Bob Dole

NEWS FROM: U.S. SENATOR FOR KANSAS

SENATE REPUBLICAN LEADER

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USDA EQUITY STUDY

DOLE RELEASES USDA EQUITY ANALYSIS OF COMMODITY SUPPORT IN 1990 FARM BILL; DISPARITY FOUND IN LEVELS OF SUPPORT, STUDY CONCLUDES

WASHINGTON -- A six-month study by the Department of Agriculture has concluded that there are disparities among relative levels of government and consumer supported commodities.

The official analysis -- the Equity Analysis of 1990 Farm Legislation -- was requested by Senate Republican Leader Bob Dole (R-Ks) who today released the USDA findings.

Dole called for the study last year, as Congress worked on the 1990 farm bill and a new federal budget.

During that debate, Senator Dole was concerned that budget cuts, along with proposed changes in farm programs, would unfairly penalize certain commodity producers, especially those dependent on support from the Treasury.

"This is a fairness issue," Dole said. "If budget cuts are in order, they should be fair and equitable with no one commodity having to take a big hit in the name of deficit reduction."

The USDA analisis is attached.

EQUITY ANALYSIS OF 1990 FARM LEGISLATION

SUMMARY

Concern with differing levels of government support was an issue raised in the Senate-passed version of the 1990 Farm Bill. This paper assesses how commodity program changes required by the Food, Agriculture, Conservation, and Trade (FACT) Act of 1990 and the Omnibus Budget Reconciliation Act of 1990 affect relative levels of support among commodities.

Several quantitative measures are presented with some being more dependent than others on future farm program parameters, commodity prices, program participation, and acreage adjustments in response to changes in market returns and farm programs. The following measures are used to compare changes in relative support among commodities:

- Government payments or support per unit of production,
- Gross farm income,
- Commodity Credit Corporation (CCC) outlays, and
- An aggregate measure of government support.

These measures are estimated for each commodity sector or market and not for an individual farm.

Estimates of farm income, CCC outlays, and government payments under the 1990 FACT Act and the Reconciliation Act are based on the Department's forecasts for the President's FY 1992 Budget. These forecasts were based on future supply, demand, and price prospects as estimated in November 1990.

To evaluate the effects of legislative changes in farm programs, the forecasts of farm income, government payments, CCC outlays, and other farm sector variables were projected assuming continuation of the 1985 Farm Bill and then compared with projections under the 1990 FACT Act and Reconciliation Act. Extension of the 1985 Farm Bill is not straightforward, however. A case in point is whether continuation of the 1985 Farm Bill means that the minimum support price for manufacturing milk is frozen at the 1990 level or allowed to decline by $0.50 per hundredweight if projected purchases exceed 5 billion pounds. The attached analysis assumes that further reductions in the minimum support price would be permitted under extension of the 1985 Farm Bill.

The 1990 FACT Act greatly increased farmers' planting flexibility. At this stage, it is impossible to know how farmers and markets will react to this increased flexibility. Any projections of acreage shifts would be extremely uncertain. In addition, increased flexibility could provide benefits to some groups of farmers in one year and others in another year, depending on how relative market returns for various crops change

from one year to the next. For these reasons, this analysis does not attempt to estimate how the evaluation measures will change in response to the increased planting flexibility provided by the 1990 FACT Act.

The measures used to evaluate the fairness and equity of the 1990 FACT Act and Omnibus Reconciliation Act generally support the following conclusions:

- The level of support declined the most for corn, sorghum, upland cotton, and wheat. The level of support declined significantly but to a lesser extent for rice as the new legislation did not affect marketing loan payments.
- Most measures indicate that the level of support for soybeans did not change dramatically under the 1990 FACT Act and Reconciliation Act. Nominally, loan rates are up and the level of support could rise significantly if prices fall below the minimum effective loan rate established by the 1990 FACT Act. However, the incomes of traditional soybean producers could fall if the new legislation leads to a sizeable increase in soybean acreage.
- The level of support did not change significantly for oats, sugar, peanuts, tobacco, and wool and mohair.
- The level of support rose moderately for barley.
- The level of support increased significantly for milk and honey.
- The 1990 FACT Act increased the level of support to producers of minor oilseeds. However, insufficient data exists for quantifying these impacts.

Measures of fairness and equity are highly sensitive to a wide variety of assumptions. In addition, the measures presented in the following paper are by no means exhaustive. Alternative measures and assumptions could possibly yield different interpretations of the fairness and equity of the 1990 FACT Act and Omnibus Reconciliation Act.