

# THE IMPACTS OF ELIMINATING DIRECT PAYMENTS ON THE U.S. COTTON MARKET

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# INTRODUCTION

- **U.S. Rep. Collin Peterson, one of the most powerful figures in Congress, has proposed taking the \$5 billion per year in direct payments that crop farmers get whether prices are high or low to improve crop insurance and other programs.**
- **He also proposes to end other farm programs that pay farmers on production rather than land ownership.**
- **Little is know about the potential impacts of fixed payment elimination on farm income and cotton markets**



# OBJECTIVES

- **Examine the impacts of elimination of direct payments under different methods of payment removal**
  - Focus on farm income and cotton market impacts



# THREE SCENARIOS

- **Direct Payment elimination only (Scenario 1)**
- **Direct Payment elimination with lower Target Price (to account for inclusion of direct payments in total farm program payments with target price) (Scenario 2)**
- **Total elimination of all farm program payments (Scenario 3)**
- **NOTE: None of the discussed scenarios include conservation payments or crop insurance benefits**

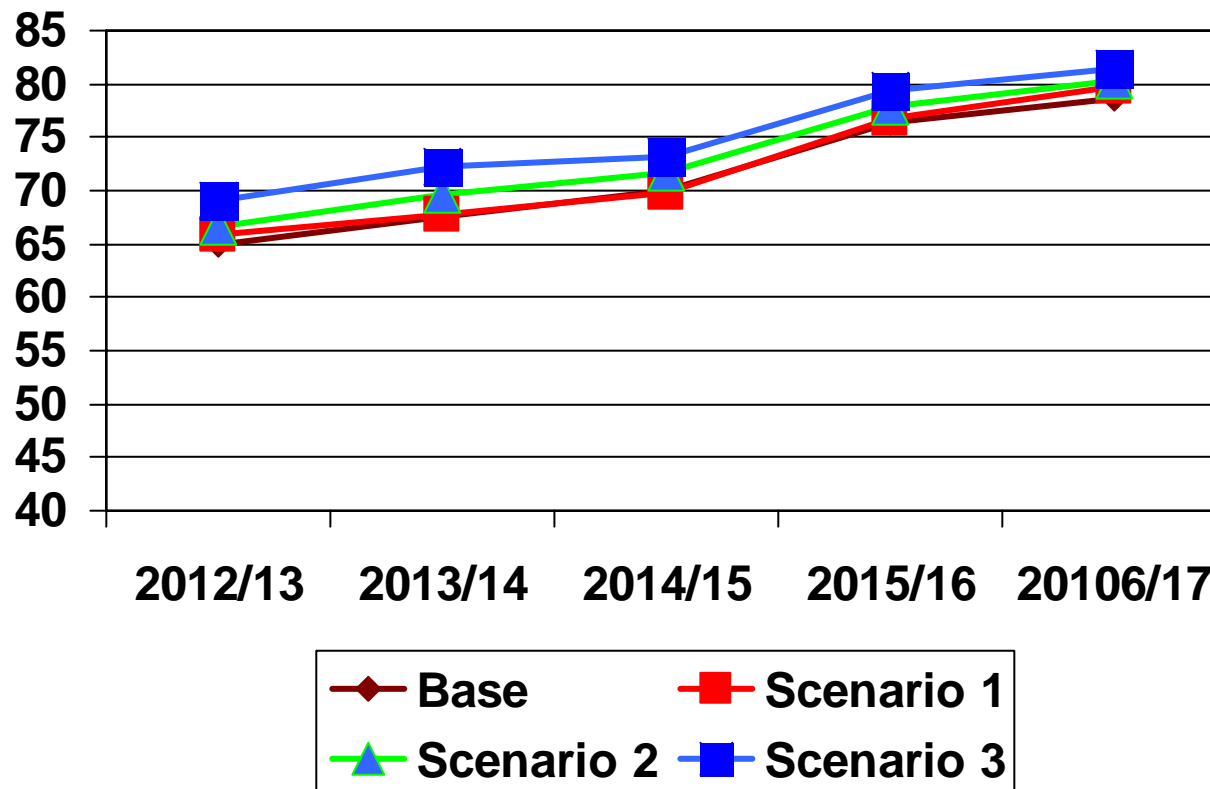


# METHODS

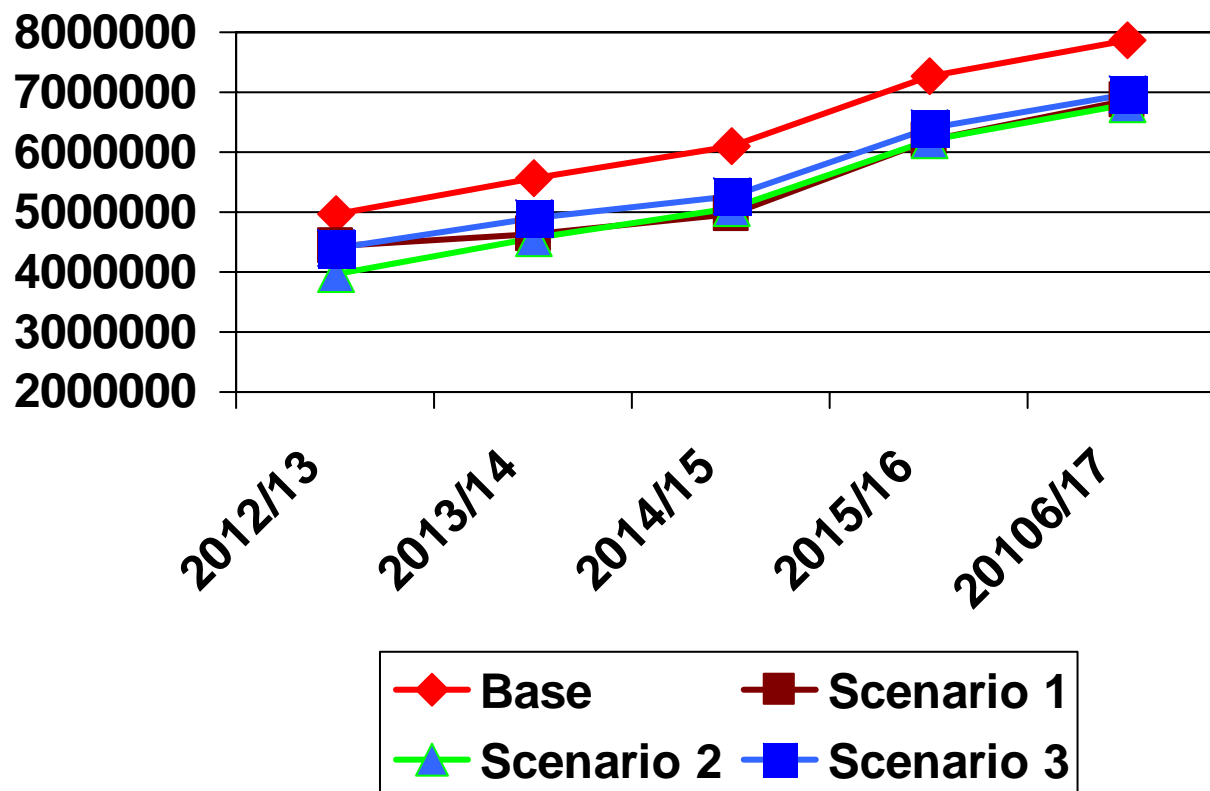
- **Utilized the World Fiber Model at the Cotton Economics Research Institute, Texas Tech, to simulate scenarios**
  - Scenario 1 simply removed the direct payment, but allowed the effects to be absorbed by counter-cyclical payments based on current payment calculations
  - Scenario 2 lowered the target price by the amount of the direct payments to completely remove the direct payments from total program payments
  - Scenario 3 removed all cotton program payments
- **Two cases analyzed**
  - Case 1 utilized current projected (“High”) prices
  - Case 2 utilized prices at or below the loan rate (“Low”) to simulate the impacts of direct payment removal if prices were to fall



## CASE 1. UNDER CURRENT COTTON PRICE PROJECTIONS (FARM PRICE: CENTS/LB)



## CASE 1. UNDER HIGH COTTON PRICE (NET FARM INCOME: THOUSAND DOLLARS)



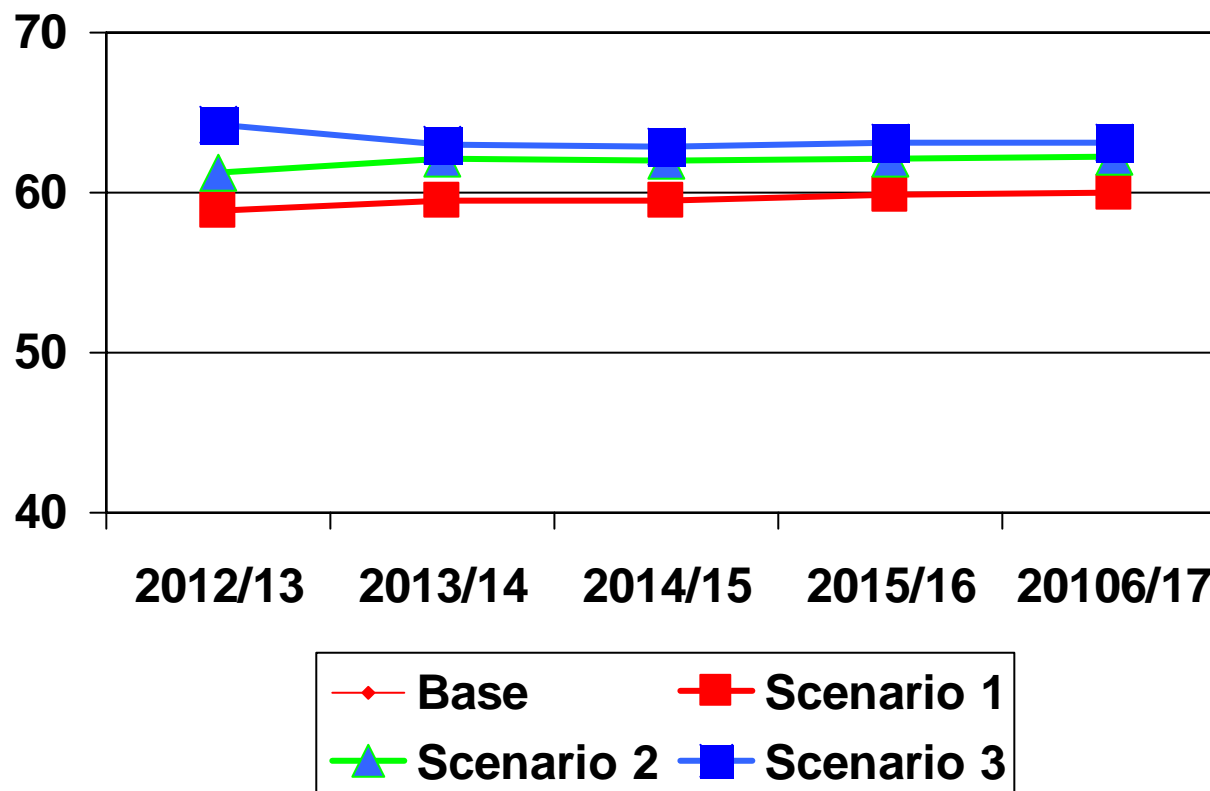
# OVERALL CHANGES FROM BASELINE- --CASE 1 AVERAGE OVER 5 YEARS

	Farm Price	Area	Production	Exports	Farm Income
Scenario 1	0.70%	-0.44%	-0.51%	-0.55%	-14.68%
Scenario 2	2.44%	-1.44%	-1.77%	-1.99%	-16.72%
Scenario 3	5.04%	-3.09%	-3.64%	-4.12%	-11.93%

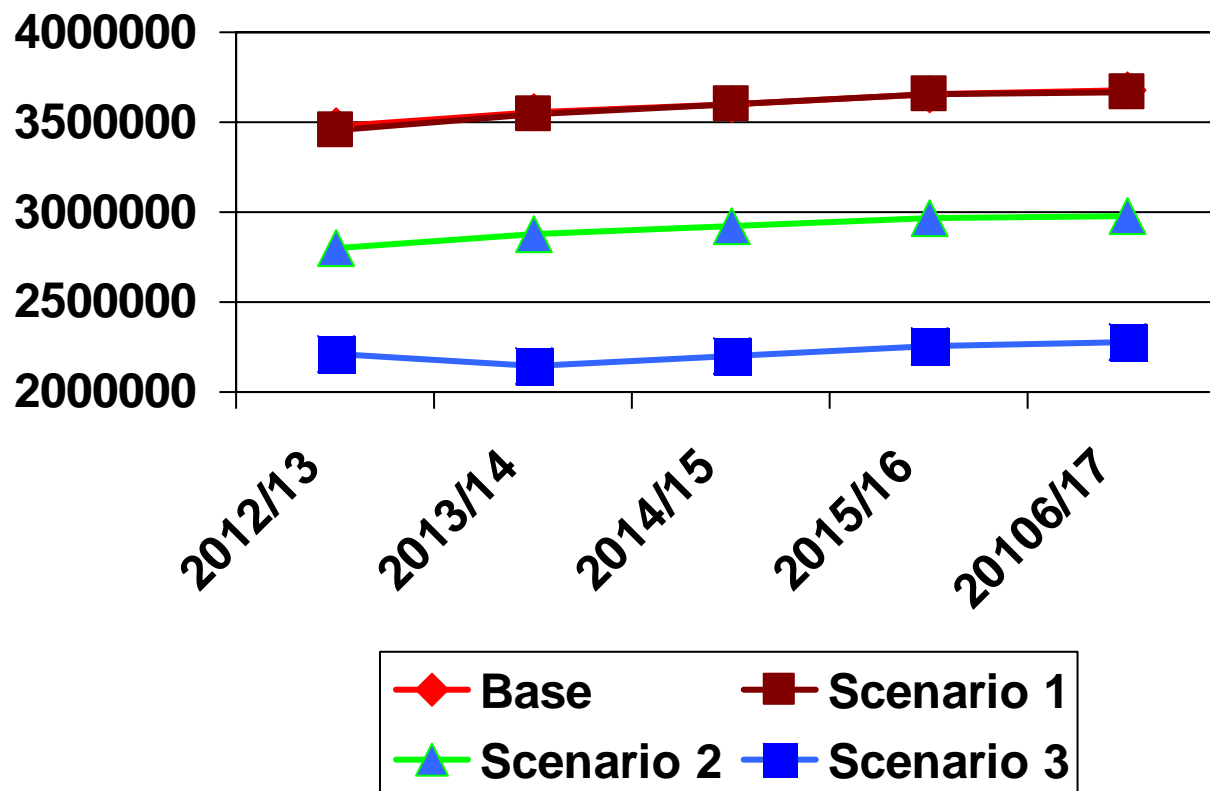




## CASE 2. UNDER LOW COTTON PRICE (FARM PRICE: CENTS/LB)



## CASE 2. UNDER LOW COTTON PRICE (NET FARM INCOME: THOUSAND DOLLARS)



# OVERALL CHANGES FROM BASELINE- --CASE 2 AVERAGE OVER 5 YEARS

	Farm Price	Area	Production	Exports	Farm Income
Scenario 1	0.00%	0.00%	0.00%	0.00%	-0.26%
Scenario 2	4.07%	-1.66%	-1.69%	-2.04%	-19.08%
Scenario 3	6.25%	-2.53%	-2.58%	-3.12%	-38.31%



# CONCLUSION

**The results suggested that the size of the commodity program effects are depend on the farm price used in the baseline. The effects would be more significant if cotton price hold under 60 cents. However, the effects would die out if the current cotton price continues in the next couple years.**

