

NATIONAL FARMERS UNION'S COUNTER-CYCLICAL COST OF PRODUCTION PROPOSAL

Carl Zulauf, Professor, Ohio State University, May 2007

Information is from Congressional testimony on 4/25/07 (<http://www.nfu.org/wp-content/4-25-07-senate-economic-challenges-opportunities.pdf>) and Dr. Daryll Ray, University of Tennessee. NOTES: USDA – U.S. Department of Agriculture; FSA – Farm Service Agency (USDA)

Attribute	National Farmers Union's Counter-Cyclical Proposal																																																	
2002 Programs Replaced	Direct payments; marketing loan based programs, price-based counter-cyclical program																																																	
Area Target	U.S.																																																	
Crops	Existing program crops																																																	
Target Protection Level	% Rate (100% or less; selected by Congress) times forecasted U.S. Total Cost of Production for year (source is USDA Baseline)																																																	
Realized Revenue Calculation	U.S. season average price times U.S. average yield																																																	
Payment Rate per unit of production	(Target Protection Level minus Realized Revenue) divided by U.S. yield per acre																																																	
Adjustment for Individual Farmer Situation	No adjustment, but permanent disaster program would be administered at individual farm level																																																	
Payment Quantity	Total production times the ratio, (total use of crop in previous year divided by total supply of crop in previous year)																																																	
Integration with Crop Insurance	No																																																	
Considerations	<p>► In essence this proposal is a national revenue deficiency program but the target revenue is based on the national total cost of production, not national expected market gross revenue (i.e., expected U.S. yield times expected U.S. price)</p> <p>► Payment can not be finalized until after the marketing season ends; partial advanced payments could occur</p> <p>► Program cost is estimated to be \$2-\$3 billion less than cost of Direct Payment program (\$5.2/billion per year) plus cost of current marketing loan and counter-cyclical price program. Cost savings would be used to fund</p> <ul style="list-style-type: none"> • a permanent disaster assistance program with eligibility determined farm by farm based on FSA records • other programs <p>► The anchor of this proposal is total cost of production. To gain insights into the relationships across program crops regarding total cost of production, current target prices, and season average market prices, the following table is presented using the most recently available data. NOTES: bu. = bushel, cwt. = hundredweight, lb. = pound</p>																																																	
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Crop</th> <th style="text-align: center;">Total Cost of Production 2005</th> <th style="text-align: center;">Target Price 2006</th> <th style="text-align: center;">Market Year Price 2006</th> <th style="text-align: center;">Direct Pay Rate 2006</th> </tr> </thead> <tbody> <tr> <td>Barley</td> <td style="text-align: right;">\$4.43/bu.</td> <td style="text-align: right;">\$2.24/bu.</td> <td style="text-align: right;">\$2.88/bu.</td> <td style="text-align: right;">\$0.24/bu.</td> </tr> <tr> <td>Corn</td> <td style="text-align: right;">\$2.58/bu.</td> <td style="text-align: right;">\$2.63/bu.</td> <td style="text-align: right;">\$3.10/bu.</td> <td style="text-align: right;">\$0.28/bu.</td> </tr> <tr> <td>Cotton</td> <td style="text-align: right;">\$0.666/lb.</td> <td style="text-align: right;">\$0.724/lb.</td> <td style="text-align: right;">\$0.48/lb.</td> <td style="text-align: right;">\$0.0667/lb.</td> </tr> <tr> <td>Oats</td> <td style="text-align: right;">\$2.58/bu.</td> <td style="text-align: right;">\$1.44/bu.</td> <td style="text-align: right;">\$1.85/bu.</td> <td style="text-align: right;">\$0.024/bu.</td> </tr> <tr> <td>Rice</td> <td style="text-align: right;">\$9.88/cwt.</td> <td style="text-align: right;">\$10.50/cwt.</td> <td style="text-align: right;">\$9.85/cwt.</td> <td style="text-align: right;">\$2.35/cwt.</td> </tr> <tr> <td>Sorghum</td> <td style="text-align: right;">\$4.41/bu.</td> <td style="text-align: right;">\$2.57/bu.</td> <td style="text-align: right;">\$3.30/bu.</td> <td style="text-align: right;">\$0.35/bu.</td> </tr> <tr> <td>Soybean</td> <td style="text-align: right;">\$5.68/bu.</td> <td style="text-align: right;">\$5.80/bu.</td> <td style="text-align: right;">\$6.30/bu.</td> <td style="text-align: right;">\$0.44/bu.</td> </tr> <tr> <td>Wheat</td> <td style="text-align: right;">\$5.57/bu.</td> <td style="text-align: right;">\$3.92/bu.</td> <td style="text-align: right;">\$4.25/bu.</td> <td style="text-align: right;">\$0.52/bu.</td> </tr> </tbody> </table>	Crop	Total Cost of Production 2005	Target Price 2006	Market Year Price 2006	Direct Pay Rate 2006	Barley	\$4.43/bu.	\$2.24/bu.	\$2.88/bu.	\$0.24/bu.	Corn	\$2.58/bu.	\$2.63/bu.	\$3.10/bu.	\$0.28/bu.	Cotton	\$0.666/lb.	\$0.724/lb.	\$0.48/lb.	\$0.0667/lb.	Oats	\$2.58/bu.	\$1.44/bu.	\$1.85/bu.	\$0.024/bu.	Rice	\$9.88/cwt.	\$10.50/cwt.	\$9.85/cwt.	\$2.35/cwt.	Sorghum	\$4.41/bu.	\$2.57/bu.	\$3.30/bu.	\$0.35/bu.	Soybean	\$5.68/bu.	\$5.80/bu.	\$6.30/bu.	\$0.44/bu.	Wheat	\$5.57/bu.	\$3.92/bu.	\$4.25/bu.	\$0.52/bu.	<p>► Total cost of production in 2005 is at least 40% higher than the 2006 target price for barley, oats, sorghum, and wheat. On the other hand, total cost of production for cotton is 8% under its target price. Total cost of production in 2005 is higher than the 2006 price for barley, cotton, oats, sorghum, and wheat by at least 30%. In contrast, the price for corn and soybean exceeds total cost of production.</p> <ul style="list-style-type: none"> • Thus, a program based on total cost of production would have different impacts than either current farm policy or current market prices. For example, the numbers in the above table suggest the U.S. would likely plant more acres to barley, oats, sorghum, and wheat. 			
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