Different Approaches To 'Fairness' In The Farm Bill

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Almost every lawmaker involved with writing the 2012 farm bill will tell you that, as they plan to end direct payments, they want to develop new commodity programs that are "fair and equitable" across all regions of the country.

The problem is, "fair and equitable" for corn and soybean growers across the Midwest is often viewed much differently that "fair and equitable" for growers across the south.

An examination of recent reports on the proposed Senate farm bill from leading ag economists provides as many diverging perspectives on what is "fair" and "equitable" as there are reports.

A HYPERLINK "http://www.agri-pulse.com/FAPRI-looks-at-potential-farm-bill-impacts-05302012.asp" report from the Food and Agricultural Policy Research Institute at the University of Missouri (FAPRI-MU) and "http://www.farmdocdaily.illinois.edu/2012/05/olympic_moving_average_and_pot.html" analysis from the Ohio State University's Dr. Carl Zulauf examine potential impacts of key farm program changes included in the Senate Agriculture Committee's farm bill.

"According to the FAPRI analysis, benefits to soybean farmers under the ARC program will amount to 1.9 percent of total market receipts, slightly below the average of corn, wheat and sorghum and slightly above that of peanuts and rice," said ASA President Steve Wellman, a soybean farmer from Syracuse, Neb. "This is a good indicator that the Senate version of the Farm Bill treats most commodities equitably."

Senate Agriculture Committee Chairman Debbie Stabenow referenced both reports as evidence that the new Agriculture Risk Coverage (ARC) plan contained in her committee's bill is "fair to all commodities.

"ARC would have provided the same level of support for all commodities except rice, which would have actually gotten more price protection," she explained.

But that's not what Zulauf says in his report, said USA Rice Producers' Group Chair Linda Raun, a rice farmer from El Camp, Texas.

"Dr. Zulauf's analysis, which touts a price-based countercyclical approach that offers protection against prolonged periods of low prices, confirms what we have been saying all along: farmers need the choice of a multiple year, low-price protection which the Senate bill's revenue programs do not currently provide," said Raun. "We hope farmers and lawmakers will carefully read this report."

Zulauf's analysis used the five-year Olympic average price at 89 percent to achieve a price-based countercyclical approach. Zulauf did not call for a narrow 10 percent revenue band as outlined in the Senate's revenue program, ARC, but assumed the safety net would be there to cover deep price losses, says Raun.

"If Zulauf had applied the Senate bill's ARC limitations, including a 10 percent revenue band and a 65 percent or 80 percent factor, the price protection that he shows would almost completely disappear. For example, the maximum benefit for a rice farmer would have been approximately 24 cents per hundredweight in 2001 rather than the $3.02 per hundredweight arrived at in the analysis – a 1,150 percent difference between what Zulauf proposes and what the Senate bill provides."

Zulauf actually points out in his paper that he is examining the price protection offered by a five-year Olympic moving average of price during the price decline of the late 1990's and that his study "does not investigate the ARC program."

However, Zulauf told Agri-Pulse that his report demonstrates that the five-year moving average creates a more equitable distribution across all crops, compared to a fixed price that increases the likelihood that payments will be unequal across all crops.

"The issue of equity is interpretable," Zulauf admits. "But if you establish a fixed price floor, how do you know that it's right – not for today, but for tomorrow?"

Adding to the debate is a new report by University of Illinois Ag Economist Gary Schnitkey, which looks at "http://www.farmdocdaily .illinois.edu/2012/06/ performance_ of_the_super_commi.html" Performance of the Super Committee Target Price Proposal." While that proposal did not pass, it could be "the starting point" for the commodity title that emerges from the House Agriculture Committee.

In Schnitkey's analysis, target prices for soybeans and corn are significantly lower than those for other crops and the relative projected prices for each crop under the Congressional Budget Office (CBO) 10-year baseline.

While soybean and corn target prices in the proposal would be set at 77 percent of projected prices, requiring a 23 percent drop in price before triggering a payment, target prices for rice and peanuts would be set at 106 percent of projected prices, triggering far more frequent payments.

Moreover, when Schnitkey looked back at historical prices for commodities during the 37-year period from 1975 to 2011 and set the soybean and corn target prices at 77 percent, wheat at 93 percent, and rice and peanuts at 106 percent of those average historical prices, Schnitkey found that this disparity in treatment of commodities resulted in dramatic differences in the safety net support offered to producers of crops. Schnitkey's analysis showed:

A target price for soybeans that is 77 percent of long-run price results in payments in only two out of 37 years, representing a payment in 5 percent of the years.

A target price for corn that is 77 percent of the long-run average would have made payments in four out of 37 years, representing a payment in 11 percent of the years.

A target price for wheat that is 93 percent of long-run price results in payments in twelve out of 37 years, representing a payment in 32 percent of the years.

A target price for peanuts that is 106 percent of long-run price results in payments in 20 out of 37 years, representing a payment in 54 percent of the years.

A target price for rice that is 106 percent of long-run price results in payments in 23 out of 37 years, representing a payment in 62 percent of the years.

"Our top priority in this entire farm bill process has been to maintain planting flexibility," said ASA First Vice President Danny Murphy, a farmer from Canton, Miss. "We want the marketplace to influence our planting decisions, not the potential for a payment through a government program.

"If farmers see that there's a lopsided and likely government payment coming in one crop or group of crops, there's real potential there for significant planting distortions. The inequitable safety net among crops also could cause farmers or their lenders to favor the planting of certain crops," Murphy added. Δ

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