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Possible Results of Freedom to Farm: A FAPRI Analysis of the Congressional Compromise on Agriculture
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Late last year, U.S. House and Senate conference reached agreement on language for the Agricultural Reconciliation Act of 1995 (ARA-95). President Clinton later vetoed this as part of his refusal to approve the Balanced Budget Act. The agricultural package, because of its similarities to the 1995 Roberts-Emerson proposal, was called “Freedom to Farm” by some. FAPRI evaluated the ARA-95 proposal soon after the Congressional compromise was reached.

The Farm Bill passed by the Senate on February 7, 1996, contains many of the same provisions as ARA-95 (see the article on Senate bill provisions, page 5, for details). Because of the overlap in provisions, the analysis of ARA-95 provides some background for what may happen under the Senate version if it is subsequently passed by the House and signed by the President. The assumptions were spelled out in the December issue of Iowa Ag Review; here are some highlights of this analysis.

The ARA-95 would establish seven-year fixed payment contracts with farmers and ranchers to be signed in 1996. Eligible payments would not be influenced by current crop planting, production, or prices. 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.

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Possible Results of Freedom to Farm: A FAPRI Analysis of the Congressional Compromise on Agriculture (Continued from page 1)

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 would have a $2.58/bushel maximum. The soybean loan rate would remain at $4.92/bushel. The cost of interest on CCC loans to producers would be one percentage point higher than under current law. Authority for the Farmer Owned Reserve (FOR) would be eliminated.

**TABLE 1: Contract payments by crop for the duration of the Agricultural Reconciliation Act.**

<table>
<thead>
<tr>
<th>Crop</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>(Dollars per Bushel)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corn</td>
<td>0.27</td>
<td>0.37</td>
<td>0.40</td>
<td>0.39</td>
<td>0.35</td>
<td>0.28</td>
<td>0.28</td>
</tr>
<tr>
<td>Wheat</td>
<td>0.68</td>
<td>0.64</td>
<td>0.68</td>
<td>0.66</td>
<td>0.60</td>
<td>0.48</td>
<td>0.47</td>
</tr>
<tr>
<td>Sorghum</td>
<td>0.35</td>
<td>0.46</td>
<td>0.47</td>
<td>0.45</td>
<td>0.41</td>
<td>0.33</td>
<td>0.32</td>
</tr>
<tr>
<td>Barley</td>
<td>0.31</td>
<td>0.29</td>
<td>0.31</td>
<td>0.30</td>
<td>0.27</td>
<td>0.22</td>
<td>0.21</td>
</tr>
<tr>
<td>Oats</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>(Dollars per Pound)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>0.08</td>
<td>0.08</td>
<td>0.08</td>
<td>0.08</td>
<td>0.07</td>
<td>0.07</td>
<td>0.06</td>
</tr>
<tr>
<td>Rice</td>
<td>1.74</td>
<td>2.69</td>
<td>2.90</td>
<td>2.80</td>
<td>2.56</td>
<td>2.07</td>
<td>2.00</td>
</tr>
</tbody>
</table>

*estimated by FAPRI

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 or for unlimited haying and grazing. The remaining 15 percent of base could be used for unlimited haying and grazing or for fruits and vegetables.

Eligibility for a contract would require program participation in at least one of the last five years. 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 for those not purchasing catastrophic coverage insurance.

The CRP acres are capped at 36.4 million acres. But no specifics were listed on new contracts or on the extension of current contracts. It is expected that about 25 million acres would remain in CRP by 2002.


**Farm Income**

Under ARA-95, farm receipts compared to 1995 levels would rise 11 percent, fueled by a 3 percent rise in crop receipts and a 19 percent rise in livestock receipts (Figure 1). Government payments would contribute 3 percent of gross cash income in 1996 and fall slightly to 2 percent by 2002.

Net farm income varies over the period but generally increases (Figure 2). In 1996, nominal net farm income is just over $43 billion, however it falls to $41 billion in 1997, then rebounds to $50 billion by the end of the period. Real net farm income (in 1987 dollars) remains relatively stable, ranging from $30 to $33 billion.
Government costs reach a peak in 1997 (Figure 3) due to the structure of contract payments and reductions in CRP contract payments. CRP payments decline over the period as a result of fewer acres being under contract.

Livestock prices follow the normal cycle with 230-250 pound barrow and gilt prices peaking in 1996 at $46 per hundredweight and in 2000 at $47 per hundredweight. The troughs in the period 1996-2002 come in 1998 at $40 per hundredweight, and in 2002 at $41 per hundredweight (Figure 4). Steers (Nebraska direct 1100-1300 pounds) experience the period low in 1997 at $63 per hundredweight, but rebound to $81 by the end of the period due to cyclical declines in production.

Exports of meats rise over the whole period. Expansion comes mostly in the pork and poultry sectors (Figure 7). Beef exports actually peak in 1997, fueled by the low prices and the peak level of production in the cycle; then exports fall as production declines and steer prices rise. Pork exports more than double from 900 million pounds in 1996 to 2,300 million pounds by 2002. Broiler exports remain strong and rise from 4,000 million pounds to 5,000 million pounds by the end of the period. Turkey exports remain relatively stable and range between 350 to 425 million pounds.

Crops and Livestock

Increased planted acres and normal weather in 1996 would return grain prices to pre-1995 levels. Assuming normal weather throughout the period, corn farm prices average $2.30 per bushel. Wheat averages $3.30 per bushel, and the projected soybean farm price over the period is $5.95 per bushel (Figure 5). Note that price projections are based on mid-1995 market conditions.

Crop exports, after the 1995 spike, remain fairly stable throughout the remainder of the period (Figure 8). The value of wheat exports fluctuates between 4.3 and 5.2 billion dollars. The soybean sector (soybeans, soybean meal, and soybean oil) export value rises over
the period from 7.3 to 7.5 billion dollars. (Net exports for soybeans go from 22.2 to 24.2 million metric tons; soybean meal, 5.7 to 7.1 million metric tons; and soybean oil, 0.8 to 1.2 million metric tons.) The value of feed-grain exports ranges between 5.9 and 7.2 billion dollars over the period. Corn accounts for most of the feed-grain exports and its value ranges from 5.3 to 6.6 billion dollars over the period.

**Figure 8: Crops - Value of Net Exports**

Land Use

Land enrolled in the CRP is expected to fall from the current 36.4 million acres to just over 25 million acres in 2002 (Figure 9).

**Figure 9: CRP Area**

Total land planted to the 15 major crops increases to 272 million acres in 1996, then stabilizes around 265 million acres thereafter (Figure 10). Corn planted area increases by 10 million acres from 1995 to 1996, and then declines slightly (800,000 acres) over the period. Over most of the period, wheat planted area is down 3.4 million acres, barley is down 1.6 million acres, sorghum is down 100,000 acres, and oat planted area is down 300,000 acres. Soybean area is up 1.9 million acres with a 1.7 million acre increase in the Corn Belt region.

**Figure 10: Planted Crop Area**

**Summary**

FAPRI analysis of the agricultural reconciliation compromise, ARA-95, provides insights about potential results of the 1996 Senate Farm Bill. The results indicate continued strength in agricultural markets and in aggregate net farm income under this type of program structure.

**Government Costs of Yield and Revenue Insurance**

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With the recent development of revenue insurance products and earlier interest in a dual insurance program, questions arise about the aggregate government costs of these insurance options if they were available on a nationwide basis. Before the announcement of the CRC and IP revenue insurance products (outlined in the article, “A Review of New Revenue Insurance Programs” on page 10), we had conducted an analysis estimating government costs of existing yield insurance and a hypothetical revenue insurance product. This article outlines how we obtain government cost estimates for yield and revenue insurance for the 1996-2003 period under the FAPRI variable weather scenario. For this government cost comparison, we assume one program or the other is in place over the projection period.

For additional information on the variable weather scenario and how the data were incorporated in the analysis, please see “Weather Volatility and Farm Bill Options” and “How Revenue Assurance and Yield Insurance Stack Up: A Cost Comparison” in the September 1995 issue of the Iowa Ag Review.

**Estimating Yield Insurance Costs**

Under the 1994 crop insurance reform bill, yield insurance became mandatory for producers enrolled in federal farm programs. Thus, participation in yield