Proposed Farm Bill Would Boost Net Farm Income by $4.5 Billion Per Year From 2003-2010

by Blair Fannin, (979) 845-2259, b-fannin@tamu.edu

LUBBOCK,TX -- Prior to the August recess, the U.S. House Committee on Agriculture approved farm bill legislation that represents their vision of farm policy for the next decade -- the program crop provisions of the proposal would boost net farm income by $4.5 billion per year from 2003 to 2010 and improve the economic viability of program crop producers nationally.

These are findings of the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri & Iowa State and the Agricultural and Food Policy Center (AFPC) with the Texas A&M University System.

The bill, H.R. 2646, revises and formalizes the provisions outlined in the *Draft Farm Bill Concept Paper* released by the Committee in early July. The most significant departure from current legislation is the re-introduction of payments that are counter-cyclical to price.

"The counter-cyclical modification in this bill relies on the concept of target prices used in previous farm bills, but also keeps many of the features of the current farm bill. Current provisions, such as fixed payments and a prohibition against acreage set-aside requirements are maintained," said Dr. Abner Womack, director of the Agricultural and Food Policy Center at Texas A&M. "The counter-cyclical payment feature looks at the sum of the fixed payment and the greater of the marketing loan rate or the average price. If this sum is below the target price, the government would pay farmers the difference."

Those provisions also increase government expenditures though the Commodity Credit Corporation by an average of $5.2 billion per year. Since the counter-cyclical payments are designed to buffer financial pressure in times of low prices, FAPRI estimates greater spending in the early years of the analysis period as opposed to the later years.

In a change from previous programs, the legislation brings soybeans and other oilseeds into the "program" crop mix that already includes grains and cotton. In addition to the loan program they were eligible for in the past, soybean farmers would become eligible for fixed rate and counter-cyclical payments. The bill retains current loan rates for most program crops with the exception of soybeans and grain sorghum.

The soybean loan would be reduced from the current $5.26 to $4.92 per bushel while the grain sorghum loan would increase to $1.89 per bushel to be comparable to corn. Under the bill, all program producers will have the option of staying with their base acres established under the 1996 farm bill or updating their base to reflect average plantings of all program crops grown on the farm from 1998-2001.

"FAPRI's analysis indicates the base update choice would marginally increase acres planted to grains and cotton while reducing acreage of soybeans and other oilseeds. The increase in total planted area, however, would be less than 1 percent," said Dr. Ed Smith, a Texas Cooperative Extension economist with AFPC. "The shift in acreage could marginally increase all oilseed prices and slightly decrease prices for grain and cotton. Overall, the return per crop acre would go up by $20 per acre as compared to a continuation of the current farm bill."

The FAPRI analysis only considers implications of the grain, oilseed and cotton provisions, with some consideration of the Conservation Reserve Program (CRP). The analysis assumes that CRP acreage does increase from the current limit of 36.4 million acres to near 39 million acres under the new farm bill proposal.

Other titles of the proposed farm bill cover peanuts, sugar, dairy, wool, mohair, conservation, trade, research, nutrition and rural development. Utilizing its database of representative crop farms located in the nation's major wheat, feed grain, cotton, and rice production areas, AFPC analysis showed that all 44 farms benefited from the proposed changes in H.R. 2646.

"All farms increase net cash income ranging from 20 to 100 percent," said Dr. James Richardson, professor of agricultural economics with AFPC. "For example, our typical northern Texas grain farm with about 1,600 acres of corn, sorghum and wheat, would increase net cash income by 80 percent. Without the added farm income support in the proposed farm bill, this farm had a 66 percent chance of a cash flow deficit. The proposed amendment would reduce this probability of a deficit to 26 percent, a substantial improvement. The Texas southern high plains cotton farm saw a similar decrease in its chance of having a cash flow deficit." Across the 44 representative crop farms, the majority of the farms improved their position to the point that cash flow pressure was manageable. However, 20 of the 44 farms were still considered to be in a very vulnerable financial situation.

Dr. Steven Klose, an economist with Texas Cooperative Extension who analyzed 300 farms participating in Extension's Farm Assistance program, said a majority of farmers would update their base acres and see a significant change in net income. "The switch in base acres may be a result of producers planting alternative program crops or simply an increase in planted acres of the same crop," Klose said. "In either case, the proposal to update base acreage will be viewed as positive because producers would be given an option." Klose said more than 80 percent of the farms in the Farm Assistance database would benefit by updating their base acres. "For those that take that option, their looking at about a 20 percent increase in fixed payments in addition to expected benefits from the counter cyclical provisions."

Contact Information:

Dr. Abner Womack, (979) 845-5913, awomack@tamu.edu

Dr. Ed Smith, (979) 845-5913, egsmith@tamu.edu

Dr. James Richardson, (979) 845-5913, jwrichardson@tamu.edu