FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

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FARM BILL 2002: INCOME IMPACTS OF HOUSE AG. COMMITTEE'S PROPOSAL

The 1996 Farm Bill -- more formally known as the Federal Agriculture Improvement and Reform (FAIR) Act -- legislates the Agricultural Market Transition Act (AMTA) payments that farmers currently receive. This Bill and its associated AMTA payments will expire at the end of 2002. Sometime between now and early 2003 a new Farm Bill likely will be enacted by Congress. This "2002 Farm Bill" will replace the 1996 Farm Bill.

In July, the House Agricultural Committee passed a potential version of the 2002 Farm Bill. This paper examines the income impacts of this "Proposed House Bill". The final 2002 Farm Bill could be dramatically different than the Proposed House Bill. The provisions of the Proposed Bill; however, are illustrative of thoughts concerning the 2002 Farm Bill.

Determining Income Impacts

Income impacts of the Proposed House Bill are calculated for 1,025 Illinois grain farm. These farms are enrolled in Illinois Farm Business Farm Management and receive the majority of income from grain operations. These farms are located throughout the state. On average, the farms have 817 tillable acres. There is, however, a considerable range in size. About eight percent of the farms have less than 300 acres. Two percent have over 2000 acres. Overall these farms are representative of the Illinois grain sector.

The actual net farm incomes on these farms for 1997 through 2000 are compared to projected incomes under the Proposed House Bill. Actual net incomes include payments received under the 1996 Farm Bill. Hence, the comparison of actual to projected net incomes will quantify the impacts of a switch from the 1996 Farm Bill to the Proposed House Bill. In addition to incomes from 1997 through 2000, incomes in 2001 are compared. At this point, actual 2001 incomes under the 1996 Farm Bill are not available. Hence, 2001 incomes are projected.

Making comparisons between historical incomes to projected incomes assumes that farms do not change their cropping patterns as a result of a different Farm Bill. In other words, farmers would raise the same crops and use the same inputs under the 1996 Farm Bill as under the Proposed House Bill. For Illinois farms, this is a realistic assumption. The provisions of the Proposed House Bill are not likely to cause major changes to the crop rotations, tillage practices, and input decisions of Illinois farmers.

Making these income comparisons also assumes that commodity prices are the same under the 1996 Farm Bill as under the Proposed House Bill. It is likely that commodity prices would have differed had the Proposed House Bill been in place rather than the 1996 Farm Bill. Hence, the net incomes under the Proposed House Bill do not necessarily represent what incomes would have been in 1997 through 2001. Rather, the 1997 through 2001 net farm incomes represent impacts had prices, yields, and costs been the same as those experienced in 1997 through 2001.

Income Impacts

The 1,025 farms have an average of $49,412 net income per farm in 1997, $13,052 per farm in 1998, $32,418 per farm in 1999, $51,130 per farm in 2000, and $23,899 per farm in 2001 (see Table 1). In 1997, projected net farm income is lower under the Proposed House Bill. Projected net farm income in 1997 is $45,758, $3,654 less than actual income. Net farm incomes in 1998 through 2001 are higher under the Proposed House Bill. Net farm income given the Proposed House Bill is $28,549 in 1997, an increase of $15,497 over actual 1997 income. Income increases under the Proposed House Bill are $12,008 in 1999, $13,181 in 2000, and $16,826 in 2001.

Table 1. Net Farm Income Impacts of Proposed House Bill

Year	Actual Income	Proposed House Bill	Difference[1]
1997	$49,412	$45,758	-$3,653
1998	13,052	28,549	15,497
1999	32,418	44,426	12,008
2000	51,130	64,311	13,181
2001P	23,899	40,725	16,826

[1] Equals Proposed House Bill minus actual income.

The Proposed House Bill is more generous with government payments than is the current 1996 Farm Bill. Two provision of the proposal are influential in this assessment:

1. Fixed payments. The Proposed House Bill includes fixed payments similar to those contained in the 1996 Farm Bill. The Proposed House Bill has a fixed rate of $.30 per bu. for corn and $.53 on wheat. By way of comparison, the AMTA rates for corn in the 1996 Farm Bill are $.486 in 1997, $.377 per bu. in 1998, $.362 per bu. in 1999, $.334 per bu. in 2000, and .260 per bu. in 2001. The corn and wheat rates in the Proposed House Bill are roughly compare to the rates in later years under the 1996 Farm Bill. In addition, the Proposed House Bill includes a $.42 per bu. fixed rate for soybeans. Soybeans do not have an AMTA payment under the 1996 Farm Bill.

2. Counter-cyclical payments. The Proposed House Bill includes a counter-cyclical program. This program makes payments when the season average price for a commodity is below its target price. The 1996 Farm Bill does not contain a counter-cyclical program. To some extent, the counter-cyclical program in the Proposed House Bill replaces ad hoc disaster assistance programs (e.g., Market Loss Assistance payments and Oilseed payments).

The actual dollar inputs of the above two provisions as well as other provisions are provided in the appendix.

Summary

The Proposed House Bill differs dramatically from the current Farm Bill. A number of observers have noted that the Proposed House Bill is everything a farmer could ask for. Hence, some cut backs in its provisions may occur as it makes its way through Congress.

Two provisions of the Proposed House Bill are noteworthy. First, the Proposed House Bill does not place limits on what farmers can plant. There seems to be little interest in imposing acreage restraints on farmers. Second, the Proposed Bill includes a counter-cyclical program. There seems to be interest in adding a counter-cyclical program to the Farm Bill.

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Appendix

Income differences between the Proposed House Bill and the 1996 Farm Act are shown in the following table. Descriptions of each component follow the table.

Table 2. Impacts of Components of Proposed House Bill.[1]

Year	Base Acres Adjustment	Fixed Payment Adjustment	Counter-Cyclical Payment Adjustment	Market Loan Adjustment	Difference[2]
1997	$164	-$154	$518	-$4,182	-$3,653
1998	298	3,233	16,355	-4,389	15,497
1999	382	3,762	12,349	-4,485	12,008
2000	484	4,555	12,676	-4,535	13,181
2001P	476	7,471	13,693	-4,813	16,826

[1] See the text below for a definition of each adjustment.
[2] Equals the sum of all adjustments. Also equals the difference shown in Table 1.

Base Acre Adjustment: The proposed House Bill includes a provision to adjust base acres used in calculating payments. The adjustment equals the higher of 1) current base acres or 2) the average acres from 1998 through 2001. Base acre adjustments impacts on net incomes are less than $500 per farm between 1997 through 2001.

Fixed Payment Adjustment: The proposed House Bill specifies fixed payment rates equal to $.30 per bu. for corn, $.42 for soybeans, and $.53 for wheat. The adjustments shown in Table 2 reflect differences between these fixed rates and AMTA rates resulting from the 1996 Farm Bill:

Year	corn	soybeans	wheat
1997	0.486	0.000	0.631
1998	0.377	0.000	0.663
1999	0.363	0.000	0.637
2000	0.334	0.000	0.588
2001	0.260	0.000	0.460

Except for 1997, the Proposed House Bill results in higher fixed payments than AMTA payments under the Proposed House Bill.

Counter-Cyclical Payment Adjustment: The proposed House Bill includes a target price program. This program makes payments equal to the target price minus the higher of the season average price or the loan rate minus the fixed payment rate, given that the difference is positive. Target prices equal $2.78 for corn, $5.86 for soybeans, and $4.04 for wheat. This results in the following per bu. counter-cyclical payments for each crop by year:

Year	corn	soybeans	wheat
1997	0.260	0.000	0.900
1998	0.760	0.920	1.460
1999	0.890	0.940	1.460
2000	0.880	0.940	1.460

The adjustment in Table 2 reflect these payments less market loss assistance and oilseed payments.

Market Loan Adjustment: The Proposed House Bill includes a reduction in the loan rate of soybeans of $.34 per bu. This results in lower incomes. Note, however, that market loan losses are made up in the counter-cyclical program.