Funds Available for the 2007 Farm Bill and the Administration Proposal

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Presentation Outline

• Farm Outlook
• CBO Baseline Score for the Farm Bill
  – How much money will there be for 2007 farm bill?
• Administration’s Farm Bill Proposal
  – Means Test for program benefits
  – Revenue Assurance to replace CCPs
FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Corn, 1998-2011

- Market Price
- Loan Rate
- Target Price
FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Sorghum, 1998-2011

- Market Price
- Loan Rate
- Target Price
FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Rice, 1998-2011

Market Price
Loan Rate
Target Price
AWP
FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Peanuts, 1998-2011
CBO Baseline Score for 2007 Bill

- CBO prepares a March Baseline Score
  - 10 year cost estimate for the current farm bill
- Rule is that the Baseline Score must assume a continuation of existing farm programs
- Some parts of the 2002 farm bill expire before the next 10 years
  - MI LC program
  - Conservation Security Program (CSP)
    - The net effect is to further cut the Budget Score
March 2006 CBO Baseline of Government Payments to All Program Crops, 2007-2016 (Mil. $)
AFPC Projection of CBO March 2007 Baseline for Payments to All Program Crops, 2007-2016 (Mil. $)

- LDP
- CCP
- DP
CBO Score

• March CBO Baseline for 9 crops was $103.2 Bill.
  – Our update forecast of the Baseline score is $67.7 Bill.
  – Or a loss of $35.5 Bill.

• As a point of comparison how much was available to write the 2002 Farm Bill?

• Mr. Combest and Mr. Stenholm had a CBO score of $105 Bill. for the Title I crop programs

• Mr. Peterson will likely have about $68 Bill. for Title I and an expanded shopping list of new programs
  – Renewable fuel
  – Fruits and vegetable
  – Conservation more inclusive and extensive
Administration’s Proposal

• Increase direct payment rates
• Lower loan rates
• Lower payment limits ($110,000 each DP and CCP and $140,000 LDP)
• **Means test** ($200,000 Adj Gross Income or AGI)
• **Replace CCP** with National Revenue Assurance
• Increase conservation programs
• Extend CRP
• Request $5 billion more in budget
Economic Impact of a Proposed AGI Means Test on Representative Crop Farms

AFPC Briefing Paper 07-1

February 2007

Agricultural and Food Policy Center
The Texas A&M University System
AGI Means Test for Farm Payments

- Analyzed 64 representative crop farms over 2008-2014 assuming continue 2002 farm bill
- 17 of 19 feedgrain farms lose payments
  - Average of $77,750 lost payments
- 8 of 10 wheat farms lose payments
  - Average of $33,830 lost payments
- 16 of 20 cotton farms lose payments
  - Average of $87,730 lost payments
- 4 of 15 rice farms lose payments
  - Average of $41,270 lost payments
The Bush administration proposal for tighter crop subsidy rules sporadically would deny benefits to average-size U.S. farms, and not just to the big operators targeted, a think tank at Texas A&M University said Wednesday. The administration has proposed to deny crop subsidies to growers with an adjusted gross income above $200,000 a year. USDA officials say about 38,000 people would lose subsidies. "We found it's probably going to impact more people than we've been led to believe," said James Richardson, co-director of the Agriculture and Food Policy Center at Texas A&M. Farm revenue fluctuates, so a stellar year could disqualify a family-size farm even when the trigger proposed by USDA is the average adjusted gross income over three years, Richardson said. In a report, the think tank said "a farm could be eligible for payments one year and not the next year."
Preliminary Look at the Administration’s Proposal for RA

- National Target Revenue calculated
  \[ NTR = (TP-DPrate) \times (2002-06 \text{ Olympic Average Yield}) \]

- Actual Target Revenue calculated
  \[ ATR = \text{Actual Yield} \times \text{Max}[\text{Market Price, Loan Rate}] \]

- Revenue Assurance Payment (RAP) is paid if \( ATR < NTR \)

- RAP paid per base acre is
  \[ RAP = \frac{(NTR - ATR)}{(\text{CCP Pymt Yield} \times 0.85)} \]
Comparison of Proposed Revenue Assurance to CCP in 2008 for Wheat $/acre

$P(RAP<0) = 86.2\%$

$P(CCP<0) = 76.8\%$
Comparison of Proposed Revenue Assurance to CCP in 2008 for Corn $/acre

\[ P(\text{RAP}<0) = 97.6\% \]

\[ P(\text{CCP}<0) = 96.0\% \]
Comparison of Proposed Revenue Assurance to CCP in 2008 for Soybean $/acre

P(RAP<0) = 99.2%
P(CCP<0) = 100%
Comparison of Proposed Revenue Assurance to CCP in 2008 for Cotton $/acre

- \( P(\text{RAP}<0) = 27.2\% \)
- \( P(\text{CCP}<0) = 26.8\% \)
Comparison of Proposed Revenue Assurance to CCP in 2008 for Rice $/acre

- $P(RAP<0) = 56.8\%$
- $P(CCP<0) = 46.4\%$
Comparison of Proposed Revenue Assurance to CCP in 2008 for Peanut $/acre

- $P(RAP<0) = 50.4\%$
- $P(CCP<0) = 55.0\%$
Administration's RA Proposal

• Does the Revenue Assurance proposal save money?
• Secretary claims $5 Bill. in the first 5 years
• Our estimates show only $1 Bill. savings in the first 5 years
• Savings over 9 years is $3 Bill.
Outlook on Policy

- Outlook for grain farms best since Fall of 1995, cotton and rice still show red

- New farm bill is all about the CBO Budget Score and:
  - Fruits and vegetables will get subsidies of some kind
  - Renewable fuels research spending will come from somewhere
  - Don’t discount conservation emphasis in next bill

- Caution: Doha is not Dead
  - Still working to get back to negotiations
  - Timing is critical if it is to affect 2007 farm bill
  - Do not dismiss WTO impacts on bill
    - Cotton, corn, and level of payments challenges

- Our bottom line...
  - Very likely to have much the same programs in 2007 FB not because that’s what everyone wants but ... because it may be the best safety net we can afford