

# 2002 FARM BILL

Robert J. Hauser  
Department of Agricultural and Consumer Economics  
University of Illinois at Urbana-Champaign

## Executive Summary

### I. Current Farm Bill Proposals

- Combest and Stenholm were champions of a House Bill that moved very quickly through the House Ag Committee and Floor, with a sense of urgency that was encouraged by the argument that the surplus funds will not be available in 2002. The existing budget resolution and upcoming January 2002 CBO estimates were also important, but less visible drivers.
- The House Bill's commodity title uses three types of support – (1) fixed or direct payments (like AMTA payments), (2) loan payments based on current loan rates (except that the soybean rate is lowered), and (3) “counter-cyclical” payments which are triggered when the season average price is below a target level. Payment bushels for the fixed and counter-cyclical payments are based on updated base acres and current program yields. Recent bean yields – adjusted downward – determine the program yield for beans.
- After Daschle made it clear that he wanted a Farm Bill on the Senate Floor this year, several proposals surfaced (e.g., Lugar's, Dayton's, Grassley's, Roberts', ...). A version of Harkin's proposal passed the Senate Ag Committee by partisan vote on November 15. While Harkin placed more emphasis on conservation, payment limits, competitive practices, and bio-based fuels, the resulting Committee Bill is not radically different than the House Bill.
- The Committee bill uses the same type of income support as the House Bill (direct, loan, and counter-cyclical payments). Like the House Bill, conservation spending is increased considerably, but places more emphasis on land-use practices. An energy (bio-based fuel) title is included, and the Bill provides for country-of-origin labeling.
- Other proposals emphasize the use of subsidized savings accounts (e.g., Lugar's and Robert's), flexible fallow payments (Dayton's), and WTO compliance (Grassley's). All have large increases in conservation spending.

### II. Payment Levels

- Income support payments for traditional program crops are high under both the House Bill and the Senate Committee Bill. Based on a computer simulation model, a 50/50 corn/soybean producer in Illinois in recent crop years would have received about 5% more income support under the Senate Bill as under the current program (including the supplemental AMTA and oilseed payments). Payments under the House Bill would have been about 14% higher. Simulation results of other price scenarios are also illustrated.

### **III. Issues**

- The Administration, while not threatening veto, has made it clear that they favor the concepts behind Lugar's and Cochran/Robert's proposals over the House and Senate Committee Bills. The administration has expressed a strong desire for simplicity and predictability, support spread across all of production agriculture, WTO compliance, non-distorting programs, payment limits, using a 5-year bill, and for following a process which plans then budgets as opposed to a process that budgets then plans.
- Within the structure of the House and Senate Committee bills, debates will likely center around dairy support and the Senate's national compact, whether EQIP should have the current 50% livestock target, land-use practice conservation payments, WTO compliance, and whether projected expenditures fall within budget.
- A central issue does not seem to be whether the Farm Bill should be based on a \$170 billion budget. Rather, ideas differ on how to spend it.



# 2002 Farm Bill

Professor Robert Hauser



<http://www.farmdoc.uiuc.edu/>

# Overview of Presentation

- House, Senate and Administration Views
- Perspective on leading proposals
- Some possible issues

# House's View

- Sense of urgency not expressed by Senate and Administration
- Budget Resolution
- Fund Availability
- Future CBO Estimates

# Senate's View

- Initially reluctant to move this fall until Daschle set some guidelines
- Harkin
- Conrad
- Lugar
- Dayton
- Grassley
- Cochran/Roberts

# Administration's View

- Even more reluctant about this fall, but. . .
- Venemen's and Daniels' principles
  - Against price supports
  - Against supply controls
  - Against government stocks
  - Many unintended and unwanted consequences of FAIR Act
  - More emphasis on conservation payments and trade
  - Spread payments
  - Plan then budget, as opposed to the opposite

# House Bill (Commodity Title)

- Three Types of Payments
  - Fixed (Direct) Payment like AMTA
    - Base bushels for corn and beans
    - 30 cents times corn base bushels
    - 42 cents times bean base bushels



# House Bill, cont'd

- Payment Based on National Average Price (Counter-cyclical Payment)
  - Base bushels for corn and beans
  - Effective target price
  - Corn– \$2.48, Beans– \$5.44
- Loan Deficiency Payments
  - National corn rate \$1.89
  - National bean rate \$4.92

# Senate Ag Committee

- Fixed (Direct) Payment
  - 27 cents times corn base bushels
  - 55 cents times soybean base bushels
  - UPDATED PROGRAM YIELDS
  - Payment rates cut in half for 2004/05 and then again in 2006/07

# Direct Payment Rates

	<u>HOUSE</u>	<u>SENATE</u>		
		<u>2002</u>	<u>2004</u>	<u>2006</u>
<b>CORN</b>	<b>30</b>	<b>27</b>	<b>13.5</b>	<b>6.75</b>
<b>BEANS</b>	<b>42</b>	<b>55</b>	<b>27.5</b>	<b>13.75</b>
<b>WHEAT</b>	<b>53</b>	<b>45</b>	<b>22.5</b>	<b>11.25</b>

	<u>TARGET PRICES</u>	
<b>CORN</b>	<b>278</b>	<b>235</b>
<b>BEANS</b>	<b>586</b>	<b>575</b>
<b>WHEAT</b>	<b>404</b>	<b>345</b>

	<u>NATIONAL LOAN RATES</u>	
<b>CORN</b>	<b>189</b>	<b>208</b>
<b>BEANS</b>	<b>492</b>	<b>520</b>
<b>WHEAT</b>	<b>258</b>	<b>300</b>



	HOUSE BILL	SENATE AG COMMITTEE	LUGAR'S PROPOSAL	CURRENT
PROPOSED LENGTH	10 YEARS	5 YEARS	5 YEARS	
EXPENDITURE ESTIMATE	\$170 BIL/10 YRS	\$174 BIL/10 YRS	\$80 BIL/5 YRS	
EXAMPLE OF 1/2 CORN, 1/2 BEAN PER ACRE				
DIRECT PAYMENT	\$21	\$32	\$19	\$39 (PFC, ML OILSEED)
COUNTER CYCLICAL	\$33 (PRICE TRIGGER)	\$0 (PRICE TRIGGER)	\$0	\$0
LOAN PGM	\$21	\$37	\$6	\$27
TOTAL/ACRE	\$75	\$69	\$25	\$66

	HOUSE BILL	SENATE AG COMMITTEE	LUGAR'S PROPOSAL	CURRENT
<b>CONSERVATION</b>				
AVE \$/YR	\$3.7 BIL	\$4.45 BIL	\$4.3 BIL	\$2.2 BIL
MAX CRP	39.2 MIL	40 MIL	40 MIL	36.4 MIL
EQIP	\$1.3 BIL/YR	\$0.9 BIL/YR	Increase	\$0.2 BIL/YR
	50% TARGET	NO TARGET		50% TARGET
<b>OTHER</b>		TIER PGM TITLE ON ENERGY COMPETITION TITLE DROPPED		
<b>CAPS</b>	\$80,000 IN FIXED \$150,000 OTHER 3 ENTITY RULE	\$100,000 IN FIXED BU LIMIT ON LDP'S DROPPED END 3-ENTITY RULE ??		\$80,000 IN FIXED \$150,000 OTHER 3 ENTITY RULE

**CORN = \$1.89 SOYBEANS = \$4.60**

	CURRENT	HOUSE	SENATE 2002-04	SENATE 2004-06	SENATE 2006-07	MARKET
AverageMarket Revenue less variable cost	99	99	99	99	99	99
Plus LDP	27	21	37	37	37	0
Plus Fixed Payment [1]	39	21	32	16	8	0
Plus Target Price Payment	0	33	0	15	23	0
<b>Average Net Revenue including Payments</b>	<b>165</b>	<b>174</b>	<b>167</b>	<b>166</b>	<b>166</b>	<b>99</b>
Revenue Distribution						
Min	80	78	78	62	58	29
5%	136	148	140	138	137	64
10%	142	155	147	146	145	72
30%	154	168	161	160	160	88
50%	161	175	169	168	168	99
70%	168	182	176	176	176	110
90%	176	190	185	184	184	126
95%	179	193	188	188	188	133
Max	212	213	210	209	209	178
Corn Market Revenue Plus LDP	122	122	144	144	144	105
Bean Market Revenue Plus LDP	130	117	127	127	127	93

[1] Fixed Payment for "Current" includes MLA and Oilseed Payment as well as AMTA payment.



CORN = \$2.15 SOYBEANS = \$5.86

	CURRENT	HOUSE	SENATE 2002-04	SENATE 2004-06	SENATE 2006-07	MARKET
AverageMarket Revenue less variable cost	145	145	145	145	145	145
Plus LDP	3	2	7	7	7	0
Plus Fixed Payment [1]	39	21	32	16	8	0
Plus Target Price Payment	0	20	0	7	12	0
Average Net Revenue including Payments	187	187	183	175	172	145
Revenue Distribution						
Min	111	104	109	93	85	77
5%	154	162	157	148	145	110
10%	160	169	163	156	153	118
30%	171	181	175	169	166	134
50%	180	188	183	176	174	145
70%	190	195	191	183	180	156
90%	206	205	204	192	189	172
95%	213	210	211	197	193	179
Max	256	244	254	239	231	223
Corn Market Revenue Plus LDP	146	146	154	154	154	143
Bean Market Revenue Plus LDP	150	148	149	149	149	147

[1] Fixed Payment for "Current" includes MLA and Oilseed Payment as well as AMTA payment.



CORN = \$2.40, SOYBEANS = \$6.73

	CURRENT	HOUSE	SENATE 2002-04	SENATE 2004-06	SENATE 2006-07	MARKET
AverageMarket Revenue less variable cost	182	182	182	182	182	182
Plus LDP	0	0	1	1	1	0
Plus Fixed Payment [1]	39	21	32	16	8	0
Plus Target Price Payment	0	8	0	2	3	0
Average Net Revenue including Payments	221	211	215	200	194	182
Revenue Distribution						
Min	138	125	136	120	112	104
5%	181	183	182	170	164	146
10%	188	190	189	177	172	154
30%	205	203	203	190	185	171
50%	216	212	214	200	194	182
70%	227	220	225	210	203	194
90%	244	234	242	226	218	210
95%	252	240	250	234	226	218
Max	290	278	288	273	265	257
Corn Market Revenue Plus LDP	180	180	181	181	181	180
Bean Market Revenue Plus LDP	185	185	185	185	185	185

[1] Fixed Payment for "Current" includes MLA and Oilseed Payment as well as AMTA payment.



# Possible Issues

- Administration's concerns
  - Simple formula, predictable expenditures
  - Spread benefits
- Conservation Title
- Risk mgt versus income support
- Set asides
- Dairy
- Payment Limitations
- WTO