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THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002: A CHANGE IN POLICY OR A CONTINUATION OF FREEDOM TO FARM?

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As we all know at this point a new farm bill has been passed. During the life of the 1996 Federal Agricultural Improvement and Reform Act (FAIR) there were vastly different views about the success of the bill's focus on the export market as the solution to the recurring problems of overproduction and low prices. The market was to be the mechanism to bring supply and demand into balance and market transition payments were initiated to compensate for additional volatility in commodity markets. Unfortunately, producers chose to ignore the signals given to them by the market. A series of six good years for production and the refusal of producers to realign production in response to the supply and demand signals given by the market led to historically low

prices and calls for a return to farm policy that was less market oriented. The 2002 bill is the result of those desires.

Even though the new farm bill has a number of very familiar components, from both the FAIR act and other previous farm bills, the terminology is slightly different than in the past. The disaster payments of the last few years have been internalized and instead of being ad hoc measures that are dealt with each year they are now part of the basic structure of the bill. We have returned to the basic programs that were familiar in the 1980's, target prices, deficiency payments, and loan rates. Even though the basic components are generally the same, a review of how they function would be beneficial to jog memories that may have slightly faded in the last twenty years.

Commodity Provisions

The four major components of the commodity provision of the Farm Security and Rural Investment Act are loan rates, target prices, direct payments, and counter-cyclical payments. Table 1 below details the levels for the loan rates, target prices, and direct payments.

Table 1. Loan Rates, Direct Payments, and Target Prices for Selected Commodities

	Loan Rate	Loan Rate	Direct Payment	Target Price	Target Price
	2002-03	2004-07	2002-07	2002-03	2004-07
Corn (bu)	\$1.98	\$1.95	\$0.28	\$2.60	\$2.63
Barley (bu)	\$1.88	\$1.85	\$0.24	\$2.21	\$2.24
Wheat (bu)	\$2.80	\$2.75	\$0.52	\$3.86	\$3.92
Soybeans (bu)	\$5.00	\$5.00	\$0.44	\$5.80	\$5.80
Minor Oilseeds (lb)	\$0.96	\$0.93	\$0.0080	\$0.0980	\$0.1010

Source: Farm Bill Conference Summary, Senate Agriculture Committee

As we can see in the table, the loan rates are significantly higher than for the past six years, raising the safety net for producers. They also decrease for all of the commodities except soybeans over the life of the bill. The biggest change here is the lowering of the soybean loan rate. This factor is offset by the addition of a fixed payment that was not present in the previous bill. For all of the commodities whose loan rates decrease, target prices increase to offset this loss in income. This transfers the income source from the loan rate to the counter-cyclical payment, a more market oriented source. The level of the counter-cyclical payment is determined by the target price and the effective price for the commodity, which is the higher of the loan rate or the 12-month cash price average plus the direct payment. This process allows the level of support from the counter-cyclical payment to increase or decrease relative to the cash price. As the cash price exceeds the loan rate, the level of government price support decreases and producers receive a larger percentage of their income from the market relative to the government.

The direct payment is decoupled from production. It is determined from the base acres and yields that have already been established in prior programs. **Base acres and yields for direct payments will not be updated in the 2002 bill.** Base updates **will** be made for counter-cyclical payments. There are two options for this update process. Producers can choose between 70% of the difference between their current AMTA yields and a full yield update based on 1998-2001 yields on planted acreage **or** 93.5% of the 1998-2001 yields on planted acreage. A “plug” is also available for years of poor yields where 75% of the county average yield may be substituted for the actual farm yield. The choice of which of these options to use will depend on the magnitude of yield changes since the bases were established and changes in producer cropping patterns. Oilseed bases may be established and other bases, for other program crops, may be adjusted. Producers may also choose not to update bases and yields.

Timing of Payments

For the direct payments producers can choose to receive **up to 50% of the payment as early as December 1 of the year prior to crop harvest** and

the balance in October of the year the crop is harvested. Up to 35% of the counter-cyclical payment may be collected in **October of the year the crop is harvested.** An additional 35% can be received in February of the following year and the balance at the end of the 12-month marketing year for the specific crop. This process will allow producers to have access to cash at various times of the year to reduce borrowing needs.

Payment Limitations

Much has been said and written about the possibility of payment limitations. Although there are limitations in the bill, current rules on spouses, 3 entities, and the use of generic certificates are retained which essentially lift the limits. Direct payments are capped at \$40,000, counter-cyclical payments at \$65,000, and Loan Deficiency Payments and Marketing Loan Gains at \$75,000. A \$2.5 million adjusted gross income cap is adopted for participation in farm programs. The total dollar limitation is lowered from \$460,000 to \$360,000. In addition, a commission is established to study the impact of payment limitations on farm income, land values, and agribusiness infrastructure.

Does the structure of this bill essentially end the process of passing annual disaster payments to aid producers? Yes and no. The one scenario that is not covered in the bill is the fate of producers in an isolated area where there is a crop failure and there is no crop to sell or put under loan. Producers would still receive the fixed and counter-cyclical payments but little else. Some type of disaster relief would still be warranted in such a situation to insure at least a subsistence level of income for producers. Only time will tell what Congress will do when this situation arises.

Conservation Provisions

Conservation programs are one of the tools used to garner the votes of urban representatives for farm subsidy programs. The 2002 bill increases funding for conservation programs by 80% over the prior bill. Some new programs are created and funding for others is expanded. This additional funding will provide producers with additional options to improve

conservation practices on their operations and have access to more technical assistance and cost sharing programs. A short description of the new programs and changes in old programs follows.

The Conservation Reserve Program (CRP) is reauthorized through 2007. The enrollment cap is raised from 36.4 million acres to 39.2 million. Biomass for energy may be harvested from these acres with a reduction in the rental rate. Land currently enrolled is eligible for re-enrollment, land used for surface or groundwater conservation is made eligible, and the wetlands pilot program is expanded to 1 million acres.

The Environmental Quality Incentives Program (EQIP) is also reauthorized through 2007. Funding is phased up from \$200 million to reach \$1.3 billion annually (2007). Approximately 60% of the funding is targeted to livestock producers with a cap of \$450,000 per producer over the life of the bill. There will be a 90% cost share for limited resource or beginning farmer/ranchers and CAFO's are eligible for all parts of the program.

The Wetlands Reserve Program (WRP), Wildlife Habitat Incentives Program (WHIP), and Farmland Protection Program (FRP) are all reauthorized through 2007. The WRP enrollment cap is increased to 2.275 million acres, WHIP funding is increased to \$700 million, and FRP funding increases to \$985 million.

The Grassland Reserve Program encourages producers to enhance wildlife habitat and keep land from being subdivided for development. Up to 2 million acres of virgin and improved pastureland are targeted for enrollment. \$254 million is allocated for funding this program.

The biggest program in this area is the Conservation Security Program. Two billion dollars has been allocated for this program but there is no real upper limit on funding. This is a three tier program where producers may earn \$20,000, \$35,000, or \$45,000 annually depending upon the degree of conservation practices employed. Covered costs include the adoption of new management, vegetative, or land based structural practices, the maintenance of existing practices, and the maintenance of existing land based

structures not covered by any other existing program. Practices that are eligible range from nutrient management, to air quality management, to native grass and prairie protection.

Rural Development and Value Added Agriculture Provisions

Since the farm bill is actually more than just a vehicle to provide subsidies to farmers and ranchers, there are opportunities for rural communities to add or improve infrastructure. In the current bill \$100 million is allocated to aid rural communities in providing high-speed broadband service. Another \$80 million is available for rural residents in unserved or underserved local television areas. Water and waste disposal systems receive a \$360 million allocation and \$280 million is available for equity investments for businesses in rural areas. An additional \$50 million is set aside for training rural firefighters and emergency personnel.

On the value added side, additional loans and grants are available for producers with interests in farmer owned value added processing facilities and for the establishment of resource centers to advise and assist producers in these ventures. Funding increases from \$15 million annually to \$40 million by 2007.

Conclusion

There have been many complaints about the 1996 bill and its lack of a safety net for producers. Most of this criticism is baseless. The 1996 bill was never allowed to work because of producer and politician resistance to change in the industry. The new bill is a smorgasbord of programs for almost every agricultural constituency. Throwing more money at the problem will not produce a viable solution. Agriculture is a constantly evolving industry. Trying to stop the process at a particular stage will result in inefficiency and wasted resources. The 2002 bill is another stop gap measure that will leave us with the same decisions to make six years from now. If we want to subsidize inefficient producers we should devise a plan that accomplishes that goal, not one that rewards production of commodities already in surplus.

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