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WHAT THE NEW FARM BILL WILL MEAN TO STATE ECONOMIES AND FARMERS

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The agriculture legislation recently enacted by Congress and signed into law (P.L. 104-127) by President Clinton marks the most dramatic change in U.S. farm policy since the current command-and-control programs were created during the Depression. Today's system of centrally planned commodity support programs, export subsidies, supply controls, acreage allotments, production quotas, and restrictions on trade imports holds back American farmers. This makes it impossible for them to benefit from the growing world market and denies farming-related industries the economic boost of higher farm production.

The new legislation was based on bills first debated last year by Congress: the Freedom to Farm Act (H.R. 2195), sponsored by House Agriculture Committee Chairman Pat Roberts (R-KS), and proposals advanced by Senate Agriculture Committee Chairman Richard Lugar (R-IN) during the consideration of balanced budget legislation. These bills called for sweeping changes in American agriculture policy to create freer markets, reduce subsidies, and generally permit farmers to run their businesses to take advantage of market opportunities rather than comply with bureaucratic regulations. The bills also were in line with calls for fundamental reform voiced by many farmers and research organizations, such as The Heritage Foundation. In *Freeing America's Farmers: The Heritage Plan for Rural Prosperity*, Heritage analysts proposed last year that Congress immediately end all supply control programs, phase out subsidies, and end other restrictions on farmers.¹

1 John E. Frydenlund, *Freeing America's Farmers: The Heritage Plan for Rural Prosperity* (Washington, D.C.: The Heritage Foundation, 1995).

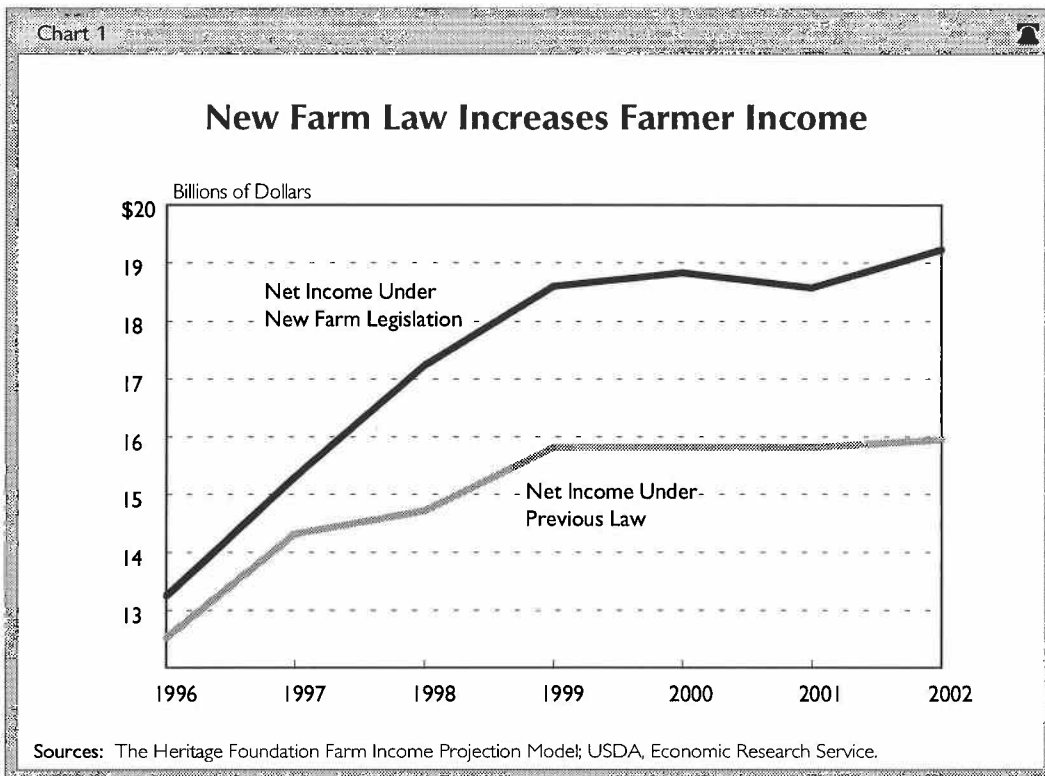
P.L. 104-127, the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, eliminates federal government programs that manipulate the production and prices of major crops (wheat, feed grains, cotton, and rice) through production subsidies and acreage reduction programs. Farm subsidies for these crops are to be replaced by steadily decreasing, but fixed, "market transition" payments.

Unfortunately, the FAIR Act failed to reform the Conservation Reserve Program (CRP). Allegedly an environmental program, the CRP actually has functioned more as a supply control program, more often than not paying farmers to take potentially productive land out of use. The CRP at least should have been reformed to allow farmers to remove non-environmentally sensitive land from the program. The FAIR Act also failed to reform the sugar and peanut programs, which continue the archaic policy of restrictive allotments and quotas that gouge American consumers; nor did it eliminate the milk market orders which force Americans to pay above-market prices for milk.

Despite these shortcomings, the new farm legislation will mean greater freedom and enormous new opportunities for rural America. By dismantling much of this restrictive straitjacket on farmers, the new law will free the U.S. farm economy—farmers and related businesses—

to take full advantage of the growing global market, which would mean huge economic benefits for Americans. According to an analysis by Heritage Senior Fellow David Winston, using an econometric model of the agriculture economy developed last year by Heritage, the new law will mean:

- ✓ **Farmers will earn an additional \$16 billion in net income between 1996 and 2002.**
- ✓ **Suppliers of the inputs used in agricultural production will sell an additional \$14.6 billion in products during the same period.**
- ✓ **Taken together, the agriculture community as a whole thus will enjoy a rise of \$30.6 billion of income.**



This increase in agriculture activity will have a “multiplier” effect on other industries, leading to a total economic boost to the nation of \$74.6 billion between 1996 and 2002.

The states in which farmers will be at least \$1 billion better off over the next seven years are:

State	Net Farmer Income
Kansas	\$1.7 billion
Texas	\$1.6 billion
Nebraska	\$1.2 billion
Illinois	\$1.1 billion
Iowa	\$1.0 billion

APPENDIX:

THE HERITAGE FOUNDATION MODEL

The Heritage Foundation Farm Income Projection Model, described in detail in *Freeing America's Farmers*, projects what would happen to future farm income (1996-2002) under the Freedom to Farm Act, based on historical analysis of the farm sector from 1990-1993. In our model we assumed that, overall, about 95 percent of ARP and 50/92 land would come back into production. These additional acres would yield only 95 percent as much as land currently being farmed, and costs of production would be 5 percent higher. For all cropland in our analysis, yields would increase 0.5 percent each year through 2002 due to productivity gains. Finally, we assumed that because of growing overseas demand, the increase in supply would have a minimal impact on prices. The greatest effect would be in 1996, when prices would drop 4 percent. By 2002 this loss would be more than recouped.

In keeping with estimates of the gain in farm income contained in *Freeing America's Farmers*, the Heritage Foundation's more comprehensive estimates of increased economic activity are conservative in their assumptions. In the model to estimate farm income gains, we assumed that future productivity gains would be only 0.5 percent annually and estimated relatively higher costs of production for new acreage relative to existing acreage. Thus, the model significantly understated potential income gains, and our conclusions about changes in farm income presented the worst case scenario, suggesting that some states would take much longer to become net farm income winners.

Some states would take longer because the model assumed that farmers would continue to grow whatever crops they previously produced or currently were producing and that production on new acreage would simply reflect their historical growing patterns, even when this would cause a loss of income. However, if allowed to produce for the marketplace rather than for the government, farmers would not use their acreage to produce any crop that resulted in a negative income. If there is no alternative crop available to generate a net profit from production on the new acreage, the farmer's rational decision would be to leave that land idle rather than produce a crop at a loss. Therefore, our model showed income losses for farmers when, at worst, there would have been no gain.

In estimating the additional economic activity generated by increases in farm income, we assumed that most, though not all, of the new product would be sold overseas to meet the growing demand for food in Africa and the Pacific Rim. While it is true that increased production could trigger faster development of new consumer products and new uses for the domestic market as well as for the international market, we estimate only the increase in economic activity that would be derived from increases in exports.

The Heritage analysis is based on the gross business multiplier of all agricultural exports developed by Gerald Schluter and William Edmondson of the U.S. Department of Agriculture's Economic Research Service. Their multiplier factor is based on a recognition that "in a highly interrelated economy like that of the United States, many more people benefit from agricultural exports than just farmers and exporters and their employees." Schluter and Edmondson point specifically to firms that provide materials and services used by farmers and others to provide the export goods as beneficiaries of increased economic activity that leads to business growth, in addition to businesses which sell consumer goods and find that customers spend more when trade expands.²

2 Gerald Schluter and William Edmondson, *USDA's Agricultural Trade Multipliers*, U. S. Department of Agriculture, Economic Research Service, *Agriculture Information Bulletin* No. 697, April 1994.

Table 1

New Farm Law Increases Farmer Income

		1996	1997	1998	1999	2000	2001	2002	Total
AL	Total New Income for Farm Community	\$26,405,990	\$28,804,390	\$40,473,596	\$43,431,305	\$46,163,134	\$44,693,660	\$50,463,332	\$280,435,406
	Change in Net Farmer Income	-4,684,296	-2,577,553	8,785,488	10,634,114	12,218,041	9,560,489	14,100,500	48,036,783
AR	Total New Income for Farm Community	90,698,314	103,604,328	194,648,212	209,685,679	229,750,741	218,341,855	267,922,430	1,314,651,558
	Change in Net Farmer Income	6,625,999	18,743,334	108,959,306	120,997,661	137,958,643	123,337,034	169,592,440	686,214,417
AZ	Total New Income for Farm Community	46,693,484	50,813,459	68,998,206	73,898,941	78,465,655	76,493,516	86,037,442	481,400,704
	Change in Net Farmer Income	3,387,203	7,100,924	24,859,207	28,215,077	31,182,856	27,555,819	35,386,926	157,688,012
CA	Total New Income for Farm Community	201,538,351	220,046,464	300,811,058	321,526,322	342,886,024	338,467,864	382,464,449	2,107,740,533
	Change in Net Farmer Income	41,061,086	58,063,770	137,248,044	152,238,603	167,673,235	157,122,627	194,772,129	908,179,493
CO	Total New Income for Farm Community	64,791,079	71,148,084	100,129,673	106,856,955	112,998,020	110,651,602	121,008,581	687,583,994
	Change in Net Farmer Income	29,867,163	35,896,548	64,534,221	70,015,661	74,867,281	71,186,287	80,161,980	426,529,141
CT	Total New Income for Farm Community	317,197	350,038	481,979	522,406	548,572	535,904	578,117	3,334,213
	Change in Net Farmer Income	56,128	86,520	215,890	247,004	263,531	240,887	272,774	1,382,734
DE	Total New Income for Farm Community	1,223,069	1,354,941	2,015,476	2,182,791	2,304,253	2,222,988	2,434,754	13,738,273
	Change in Net Farmer Income	413,805	538,086	1,190,651	1,329,097	1,420,680	1,308,490	1,488,249	7,689,059
FL	Total New Income for Farm Community	6,526,463	7,114,951	9,132,179	9,781,732	10,311,809	10,207,489	11,163,124	64,237,745
	Change in Net Farmer Income	-2,451,775	-1,947,512	-18,698	310,575	509,161	61,748	662,282	-2,874,218
GA	Total New Income for Farm Community	55,866,565	60,928,183	79,726,990	85,282,797	90,040,354	88,847,214	97,567,100	558,259,202
	Change in Net Farmer Income	3,699,291	8,271,531	26,556,614	30,251,458	33,082,918	29,896,268	36,552,871	168,310,949
IA	Total New Income for Farm Community	143,776,219	161,552,311	269,387,088	295,647,634	312,027,864	293,844,665	323,965,427	1,800,201,208
	Change in Net Farmer Income	39,644,680	56,443,918	163,253,248	185,799,110	198,334,641	176,172,179	202,174,404	1,021,822,180
ID	Total New Income for Farm Community	20,908,986	23,318,283	44,384,206	47,234,648	50,848,367	47,659,935	54,862,459	289,216,885
	Change in Net Farmer Income	5,239,386	7,501,687	28,413,301	30,704,762	33,739,935	29,952,708	36,535,479	172,087,259
IL	Total New Income for Farm Community	161,507,209	179,709,073	275,387,178	299,740,498	316,077,000	302,605,932	331,216,092	1,866,242,982
	Change in Net Farmer Income	61,782,218	79,048,567	173,744,617	194,540,448	207,194,949	189,913,008	214,578,916	1,120,802,723
IN	Total New Income for Farm Community	79,356,384	88,091,692	131,467,330	142,875,821	150,544,788	144,852,274	158,049,726	895,238,015
	Change in Net Farmer Income	31,926,126	40,216,493	83,125,055	92,841,566	98,759,334	91,254,330	102,575,854	540,698,757
KS	Total New Income for Farm Community	218,993,676	241,162,134	358,905,342	382,750,271	406,160,406	393,762,148	434,480,506	2,436,214,481
	Change in Net Farmer Income	120,218,719	141,460,574	258,231,084	278,552,414	298,315,623	282,142,798	318,954,479	1,697,875,691
KY	Total New Income for Farm Community	40,454,628	44,281,081	57,243,507	61,453,338	64,585,633	64,001,946	69,072,980	401,093,112
	Change in Net Farmer Income	7,600,743	11,118,996	23,757,889	26,795,724	28,715,002	26,875,843	30,647,463	155,511,660
LA	Total New Income for Farm Community	68,199,882	75,132,197	126,338,281	135,995,175	147,446,730	140,684,306	168,170,224	861,966,794
	Change in Net Farmer Income	5,350,005	11,692,728	62,279,891	69,694,740	78,825,780	69,661,623	94,661,747	392,166,515
MA	Total New Income for Farm Community	140,265	154,069	200,486	216,389	226,816	224,310	240,246	1,402,580
	Change in Net Farmer Income	26,322	39,057	84,352	96,191	102,411	95,551	106,980	550,862
MD	Total New Income for Farm Community	5,780,616	6,366,459	8,574,390	9,278,768	9,739,692	9,562,558	10,296,768	59,599,251
	Change in Net Farmer Income	1,318,914	1,862,902	4,026,896	4,572,111	4,868,302	4,520,669	5,078,414	26,248,209
ME	Total New Income for Farm Community	631,019	689,257	832,076	892,813	927,803	935,061	990,515	5,898,543
	Change in Net Farmer Income	158,056	211,858	350,020	393,884	411,411	400,596	437,344	2,363,169
MI	Total New Income for Farm Community	57,368,926	63,209,291	87,272,317	94,168,502	99,020,501	96,866,037	104,819,967	602,725,541
	Change in Net Farmer Income	14,041,522	19,475,434	43,111,789	48,462,354	51,714,638	47,904,470	54,144,745	278,854,952
MN	Total New Income for Farm Community	106,328,752	118,552,577	192,770,566	209,054,432	221,396,392	210,400,823	233,213,739	1,291,717,282
	Change in Net Farmer Income	39,651,620	51,249,950	124,811,328	138,716,621	148,596,757	135,053,201	155,228,950	793,308,427
MO	Total New Income for Farm Community	59,819,288	66,266,360	105,547,058	113,829,002	121,284,636	115,922,082	130,709,359	713,377,785
	Change in Net Farmer Income	18,844,851	24,907,543	63,784,741	70,605,004	76,547,798	69,619,454	82,786,140	407,095,529
MS	Total New Income for Farm Community	94,266,910	103,087,541	154,283,460	165,658,571	177,565,888	171,005,758	197,937,582	1,063,805,710
	Change in Net Farmer Income	10,642,479	18,678,634	69,051,051	77,443,027	86,262,800	76,507,062	100,131,432	438,716,486
MT	Total New Income for Farm Community	68,525,693	75,556,128	119,758,010	127,342,333	135,886,235	130,820,828	146,759,535	804,648,764
	Change in Net Farmer Income	21,086,104	27,671,510	71,406,225	77,298,235	84,090,594	77,212,339	91,274,749	450,039,757

Sources: The Heritage Foundation Farm Income Projection Model; USDA, Economic Research Service.

Table 2

New Farm Law Increases Farmer Income

		1996	1997	1998	1999	2000	2001	2002	Total
NC	Total New Income for Farm Community	\$44,051,532	\$48,150,483	\$63,024,412	\$67,624,778	\$71,253,324	\$70,310,985	\$76,694,901	\$441,110,415
	Change in Net Farmer Income	-603,199	3,076,847	17,511,034	20,518,431	22,498,255	19,849,489	24,467,252	107,318,110
ND	Total New Income for Farm Community	92,098,584	102,560,012	188,395,141	200,697,183	215,253,976	202,600,331	231,650,140	1,233,255,367
	Change in Net Farmer Income	33,153,941	43,062,413	128,317,077	138,516,387	150,896,852	135,990,708	162,709,180	792,646,560
NE	Total New Income for Farm Community	179,715,384	198,984,240	292,340,637	316,470,912	333,675,285	322,363,331	351,762,238	1,995,312,028
	Change in Net Farmer Income	74,738,173	93,022,243	185,344,864	205,730,287	219,058,738	203,735,205	228,982,128	1,210,611,640
NH	Total New Income for Farm Community	172,731	188,637	227,623	244,201	255,299	256,931	272,393	1,617,814
	Change in Net Farmer Income	34,703	49,313	86,940	98,595	104,596	100,953	110,956	586,056
NJ	Total New Income for Farm Community	2,626,398	2,869,279	3,481,142	3,736,397	3,907,385	3,927,603	4,168,408	24,716,611
	Change in Net Farmer Income	602,522	826,417	1,418,350	1,601,407	1,697,670	1,640,548	1,801,307	9,588,223
NM	Total New Income for Farm Community	17,209,417	18,815,210	24,979,612	26,706,381	28,191,087	27,798,567	30,354,137	174,054,411
	Change in Net Farmer Income	6,362,388	7,866,426	13,924,010	15,263,833	16,348,050	15,541,024	17,667,580	92,973,312
NV	Total New Income for Farm Community	525,581	570,127	630,643	671,543	701,075	722,269	760,301	4,581,539
	Change in Net Farmer Income	234,699	276,517	334,168	364,692	383,484	393,563	420,090	2,407,214
NY	Total New Income for Farm Community	20,333,714	22,345,253	29,665,388	31,965,861	33,535,629	33,067,725	35,571,810	206,485,381
	Change in Net Farmer Income	-3,000,246	-1,207,602	5,882,749	7,350,830	8,059,072	6,699,489	8,280,685	32,064,977
OH	Total New Income for Farm Community	57,916,372	64,207,651	96,124,728	104,093,644	109,825,593	105,766,535	115,705,940	653,640,464
	Change in Net Farmer Income	17,276,833	23,186,874	54,703,748	61,222,930	65,454,405	59,842,355	68,174,413	349,861,559
OK	Total New Income for Farm Community	54,837,871	60,816,480	109,761,630	116,528,817	125,154,416	117,734,301	134,869,578	719,703,093
	Change in Net Farmer Income	11,126,108	16,694,659	65,209,353	70,417,209	77,428,902	68,338,394	83,744,815	392,959,442
OR	Total New Income for Farm Community	11,058,690	12,326,943	23,590,747	25,019,322	26,923,633	25,211,365	28,976,938	153,107,638
	Change in Net Farmer Income	4,146,513	5,349,923	16,545,658	17,727,655	19,376,758	17,400,350	20,892,537	101,439,395
PA	Total New Income for Farm Community	11,202,309	12,322,838	16,478,831	17,787,655	18,657,446	18,360,908	19,759,485	114,569,473
	Change in Net Farmer Income	1,324,454	2,352,319	6,411,039	7,367,490	7,872,575	7,198,567	8,206,462	40,732,906
RI	Total New Income for Farm Community	1,399	1,548	2,202	2,392	2,514	2,440	2,642	15,136
	Change in Net Farmer Income	238	377	1,019	1,168	1,247	1,128	1,285	6,463
SC	Total New Income for Farm Community	32,047,808	34,968,437	45,051,981	48,196,296	50,780,159	50,322,841	54,824,086	316,191,607
	Change in Net Farmer Income	-7,464,701	-4,914,737	4,779,703	6,514,488	7,639,488	5,672,247	8,610,720	20,837,209
SD	Total New Income for Farm Community	93,571,730	103,045,476	147,449,917	158,149,180	166,811,335	162,630,053	177,824,443	1,009,482,133
	Change in Net Farmer Income	35,656,105	44,586,548	88,420,657	97,053,896	103,577,716	97,183,258	110,087,010	576,565,191
TN	Total New Income for Farm Community	27,745,267	30,415,925	45,923,877	49,435,523	52,677,479	50,321,368	57,295,030	313,814,469
	Change in Net Farmer Income	3,066,830	5,505,981	20,770,909	23,402,201	25,732,991	22,433,823	28,431,421	129,344,155
TX	Total New Income for Farm Community	306,985,701	336,584,907	500,649,506	537,558,513	573,680,849	553,011,769	629,368,806	3,437,840,051
	Change in Net Farmer Income	66,401,999	93,744,300	255,439,723	283,766,388	311,005,999	281,143,299	347,984,940	1,639,486,648
UT	Total New Income for Farm Community	3,260,987	3,586,695	5,413,936	5,762,576	6,135,208	5,954,071	6,634,998	36,748,470
	Change in Net Farmer Income	668,764	970,154	2,771,868	3,028,036	3,304,959	3,024,763	3,603,164	17,371,708
VA	Total New Income for Farm Community	11,650,329	12,775,488	16,886,643	18,120,036	19,056,695	18,825,953	20,321,077	117,636,222
	Change in Net Farmer Income	-558,959	451,666	4,442,589	5,240,440	5,726,313	5,029,008	6,041,238	26,372,295
VT	Total New Income for Farm Community	462,362	506,334	633,902	682,119	714,051	712,394	759,097	4,470,259
	Change in Net Farmer Income	89,969	130,447	254,348	289,280	307,463	291,575	323,550	1,686,633
WA	Total New Income for Farm Community	38,932,262	43,134,321	74,621,139	79,253,275	84,942,065	80,673,535	91,570,445	493,127,041
	Change in Net Farmer Income	15,708,487	19,692,686	50,950,804	54,754,479	59,585,811	54,429,812	64,408,191	319,530,270
WI	Total New Income for Farm Community	43,444,055	48,254,490	71,767,433	78,142,558	82,186,115	79,087,845	86,148,708	489,031,204
	Change in Net Farmer Income	10,314,019	14,813,661	38,000,353	43,193,630	46,013,974	41,649,680	47,400,207	241,385,525
WV	Total New Income for Farm Community	1,131,485	1,242,663	1,626,785	1,753,609	1,839,258	1,817,842	1,950,463	11,362,105
	Change in Net Farmer Income	-428,920	-332,380	36,376	107,535	135,572	54,526	125,432	-301,858
WY	Total New Income for Farm Community	2,952,264	3,269,974	5,361,115	5,731,790	6,109,276	5,837,389	6,554,786	35,816,593
	Change in Net Farmer Income	884,829	1,183,145	3,253,927	3,550,850	3,852,003	3,501,111	4,136,738	20,362,601

Sources: The Heritage Foundation Farm Income Projection Model; USDA, Economic Research Service.