As the crafting of new legislation becomes a drawn-out process, compromises eventually emerge, and the resulting proposals often appear to be portions of various proposals spliced together. Such is the case with a farm bill proposal approved Sept. 28 in the Senate Committee on Agriculture, Nutrition, and Forestry.

As of this writing, the specific language of the bill was being developed. Preliminary indications are that the bill would make these changes in federal agricultural programs:

- Eliminate Acreage Reduction Programs (ARPs).
- Increase normal flex acreage (the portion of base acreage ineligible for deficiency payments) from 15 percent to 30 percent.
- Place per-bushel caps on deficiency payments.
- Reduce outlays of 30 percent annually for the Market Promotion Program (MPP) and 20 percent annually for the Export Enhancement Program (EEP).

In addition, farmers would be allowed to plant other crops on their wheat and feed grains base acreage without penalty, and they would not be required to have catastrophic crop insurance in order to receive program benefits. The preliminary information regarding the fate of the Conservation Reserve Program (CRP) is ambiguous; this analysis assumes CRP will remain at the levels project-ed by the Congressional Budget Office (CBO).

Thus, the Senate Bill has an increased flex feature similar to that offered by the Clinton Administration and the elimination of ARPs – a feature of the Freedom to Farm Act. The bill

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also addresses EEP, as did the Lugar proposal, which would have eliminated the program. Also, this bill offers a decoupling of payments and planting decisions for farmers with wheat and feed grains base. In addition, the computation of deficiency payments ensures that in years of high prices, payments will decrease.

This paper examines the impacts of the as-yet unnamed Senate Bill, acknowledging that exactness in the proposal’s details has been sacrificed in order to provide a timely analysis. POLYSYS, the analytical system employed in these analyses, anchors its analysis to a baseline, or expected situation. Thus, these scenarios should be analyzed as changes away from this baseline, which is provided by the CBO. The Senate Bill scenario caps the deficiency payment rate per bushel at the baseline level set by CBO.

To simulate the farmers’ ability to plant other crops on wheat and feed grains base acreage as noted above, optional flex acreage for these was increased to 70 percent. Optional flex acreage is that additional portion of base acreage beyond normal flex which may be planted to other crops without losing base acreage. The treatment of cotton optional flex is unchanged from the baseline. Thus, farmers actually may “flex” 100 percent of their base to other crops under this proposal.

Finally, this analysis does not attempt to capture the impacts of reducing EEP outlays. Although this series considered the impact of EEP in analyzing the Lugar proposal (see Issue No. 2), it is unclear in the preliminary information available how the funding reduction would be implemented. For a more complete discussion of the broader issues surrounding the analysis, the methodology, and the modeling assumptions, see this series’ first issue.

**Analytical Results**

*Harvested Acreage.* Harvested acreage for the seven major crops – corn, wheat, soybeans, cotton, grain sorghum, oats, and barley – rises only slightly as a result of increased planting flexibility and ending ARPs. Combined acreage for these crops averages 1.3 million acres (0.6 percent) above baseline during the first five years of the bill, 1996-2000 (table 1).

Soybeans acreage gains the most, averaging 2.7 million acres (4.5 percent) above baseline (figure 1). However, soybeans acreage dips down to nearly the baseline level in 1998. At the same time, corn acreage averages 1.4 million acres (1.9 percent) below baseline, rising sharply to the baseline level in 1998 (figure 2). This event will be explained in the next subsection.

This 1998 dip in soybean acreage and the jump in corn acreage occurs because by 1998, the full impact of the low prices of previous years is felt by farmers. Thus some soybeans acreage moves to corn.

More importantly, when the Senate Bill allows farmers to retain their feed grains base but plant it to other crops, it makes planting soybeans more profitable relative to corn – even with the drop in price. This is because the deficiency payment which formerly went

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**FIGURE 1**
The Ability to Put Other Crops on Feed Grain Base Sharply Increases Soybeans Acreage
Crop Prices. Soybeans and corn season average prices move in line with what occurs with their harvested acreage (table 2). Soybeans prices dip low in the early years of the simulation and do not approach baseline levels during 1996-2000, averaging 53 cents per bushel below baseline (figure 3). Corn prices, on the other hand, average 10 cents above baseline. In 1998, corn prices dip to within 5 cents per bushel of the baseline price (figure 4).

Also during 1996-2000, wheat prices are slightly higher and cotton prices are slightly lower than baseline levels on average.

Exports. The decline in prices has the expected effect on major crop exports. Soybeans exports rise 8.6 percent (70 million bushels) above baseline over 1996-2000. The value of soybean exports, however, drops slightly. Corn and wheat exports are down...
slightly but record slightly higher total export value, and cotton exports and export value are virtually unchanged.

**Deficiency Payments.** The crop price declines together with the per-bushel payment cap and higher normal flexibility results in lower deficiency payments for eligible crops. Overall, payments fall an accumulated $5.5 billion (20.1 percent) below baseline levels for the entire 1996-2000 period (table 3).

Hardest hit are payments for corn and wheat base, as shown in figure 5 (acknowledging that other crops may be planted to feed grain base). Deficiency payments to farmers with corn base drop an accumulated $3.5 billion (25.4 percent) over 1996-2000, and payments for wheat base drop an accumulated $1.6 billion (20.6 percent). Cotton payments, however, rise slightly.

The geographic distribution of these accumulated changes in deficiency payments shows that the wheat and corn states generally suffer the sharpest decline in payments,
while some states make gains (figure 6). California and Arizona makes gains because 1) they have no significant corn base, and 2) they make slight acreage gains in cotton.

Net Returns to the Seven Major Crops. For the seven major crops, net returns above cash costs average $1.3 billion (6.6 percent) below baseline during 1996-2000, reaching a combined $6.3 billion below baseline by the simulation’s end (table 4, figure 7). Farmers’ ability to plant other crops on feed grains base acreage renders a crop-by-crop examination of net returns inappropriate.

Figure 8 shows the geographic distribution of these changes in net returns by Agriculture Statistic District (ASD). The losses and gains generally follow the trends noted in figure 5.

Net Farm Income. Net income for the entire U.S. agricultural sector declines somewhat less than major crop returns, owing to the crop sector’s size relative to agriculture’s livestock sector.
Net farm income falls an average $1.0 billion (2.7 percent) below baseline, reaching $35.8 billion in 2000 (figure 8). Accumulated net income over 1996-2000 is $5.1 billion below than baseline income (table 4).

**Budget savings.** Budget savings under the Senate Bill are derived from 1) the change in deficiency payments as a result of the increase in flexibility and payments cap; 2) reducing baseline MPP funding funding by 30 percent annually; and 3) reducing baseline EEP funding by 20 percent annually. Although early indications are that the bill will address the CRP, this preliminary information is ambiguous. Thus, the CRP is held to baseline levels and does not affect the calculation of federal budget impacts.

The program reductions outlined earlier would result in accumulated budget savings of $6.4 billion over 1996-2000. The majority (85.6 percent) of the savings are from lower deficiency payments, followed by the EEP reductions, which account for 12.0 percent of the savings (figure 10).

While EEP savings are included in this calculation, it again should be remembered that the impact of lower EEP outlays has not been simulated in this analysis. Thus, federal outlays for agriculture potentially could be reduced as shown in figure 9; but lower EEP spending may have an depressive effect on crop exports, depending on how the program down-sizing is accomplished. Also, if the CRP is held at 1996 levels throughout 1996-2000, CRP expenditures would be higher than baseline levels, reducing the savings shown here.

Finally, these savings are less than the $13.4 billion savings goal stated by the Senate committee. The difference between the analysis and the bill is explained to some degree by:

- This analysis covers five years and the bill’s projection covers seven years.
- This analysis does not consider the budgetary impact of the elimination of programs for other commodities.
Table 1. Harvested Acreage

<table>
<thead>
<tr>
<th>Year</th>
<th>Corn Baseline</th>
<th>Senate Bill</th>
<th>Wheat Baseline</th>
<th>Senate Bill</th>
<th>Soybeans Baseline</th>
<th>Senate Bill</th>
<th>Cotton Baseline</th>
<th>Senate Bill</th>
<th>Seven Major Crops Baseline</th>
<th>Senate Bill</th>
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Table 2. Crop Prices

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<th>Senate Bill</th>
<th>Soybeans Baseline</th>
<th>Senate Bill</th>
<th>Cotton Baseline</th>
<th>Senate Bill</th>
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Table 3. Crop Deficiency Payments

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<th>Senate Bill</th>
<th>Wheat Baseline</th>
<th>Senate Bill</th>
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<th>Senate Bill</th>
<th>Seven Major Crops Baseline</th>
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Total Shift: -3.53

Table 4. Total Deficiency Payments, Net Returns, and Net Income

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<th>Total Deficiency Payments Baseline</th>
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<th>Seven Major Crop Net Returns Baseline</th>
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<th>U.S. Net Farm Income Baseline</th>
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Mean Shift: -1.11

Total Shift: -5.53
For Additional Information...


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Richard L. White designs this series and provides editorial and graphic support.

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