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**ANALYSIS OF UNITED STATES HOUSE AND SENATE AGRICULTURAL
RECONCILIATION PROVISIONS**

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Analysis of United States House and Senate Agricultural Reconciliation Provisions Executive Summary

The Food and Agricultural Policy Research Institute (FAPRI) has examined the agricultural provisions of the House and Senate Budget Reconciliation packages based on current market conditions. In conducting the analysis, the Institute utilizes a large-scale econometric model of the world agricultural sector with particular emphasis on the United States. FAPRI's mission is to provide objective, quantitative assessments of policy options and does not condemn or condone any policy option.

This report analyzes the budget reconciliation provisions for agriculture, as they left their respective committees. It should be noted that each policy option removes the authority of the Secretary of Agriculture to require annual set-aside programs as a condition for program benefits. In addition, each option caps annual farm program outlays. These steps represent major changes in agricultural policy in the United States.

The report discusses the changes in market outlook that have occurred over the last several months and provides an in-depth examination of the implications of both policy options on individual commodity markets and aggregate measures such as government cost and farm income. The two options are also compared to one another and complete supply and utilization tables for each option are provided, along with other tables relating to the Conservation Reserve Program (CRP) and other programmatic features.

The Senate Provision

The Senate Agriculture Committee's version incorporates increased planting flexibility for the program crops, with complete planting flexibility between wheat, feed grains and oilseeds. The level of unpaid flex acres is increased to 30%, and deficiency payment rates on a crop-by-crop, year-by-year basis are capped. Increased flexibility is provided for cotton and rice producers who are also allowed to over plant their program crop base onto historical oilseed area. Loan rates for the major program crops are maintained as under current law, including the marketing loan program provisions for cotton and rice. The Senate also provides for a reduction in the number of acres and funding of the CRP, taking the program down with fixed outlay caps to around 17 million acres by 2003. The dairy provision of the Senate package eliminates the purchase program for butter and non-fat dry milk powder and reduces the purchase price for cheese over the life of the bill. The current market order structure is left in place as is the Dairy Export Incentive Program.

The House Provision

The House package incorporates much of the so called 'Freedom-to-Farm' program. It removes the connection between market price movements and the level of crop payments. It also allows producers complete planting flexibility between the program crops and

oilseeds. Payments are based on a declining, but known pool of funds, with a producer signing a contract through the 2002/03 crop year regarding payment rates and other conditions. Loan rates under the House provision fall to 70% of a five year moving average of market prices. This will provide the largest reductions for soybeans, cotton and rice. The CRP provision allows all current contract holders the opportunity to extend their contracts, but at no more than 75% of current rental rates. This is expected to keep more acres overall in the program than was the case under the Senate provision, as well as maintaining a larger number of acres in the Plains States and fewer in the Corn Belt than are provided for in the Senate. The House package contains major deregulation in the dairy industry. The current market order program is eliminated, along with the purchase program for all dairy products. The Dairy Export Incentive Program is maintained at the maximum level allowed under GATT. The House package also provides for a single producer attribution of government payments with tracking of payments by Social Security number.

The Analysis

The analysis suggests that overall acreage planted to the eight major crops will increase over the next several years as CRP contracts expire and as domestic and world demand for agricultural products continues to increase. Following much higher market prices for nearly all major crops in 1995, plantings in 1996 are expected to increase markedly under both the House and Senate provisions. Plantings under the House package in subsequent years are expected to remain below the Senate option due to the higher level of acreage in the CRP. Overall, plantings under the Senate option are expected to average 1.4 million acres above those in the House option.

Wheat prices average \$0.04 per bushel higher in the House package following the 1996 crop. Again, more acres removed under the CRP is the main contributor. Corn prices are higher under the Senate plan for the same reason, more corn acres removed through the CRP in the Senate than in the House. Soybean prices are expected to average \$5.93 per bushel over the next seven years under the Senate provision and \$5.81 per bushel under the House. Soybean acreage is expected to average 64 to 65 million acres under both options, with soybean acreage under the House version marginally higher. Cotton plantings are expected to decline from the 1995/96 maximum of 16.5 million acres under both provisions. Cotton acreage is expected to be down to 13.9 to 14.0 million acres in 2002 under both options. Rice acreage will fall more in percentage terms under both the House and Senate provisions than any other crop. Under the House provision in particular, rice acreage is expected to decline to 2.6 million acres, a fall of nearly 18% from 1995 planting levels.

Returns over variable costs to program participants under the respective proposals are not consistently up or down under either option for all crops. For example, rice returns average 5% higher under the House provision than under the Senate. Wheat net returns are also expected to be up by an average of 8% under the House provision relative to the

Senate. On the other hand, corn and soybean returns are both 4% lower under the House language than the Senate language.

Government costs under the House option are expected to be \$8.6 billion higher under the House option than the Senate over the seven fiscal years. Costs in FY96 alone are anticipated to be \$5.6 billion higher. The Senate provision maintains the relationship between declining payments and escalating prices. Consequently, the higher prices observed for the 1995/96 crop result not only in lower deficiency payments, but actual repayments of advanced deficiency payments producers received for the 1995/96 crop. This is expected to lower the Senate package costs to \$4.1 billion in FY96. The pool of funds used to make market transition payments under the House provision is established in law, with provisions included that will allow the pool to capture any advance deficiency payment repayments for the 1995/96 crop. Consequently, in the first two years of program implementation, the House provision costs \$7.6 billion more than the Senate proposal. After the first two fiscal years, the cost of the House and Senate packages come more in line with each other. For the FY98 through FY03 period, the House package cost on average is only \$200 million more than the Senate plan.

Dairy policy is much different under the two options. By eliminating the marketing order program and the requirement that fluid milk receive a fixed premium relative to milk used for manufacturing purposes, the House provision allows for a larger decline in milk prices than is expected under the Senate plan. Under both options, milk prices are expected to decline in 1996 relative to prices observed in 1995. For the House option, prices are expected to decline by \$1.05 per cwt., for the Senate the decline is expected to be \$0.60 per cwt. Prices under the House provision are expected to decline even further as the complete shift to eliminate the market orders occurs in 1997. Milk prices recover under both options. Under the Senate proposal, the all-milk price returns to \$12.68 per cwt. Prices come back to \$12.46 per cwt. under the House plan.

Net farm income is expected to average \$460 million higher on an annual average basis under the House plan relative to the Senate provision between 1996 and 2002. Much of this increase occurs in the first year of the plans implementation as farm income is expected to be \$3.3 billion higher under the House plan for 1996 than under the Senate. This is due in part to the return of advance deficiency payments to producers rather than to the treasury and the fixed payments that occur even with the increase in market prices. Over the longer term, farm income remains higher under the House proposal from 1997 through 1999, then the Senate provisions remain consistently higher through the last three years.

Impacts of Reconciliation Packages on Key Aggregates

	1994	1995	1996	1997	1998	1999	2000	2001	2002	96-02 Avg
Crop Receipts										
	(Billion Dollars, Calendar Year)									
Senate Package	91.35	97.30	98.48	97.19	97.07	98.24	99.68	101.10	102.54	99.20
House Package	91.35	97.30	98.31	96.94	96.76	97.73	98.99	100.38	101.90	98.72
Change	0.00	-0.00	-0.17	-0.25	-0.31	-0.50	-0.70	-0.72	-0.73	-0.48
% Change	0.0%	-0.0%	-0.2%	-0.3%	-0.3%	-0.5%	-0.7%	-0.7%	-0.7%	-0.5%
Livestock Receipts										
Senate Package	88.07	88.69	87.78	88.02	90.66	94.89	100.27	101.65	103.35	95.23
House Package	88.07	88.69	87.02	86.91	89.65	93.78	99.08	100.55	102.29	94.18
Change	0.00	0.00	-0.77	-1.11	-1.02	-1.11	-1.18	-1.11	-1.07	-1.05
% Change	0.0%	0.0%	-0.9%	-1.3%	-1.1%	-1.2%	-1.2%	-1.1%	-1.0%	-1.1%
Production Expenses										
Senate Package	164.02	165.78	171.40	169.55	170.78	173.16	176.17	178.92	181.55	174.50
House Package	164.02	165.78	171.42	169.22	170.32	172.51	175.42	178.04	180.67	173.94
Change	0.00	-0.00	0.02	-0.33	-0.46	-0.65	-0.74	-0.88	-0.88	-0.56
% Change	0.0%	-0.0%	0.0%	-0.2%	-0.3%	-0.4%	-0.4%	-0.5%	-0.5%	-0.3%
Net Cash Income										
Senate Package	53.55	56.23	47.85	50.54	51.90	55.06	59.61	59.83	60.73	55.08
House Package	53.55	56.23	51.37	51.16	52.66	55.64	59.35	59.13	60.28	55.66
Change	0.00	-0.00	3.52	0.62	0.76	0.57	-0.26	-0.70	-0.45	0.58
% Change	0.0%	-0.0%	7.4%	1.2%	1.5%	1.0%	-0.4%	-1.2%	-0.7%	1.1%
Net Farm Income										
Senate Package	49.37	40.33	39.89	39.94	41.89	45.40	50.02	49.55	50.35	45.29
House Package	49.37	40.33	43.21	40.44	42.33	45.85	49.65	48.71	49.79	45.75
Change	0.00	-0.00	3.32	0.50	0.69	0.47	-0.36	-0.84	-0.56	0.46
% Change	0.0%	-0.0%	8.3%	1.2%	1.5%	1.0%	-0.7%	-1.7%	-1.1%	1.0%
Net CCC Outlays + CRP										
	(Billion Dollars, Fiscal Year)									
Senate Package	11.36	8.35	4.11	6.88	7.98	7.74	7.51	6.55	6.10	6.70
House Package	11.36	8.35	9.71	8.93	8.61	8.34	7.92	6.16	5.92	7.93
Change	0.00	0.00	5.60	2.04	0.63	0.60	0.31	-0.39	-0.18	1.23
% Change	0.0%	0.0%	136.1%	29.7%	7.9%	7.8%	4.1%	-5.9%	-2.9%	18.4%
8-Crop Planted										
	(Million Acres)									
Senate Package	249.0	241.4	257.0	255.0	254.0	256.0	258.7	255.4	255.3	256.2
House Package	249.0	241.4	255.7	253.2	252.4	254.2	257.0	254.0	254.3	254.6
Change	0.0	0.0	-0.3	-1.8	-1.6	-1.8	-1.7	-2.4	-2.0	-1.6
% Change	0.0%	0.0%	-0.1%	-0.7%	-0.6%	-0.7%	-0.6%	-0.9%	-0.8%	-0.6%

Key Variables Under Senate Budget Reconciliation Package

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Planted Acreage	(Million Acres)									
Wheat	72.17	70.35	69.07	72.42	70.05	70.55	73.07	74.70	70.90	70.19
Corn	73.24	79.16	71.31	82.37	79.07	79.74	80.56	81.57	82.36	83.94
Sorghum	9.88	9.77	9.11	9.89	9.99	10.00	10.09	10.24	10.49	10.62
Barley	7.83	7.15	6.69	8.19	8.23	7.40	7.50	7.78	7.87	7.65
Oats (harvested)	3.80	4.01	2.96	3.52	3.53	3.47	3.49	3.53	3.53	3.59
Soybeans	60.14	61.57	62.59	61.55	65.97	65.32	63.99	63.73	64.19	63.40
Cotton	13.25	13.55	16.53	16.22	15.32	14.62	14.47	14.22	14.16	14.04
Rice	2.92	3.35	3.17	2.86	2.85	2.89	2.85	2.89	2.88	2.85
Prices	(Dollars per Unit, Crop Year)									
Wheat (bu)	3.25	3.45	4.24	3.39	3.20	3.31	3.43	3.20	3.17	3.21
Corn (bu)	2.50	2.25	2.97	2.35	2.27	2.25	2.31	2.34	2.40	2.36
Sorghum (bu)	2.31	2.13	2.83	2.28	2.16	2.15	2.19	2.23	2.28	2.26
Barley (bu)	1.99	2.03	2.56	2.32	2.12	2.14	2.21	2.19	2.17	2.20
Oats (bu)	1.36	1.22	1.57	1.34	1.23	1.22	1.24	1.25	1.25	1.22
Soybeans (bu)	6.40	5.45	6.80	6.40	5.99	5.70	5.73	5.88	5.84	5.98
Cotton (lb)	0.581	0.727	0.760	0.657	0.521	0.612	0.604	0.605	0.603	0.593
Rice (cwt)	7.98	6.74	7.56	6.94	6.99	6.67	7.10	7.23	7.23	7.56
All-Milk Price	(Dollars per Hundredweight)									
All-Milk Price	12.90	12.97	12.73	12.13	12.17	12.38	12.41	12.57	12.64	12.68
Crop Receipts	(Billion Dollars)									
Crop Receipts	84.50	91.35	97.30	98.48	97.19	97.07	98.24	99.68	101.10	102.54
Livestock Receipts	90.55	88.07	88.69	87.78	88.02	90.66	94.89	100.27	101.55	103.35
Net Farm Income	43.40	49.37	40.33	39.89	39.94	41.89	45.40	50.02	49.55	50.35
Total Government Costs*	(Billion Dollars, Fiscal Year)									
Total Government Costs*	16.65	11.35	8.35	4.11	6.88	7.98	7.74	7.51	6.55	6.10

* Includes CRP Payments

Key Variables Under House Budget Reconciliation Package

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Planted Acreage										
					(Million Acres)					
Wheat	72.17	70.35	69.07	72.40	68.20	68.93	71.36	73.09	68.72	68.31
Corn	73.24	79.16	71.31	82.36	79.73	80.46	80.98	82.21	83.11	84.67
Sorghum	9.88	9.77	9.11	9.90	9.80	9.76	9.77	9.90	10.19	10.29
Barley	7.83	7.16	6.69	8.19	7.86	7.23	7.31	7.73	7.55	7.44
Oats (harvested)	3.80	4.01	2.96	3.52	3.32	3.09	3.07	3.03	3.05	2.97
Soybeans	60.14	61.57	62.59	61.55	66.49	65.91	64.78	64.34	64.79	64.16
Cotton	13.25	13.65	16.53	16.22	15.19	14.48	14.36	14.11	14.04	13.90
Rice	2.92	3.35	3.17	2.59	2.50	2.56	2.56	2.58	2.59	2.57
Prices					(Dollars per Unit, Crop Year)					
Wheat (bu)	3.26	3.45	4.24	3.33	3.22	3.34	3.50	3.22	3.22	3.25
Corn (bu)	2.50	2.25	2.97	2.34	2.26	2.21	2.25	2.28	2.35	2.31
Sorghum (bu)	2.31	2.13	2.83	2.28	2.17	2.13	2.18	2.22	2.25	2.25
Barley (bu)	1.99	2.03	2.56	2.30	2.17	2.21	2.32	2.25	2.25	2.29
Oats (bu)	1.35	1.22	1.57	1.29	1.20	1.25	1.31	1.35	1.37	1.37
Soybeans (bu)	6.40	5.45	6.30	6.40	5.95	5.60	5.57	5.70	5.69	5.79
Cotton (lb)	0.581	0.727	0.760	0.568	0.523	0.516	0.609	0.609	0.606	0.597
Rice (cwt)	7.98	6.74	7.55	7.49	7.18	7.15	7.39	7.63	7.53	7.90
All-Milk Price					(Dollars per Hundredweight)					
All-Milk Price	12.80	12.97	12.73	11.68	11.57	11.92	12.03	12.27	12.42	12.46
Crop Receipts					(Billion Dollars)					
Crop Receipts	84.50	91.35	97.30	98.31	96.94	96.76	97.73	98.99	100.33	101.60
Livestock Receipts										
Livestock Receipts	90.55	88.07	88.69	87.02	86.91	89.65	93.78	99.08	100.55	102.29
Net Farm Income										
Net Farm Income	43.40	49.37	40.33	43.21	40.44	42.58	45.86	49.65	48.71	49.79
Total Government Costs*					(Billion Dollars, Fiscal Year)					
Total Government Costs*	16.66	11.36	8.35	9.71	8.93	8.61	8.34	7.82	6.16	5.92

*Includes CRP Payments

Impacts of Reconciliation Packages on CRP

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total CRP Area	(Million Acres)									
Senate Package	36.423	36.423	36.423	36.423	28.098	23.051	19.820	17.502	17.233	16.668
House Package	36.423	36.423	36.423	36.423	30.124	26.691	24.481	22.792	22.572	22.107
Change	0.000	0.000	0.000	0.000	2.025	3.640	4.661	5.290	5.339	5.439
% Change	0%	0%	0%	0%	7%	16%	24%	30%	31%	33%
Wheat										
Senate Package	10.834	10.834	10.834	10.834	8.388	6.570	5.417	4.558	4.499	4.356
House Package	10.834	10.834	10.834	10.834	9.521	8.548	7.954	7.431	7.395	7.314
Change	0.000	0.000	0.000	0.000	1.133	1.878	2.537	2.873	2.895	2.957
% Change	0%	0%	0%	0%	14%	28%	47%	63%	64%	68%
Corn										
Senate Package	4.293	4.293	4.293	4.293	3.654	3.522	3.375	3.253	3.240	3.188
House Package	4.293	4.293	4.293	4.293	2.938	2.637	2.317	2.094	2.036	1.906
Change	0.000	0.000	0.000	0.000	-0.725	-0.885	-1.058	-1.169	-1.204	-1.282
% Change	0%	0%	0%	0%	-20%	-25%	-31%	-36%	-37%	-40%
Sorghum										
Senate Package	2.465	2.465	2.465	2.465	1.759	1.399	1.225	1.106	1.094	1.069
House Package	2.465	2.465	2.465	2.465	2.019	1.761	1.629	1.534	1.525	1.506
Change	0.000	0.000	0.000	0.000	0.260	0.362	0.404	0.428	0.431	0.437
% Change	0%	0%	0%	0%	15%	25%	33%	39%	39%	41%
Barley										
Senate Package	2.834	2.834	2.834	2.834	2.041	1.475	1.129	0.852	0.833	0.800
House Package	2.834	2.834	2.834	2.834	2.471	2.107	1.868	1.565	1.555	1.644
Change	0.000	0.000	0.000	0.000	0.430	0.632	0.739	0.813	0.823	0.844
% Change	0%	0%	0%	0%	21%	43%	65%	95%	99%	106%
Oats										
Senate Package	1.397	1.397	1.397	1.397	0.884	0.533	0.297	0.105	0.085	0.043
House Package	1.397	1.397	1.397	1.397	1.342	1.305	1.280	1.250	1.258	1.253
Change	0.000	0.000	0.000	0.000	0.458	0.772	0.983	1.155	1.173	1.210
% Change	0%	0%	0%	0%	52%	145%	331%	1102%	1384%	2829%
Soybeans										
Senate Package	4.160	4.160	4.160	4.160	3.676	3.474	3.322	3.222	3.199	3.152
House Package	4.160	4.160	4.160	4.160	3.032	2.550	2.216	1.993	1.937	1.811
Change	0.000	0.000	0.000	0.000	-0.644	-0.914	-1.106	-1.230	-1.252	-1.342
% Change	0%	0%	0%	0%	-18%	-25%	-33%	-38%	-39%	-43%
Cotton										
Senate Package	1.433	1.433	1.433	1.433	1.143	0.999	0.918	0.679	0.668	0.650
House Package	1.433	1.433	1.433	1.433	1.320	1.251	1.225	1.209	1.203	1.194
Change	0.000	0.000	0.000	0.000	0.177	0.252	0.308	0.330	0.335	0.344
% Change	0%	0%	0%	0%	15%	25%	34%	38%	39%	40%
Rice										
Senate Package	0.014	0.014	0.014	0.014	0.011	0.010	0.005	0.001	0.001	0.001
House Package	0.014	0.014	0.014	0.014	0.012	0.010	0.007	0.004	0.004	0.004
Change	0.000	0.000	0.000	0.000	0.001	0.000	0.002	0.003	0.003	0.003
% Change	0%	0%	0%	0%	8%	4%	44%	129%	283%	283%