

Farm Bill Principles and Commodity Program Proposals: A View from the House

A Presentation by
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Two Fundamental Farm Bill Questions

#1. Will there be a new farm bill? Yes.

- Without a new farm bill, permanent-law provisions of the Agricultural Act of 1949 would be mandated for 2003 crops.
 - Acreage allotments and marketing quotas
 - Price support loans based on parity prices
 - Producer referendums

#2. Are there sufficient funds to finish the farm bill? Yes.

- The extra \$73.5 billion provided by the FY 2002 Budget Resolution for fiscal years 2002 through 2011 is still available.
- This funding is in addition to projected spending for Commodity Credit Corporation programs of \$97.6 billion in the April, 2001 CBO Baseline.
- The FY 2003 President's Budget includes the extra funding.

Staff Conferences have begun.

- Date farm bill was passed:
 - House: October 5, 2001
 - Senate: February 13, 2002

- Pages to reconcile:
 - House: 379
 - Senate: 1,335

- The House cannot officially appoint conferees until it is in session and formally receives the Senate bill.

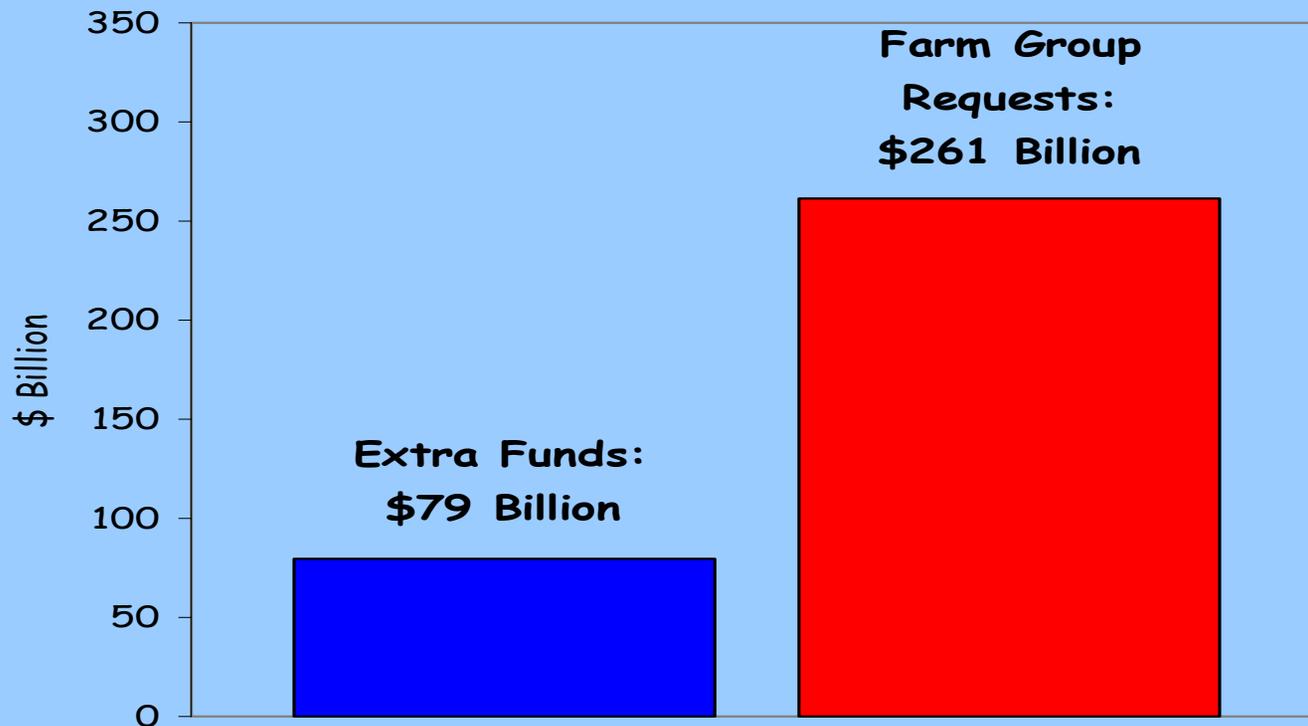
- Calendar days from appointment of conferees to Conference Report filed:
 - 1985 farm bill: 12 days (8 days of member meetings)
 - 1990 farm bill: 33 days (9 days of member meetings)
 - 1996 farm bill: 11 days (2 days of member meetings)
 - 2001 crop insurance bill: 55 days (1 day of member meetings)

Background: What Did Producers Say They Wanted In a New Farm Bill?

- The House Ag Committee held 48 hearings and forums during 16 months.
- Most of the 368 witnesses:
 - Liked many aspects of current farm programs--especially planting flexibility.
 - Wanted more automatic counter-cyclical payments (beyond those provided by commodity loan programs)
- Some witnesses:
 - Wanted to update payment acres and yields
 - Requested higher loan rates
 - Wanted to continue fixed payments

The Estimated Costs of Commodity Group Proposals Substantially Exceeded Available Funds

Extra Funding for FY 2001 - 2011



Farm Bill Principles and Commodity Program Proposals: A View from the House

- Retain and Enhance Market-Oriented Provisions of the 1996 Farm Bill
- Increase Automatic Counter-Cyclical Income Support
- Appropriately Balance Funding for Commodity Programs, Conservation Programs, and other Programs.
- Provide Consistent Funding for Each Year of the 10-Year Budget Period (While Hitting Budget Targets).
- Comply with WTO Obligations

Selected Provisions of the House Farm Bill safety net for program crops. The House safety net:

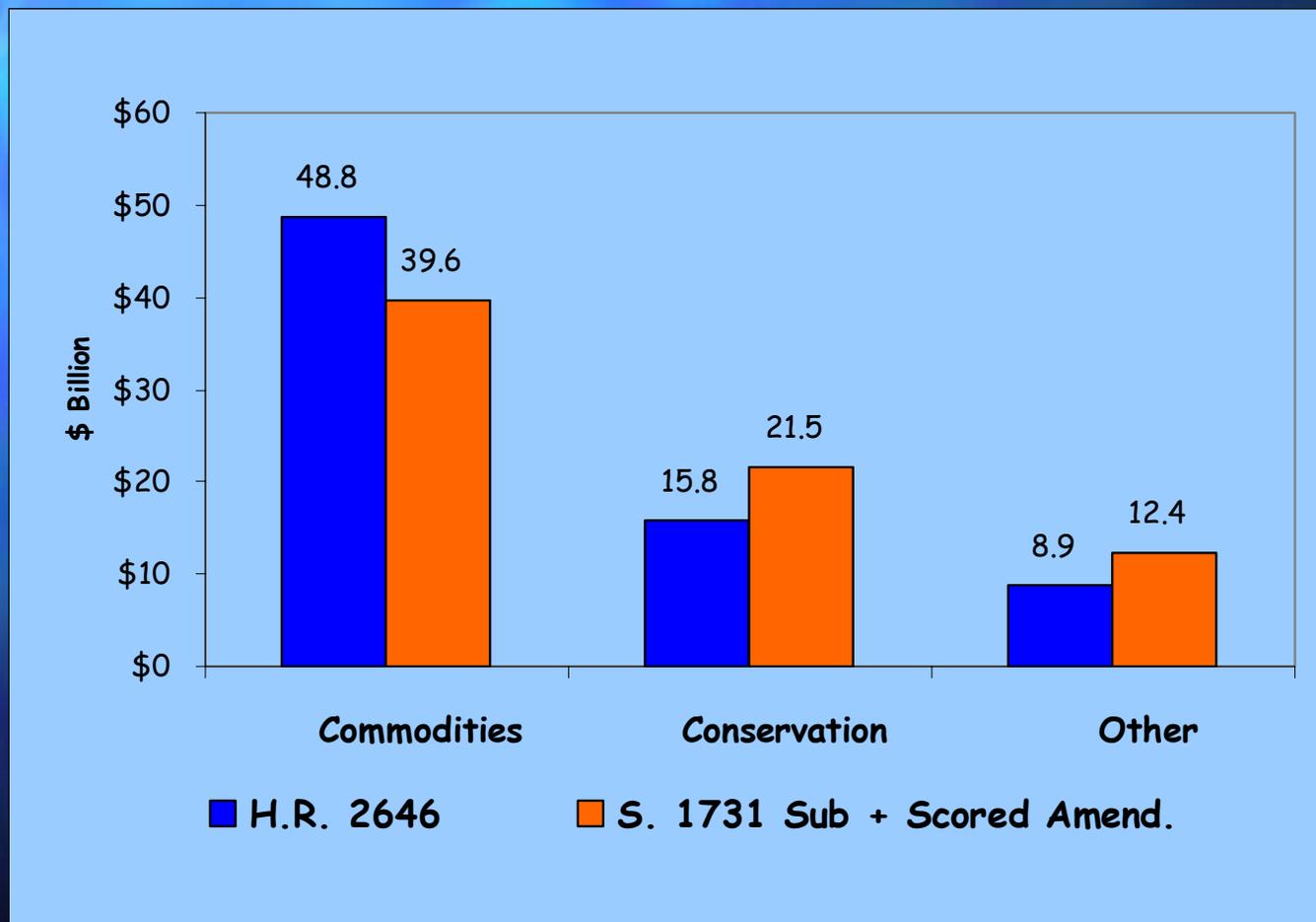
- Continues planting flexibility
- Provides a "Three-Piece Suit":
 - Restores automatic counter-cyclical payments based on target prices (Corn: \$2.78 / bu.). Payments are decoupled from current production.
 - Continues fixed decoupled payments at rates higher than 2002 AMTA rates (Corn: $\$0.53 \times .98 = \0.519 / bu.)
 - Retains marketing loan provisions but rebalances loan rates--with lower rates for soybeans and higher rates for sorghum and feed barley.
- Adds soybean payments that are decoupled from current production
- Allows base acre update
- Increases estimated 10-year commodity program benefits (over existing law) for program crops by \$44.2 billion. (CBO estimate)

How does the Senate Safety Net Differ from the House Safety Net? For program crops, the Senate:

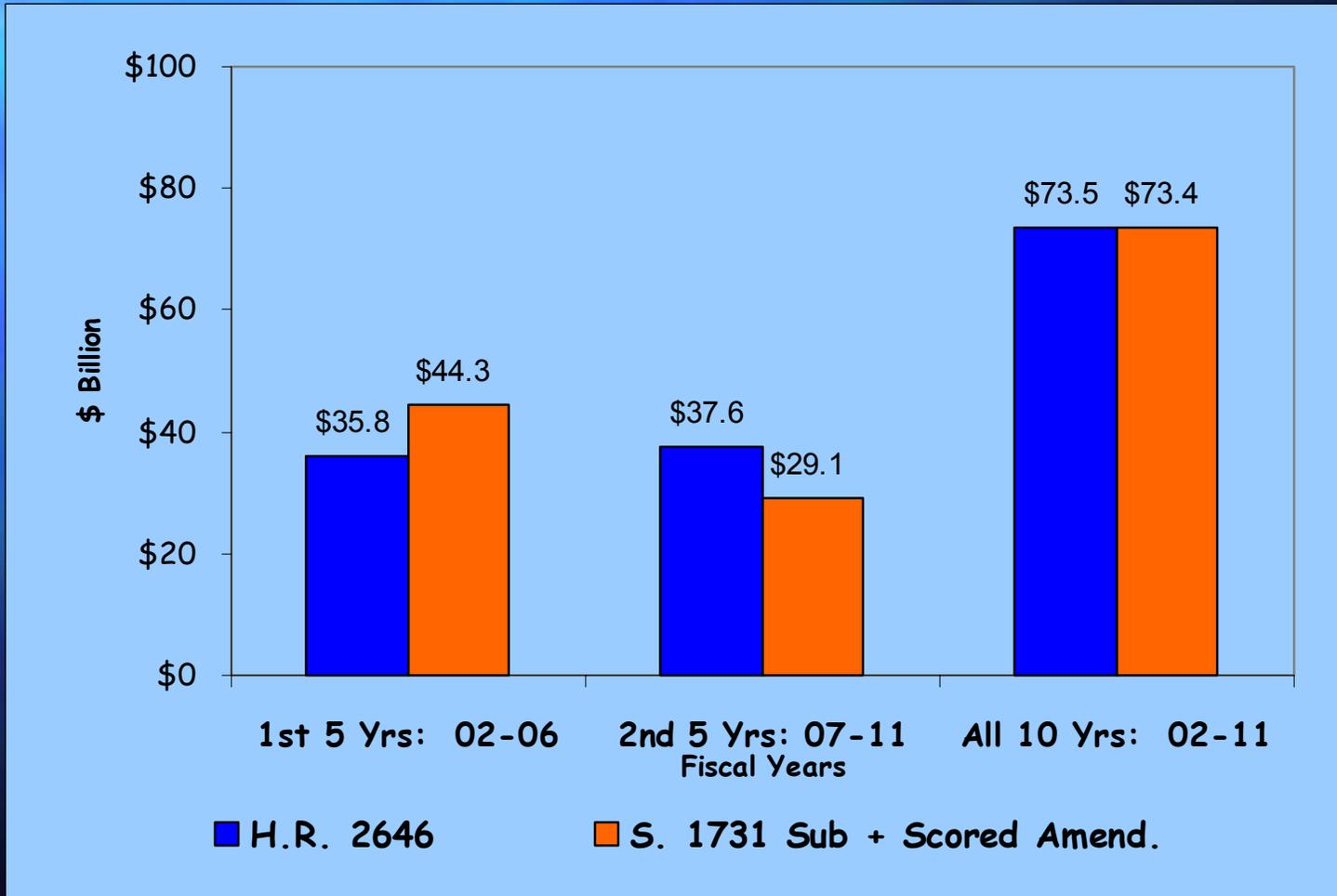
- Tailors the Three-Piece Suit differently
 - Lower income protection (target) prices: (Corn: \$2.3472 / bu.)
 - Declining fixed payment rates. For corn:
 - 2002-03: \$0.27 / bu.
 - 2004-05: \$0.135 / bu.
 - 2006: \$0.068 / bu.
 - Higher loan rates. (Corn: \$2.0772/ bu.)
- Allows both Acre and Yield Updates & Adjustments
- Has lower payment limits
- Has land eligibility restrictions
- Increases estimated 10-year commodity program benefits (over existing law) for program crops by \$31.2 billion. (CBO estimate)

Funding Balance

The 10-Year CBO Score shows the House puts more money in commodity programs (for all crops & dairy) than does the Senate (CBO score: FY 02 - 11)

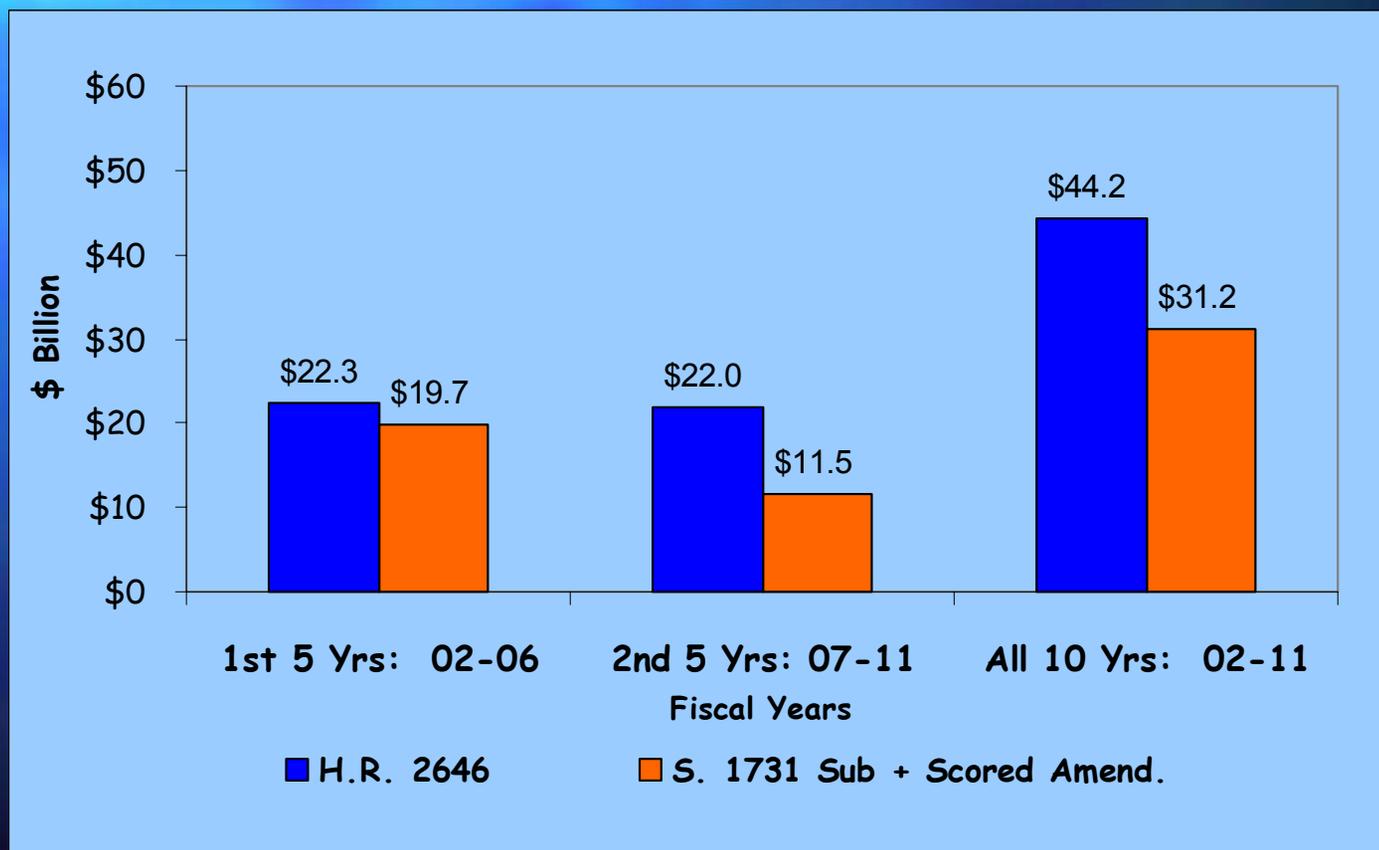


The Senate 5-Year (4 to 6-year) bill Front-Loads total spending relative to the 10-year farm program budget (CBO Score: FY 02-11)



The House spends more on income support for program crops in the first 5 years & much more in the second.

(CBO Score: FY 02 - 11)



Front-loading benefits can cause problems down the road

- Regardless of the length of the farm bill, we're setting farm program benefits for 10 years.
- Programs that are cut off or reduced substantially after 2006 will need to find extra money in the next farm bill if the benefit levels of the first years are to be maintained.
- The \$73.5 billion is supposed to provide long-term fixes for problems in current programs.
- We shouldn't "bet the farm" on being able to find more money five years from now to continue programs or restore funding.

Major Commodity-Related Issues for the Conference to Resolve

- Despite similarities, differences in program levels and funding cause differences between the bills to be profound.
 - Soybean and Other Loan Rates
 - Funding Allocation among Commodity, Conservation, and Other Programs
 - Front-Loading of Benefits
 - Conservation Security Act
 - Payment limits

A Concluding Comment

How the three piece suit is tailored affects government costs, farm income, WTO obligations, market impacts, and the distribution of benefits among crops and individual producers.

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EXTRA SLIDES

Loan Rates:

Why Encourage Any More Production When We Already Have Surpluses?

The Senate's higher loan rates cause larger increases in production and lower prices for most major field crops than do the House's decoupled payments and loan rate adjustments.

<u>Change in:</u>	<u>House</u>	<u>Senate</u>
9-Crops: 2002 Planted Ac.	+1.46 mil.	+ 2.81 mil.
2002 Crop Prices:		
Upland Cotton	- 0.5 cents	- 0.4 cents
Wheat:	- 3 cents	- 6 cents
Corn:	- 3 cents	- 5 cents
Soybeans:	+ 7 cents	+ 9 cents

Source: FAPRI

WTO: After 2003, the Senate Bill likely has a higher probability of exceeding WTO limits of \$19.1 billion on covered support.

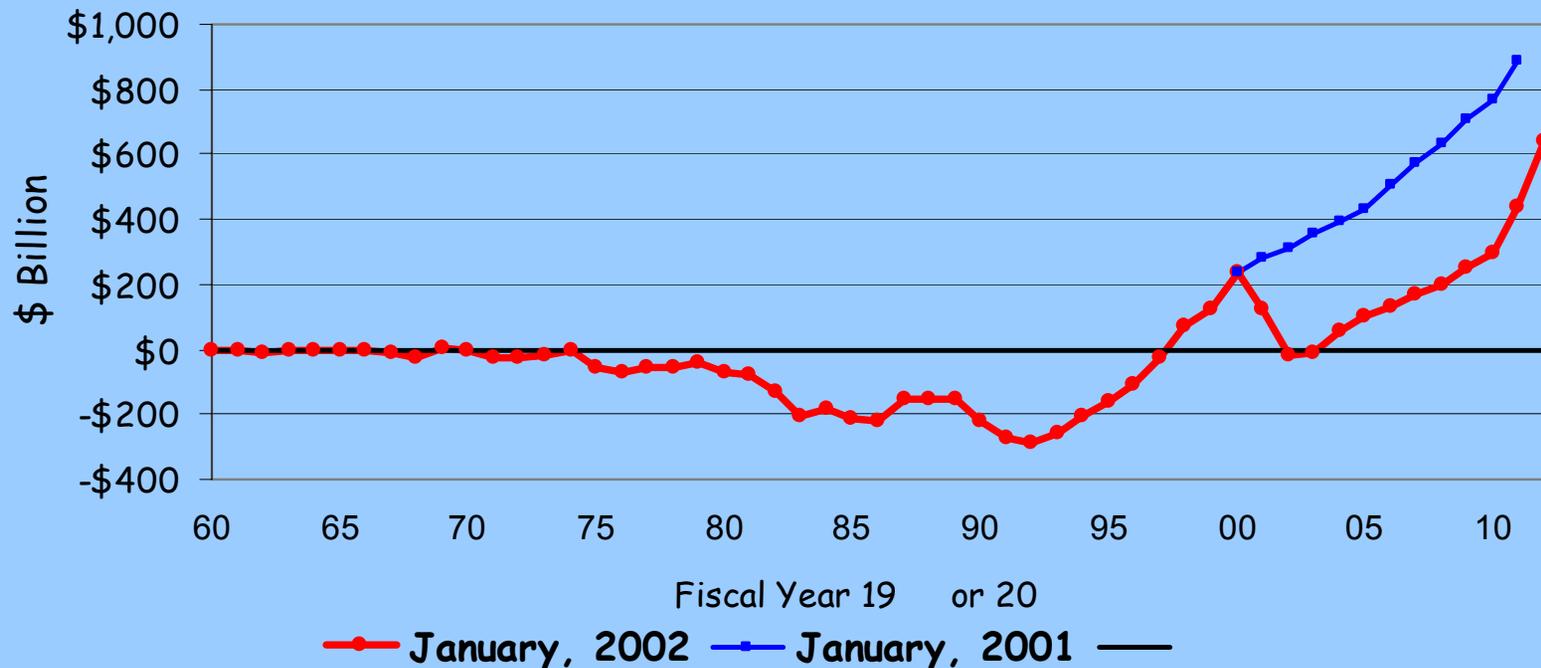
- With the Senate's higher loan rates and lower fixed payment rates after 2003, a higher percentage of commodity program payments are "amber box" payments and subject to the WTO limits.
- Under the House bill, USDA has the authority to reduce program benefits if the WTO limits would otherwise be exceeded.
- Under the Senate Bill, if USDA notifies the Congress that it will reduce program benefits, no expenditures can be made on affected programs after 18 months unless the Congress has passed a joint resolution disapproving the reductions within 60 days of notification.

New CBO Projections Show A Change from Surpluses to Small Deficits

Total Federal Budget Surplus:

History & Projections

Source: Congressional Budget Office



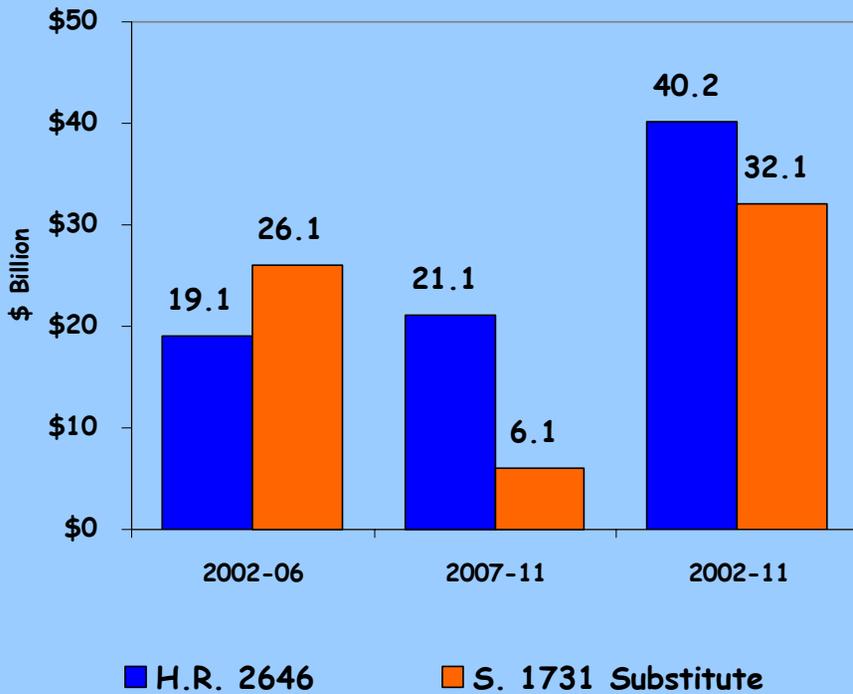
A New Budget Resolution Means a New Budget

How much time until a new budget resolution is passed?

- The FY 2003 Budget Resolution is supposed to be completed by April 15
- Times since FY 1990 that the Budget Resolution has been completed on or by April 15: 3
- Latest date for the budget resolution to be completed: October 9
- Times the budget resolution was not completed: 1
- Date completed last year: May 10, 2001

Generally, "Front Loading" Involves Non-Counter-Cyclical Spending

Non-Counter-Cyclical Spending
CBO Score: FY 2002 - 2011



Counter-Cyclical Spending
CBO Score: FY 2002 - 2011

