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NEBRASKA AGRICULTURE – PRESENT AND FUTURE

Senator Ed Schrock
Nebraska State Legislature

I am a third generation farmer. My great grandmother moved to Nebraska in 1889. She was a widow and moved to Nebraska along with her 12-year-old son – my grandfather. They lived in a dugout through their first winter in south central Nebraska. So, my family's roots are deep in the soil of Nebraska. I farm with my father, two brothers and two sons. We raise irrigated corn, soybeans, specialty crops (popcorn and white corn), and wheat. We have a cow and calf operation and we have finished cattle in area feed lots. I sit on the Agriculture Committee in the Nebraska Legislature and am chairman of the Natural Resources Committee.

I would like to give credit to University of Nebraska-Lincoln agricultural economist Professor Roy Frederick for much of the statistical information contained in this speech. Dr. Frederick, who previously served as Director of Agriculture for the State of Nebraska, is currently with the Institute of Agriculture and Natural Resources at the University of Nebraska-Lincoln. Many of the statistics I will cite have been generated by the Nebraska Farm Business Association, an association of 480 Nebraska farms who input and share data with the Institute of Agriculture and Natural Resources for the mutual benefit of the association's members.

Historically, Nebraska is third overall among states in the production of corn and second in cattle on feed. We are an agricultural state. The state of the agricultural economy in Nebraska is not good. When final totals become available, 1998 net farm income will have been the lowest since the 1983-84 period. We continue to see about 3% annual attrition in the total number of family farms. I believe this percentage will increase during 1999.

As you know, the major problem is low commodity prices. Prices for most commodities produced in our state – corn, soybeans, wheat, sorghum, hay, fed cattle, feeder cattle and hogs – have been below year-earlier levels since about July 1, 1998. These price comparisons are even more meaningful when you realize that Nebraska net farm income in 1997 was down 40% from the previous year. In other words, what we are seeing is a continuation of a downward trend in what were already low prices.

Of course individual situations can vary widely from the overview I've just described. For example, a producer who forward contracted much of his or her 1998 crop production early in the year generally did better than one who waited until harvest to sell. In fact, the combination of forward contracting, loan deficiency payments and additional direct payments from the federal government late in the year allowed some producers to do very well. Higher than normal yields, especially for dryland crops also helped.

In general, those who had hog or cow-calf operations and did little or no forward contracting on their crops appear to have had the lowest net incomes. All hog operations lost

money in 1998. Final figures are not yet in, but the Nebraska Farm Business Association estimates (from the 480 farms reporting) an average per farm loss of \$2,000 from operations in 1998.

I won't spend much time on the factors that have contributed to lower commodity prices, but in brief, two items may be worth singling out:

First, red meat supplies have been large. For example, U.S. commercial red meat slaughter during December 1998 was up 6% from the previous year. More importantly, total red meats in cold storage at the end of that month were 14% higher than on the same date one-year earlier. Pork supplies alone were up 46%. I believe this is due in large measure to the relatively low prices for feed grain. Given the large carryover stocks of grain, I am not optimistic regarding future prices in the meat sector.

Second, U.S. agricultural exports are projected at just over \$50 billion for fiscal year 1999. This will be the third consecutive year of falling exports, after peaking near \$60 billion in fiscal year 1996. As exports have sagged, U.S. carryover stocks of corn, wheat and soybeans have more than doubled. Under "Freedom to Farm," we were promised an aggressive program of exports. We remain the supplier of last resort. That's sad.

It is estimated that carryover stocks of corn, wheat and soybeans will have doubled over the period from September 1997 to September 1999. Probably no statistic is more telling in terms of forward effect on commodity prices than is carryover stock of grain products. Stocks of red meats and other livestock products also have been impacted by the poor export situation.

It's important to remember that 60% of U.S. land under cultivation can feed our population. We do have excess capacity and so I emphasize the foreign market situation. If there are to be no supply control programs and if we are to plant fencerow to fencerow, we need to continue to develop our foreign markets. For most of the past 25 years, there has been a very strong correlation between agricultural exports and U.S. commodity prices. While our production can vary from year to year because of weather, livestock production cycles and other factors, the fact is that American agriculture seems to have done well when the export market is vibrant and not so well when foreign sales sag.

U.S. agricultural exports increased dramatically from 1972 until impact by the Carter grain embargo and its lingering long term damage to foreign markets. Exports did not rebound until 1986. Starting in 1986 and through 1995, exports increased from \$25 billion to \$60 billion annually, before falling the past three years. Exports typically account for only about 25% of gross farm income nationally. But we know that it sometimes doesn't take much of a change in demand to lead to much larger relative changes in commodity prices and farm income. Adding to the unpredictability (and the resulting instability) in this area, in relative terms exports tend to shift more dramatically year-to-year than do changes in domestic demand.

While ups and downs occur in commodity prices and incomes, there is no real indication that we are permanently and chronically overproducing for the market. It's just that in certain years, or even periods of years, we don't have a good balance between production and foreign demand for our agricultural products. The instability problem is made worse because each

producer knows that independently changing his or her production will have no influence on what happens in the sector as a whole.

When economic conditions deteriorate, we should be especially concerned about what we call middle-sized farms. This category of farms is neither the small, hobby-type where most of the family income is earned off the farm nor the large operations that gross \$500,000 a year or more. It's somewhere in the middle. It often includes beginning farmers or farmers who are at least still relatively early in their careers and trying to expand their operations. In a sense, this is the "incubator" category – the independent farmers of our future.

To put the plight of the middle-sized farmer in perspective, if we look at the recently-released 1997 Census of Agriculture, we see the following: In Nebraska, the overall number of farms and ranches is declining. However, the total number of large farms (gross sales of over \$500,000) are on the increase. Simultaneously, the total number of hobby-type farms (gross sales of \$10,000 or less) are also increasing. This combination of events left the number of middle-size farms down by over 10% so far this decade.

What about the role of government in addressing some of the challenges confronting the agricultural sector? First, it always has been (and probably always will be) difficult for government to design policy that is both equitable and efficient. Farm operations vary too much by size, locality, enterprise mix, debt status, management ability and other factors. With all due respect to congressional efforts to be fair, the fact is that government support is never enough for some operations and more than needed for others.

Having said that, I generally think government-subsidized crop insurance makes a great deal of sense. It can take into account different levels of risk by locality and by crop. It can protect prices as well as production. But there are still questions about how much risk the government should underwrite and how much should be the responsibility of producers.

There's no question that price supports and direct payments have been helpful to many producers over the years. However, traditional support programs have limitations in that they cover only a relative handful of agricultural commodities. Moreover, to the extent these programs have been linked with production adjustments, they haven't been very effective. Too much slippage occurs, primarily because the poorest land on the farm is always the land retired from production. For these reasons I would like to see the government safety net of the future focus mostly on crop insurance-type programs.

From the farmers' standpoint, risk reduction is appealing, but what is the exposure to the federal government once the risk is shifted? With a 10-bushel corn crop and low harvest-time prices, the federal government would have to pay out \$100 million in loan deficiency payments for every penny that the price dropped below \$1.89 (the national average loan rate). Other commodities (wheat, sorghum, soybeans, cotton, etc.) would be added to this total. What if corn was \$1.39 per bushel? That's another \$5 billion exposure to the federal treasury. Add to that the federal exposure on the crop insurance program. Was it Everett Dirksen who said, "A billion here, a billion there – pretty soon you're talking about some real money."

Federal direct payments for fiscal year 1999 are scheduled at \$5.6 billion. In addition, the federal government has about \$2 billion already invested in the crop insurance program for

this year. Private insurance companies would bear the cost of indemnities for losses under crop revenue coverage this year. You can bet that if there were massive losses under crop revenue coverage, the insurance companies would come back with a request for much larger subsidies from the federal government next year.

These are long term concerns, but as a farmer, what is my immediate experience and what are my expectations? On my own farm, I've been unable to rebid 75 acres of CRP ground. My first contract was for \$60 per acre. Currently CRP ground is paying \$40 per acre – a 33% decline. We keep approximately 1000 head of cattle on feed in a neighboring commercial feed lot. Our loss per head averaged about \$100 per head. We turned those cattle three times, thus losing about \$300,000 in 1998. That will get you out of the market real quick. I sold alfalfa hay last year at this time for \$85 per ton. Today I am bid \$40 per ton.

As our profits are squeezed or turned into losses, what is the net result on our underlying productive asset, our land? Over the past ten years, the value of our land has remained static and corrected for inflation, it has probably gone down in value. If we had sold our land ten years ago and invested the proceeds in the stock market, we would have more than tripled our money. So, are we in the trough of a cycle or are we looking at a long term downward trend in American agriculture? As a farmer, this is the question you have to ask yourself. My sons are 27 and 29. Both are college educated. We see many young men and women leaving the farm. Are they well advised to do so? Should the fourth generation of my farm family now make a decision to leave the land? It is their home, their livelihood, their history and their identity as a family. Is it now time for such young people to look away from the land and leave farming to the ever-growing corporate farming operations? Maybe it is, but I would hope not. There are no easy answers and the outlook is of course grim, but we are a hardy and optimistic lot. All we ask is a modicum of predictability, access to foreign markets and a level playing field.