Purdue News

June 6, 2002

Economist: Farm bill stretches safety net under more U.S. ag

WEST LAFAYETTE, Ind. – The new farm bill places a larger safety net under U.S. agriculture, but to land softly in its protective netting, farmers will have to negotiate around complex rules and payment formulas, said a Purdue University agricultural economist.

Parts of the six-year bill will be familiar to producers but many others will not, said economist Allan Gray. He advised farmers to begin boning up on the guidelines now if they intend to receive price supports.

In May Congress passed a conference committee farm bill and President Bush signed the legislation into law. The bill earmarks $180 billion over a 10-year spending period for programs as varied as conservation and food stamps.

The commodities title provides direct payments and other subsidies to the nation's food, fiber and dairy producers. Title I budgets $49 billion more for commodities than its 1996 predecessor. Federal spending on program crops increases nearly $6 billion per year.

That does not mean farmers will reap bushels in additional greenbacks, Gray said. While commodities spending rises substantially compared to the 1996 bill, the total amount budgeted in the 2002 bill is not much greater if emergency farm spending in previous years is factored in, he said.

"This is similar to the amount of money that was spent in emergency legislation from 1997 through 2001," Gray said. "The last three years alone have been about $5.85 billion a year. If you include the emergency payments we've made the last four years running, then this is barely an increase at all in government spending for agriculture. This is not a windfall of new cash for farmers in any way, shape or form."

Although spending in the 2002 bill is comparable to previous years, the price support structure and list of commodities that qualify for payments is noticeably different.

The U.S. Department of Agriculture currently is developing the farm bill implementation guidelines.

Under the 2002 Farm Bill, producers can apply for three primary government payments, Gray said. Each payment is calculated differently.

"There are marketing loans," Gray said. "This is the same marketing loan program we had in the 1996 farm bill – they've simply increased the loan rates. Then there are direct payments. These are the exact same as the AMTA (Agricultural Market Transition Assistance) payments received under the '96 farm bill, except the rates have changed and are fixed for the next seven years instead of declining."

Marketing loans allow a farmer to borrow today against a future crop. The loan amount equals the rate times the amount of crop produced. The farmer must repay the loan within nine months. Direct payments are calculated from a combination of a farmer's historical production base acres, direct payment yield and the direct payment rate for a specific crop.

"The new payment mechanism introduced in this farm bill is the counter-cyclical payment," Gray said. "The counter-cyclical payment is paid to farmers when crop prices are below what is called a 'target price.' It is paid based on historic production, and a farmer doesn't have to plant to receive the payment."

Counter-cyclical payments are intended to make up the difference between a crop's market price per bushel and the "target price" for farmers set by the government. Producers will receive the payment only when the market price plus the direct payment per bushel fall below the target price.

The farm bill sets the target price for corn at $2.60 per bushel in 2002 and 2003, and $2.63 a bushel from 2004-07. Soybeans have a target price of $5.80 a bushel through the life of the legislation. Wheat's target price is $3.86 per bushel in 2002-03 and $3.92 a bushel from 2004-07.

Farmers may not exceed $40,000 in direct payments, $65,000 in counter-cyclical payments and $75,000 in marketing loans. Other payment caps apply for farms operated by multiple proprietors.

A major distinction in the 2002 bill is the number of commodities now eligible for government payments. Noteworthy among the eight new or reinstated commodities is soybeans, Gray said. Farmers participating in the government program will be allowed to create an historical acreage and yield base for soybeans.

"This new farm bill includes soybeans fully, as we would corn," he said. "That means soybeans are eligible to receive direct payments, counter-cyclical payments and marketing loans. This also means soybeans have base acres, program yields, and so forth."

Other commodities added to the program list are peanuts, lentils, small chickpeas, wool, mohair and honey. Dairy producers will be eligible for a counter-cyclical payment.

Congress' decision to make soybeans a full program crop could have repercussions for Indiana agriculture, Gray said. Since nearly half of all crop acres in Indiana are planted to soybeans, farmers will find it difficult to use soybean acres for fruit and vegetable production, he said.

"Roughly 50 percent of the acreage in Indiana did not have a program base. It does now," Gray said, referring to soybeans. "That reduces flexibility in the state of Indiana. If you want to produce fruits and vegetables, which are restricted crops, you now have to be concerned about losing government payments on soybean base. Not only do you lose your farm program payments because you plant on soybean base, you also may receive a penalty."

The 2002 Farm Bill also could have a dramatic impact on land rents, Gray said. He estimated rents could jump $6 an acre or more, as landowners build the support payment potential of their property into the rental price. "None of my research shows rents going down," he said.

Gray provides further analysis and information on the new farm bill, including a government payments calculator, in Extension publication CES-342, "2002 Farm Bill: Impacts on Decisions at the Farm." The publication can be downloaded at the Purdue farm bill Web site

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