High Commodity Prices Make For Vexing 2012 Farm Bill Debate

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As the budget debate continues to unfold on Capitol Hill, farmers and ranchers are trying to figure out how much, if anything, they will be willing to give up.

The good news from a budget-cutting perspective is that spending on farm programs is already headed lower as a result of significantly higher commodity prices. Dollars paid directly to producers are expected to total $10.6 billion in 2011, representing a 12.7 percent decrease from the forecast of $12.2 billion paid out in 2010.

With strong commodity prices, government payments based on price levels are projected to drop off almost entirely. USDA's Economic Research Service (ERS) projects that payments under the Average Crop Revenue Election (ACRE) will drop by 95%. No countercyclical payments are forecasted to be made to producers. Producers are expected to receive only $20 million in marketing loan benefits – including loan deficiency payments, marketing loan gains, and certificate exchange gains. That's a projected decline of 93 percent from 2010 levels.

Direct payments under the Direct and Countercyclical Program (DCP) and the Average Crop Revenue Election Program (ACRE), which are paid regardless of price levels, are forecast at $4.65 billion for 2011 – making these payments a substantial target for the budget cutters.

Advocates of direct payments say they are are a reliable part of the farm safety net and non-trade distorting to boot. After all, they argue, commodity prices are cyclical and won't stay high for very long.

Critics of direct payments say they are hard to justify to taxpayers, especially when farm income is booming. Net farm income is forecast to be $94.7 billion in 2011, up $15.7 billion from the 2010 forecast. The 2011 forecast is the second highest inflation-adjusted value for net farm income recorded in the past 35 years.

The average net income for individual farms is projected to be $80,400 this year, compared with $78,600 last year – prompting some taxpayers to ask why farmers need any type of federal support.

John Scholl, the president of American Farmland Trust (AFT) says that with significant – if not radical changes likely coming in the 2012 Farm Bill, an opportunity also is coming to create a "better safety net" that focuses on risk management and better enables environmental improvements.

Creating a safety net that focuses on risk management provides a measure of public accountability by requiring "producers to suffer an actual loss before they receive payments from the government," he said. Scholl contended that within Title I of the current farm bill, only the Average Crop Revenue Election (ACRE) sets such a requirement. AFT played a key role in the original development of the ACRE program.

"The biggest problem we have on the farm is extreme economic volatility," Scholl said. "Factors totally beyond our control can have a devastating impact on our ability to keep our farm in operation. It also makes it much more difficult for farmers and ranchers to invest in the long-term practices necessary to protect the productivity of our land and the quality of our environment."

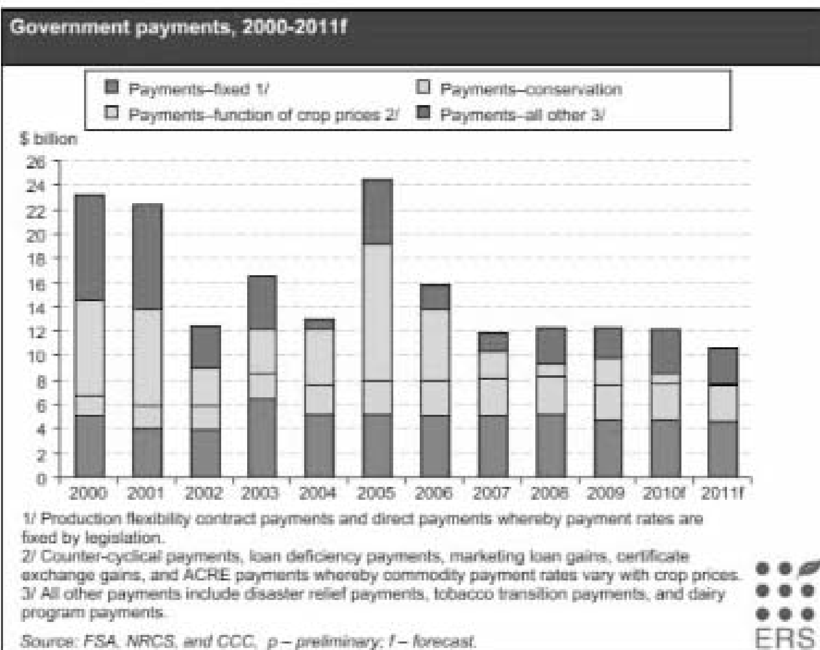
In addition to extreme volatility, farmers and ranchers are also looking at sharply higher production costs.

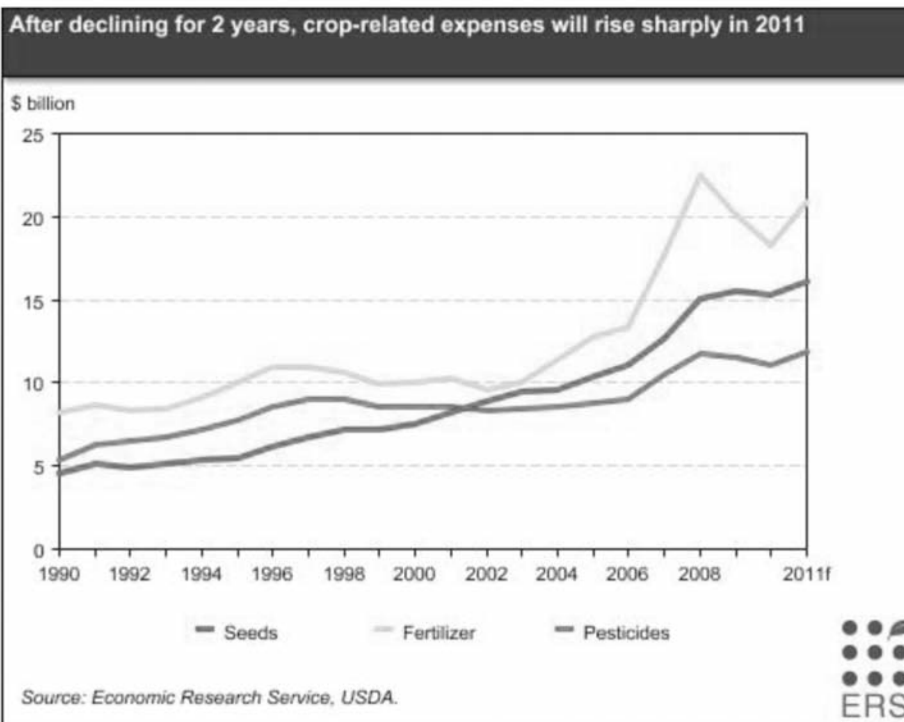
After falling $12.0 (4.1 percent) billion in 2009 and rebounding a relatively modest $6.5 billion in 2010, total production expenses are set to jump $20.2 billion in 2011 to a nominal record $307.5 billion. According to ERS, this is the first time that expenses will have exceeded $300 billion.

Rural bankers are keeping a close eye on the situation in hopes that, whatever lawmakers decide, they won't ruin the strong growth they are seeing across much of Rural America.

A monthly index measuring the rural economy in 10 states indicates that the rural, agriculturally dependent areas of the Midwest continue to expand at a very healthy pace, according to an ongoing survey of bank CEOs in the region.

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, advanced to a strong 59.4 from March's 56.7. The April index compares to a much weaker reading of 44.2 in April of last year.





Creighton University Economist Ernie Goss, one of the founders of the index at Creighton University, said the latest finding shows that "higher oil prices have yet to derail or even slow the pace of growth for the 'Rural Mainstreet' economy." Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

For this month's survey, bank CEOs were asked what they considered to be the greatest threat to the rural economy, and nearly half indicated that a significant downturn in farm commodity prices poses the greatest possible hazard to the rural economy. Another 39 percent reported that high energy prices were the most significant threat to rural economy. The remaining13 percent named changing federal policies regarding alternative energy production and other federal regulatory changes as the number one danger to the rural economy. Only four months ago, just 28 percent said a downturn in agriculture commodity prices was their chief concern.

Dan Coup, CEO of First National Bank in Hope, Kan., said a significant downturn in commodity prices could "spell disaster," but added that "the biggest threat will be, as usual, the weather."

The index a current real-time analysis of the economy of rural, agriculturally and energy-dependent portions of the nation is derived from survey responses from community bank presidents and CEOs in Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming. Δ

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