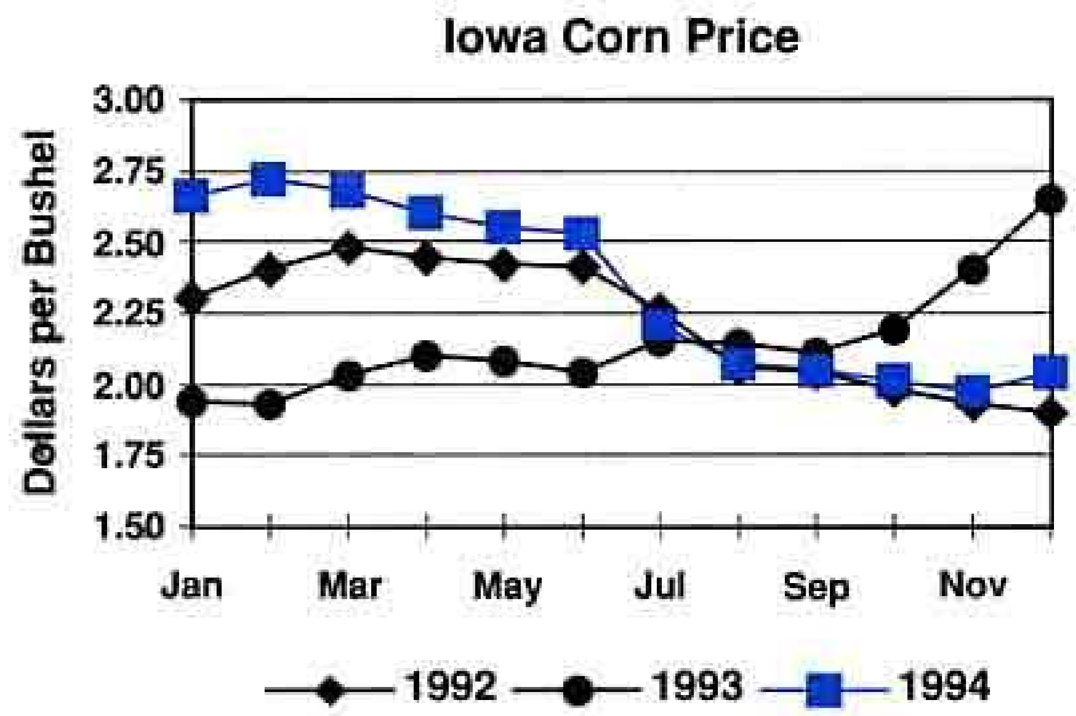
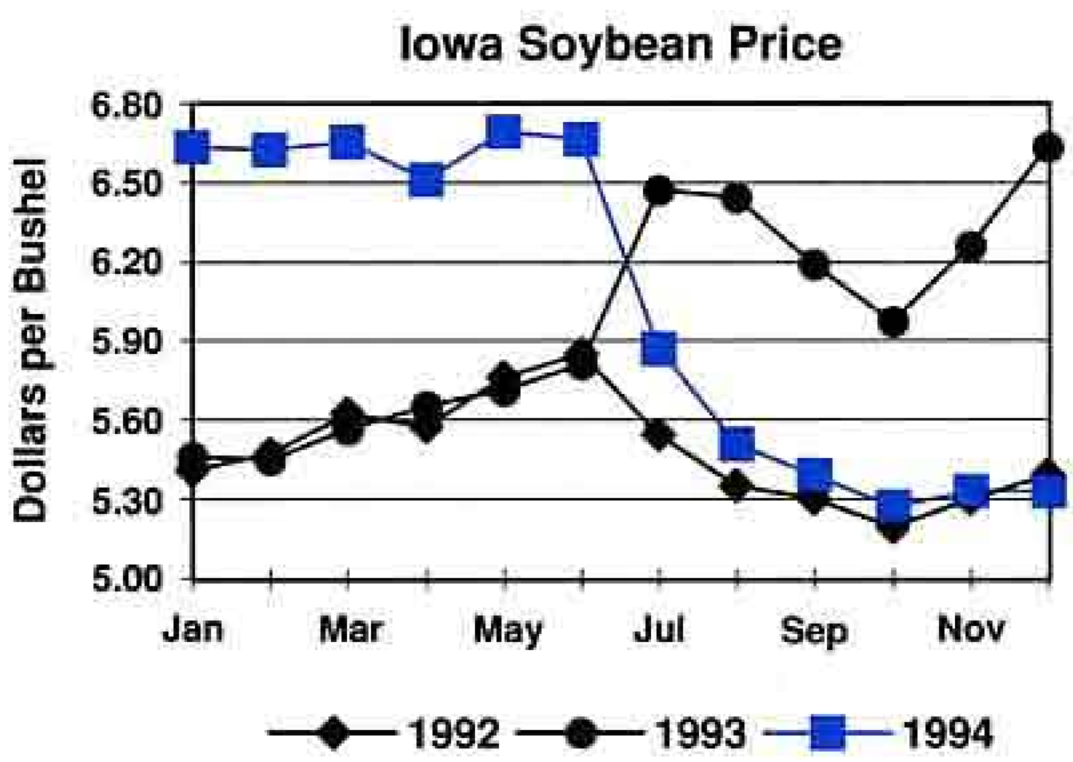
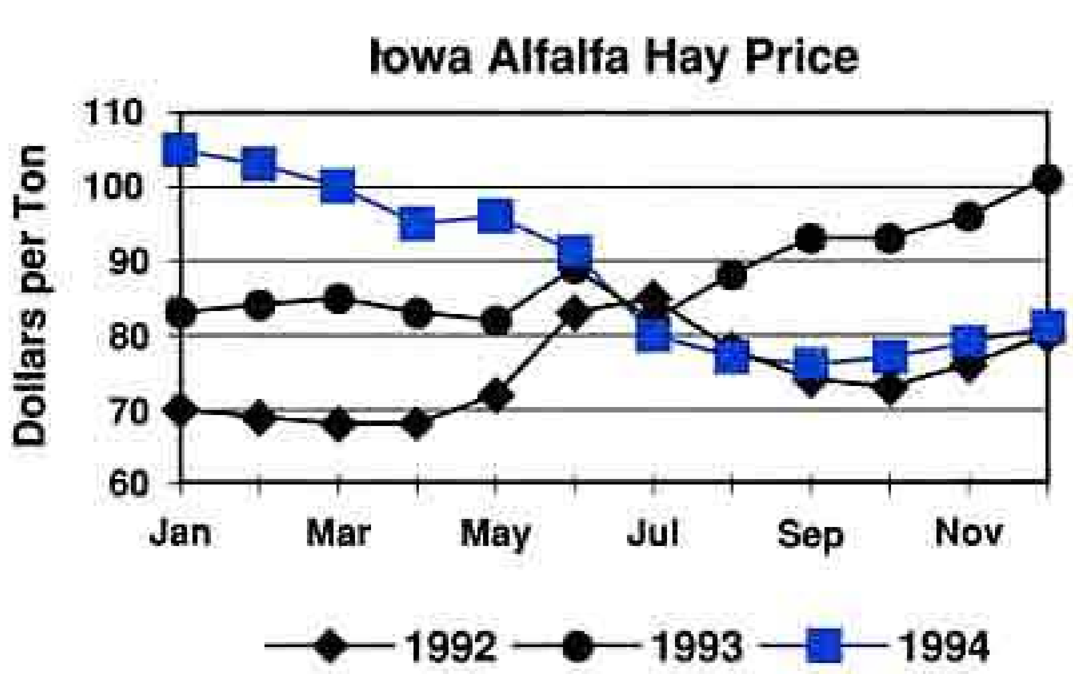
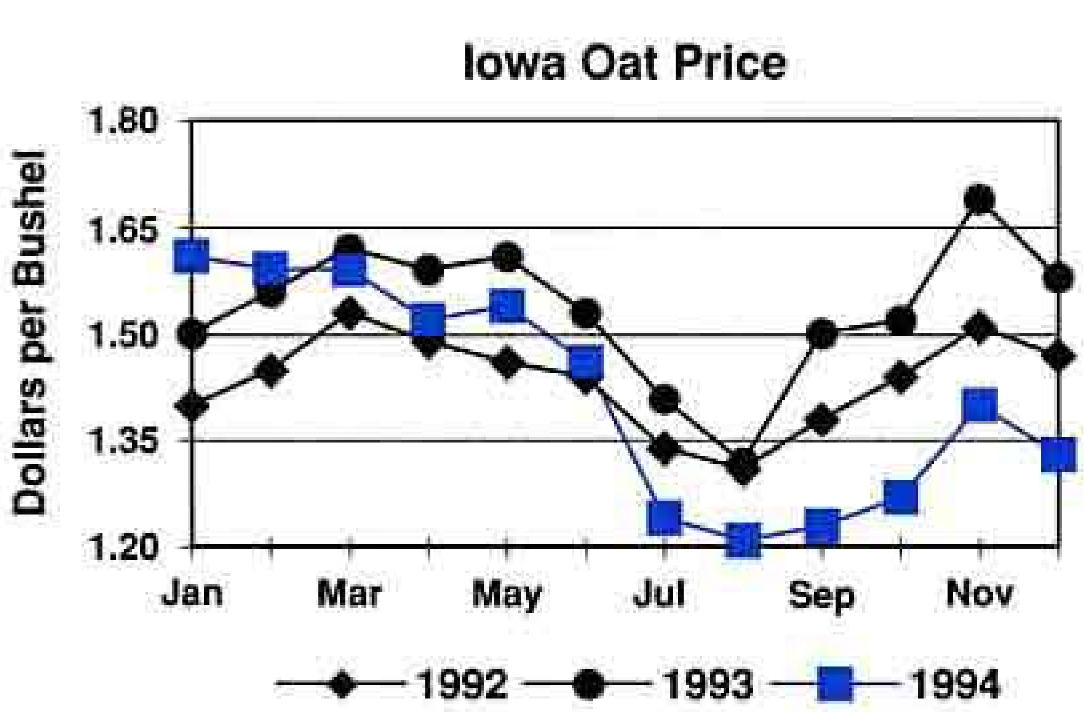








The Current Situation In Iowa

Policy Announcements

(John R. Kruse)

Conservation Reserve Program (CRP)

The current CRP debate has forced the U.S. Department of Agriculture (USDA) to make some statements about the future of the CRP. On December 14, 1994, Agriculture Secretary Mike Espy announced that the the USDA *intends* to offer CRP contract holders the option of modifying or extending their contracts if they were bid in before November 30, 1990. The announcement also suggests that only acreage currently enrolled will be eligible and that the acreage will have to be rebid. The consensus in Washington, D.C. seems to be that the Secretary's announcement was made primarily to get the Congressional Budget Office (CBO) to put CRP extension in their budget baseline and that there is no intent to implement the policy as announced. The USDA wants the CBO to include a CRP extension in the baseline budget because of the way in which expenditures are scored as costs or savings. If a CRP extension was not included in the CBO baseline, it would be scored in the 1995 Farm Bill as an additional cost for which some other program would have to be sacrificed. However, if CRP extensions were included in the baseline it would be part of the base expenditures and not counted as an added cost.

This does not mean that the CRP will not get extended. The preference of many people seems to be to rebid the CRP contract allowing acreage not currently enrolled to be eligible for the program. Many of the proponents of CRP argue that better targeting of CRP contracts to land with high environmental benefits can be accomplished. Greater cost efficiency could come through reducing rental rates on land that provides fewer environmental benefits and increasing rental rates on land that provides greater environmental benefits. In viewing this argument, it is important to remember that productivity and environmental benefits from the land are not related.

This means that some of the most productive land in the United States may be some of the most costly land to society through erosion, nutrient leaching, watershed contamination, or some other factor. If rental rates were then set to maximize societal benefits, the productive land that has damaging effects on the environment may come out of production as higher rental rates are offered for that land. This could include acres already enrolled in the program but would likely pull in new acres not currently enrolled. In addition, acres currently enrolled in the CRP program that provide only marginal environmental benefits would likely face lower rental rates or be forced out of the program.

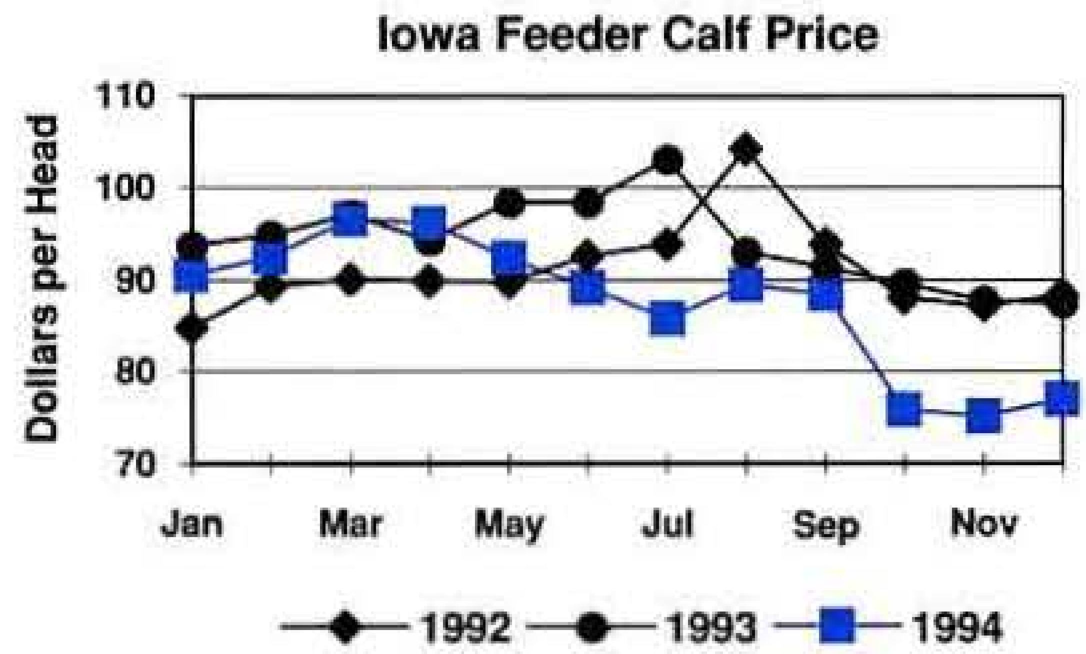
Marketing Loans

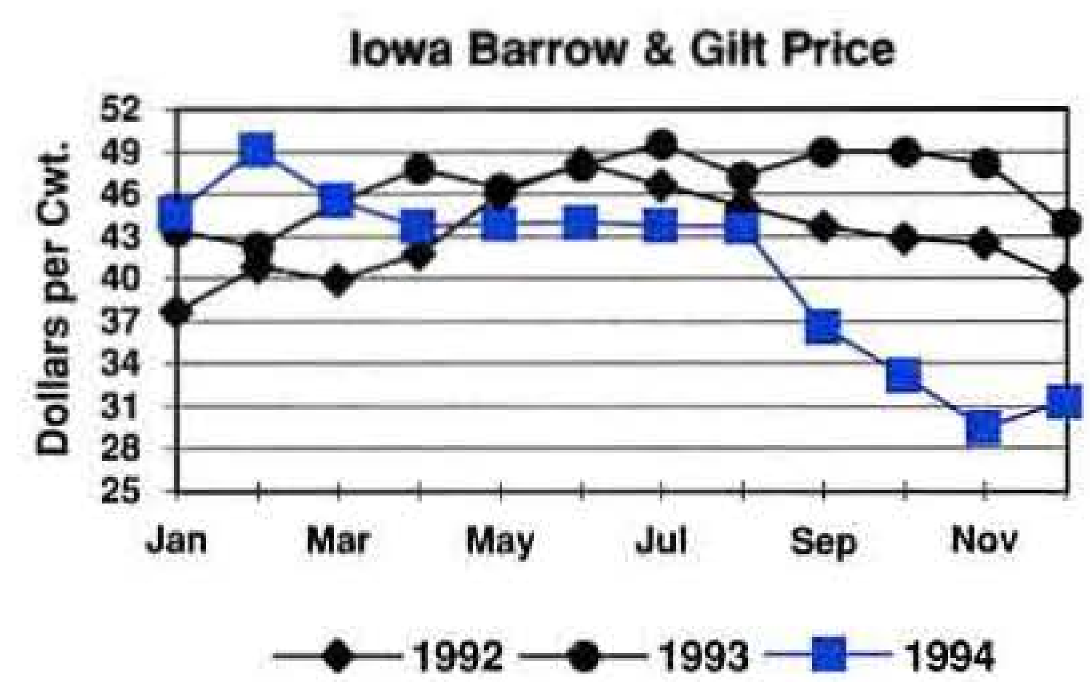
With the large size of the 1994 corn crop and some regional transportation problems, some locations in Iowa saw the farm price of corn fall below the loan rate. This phenomenon generated corn marketing loan deficiency payments of a few cents per bushel for the first time in the program's short history. The marketing loan program for feed grains and wheat became law when negotiators failed to reach a GATT agreement in July 1993. Although a GATT agreement was reached in December 1993, the marketing loan program for feed grains and wheat remains in effect.

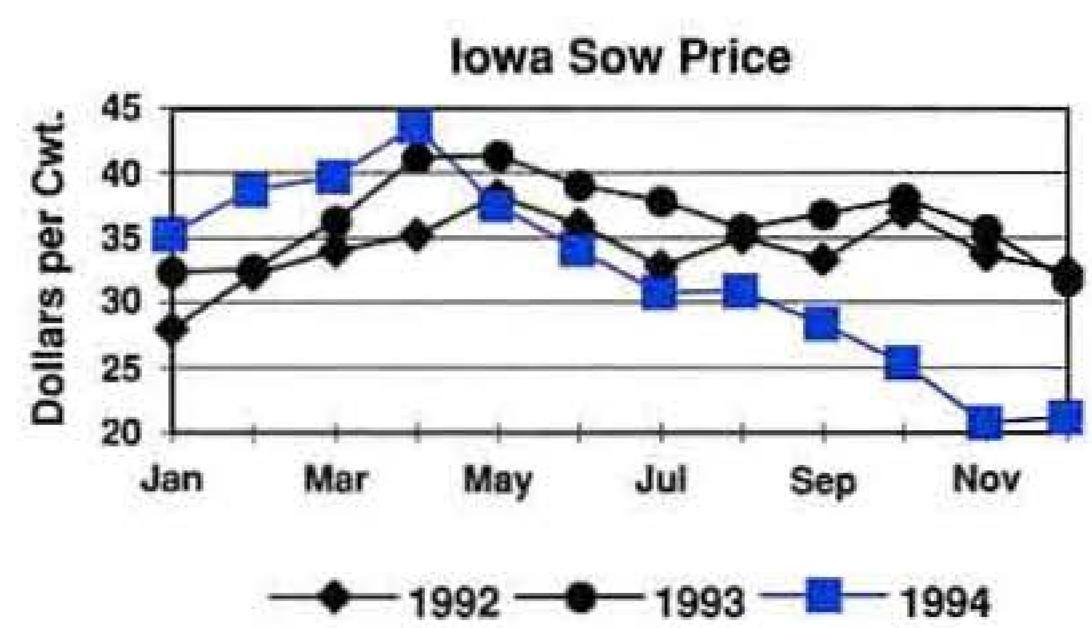
The marketing loan program for feed grains and wheat is designed to help compensate producers when the farm price falls below the loan rate. In order to receive a loan deficiency payment, producers must go to the local ASCS office during a period when the posted county price is below the loan rate. Since posted county prices are tied to the local elevator's price, they vary daily. This means that the loan deficiency payment rate varies daily. Thus, in order for producers to maximize their loan deficiency payment, they must guess the day when local prices will be the lowest.

Deficiency Payments

Deficiency payments for the 1994 crop are the first to be subject to the new rules as defined in the Farm Bill of 1990 and modified by several Omnibus Budget Reconciliation acts. The new rules state that deficiency payments for feed grains and wheat will now be calculated using the average price for all twelve months of the marketing year instead of the first five months of the marketing year. In general, prices during the first five months of the marketing year are lower than in the remaining seven months of the marketing year, because they include the harvest period when over 60 percent of the corn crop is marketed. Since deficiency payment rates will now be calculated based on the difference between the target price and the 12 month average price, they will be







Average Farm Prices Received By Iowa Farmers

	Dec 1994	Nov 1994	Nov 1993
		$/Bushel	
Corn	2.04	1.97	2.65
Soybeans	5.33	5.33	6.63
Oats	1.33	1.40	1.58
		$/Ton	
Alfalfa	81.00	79.00	101.00
All Hay	78.00	76.00	97.00
		$/Cwt.	
Steers & Heifers	71.10	67.60	71.20
Feeder Calves	76.80	75.00	87.40
Cows	37.20	36.80	43.80
Barrows & Gilts	31.20	29.30	43.90
Sows	21.00	20.60	31.60
Sheep	37.10	33.70	31.90
Lambs	66.90	72.50	65.50
		$/Lb	
Turkeys	0.42	0.45	0.41
		$/Dozen	
Eggs	0.52	0.51	0.52
		$/Cwt.	
All Milk	12.50	12.60	13.80
		$/Head	
Milk Cows	NA	NA	1,140

Iowa Farm Income Indicators

	1994	1993	1992
		Million Dollars	
Crop Cash Receipts			
Jan - Aug Total	2,001	2,716	2,735
Livestock Cash Receipts			
Jan - Aug Total	3,587	3,846	3,700

significantly smaller in normal years. For example, for the 1994 corn crop, CARD estimates that the first five months of the 1994/95 market will generate an average corn price of $2.08 per bushel. However, the 12 month average price is projected to be $2.15 per bushel, $0.07 per bushel higher. This means that the deficiency payment rate for the 1994 crop will be $0.07 per bushel lower because the 12 month price is used instead of the 5 month price. The 1993 legislation did limit the amount that the deficiency payment rate could be reduced by switching from the 5 month price calculation to the 12 month calculation. For corn and sorghum, this limit was set at $0.07 per bushel. Therefore, even if the 12 month price turned out to be $2.20 per bushel in the above example, the deficiency payment rate would still only be reduced by $0.07 dollars per bushel.

One other change that will take effect with the 1994 crop is the timing of deficiency payments. This change affects only corn and sorghum. Advanced deficiency payments are still made at the time of sign-up. However, midterm deficiency payments for corn and sorghum which are typically made in March of the year following the harvest will be reduced in two ways. First, deficiency payments will be reduced because an estimated 12 month price calculation will be used as described above. Second, only 75 percent of the estimated payment will be paid in March. The remaining 25 percent will not be paid out until September when the actual 12 month price is determined. This shifts 25 percent of midterm cash payments to producers from March to September, delaying this cash flow for producers.

CARD/FAPRI Analysis

The Budgetary and Resource Allocation Effects of Revenue Assurance: Summary of Results

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(David Hennessy: Assistant Professor of Agricultural Economics, Washington State University)

One of the more intriguing alternatives under consideration for the 1995 farm bill is the "Iowa Plan." This idea originated with a group of Iowa's farm and commodity organizations. It is receiving increased attention from national farm organizations, academics, and politicians. The basic premise is very simple. Rather than the current mixture of target prices, disaster payments, set-aside provisions, and crop insurance, the government would underwrite a program that guarantees producers a certain percentage of recent revenues. The idea has much intuitive appeal because farmers (and their bankers) would be assured of a certain revenue figure regardless of what happens to prices or yields.