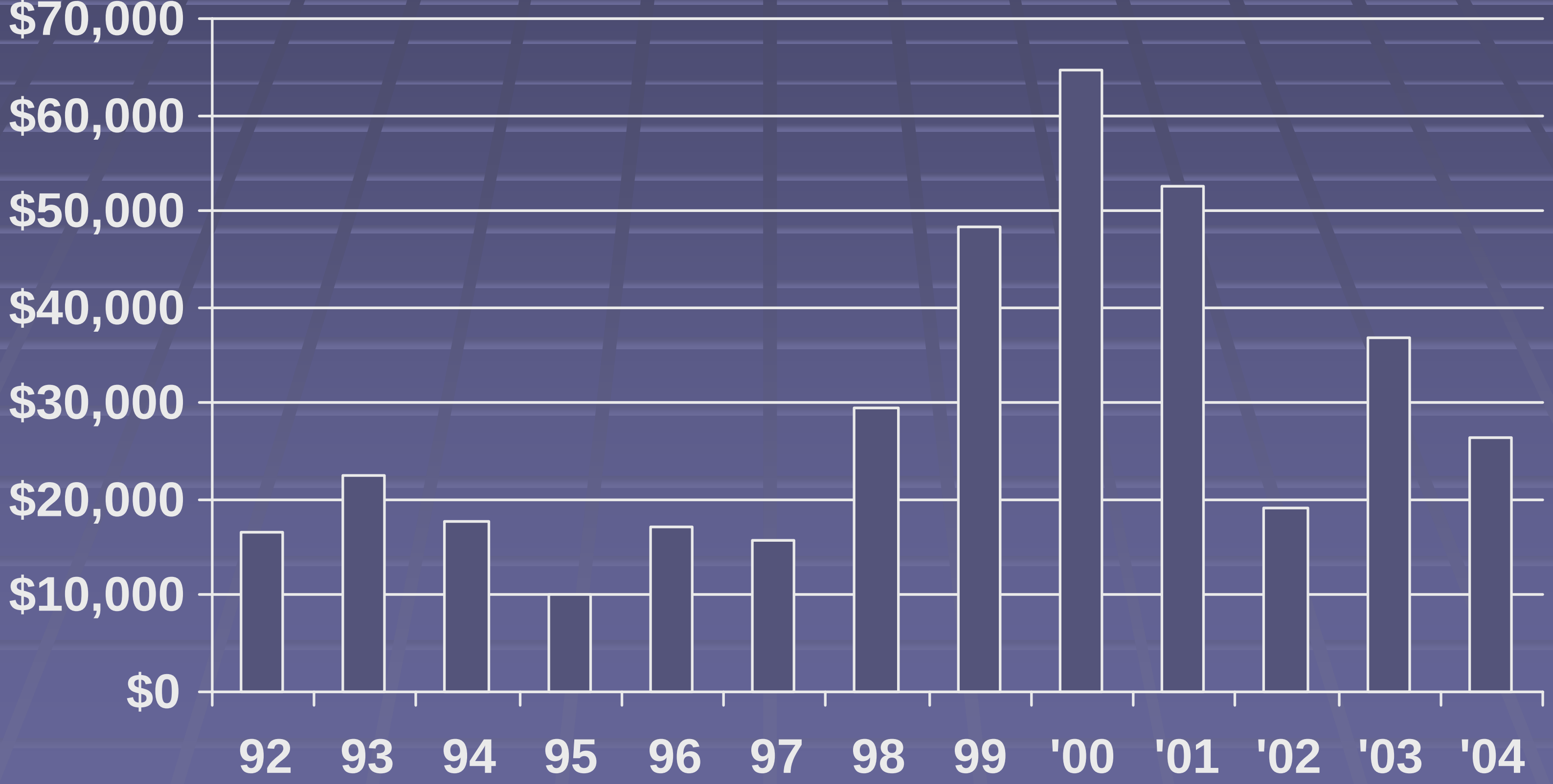
Average Net Farm Income

ND Farm Business Mgmt., Excluding RRV



Total Government Payment Income

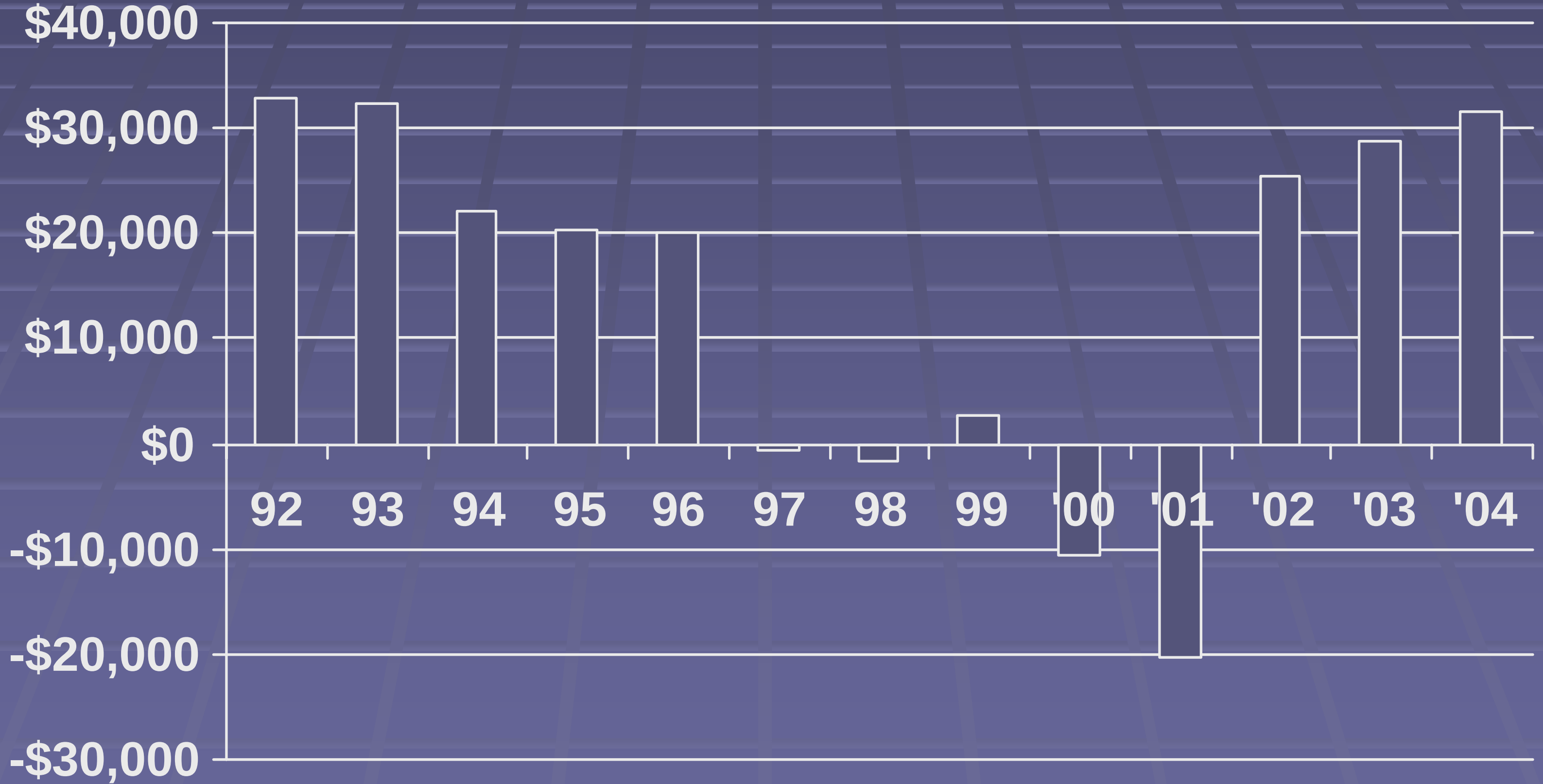
ND Farm Business Mgmt., Excluding RRV



Net Farm Income

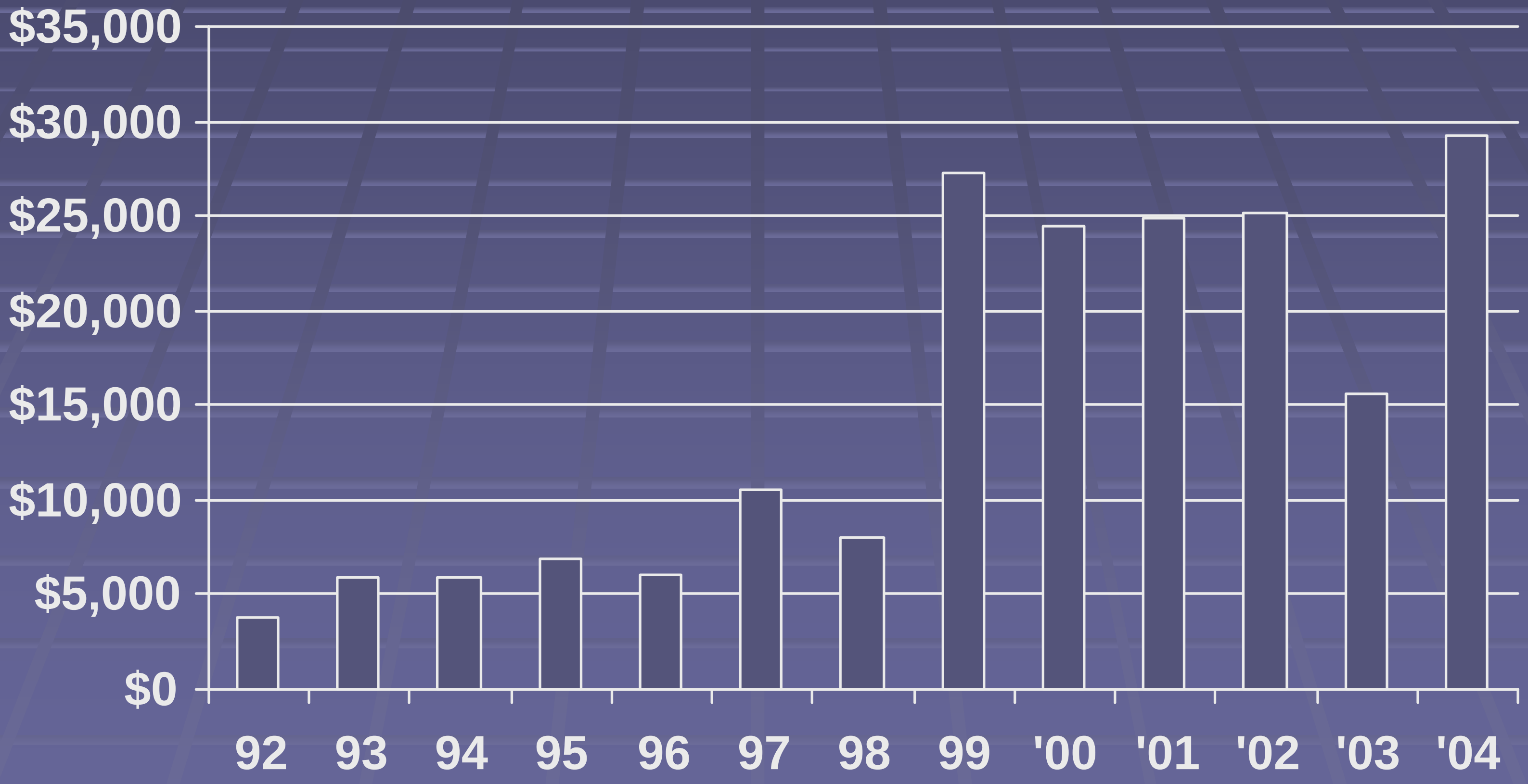
Excluding Gov't Pymts.

ND Farm Business Mgmt., Excluding RRV



Total Insurance Income

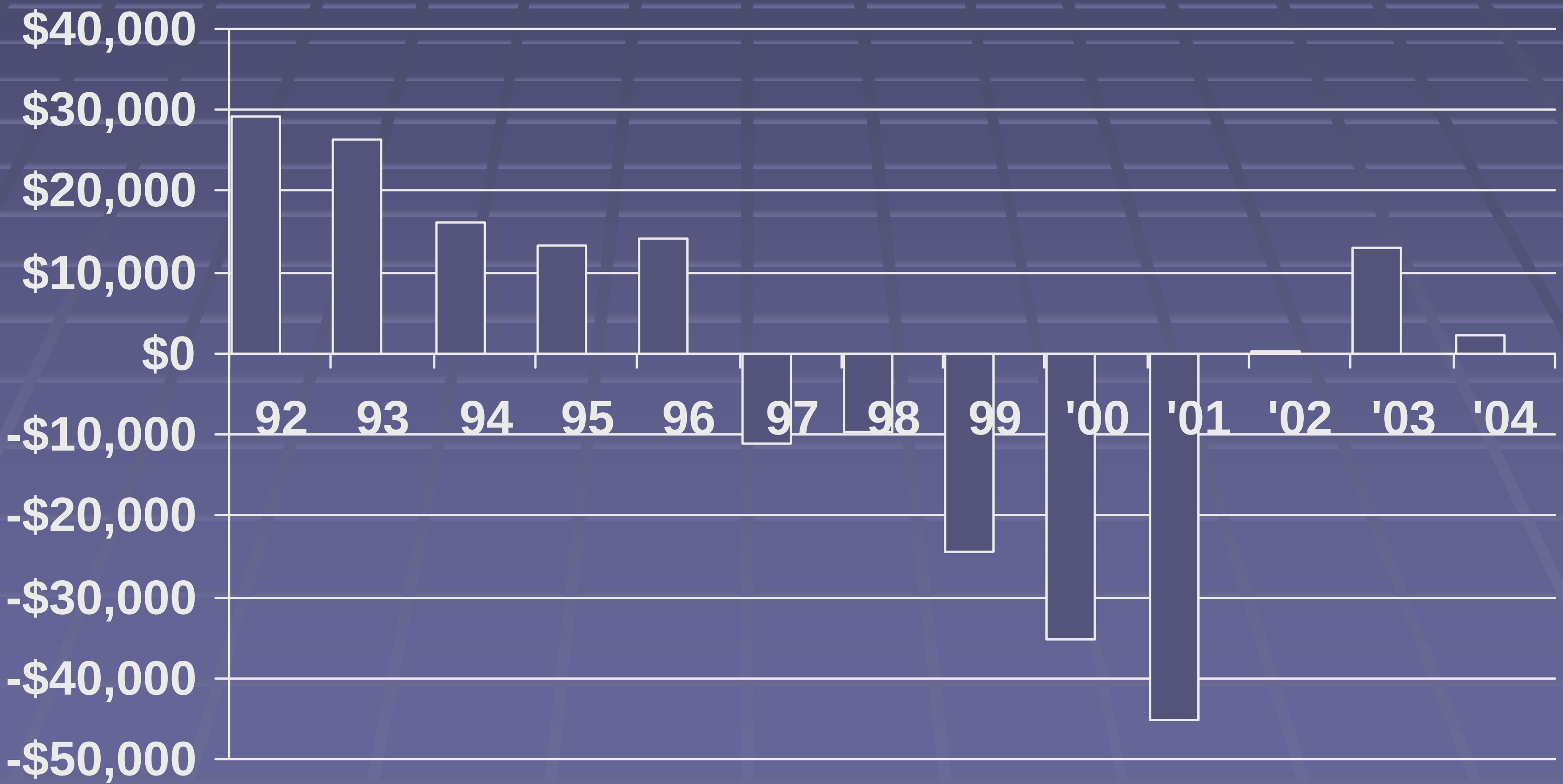
ND Farm Business Mgmt., Excluding RRV



Net Farm Income

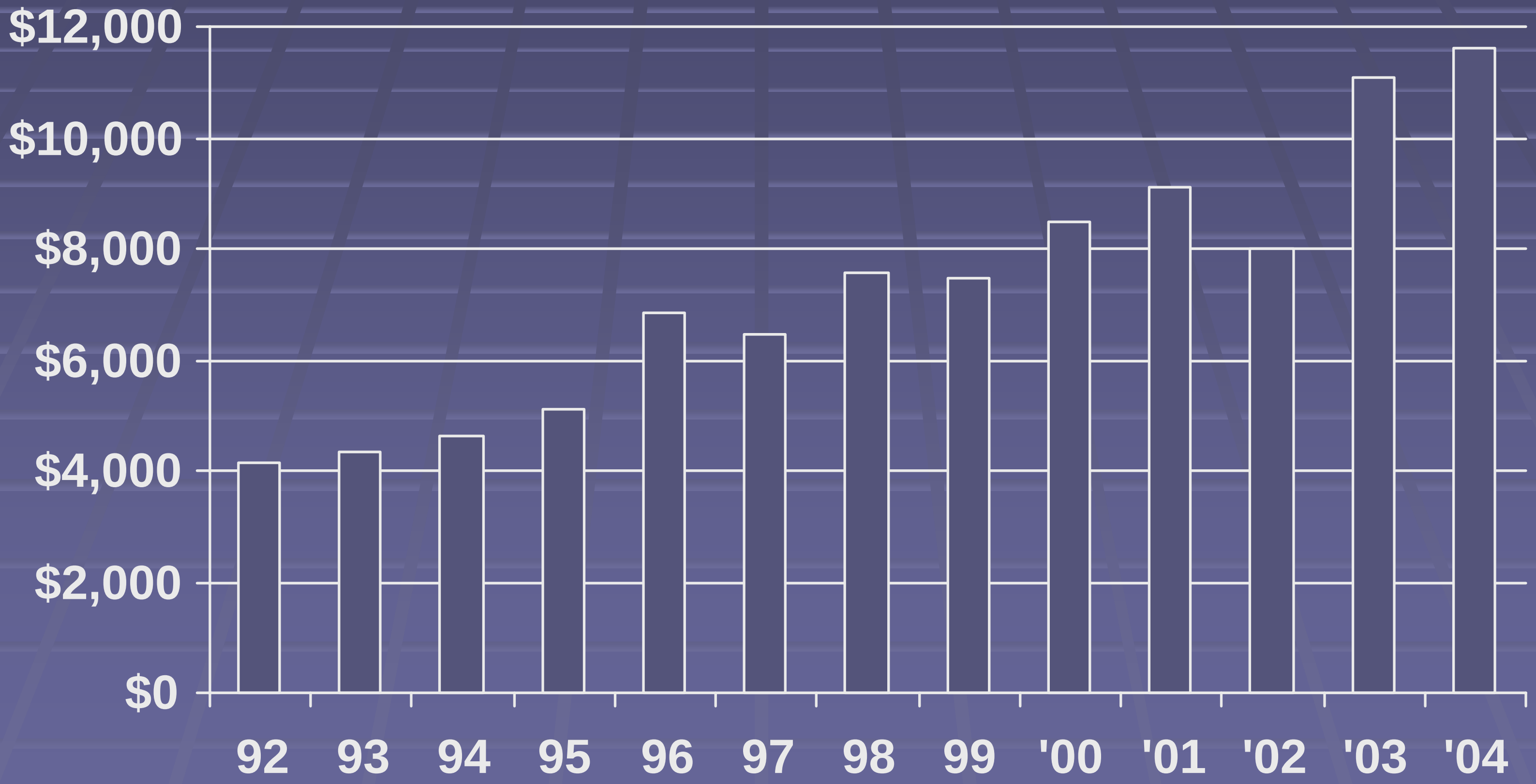
Excluding Gov Payments or Insurance

ND Farm Business Mgmt., Excluding RRV



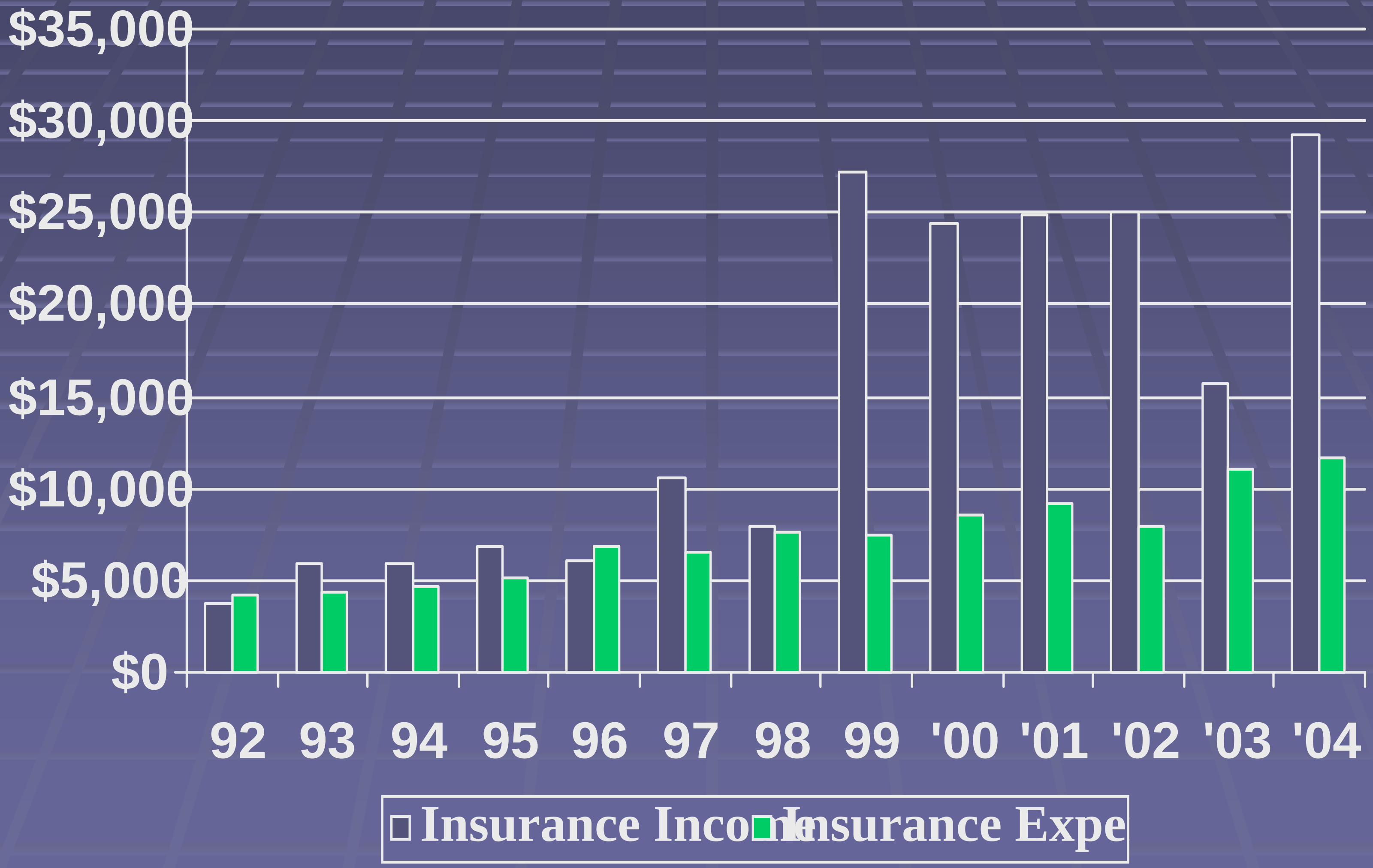
Total Insurance Expense

ND Farm Business Mgmt., Excluding RRV



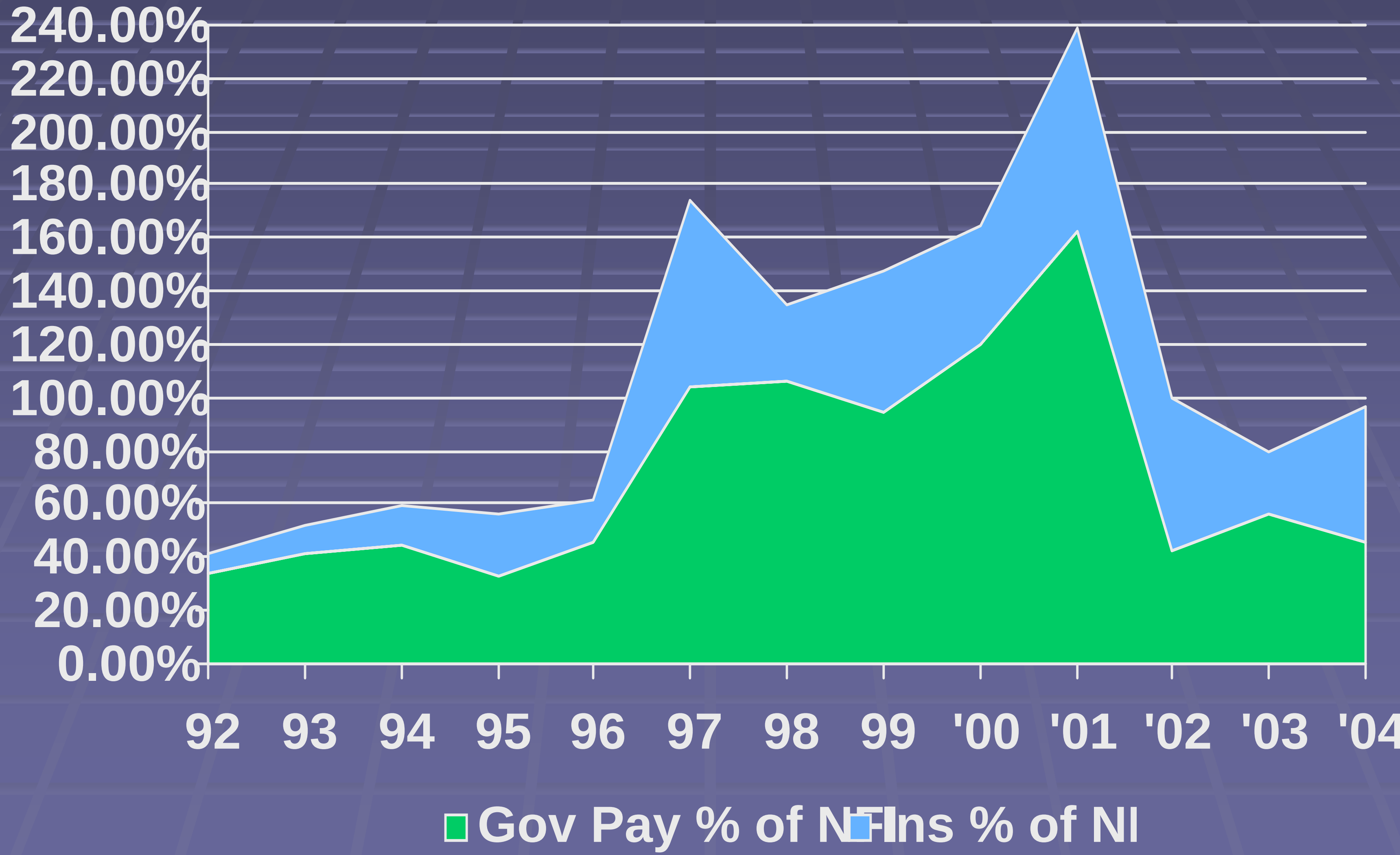
Insurance Income/Expense

ND Farm Business Mgmt., Excluding RRV



Government Payments & Insurance Income
as a Percent of Annual Net Farm Income

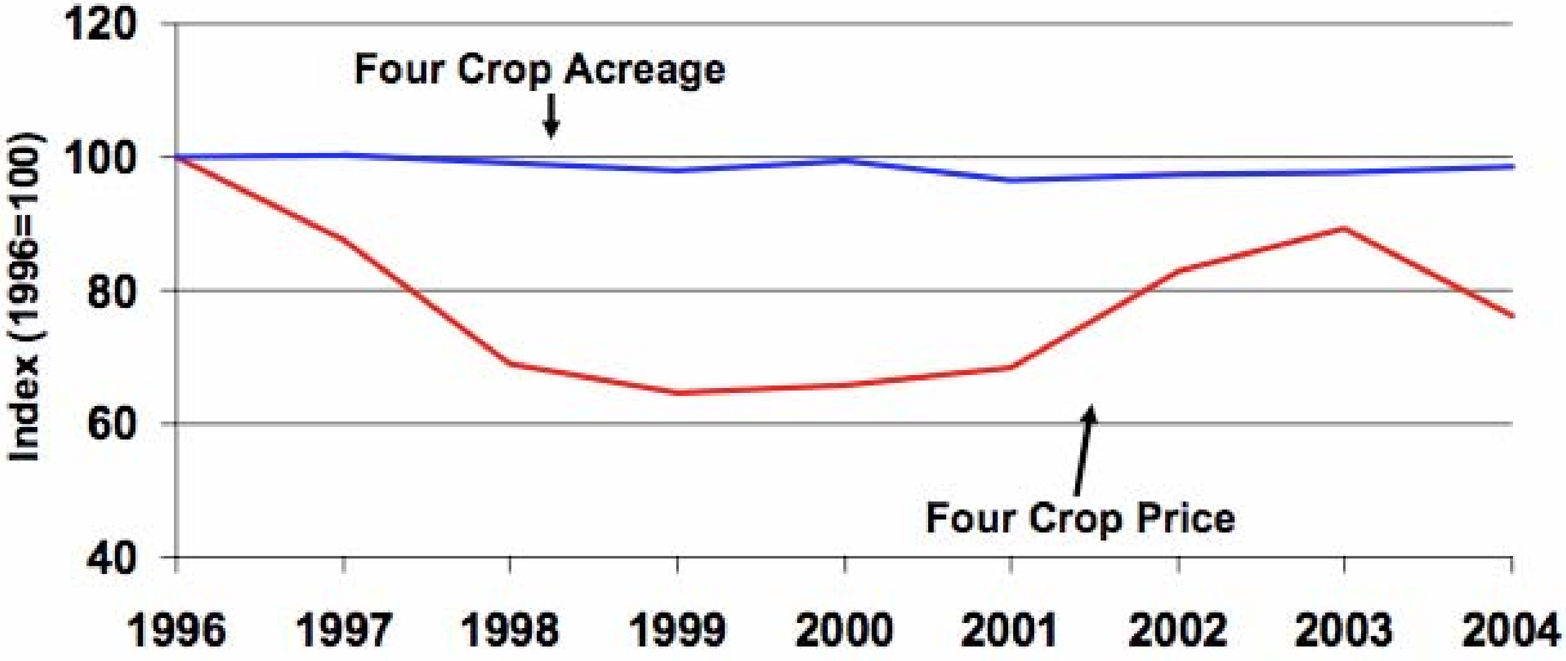
ND Farm Business Mgmt., Excluding RRV



5. We are being told that "U.S. farm policies are decimating agricultural production in developing countries."

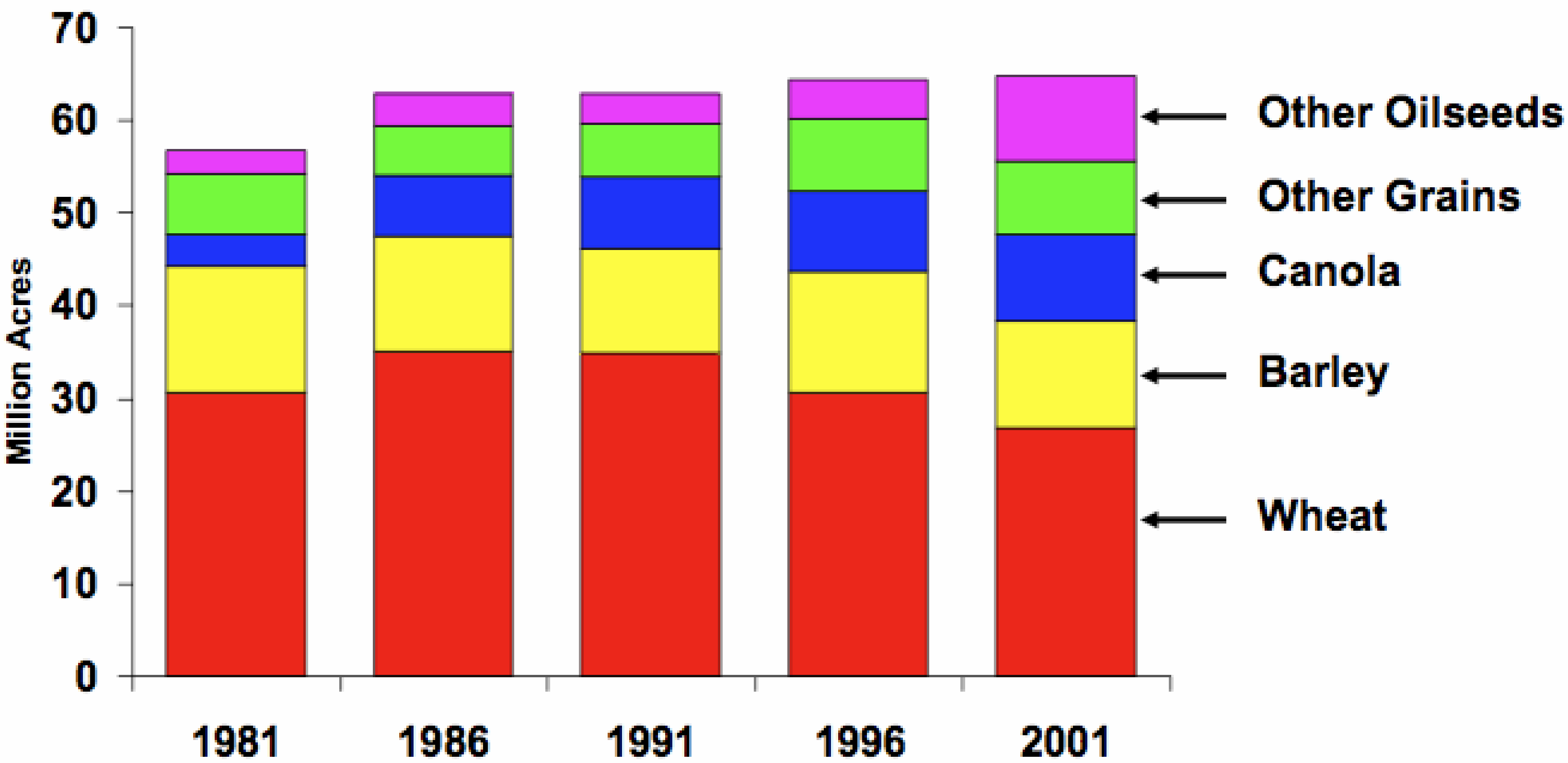
Would the end of agricultural supports here and in other countries reduce production?

Acreage Response to Lower Prices



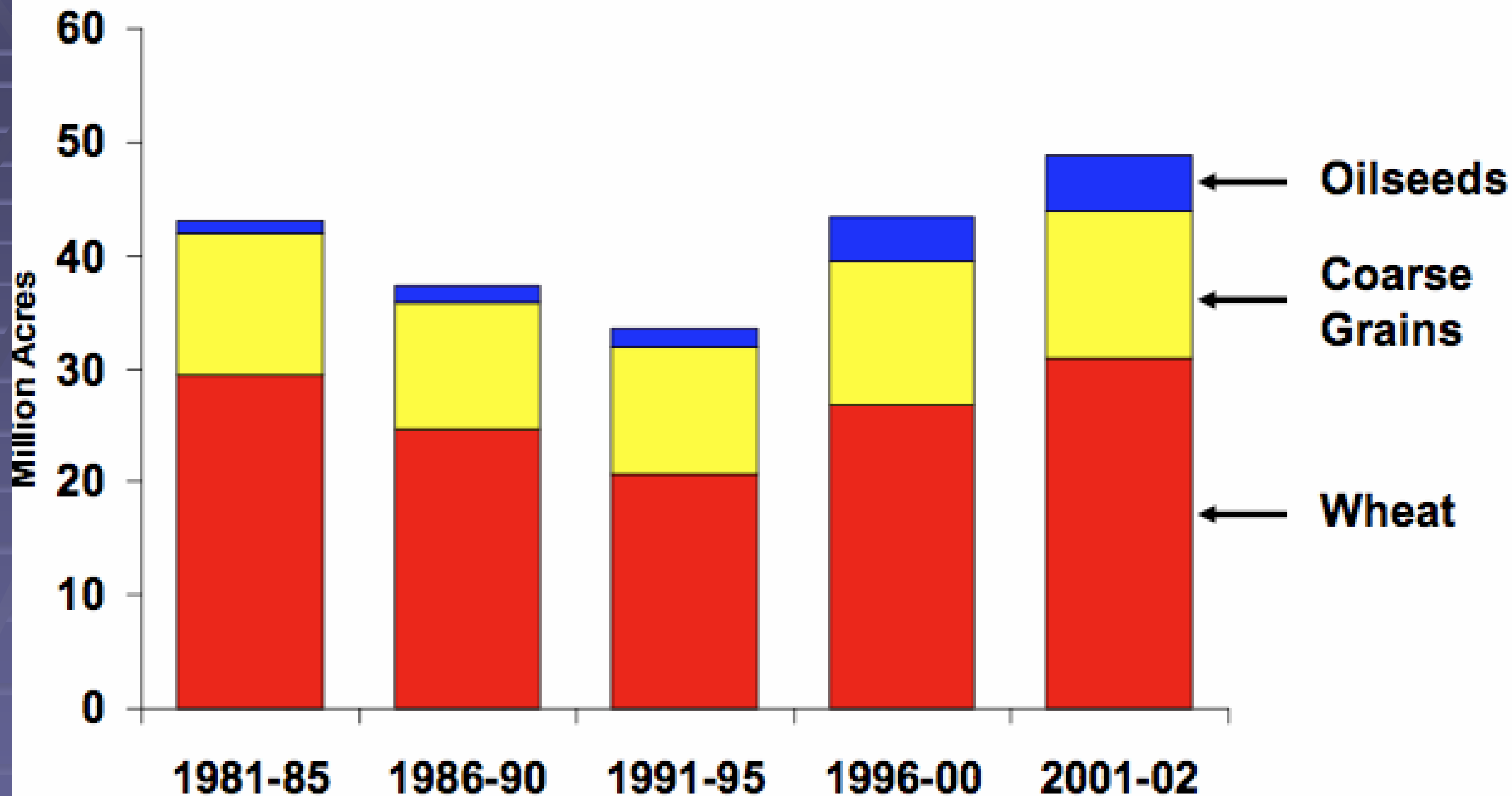
APAC - Daryll Ray

Canada: Farmland Planted



- Canada reduced subsidies in 1990s
- Eliminated grain transportation subsidies in 1995
- Crop mix changed, total acreage remained flat

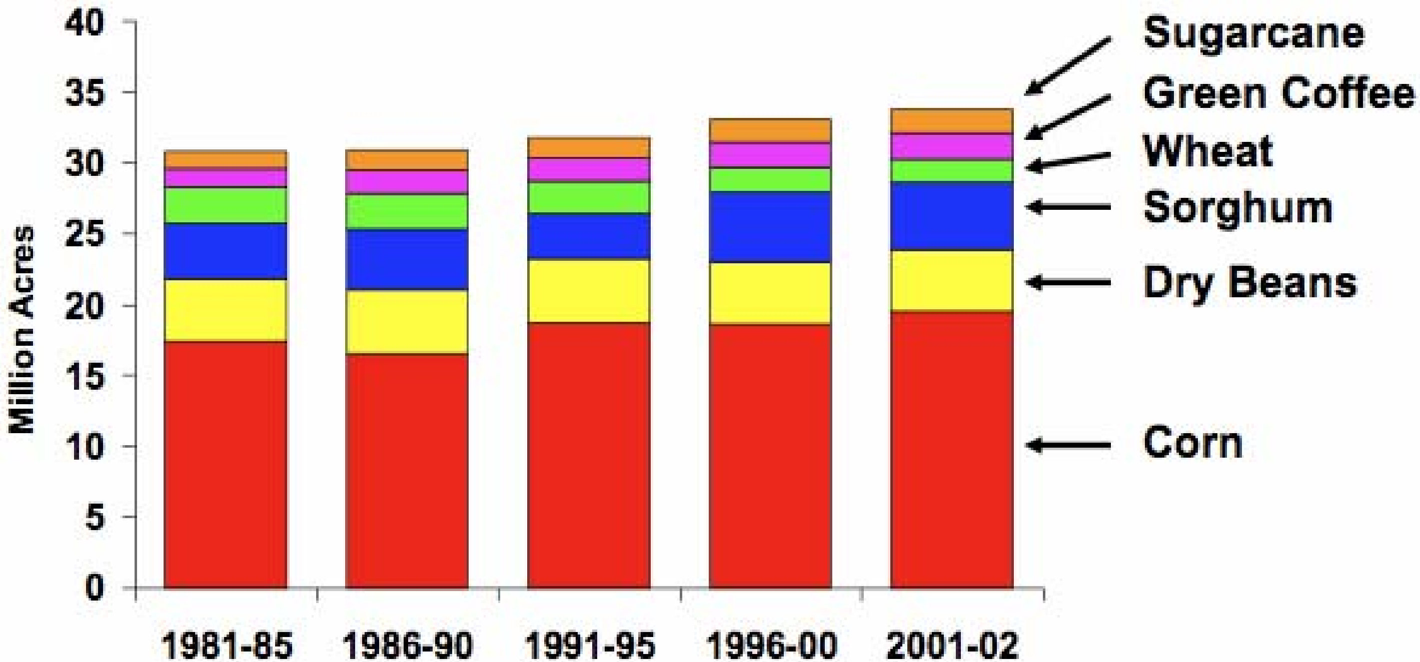
Australia: Farmland Planted



- Australia dramatically reduced wool subsidies in 1991
- Acreage shifted from pasture to crops
- All the while, prices declined

APAC- Daryll Ray

Mexico: Farmland Planted



- Mexico eliminated or reduced supports in the 1990s
- Phased out import quotas under NAFTA
- Increased acreage of above selected major crops
- Total crop acreage also increases – 256 million acres in 1991, 265 million acres in 2001

APAC-Daryll Ray

If U.S. discontinued all agricultural supports, what would happen?

- Land values would decrease (especially in the Great Plains states), putting producers, their lenders, rural communities, and infrastructure all at risk. (KSU data)
- The experience in other countries shows that virtually all the land would continue to be farmed, possibly by different owners, but supplies of commodities likely would not change, and may even increase as producers try to maximize volume to offset lowered revenues.

2007 Farm Bill Questions

- Will U.S. taxpayers continue to support agricultural payments at these levels? (up to 25 billion/year)
- What if our trade negotiators “give away the store” in terms of agreeing to huge cuts in support programs?
- What if WTO rules that more of our commodity supports are illegal? (Example-Cotton)
- Can we change to a system of conservation and other environmental payments and will it be enough to keep producers on the land?

2007 Farm bill questions

- What is the future of CRP as well as wetland reserve programs and grassland reserve programs?
- Can we significantly increase domestic use and reduce carryover of some commodities by encouraging more renewable energy crops?
- If the deficit requires cuts in agriculture programs, are payment limits better than program cuts?
- Can we truly compete with other producers in the world?

Our Vision for Future Agriculture Policy

- The measure of success of any farm bill has to be the level of **net income** for producers.
- Farm policy should **not** be developed for multi-national corporations, processors, exporters, integrated livestock producers and all similar firms who profit from low commodity prices.

Our Vision for Future Agriculture Policy

- Farmers Union is committed to working toward innovative farm policies that improve net farm income.
- We expect **better targeting** of farm program payments to family farms, defined as a unit using land and other capital investments operated by a family who provide stewardship and management, take economic risk, and provide the majority of the supervision and work on the farm or ranch. A vertically integrated or multinational grain and food conglomerate is not a family farm. The decline in the number of family-sized commercial farms must be reversed.

Our Vision for Future Agriculture Policy

- A Renewable Energy Reserve should be established for crops that can be dedicated to fuel production.
- Fully fund the Conservation Security Program, one of the most innovative attempts at conservation on working lands, not retired lands.
- Continue CRP only on most environmentally sensitive lands, and offer shorter term CRP contracts for specific conservation needs. Prohibit whole farm CRP enrollment due to detrimental effects on rural communities.
- Encourage innovative conservation practices in conjunction with carbon sequestration enhancement opportunities in CSP, CRP, Water bank and GRP .

Our Vision for Future Agriculture Policy

- We believe that an analysis of current trade agreements is needed to determine if they are accomplishing their stated goals, before our government negotiates any new ones.
- Recognize that food security is non-negotiable for many trading partners, and while it may make economic sense for some countries to give up traditional food security in favor of importing all their food, it is not going to happen, and full market access is not likely either.
- International trade agreements must have a speedy and fair means of resolving disputes among trading partners, and must have provisions to account for foreign currency revaluations as well as labor and environmental standards.

Our Vision for Future Agriculture Policy

- A countercyclical mechanism and loan rates should be maximized to legal limits under WTO rules, but almost as important is some sort of indexing of loan rates or payment rates to account for increasing costs of production, especially in times of high energy costs.
- Risk management will continue to be vital to producers, and we envision some sort of permanent disaster protection in the form of increased subsidy of higher levels of crop insurance coverage. Possibly some sort of group risk coverage and whole farm enterprising would be feasible to provide this level of protection for producers.

Our Vision for Future Agriculture Policy

- We believe our nation’s producers have the right to label their products as a premium product of the US. A majority of producers favor COOL, a huge majority of consumers want it, and it needs to be implemented.
- We believe that COOL needs to be enacted in conjunction with the National Animal Identification system. It doesn’t make sense to trace animals back to the farm for disease purposes, but then buy foreign ag products which are mixed into our food supplies without traceability.

Wrapping Up…..

- Farm policy and global trading agreements have the potential to permanently transform agriculture as we know it today.
- The owner-operated family farm is the keystone of a free, progressive, democratic national society, as well as a strong America. Above all, farm policy needs to recognize and build on the strength of our nation's agriculture, not throw it on the altar of globalization and the failed economic policies of the past.
- Change is inevitable, but how we anticipate and adapt to change is up to us.