August 2015

Summary of the 1996 Farm Bill: The Federal Agriculture Improvement and Reform (FAIR) Act of 1996

William H. Meyers
Iowa State University

Darnell B. Smith
Iowa State University

Steven L. Elmore
Iowa State University

Follow this and additional works at: http://lib.dr.iastate.edu/iowaagreview

Part of the Agricultural and Resource Economics Commons, Agricultural Economics Commons, Agriculture Law Commons, Economic Policy Commons, and the Public Economics Commons

Recommended Citation
Available at: http://lib.dr.iastate.edu/iowaagreview/vol2/iss3/1

This Article is brought to you for free and open access by the Center for Agricultural and Rural Development at Iowa State University Digital Repository. It has been accepted for inclusion in Iowa Ag Review by an authorized editor of Iowa State University Digital Repository. For more information, please contact digirep@iastate.edu.
Summary of the 1996 Farm Bill: The Federal Agriculture Improvement and Reform (FAIR) Act of 1996
(William H. Meyers, 515/294-1184)
(Darnell B. Smith, 515/294-1184)
(Steven L. Elmore, 515/294-6175)

The Farm Bill passed by the House and Senate in late March and signed by President Clinton on April 4, 1996, contains many of the same provisions as the Agricultural Reconciliation Act of 1995 (ARA-95, evaluated in our last issue). The 1996 bill, the Federal Agriculture Improvement and Reform (FAIR) Act, also has some significant differences. Most notably, "permanent law" provisions for price support authority and the Farmer Owned Reserve were only suspended, and were not eliminated. Soybean loan rate provisions were changed, implying an approximate 34 cents/bushel increase in the loan rate over the near term. Also, important conservation and environmental provisions that were not in ARA-95, were included in the FAIR Act.

The lead article of the last issue of this publication discusses possible results of ARA-95, and also provides pertinent background analysis for what might happen under the FAIR Act. In this column we further define the agricultural policy situation by pointing out key changes from current law, and delineating some of the new provisions that were added to existing legislation.

Here are some highlights of the provisions of the new Farm Bill (P.L. 104-127) or the FAIR Act. The FAIR Act would establish seven-year fixed payment contracts with farmers and ranchers to be signed in 1996. Payments would not be influenced by current crop planting, production, or prices. The payment...
Use of soybeans would, of course, also be impacted by production and price swings, with exports and crushings being affected the most under small and large crops. Ending stocks would increase in the large crop scenario, but remain low under the small crop scenario. While it may not seem feasible to have stocks so low for two years in a row, essentially depleted, some users would find it difficult to find substitutes for soybeans due to the low stocks of other commodities.

In summary, tables 1 and 2 present possible ranges for U.S. corn and soybean production and farm prices for the coming marketing year. If bad weather occurs, either during the planting or growing seasons, prices may rise to even higher levels than they are at this year. However, if excellent growing conditions occur, prices, naturally, will fall. These scenarios are not the best and worst possible outcomes, but the calculations presented here provide a reasonable range across possible outcomes.

**Summary of the 1996 Farm Bill: The Federal Agriculture Improvement and Reform (FAIR) Act of 1996**

(continued from page 1)

stream is a declining fiscal allocation over the seven-year duration of the FAIR Act (Figure 1).

![Figure 1: Total U.S. Production Flexibility Contract Payments](image)

The proportion that is allocated to each crop is held constant over the period (Figure 2).

![Figure 2: Individual Crop's Share of PFC Allocation](image)

These payments would be allocated among farmers by making payment on 85 percent of a calculated base acreage times program yields. Estimated contract payments per unit of output are shown in Table 1. Assumptions were made on eligible contracting acres, so per unit payments would vary from these estimates according to actual crop base acres enrolled.

<table>
<thead>
<tr>
<th>Crop Year</th>
<th>96/97</th>
<th>97/98</th>
<th>98/99</th>
<th>99/00</th>
<th>00/01</th>
<th>01/02</th>
<th>02/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>26.54</td>
<td>50.88</td>
<td>39.72</td>
<td>38.32</td>
<td>33.06</td>
<td>28.23</td>
<td>27.39</td>
</tr>
<tr>
<td>Wheat</td>
<td>91.36</td>
<td>63.01</td>
<td>68.83</td>
<td>66.49</td>
<td>60.88</td>
<td>49.01</td>
<td>47.56</td>
</tr>
<tr>
<td>Sorghum</td>
<td>32.13</td>
<td>53.27</td>
<td>44.06</td>
<td>42.40</td>
<td>38.74</td>
<td>31.19</td>
<td>30.27</td>
</tr>
<tr>
<td>Barley</td>
<td>34.20</td>
<td>28.15</td>
<td>29.06</td>
<td>27.90</td>
<td>25.42</td>
<td>20.46</td>
<td>19.86</td>
</tr>
<tr>
<td>Oats</td>
<td>4.19</td>
<td>3.98</td>
<td>4.19</td>
<td>4.05</td>
<td>3.71</td>
<td>2.98</td>
<td>2.89</td>
</tr>
<tr>
<td>Cotton</td>
<td>9.29</td>
<td>7.64</td>
<td>8.13</td>
<td>7.85</td>
<td>7.19</td>
<td>5.78</td>
<td>5.61</td>
</tr>
<tr>
<td>Rice</td>
<td>2.79</td>
<td>2.75</td>
<td>2.95</td>
<td>2.85</td>
<td>2.62</td>
<td>2.12</td>
<td>2.06</td>
</tr>
</tbody>
</table>

* Estimated by FAPRI

It may appear odd that payments per bushel are so erratic during the first two years. The reason is that adjustments are made in the first two years for the remaining 1994/95 deficiency payments and for the payback of 1995/96 advanced deficiency payments.

In the case of corn, roughly $2.5 billion is allocated to payments for the 1996/97 and 1997/98 crops. Keep in mind that one objective of the new payment system was to make budget expenditures more predictable. Thus, remaining deficiency payments of about $800 million for the 1994/95 crop are subtracted from the budget allocation in 1996, reducing the contract payment by about $0.12/bushel. The opposite happens in 1997. The payback of advanced deficiency payments adds about $900 million to the budget pool for 1997/98, so the contract payment can increase by about $0.14/bushel. Without these adjustments, estimated contract payments would stay between $0.40 and $0.37 during the first four years.

All loans are marketing loans. The loan rate levels would continue to be calculated by the current formula (85 percent of the five-year “Olympic” average), but would be capped at the current rates. Wheat and feed-grain loan rates could still be reduced based on stock-to-use triggers as in current law, but the seldom-used discretionary reduction for “market competitiveness” has been eliminated. The maximum corn loan rate would be $1.89/bushel, while wheat
Iowa Ag Review

would have a $2.58/bushel maximum. The soybean loan rate would range from $4.92/bushel to $5.26/bushel, using 85 percent of the five-year "Olympic" average. For the current year, the calculated rate would be close to $4.96. (The rate would likely rise to the $5.26 cap by 1997 based on strong futures market prices and projections).

There would be no provisions for annual acreage idling. Farmers could plant any crop on 85 percent of base acres, except that this land could not be used for fruits and vegetables. The remaining 15 percent of base could be used even for fruits and vegetables. Eligibility for a contract would require program participation in at least one of the last five years — one year of participation is enough to establish eligibility. Conservation plan and wetland protection compliance would continue to be required for participants.

Purchase of federal crop insurance would not be required, but agricultural disaster assistance would be waived by those not purchasing catastrophic coverage insurance.

Changes From Current Law

Omnibus farm bills deal with many aspects other than the grain commodity program provisions listed above. The Food Security Act of 1985 (FSA) and Food, Agriculture, Conservation, and Trade Act of 1990 (FACTA), the farm bills that agricultural producers operated under for the last ten years, encompassed many agricultural issues. While some of the programs remain intact in the FAIR Act, changes were made in other programs and these alterations are listed below:

- The cost of interest on CCC loans to producers would be one percentage point higher than the cost to borrow from the U.S. Treasury (one-year T Bills). Under the 1990 Farm Bill, the interest equaled the cost of borrowing from the U.S. Treasury.
- The authorization for the Farmer-Owned Reserve (FOR) program was suspended. Thus, the FOR would be restored after 2002, unless other action is taken.
- CRP would be reauthorized under both programs, although the FAIR Act explicitly approved new enrollments. The new enrollments would be funded through the CCC charter and not by special allocations from Congress. This change will give the Secretary of Agriculture more discretion in conservation spending. Under FACTA, enrollment was supposed to be between 40 and 45 million acres, but this goal was never reached. The cap for the Conservation Reserve Program would be set at 36.4 million acres, which is the current level. The Secretary of Agriculture is able to enroll new acreage equal to the quantity of land under any CRP contract that terminates.
- To receive PFC (Production Flexibility Contract) payments, participants must continue to comply with their conservation plans.
- Payment limitations are $40,000 per person for Production Flexibility Contract payments ($50,000 for deficiency payments under FACTA), marketing loan gains and loan deficiency payments are maintained at $75,000 per year, and under the three-entity rule maximum payments are $230,000 per person ($250,000 under FACTA).
- Under both the 1990 and 1996 Farm Bills, Price Support Authority from the 1938 and 1949 bills was not eliminated, only suspended. Since "permanent law" provisions would remain in place, Congress would be forced to reevaluate farm programs at the bill's expiration.

New Provisions Under the FAIR Act

The FAIR Act contains many additional provisions and some major program changes from FACTA mandates. Some highlights include:

- New commodity program provisions are the ones getting the most press attention and were spelled out above.
- Expands the Environmental Conservation Acreage Reserve Program (ECARP); combines several programs and specifies the purchase of easements on 170,000 to 340,000 acres, and allocates $35 million a year for that purpose. ECARP continues the Conservation and Wetlands Reserve Program, but now contains a new program called EQIP.
- Creates Environmental Quality Incentives Program (EQIP), a new cost-share program to help livestock and crop producers improve the environment. The program is targeted to priority regions as declared by the NRCS, local landowners, and the state governors. This program will allocate $130 million
CARD/FAPRI Analysis

FAPRI 1996 Baseline: Projections under the FAIR Act
(William H. Meyers, 513/294-1184)
(Darnell B. Smith, 513/294-1184)
(Steven L. Elmore, 513/294-6175)

The 1996 FAPRI baseline results, a subset of which are discussed in this article, are the first to incorporate full planting flexibility between major crops. Essentially, this represents a decoupled income support program, assumed to decline slightly over the projection period (1996-2005). Some of the more important U.S. policy provisions used as a basis for this baseline came from the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (see the article on page 1 for specifics on the 1996 Farm Bill).

This article presents a summary of the baseline results, but more complete details and projection tables are available on the FAPRI web site: http://www.ag.iastate.edu/card/fapri. Note that this annual baseline, normally completed in January, was delayed this year until the 1996 Farm Bill was finalized.

Macroeconomic assumptions that went into this baseline include modest worldwide economic growth. Asia continues to be a high-growth region with an assumed growth rate of approximately 7 percent. Growth rates for the developed countries are more moderate with the U.S. assumed growth rate averaging 2.5 percent over the projection period. The U.S. prime rate is expected to decline by almost 100 points in 1996 and shows slight but continued declines in most of the remaining years of the baseline period. After 1998, the dollar is expected to decline relative to the weighted market basket of the other world currencies (Figure 1).

World Crops

The United States gains market share in the world feed grain trade, increasing its share by approximately 5