



The 1995 Farm Bill

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The Freedom to Farm Act

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U.S. Rep. Pat Roberts (R-Kan.), Chairman of the House Committee on Agriculture, has introduced a leading contender in the 1995 farm bill debate. Under the Freedom to Farm Act (FFA), farmers who have participated in farm programs during three of the past five years would be eligible to enter into a seven-year contract with the federal government.

Through these contracts, farmers would receive an annual payment based on a percentage of their historical (1990-95) Commodity Credit Corp. payments. Farmers under contract would be required to maintain conservation compliance plans in order to receive payments. The Acreage Reduction Program (ARP) and other short-term, land-retirement programs would be eliminated, as would all crop-specific bases.

The FFA offers a complete decoupling of federal payments and farm production decisions. Farmers receive payments unrelated to current production decisions and determine their own crop mixes. Land previously reserved from base crop production under 0-50/85 and ARP would be released for production or other uses. The decision to plant or leave these lands idle would depend on market returns.

Previously, a producer received a payment for idling land under 0-50/85. Under FFA, producers will earn only the income generated

Highlights

Freedom to Farm Act (FFA) impacts are quite sensitive to the amount of 0-50/85 program acreage returning to production. Compared with continuing the 1990 farm bill, the FFA would over 1996-2000:

- Harvested acreage for the major crops rises 0.2 percent under no 0-50/85 acres returning to production to as high as 4.8 percent (11.0 million acres) under 75 Percent returns.
- Wheat and soybeans acreage rises the most, and their prices drop the most. Soybean prices alone average 57 cents under baseline. Total government payments are \$2.2 billion lower over 1996-2000.
- As a result, accumulated net returns to the seven major crops range from \$3.3 billion lower under 0 Percent to \$19.6 billion lower under 75 Percent.
- Accumulated net farm income ranges from \$1.6 billion lower under 0 Percent to \$13.0 billion lower under 75 Percent.

on this cropland through production. However, the concept of a payment per acre is really one of perception. If payments are not truly decoupled, producers may see FFA contract

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payments as a substitute for 0-50/85 payments, and acreage may remain idle.

This paper provides an analysis of the FFA's potential impacts on U.S. agriculture. POLYSYS, the analytical system employed in these analyses, anchors its analysis to a *base-line*, or expected situation. Thus, scenarios should be analyzed as changes away from this baseline, which is provided by the Congressional Budget Office (CBO). Among the baseline assumptions are the continued use of ARPs based on continued current policy and extended Conservation Reserve Program (CRP) contracts on 15 million acres.

Analytical Issues

Budget Savings. Unlike other proposals analyzed in this series, FFA budget savings are established in the legislation through caps on agriculture and agricultural export programs. During the five years covered in this analysis, this total spending is set at \$33.16 billion. The proposal sets a total cap on spending of \$43.2 billion during fiscal 1996-2002, the duration of the entire bill. Because spending is capped, savings are insensitive to price levels.

Compared with the CBO baseline, the FFA would generate an accumulated \$3.2 billion in savings from payments to farmers during 1996-2000. It should be noted that the subsequent two years provide an additional \$3.9 billion in savings. Because a complete CBO baseline ends at 2000, this analysis does not include the impacts of the FFA's final two years.

The 0-50/85 Program. Because the baseline includes roughly 15 million acres in the 0-

50/85 program during 1996-2000, the fate of this land is critical in estimating the proposal's impacts. Thus, this analysis examines several *potential* levels of land returning to production from the program – 0 percent, 25 percent, 50 percent, and 75 percent. The subsequent text refers to each level as a scenario; however, the only difference between each scenario is the level of acreage returning to production from the program.

Also, while only about 5 million acres are estimated to be in ARPs during the baseline period, the fate of these acres also will influence the results. For a more detailed discussion of the broader issues surrounding the analysis, the methodology, and modeling assumptions, see this series' first issue.

Analytical Results

Harvested Acreage. The elimination of 0-50/85 and ARPs boosts total harvested acreage above the baseline for the seven major crops in all scenarios. The average annual increase ranges from 0.2 percent under *0 Percent* returning (which reflects only returning ARP acreage) to 4.8 percent (11.0 million acres) under *75 Percent* (table 1).

Wheat and soybeans acreage changes the most across the scenarios. Wheat acreage declines slightly under *0 Percent* but ranges as high as an average 4.1 million (6.5 percent) annually above the baseline under *75 percent* (figure 1).

Soybeans acreage, too, increases with each higher level of returning program acreage (figure 2). Soybeans acreage averages from 2.6 million acres (4.3 percent) above baseline under *0 Percent* to 4.1 million acres (6.9 percent) above baseline under *75 Percent*.

Following a similar pattern, cotton acreage averages between 3.5 percent (460,000 acres) and 1.2 percent *below* baseline. Corn acreage changes little, though it falls slightly in all but the *75 Percent* scenario, where it rises slightly. The lack of corn acreage gains stem from the fact that returning 0-50/85 acreage tends to come from wheat states and the Southeast.

Errata

The impact on Nebraska deficiency payments of previously released issues in this series was misreported. The proper numbers are:

Scenario	Change in Payments	
	Million Dollars (Percent)	
Lugar (No EEP)	-\$1,568	(-65.0%)
Lugar (EEP)	-\$243	(-32.7%)
30% Flex	-\$773	(-37.3%)
NFU	-\$145	(-6.8%)

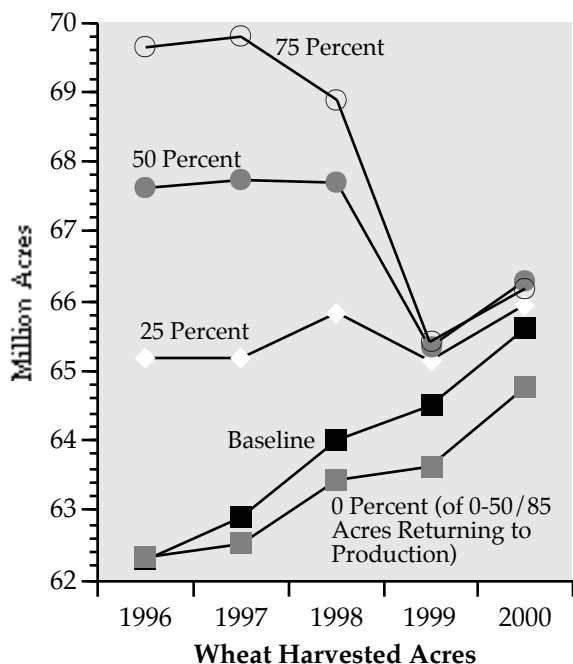


FIGURE 1
Wheat Acreage Experiences the Widest Variation Across Scenarios

Crop Prices. As could be expected, where acreage increases with each higher level of returning 0-50/85 acreage, prices decline (table 2). Wheat and soybeans, which gain the most acreage, suffer the greatest price declines.

Wheat prices average 24 cents below baseline under 0 Percent and are 45 cents below baseline annually under 25 Percent. The average price difference steepens to 61 cents below baseline under 50 Percent and further to 72 cents below under 75 percent (figure 3).

Soybeans follows the same pattern, ranging from an average annual 57 cents per bushel below baseline under 0 Percent to 85 cents per bushel below baseline under 75 Percent (figure 4). Corn prices average slightly above baseline for all but the 75 Percent scenario, in which they average slightly lower. Cotton changes little from baseline.

Exports. Table 4 shows how the value of exports for the seven major crops declines in all scenarios. Wheat and soybeans exports

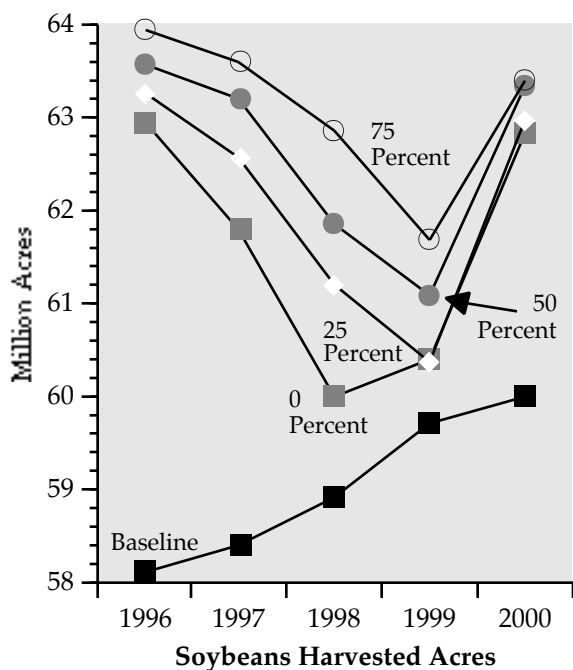


FIGURE 2
Even under 0 Percent, Soybeans Acreage Rises Well Above the Baseline

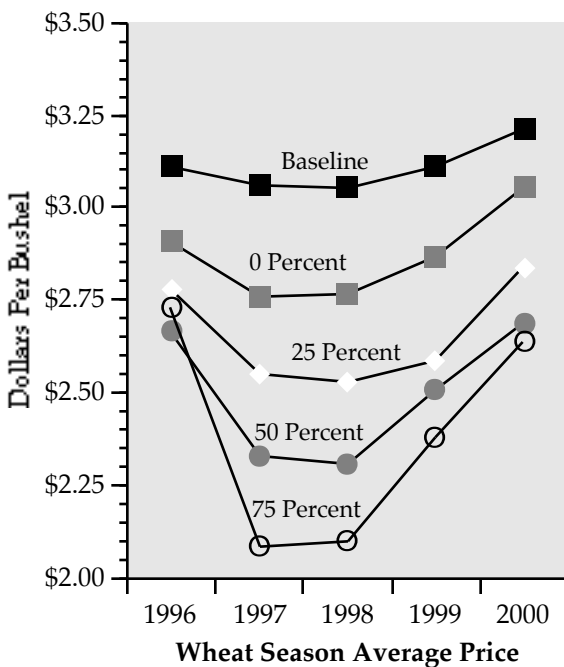


FIGURE 3
As Acreage Rises, Wheat Prices Fall Further Below Baseline Levels

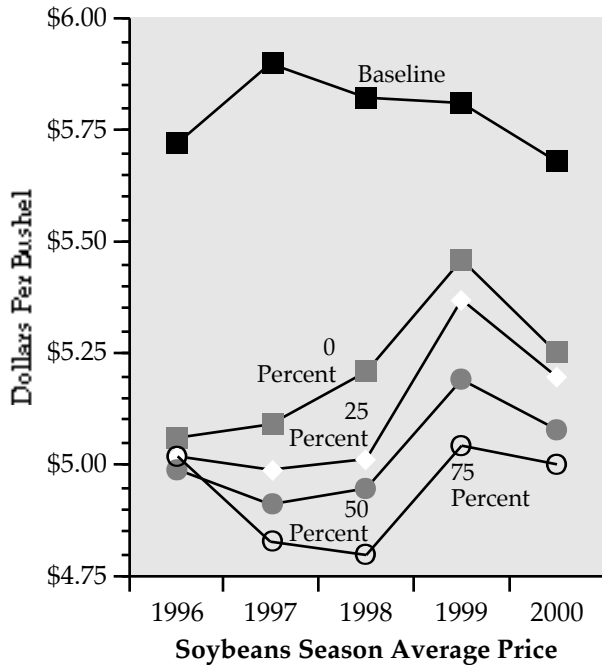


FIGURE 4
 ...Soybeans, Which Even Under 0 Percent
 Averages 54 Cents Per Bushel Below Baseline

make relative gains under the scenarios with greater amounts of returning 0-50/85 acreage. Wheat exports fall slightly below baseline under 0 Percent but make accumulated 1996-2000 gains of 90 million bushels (7.3 percent) under 75 Percent. However, wheat loses export value in all scenarios.

Soybeans exports make accumulated 1996-2000 gains from baseline ranging between 60 million bushels (7.9 percent) under 0 Percent to 90 million bushels (11.8 percent) under 75 Percent. As with wheat, the value of soybean exports is below baseline value across all scenarios.

Total Government Payments. Since the FFA contracts that replace deficiency payments are decoupled from other policy instruments, their levels do not change across scenarios. Total government payments, therefore, average \$450 million below baseline payments and end the simulation \$700 million below baseline government payments of \$6

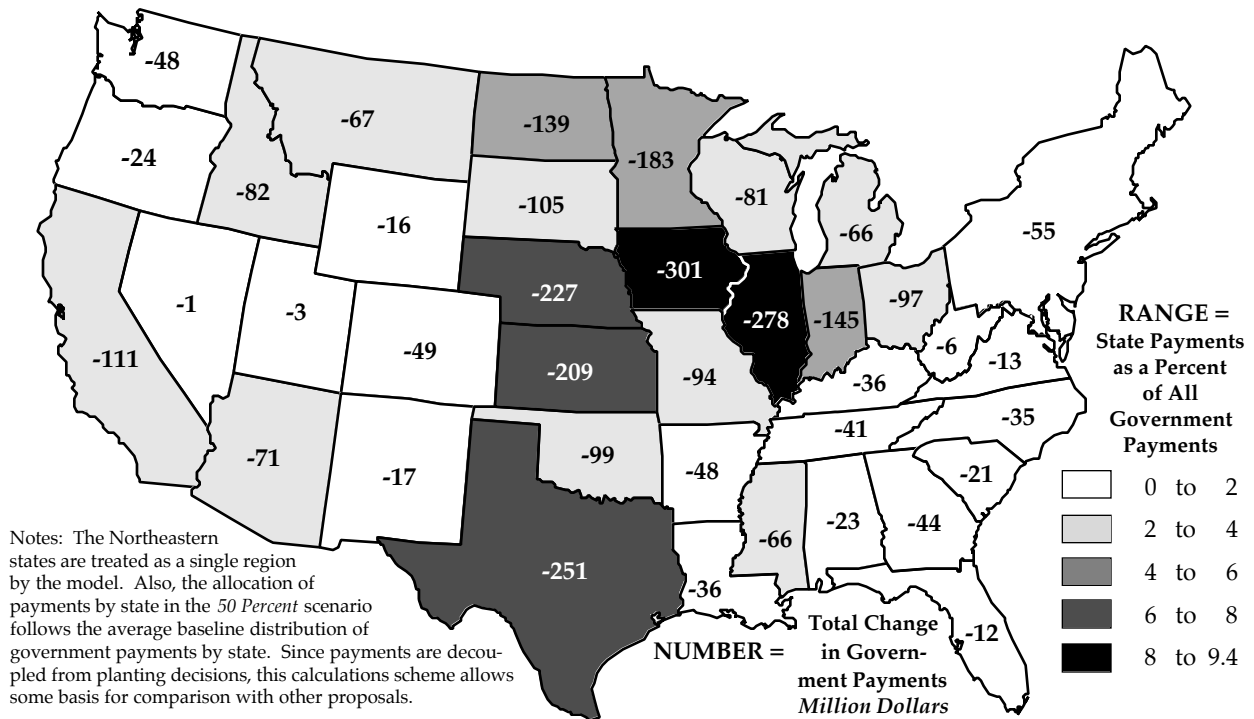


FIGURE 5
 Accumulated 50 Percent Scenario Changes From the Baseline in FFA Total Government
 Payments by State, 1996-2000



billion. Accumulated over 1996-2000, FFA payments are a total of \$2.2 billion (7.5 percent) below total baseline payments (table 3).

Because payments are decoupled from planting decisions, a crop-by-crop analysis of changes in payment levels cannot be performed. However, a state-level distribution of changes in total government payments to farmers under the 50 Percent scenario is shown in figure 5. This distribution assumes that the baseline distribution by states of total payments will continue under the FFA.

Net Returns. Under the FFA, production and export gains do not make up for the price declines associated with the return of 0-50/85 acres and the above-mentioned declines in government payments to farmers.

As a result, the decline in total net returns above cash costs over 1996-2000 ranges from \$3.3 billion (3.4 percent) under 0 Percent to \$19.6 billion (20.5 percent) under 75 Percent (table 3, figure 6). Again, because payments

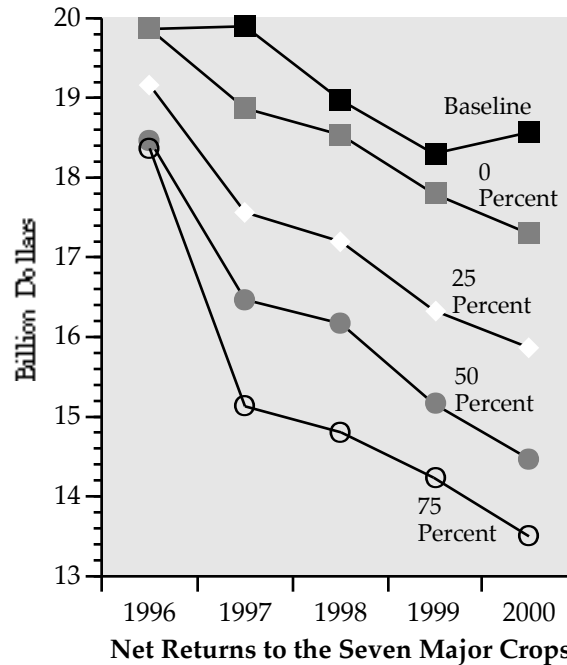


FIGURE 6
Lower Payments and Price Declines Depress Net Returns to the Seven Major Crops

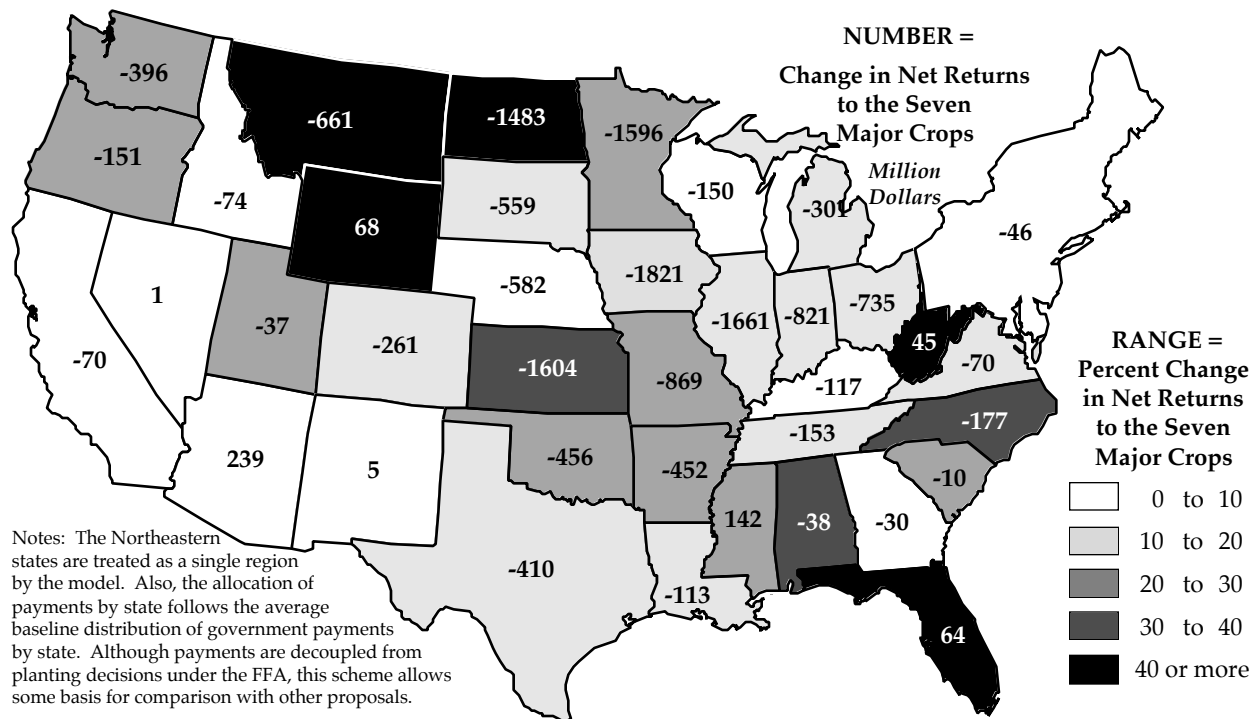


FIGURE 7
Accumulated 50 Percent Scenario Changes from Baseline Net Returns to the Seven Major Crops by state, 1996-2000

are decoupled from planting decisions, it is difficult to assess crop-by-crop returns. However, the distribution of these net returns impacts at the state level (using the same calculation scheme as figure 5) is shown in figure 7.

Net Farm Income. Given the impacts on crop net returns, net farm income for the entire agricultural sector also suffers declines from baseline levels. In all, average annual net farm income ranges from \$310 million (0.9 percent) below baseline under *0 Percent* to \$2.6 billion (7.1 percent) below under *75 Percent*. (table 3, figure 8)

On an accumulated basis over 1996-2000, total net farm income ranges from \$1.6 billion below baseline under *0 Percent* to \$13.0 billion under *75 Percent*. The loss in net income for the entire agricultural sector is masked somewhat by the livestock sector's size relative to the crop sector.

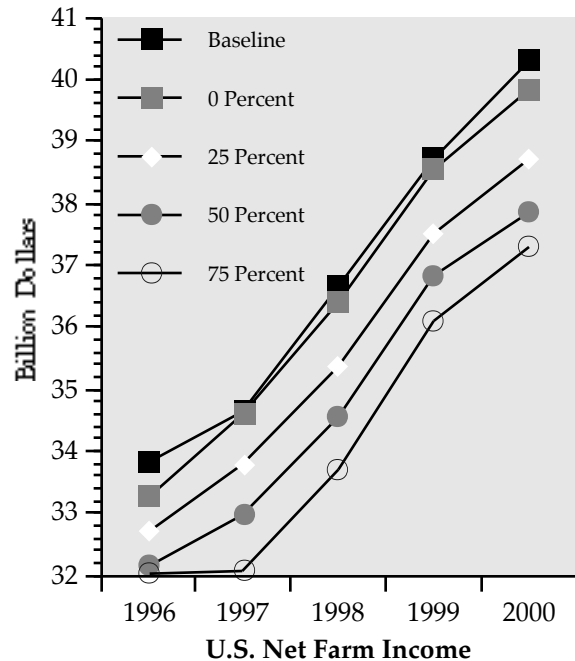


FIGURE 8
Net Farm Income Total Declines Range from \$4.7 Billion to \$7.2 Billion

Table 1. Harvested Acreage

Crop Year	Baseline	0-50/85 Acres Returning to Production				Baseline	0-50/85 Acres Returning to Production			
		0%	25%	50%	75%		0%	25%	50%	75%
Corn (Million Acres)					Wheat (Million Acres)					
1996	70.7	67.6	68.3	69.0	69.6	62.3	62.3	65.2	67.6	69.7
1997	71.0	69.2	69.6	69.9	70.6	62.9	62.5	65.2	67.7	69.8
1998	72.2	71.9	71.9	72.1	72.3	64.0	63.4	65.8	67.7	68.9
1999	71.2	71.7	72.7	73.5	74.1	64.5	63.6	65.2	65.3	65.4
2000	71.3	70.1	70.9	71.9	72.6	65.6	64.8	66.0	66.3	66.2
	<i>Mean Shift</i>	-1.2	-0.6	0.0	0.6	<i>Mean Shift</i>	-0.5	1.6	3.1	4.1
Soybeans (Million Acres)					Cotton (Million Acres)					
1996	58.1	62.9	63.2	63.6	63.9	14.5	13.7	13.8	14.0	14.1
1997	58.4	61.8	62.6	63.2	63.6	13.3	12.9	13.1	13.1	13.2
1998	58.9	60.0	61.2	61.9	62.9	13.0	12.4	12.7	12.8	12.9
1999	59.7	60.4	60.4	61.1	61.7	13.0	12.6	12.5	12.6	12.7
2000	60.0	62.8	63.0	63.3	63.4	13.2	13.1	13.4	13.4	13.3
	<i>Mean Shift</i>	2.6	3.0	3.6	4.1	<i>Mean Shift</i>	-0.5	-0.3	-0.2	-0.2
Grain Sorghum (Million Acres)					Seven Major Crops (Million Acres)					
1996	9.6	10.4	10.0	9.5	9.1	226.8	227.2	232.1	236.7	241.0
1997	9.7	10.6	10.3	10.0	9.6	227.3	228.1	233.0	237.5	241.6
1998	10.1	10.9	10.7	10.3	10.1	230.8	230.5	235.2	239.2	242.3
1999	10.0	11.1	10.9	10.6	10.3	231.2	231.5	234.9	237.4	239.1
2000	10.0	10.9	10.6	10.4	9.9	233.0	233.7	237.1	239.0	240.2
	<i>Mean Shift</i>	0.9	0.6	0.3	-0.1	<i>Mean Shift</i>	0.4	4.6	8.1	11.0

Table 2. Season Average Prices

Crop Year	Baseline	0-50/85 Acres Returning to Production				Baseline	0-50/85 Acres Returning to Production				
		0%	25%	50%	75%		0%	25%	50%	75%	
Corn (Dollars Per Bushel)					Wheat (Dollars Per Bushel)						
1996	2.22	2.31	2.28	2.25	2.22	3.11	2.91	2.78	2.67	2.73	
1997	2.22	2.34	2.29	2.27	2.23	3.06	2.76	2.55	2.33	2.09	
1998	2.18	2.27	2.26	2.25	2.22	3.05	2.77	2.53	2.31	2.10	
1999	2.20	2.22	2.18	2.14	2.12	3.11	2.87	2.59	2.51	2.38	
2000	2.22	2.28	2.23	2.16	2.10	3.21	3.05	2.84	2.69	2.64	
<i>Mean Shift</i>		0.08	0.04	0.01	-0.03	<i>Mean Shift</i>		-0.24	-0.45	-0.61	-0.72
Soybeans (Dollars Per Bushel)					Cotton (Dollars Per Pound)						
1996	5.72	5.06	5.02	4.99	5.02	0.62	0.65	0.64	0.63	0.62	
1997	5.90	5.09	4.99	4.91	4.83	0.60	0.62	0.60	0.59	0.59	
1998	5.82	5.21	5.01	4.95	4.80	0.60	0.62	0.60	0.58	0.58	
1999	5.81	5.46	5.37	5.19	5.04	0.59	0.61	0.59	0.58	0.57	
2000	5.68	5.25	5.20	5.08	5.00	0.60	0.61	0.58	0.57	0.57	
<i>Mean Shift</i>		-0.57	-0.67	-0.76	-0.85	<i>Mean Shift</i>		0.02	0.00	-0.01	-0.02

Table 3. Government Payments, Net Returns to the Seven Major Crops, and Net Farm Income

Crop Year	Total Government Payments		Net Returns to the Seven Major Crops					U.S. Net Farm Income				
	Baseline	All Scenarios	0-50/85 Acres Returning to Production					0-50/85 Acres Returning to Production				
			Base line	0%	25%	50%	75%	Base line	0%	25%	50%	75%
-----Billion Dollars-----												
1996	6.03	5.56	19.89	19.89	19.19	18.48	18.36	33.83	33.27	32.71	32.15	32.01
1997	5.75	5.25	19.90	18.87	17.58	16.46	15.14	34.65	34.61	33.77	32.98	32.05
1998	6.15	5.64	18.98	18.53	17.22	16.16	14.81	36.65	36.38	35.38	34.54	33.68
1999	6.13	5.48	18.32	17.82	16.33	15.18	14.24	38.73	38.52	37.50	36.81	36.11
2000	6.00	4.98	18.57	17.30	15.89	14.48	13.51	40.30	39.83	38.70	37.86	37.30
<i>Mean Shift</i>		-0.63		-0.7	-1.9	-3.0	-3.9		-0.31	-1.22	-1.97	-2.60
<i>Total Shift</i>		-3.15		-3.3	-9.5	-14.9	-19.6		-1.56	-6.11	-9.83	-13.02

Table 4. Value of Exports for the Seven Major Crops

Crop Year	Baseline	0-50/85 Acres Returning to Production			
		0%	25%	50%	75%
-----Billion Dollars-----					
1996	14.83	14.42	14.26	14.10	14.11
1997	14.89	14.31	14.07	13.82	13.49
1998	15.05	14.57	14.35	14.14	13.86
1999	15.52	15.06	14.85	14.72	14.59
2000	15.98	15.67	15.53	15.34	15.27
<i>Mean Shift</i>		-0.45	-0.64	-0.83	-0.99
<i>Total Shift</i>		-2.25	-3.21	-4.14	-4.95

For Additional Information...

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