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STATEMENT OF

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BEFORE THE

HOUSE COMMITTEE ON AGRICULTURE

ON THE PROPOSED

AGRICULTURAL EFFICIENCY AND EQUITY

ACT OF 1985

Mr. Chairman and Members of the Committee:

We are glad to be here today at your request to discuss H.R. 1912 (the bill), the proposed Agricultural Efficiency and Equity Act of 1985 which would change the manner in which the Department of Agriculture (USDA) computes acreage bases and program yields. As you know, we were asked to analyze certain aspects of a similar version of this bill, H.R. 4565, which was introduced in the last Congress.

My testimony today will summarize the results of our analysis. In addition, we are making available today our report which presents the results of our analysis in greater detail.

Acreage bases and program yields are two of the tools USDA uses in administering farm programs for producers of program crops--wheat, feed grains (barley, oats, corn, and grain sorghum), cotton, and rice. Base acreage and program yield determinations are key components in USDA's formula for computing the amount of payment producers receive for participating in farm programs. Essentially, base acres are the amount of land which USDA recognizes that a farmer has historically planted to a program crop. A program yield is the production capacity USDA associates with a particular farm.

In requesting our analysis, members of this Committee were concerned that USDA's administration of the Agriculture and Food Act of 1981 (the 1981 act) had resulted in "inflated base acreage"--a condition in which a farm's base acreage had increased above the farm's usual planted acres, as well as "phantom acres"--a condition in which a farm's total base acreage exceeds the farm's actual cropland.

We were asked to identify the provisions of the 1981 act and its administration which have allowed acreage bases to inflate; to determine whether the bill effectively addresses this problem; and to indicate what the acreage bases, program yields, and program

costs would have been if the bill had been in effect instead of the 1981 act. We were also requested to provide our assessment of whether other commodities besides the program crops should be included in the bill. Finally, we were asked to assess the yield formula contained in the bill and to describe USDA's procedures covering double cropping--the planting of two crops on the same acreage in the same year. Before providing our responses to each of these concerns, Mr. Chairman, we would like to briefly highlight the scope of our work.

SCOPE OF REVIEW

We visited 18 counties in six states--Kansas, Iowa, Minnesota, Nebraska, Arkansas, and Texas. We selected these states because they accounted for about 43 percent of USDA's wheat and feed grains payments and about 51 percent of USDA's rice and cotton payments from October 1, 1982, through March 31, 1984.

We used a statistical sampling approach to assess the impact of variations in acreage bases for various crop years within these counties. Our sampling approach required reviewing the data for 562 farms in the 18 counties. We obtained production data on each farm for the 6-year period 1979 through 1984. Our approach permits us to project the impact that the bill would have had on acreage bases for the major crops in the 18 counties included in our review.

UNDER CURRENT LAW, BASE ACREAGES HAVE BECOME INFLATED

For 1982-85 crops, the 1981 act provided for the establishment of a separate acreage base for each program crop. Specifically, the 1981 act provided that the number of base acres for any farm would be the acreage planted to a program crop for harvest in the previous year or, at the discretion of the Secretary, the average acreage planted to the crop for harvest for the 2 previous years.

In implementing this provision for 1982, the first year of implementation, the Secretary decided that the higher of either the 1981 planted acres or the average of the 1980 and 1981 planted acres would be used to establish the acreage base for each program crop grown on the farm. For the 1983 crop, the Omnibus Budget Reconciliation Act of 1982 provided that the acreage bases should be the same as those established in 1982, except for adjustments to reflect such factors as crop-rotation practices.

For 1984, the Secretary provided that the acreage bases would be determined by averaging the 1982 and 1983 planted acres. However, unlike the programs administered in 1982 and 1983 the Secretary determined that acres "considered planted" would also be included in deriving the average number of acres planted in the previous 2 years. Under USDA regulations, acreage that a farmer

was prevented from planting to a program crop as a result of a natural disaster, or acreage taken out of production to comply with any USDA acreage reduction program, would be "considered planted" for program purposes and included as part of the base acreage computation.

The following table shows the impact of the 1982, 1983, and 1984 programs on base acreage determinations for a hypothetical 600-acre farm.

Table 1

Base Acreage Determination

for a 600-Acre Farm

Program Crop	Planted acres 1980	Planted acres 1981	Acreage base for program crops 1982 base[a]	1983 base[b]	1984 base[c]
Wheat	500	0	250	250	250
Sorghum	0	500	500	500	500
Sub-total	500	500	750	750	750
Other crops	100	100			
Total acres	600	600			

[a]Higher of 1981 or average of 1980 and 1981 planted acres.
[b]Same base as 1982.
[c]Average of 1982 and 1983 planted and considered planted acres.

Because of the method of determining acreage bases, inflated acreage bases as well as phantom acreage would have been established for this farm. Inflated acres exist because the total base acreages were increased by 250 acres--from 500 to 750. Phantom acres also exist because the crop acreage base exceeded the farm's total cropland by 150 acres.

Inflated bases also resulted in part because of the Secretary's definition of "considered planted" acres. Producers who have not planted a particular program crop but want to retain their acreage base for that crop, can certify that they have not planted the crop and are given full credit as if they had planted their acreage base for that year. This is done to take away the incentive to plant up to the maximum permitted for purposes of maintaining the established base.

Under the Secretary's definition, participating producers were given credit for planting their entire crop base even though they planted less or did not plant any acreage to that crop. For example, a producer who participated in the 1984 programs with a corn base of 100 acres was required to take 10 percent, or 10 acres, out of production leaving 90 acres available for planting. Under USDA program requirements if the producer elected to plant only 50 acres, USDA would give the producer full credit for the 100 acres in calculating the base acreage for this farm.

In the above example, the producer could plant these acres to another program crop in which he or she was not participating in USDA farm programs and increase the base acreage for the nonparticipating crop for the next year while still carrying forward the full crop acreage base for the participating crop to future years.

THE BILL WOULD HELP CORRECT INFLATED AND PHANTOM ACREAGE CONDITION

Under the bill (sec. 102 and 103), a farm acreage base and a crop acreage base would be established for each farm which grows at least one program crop. The farm acreage base would be the 5-year moving average of the total acreage planted and considered planted to all program crops grown on the farm. The crop acreage base would be the 5-year moving average of the acreage planted and considered planted to each program crop grown on the farm. The sum of the crop acreage bases may not exceed the farm acreage base, except where the excess is due to an established practice of double cropping.

The bill would help eliminate inflated acreage bases and phantom acres. However, specific language is needed in the bill (sec. 108) to clarify the term "considered planted" acres. For example, consideration should be given to not including farms that report zero planted acreage to a crop or that voluntarily reduce planted acres below program requirements. Currently, producers are given credit for acreage that he or she chose not to plant.

This, in turn, would be subsequently included in a producer's base acreage determination. Also, in the case of a disaster crop, consideration should be given to allowing credit only for the disaster crop or the crop planted in its place.

We found that if the bill had been in effect (with clarifying language for considered planted acres) for the 1983 and 1984 crops of wheat, feed grains, cotton, and rice, there would have been a reduction in the amount of base acres producers could use for program purposes. We estimate that for all farms in the 18 counties we reviewed, the USDA bases in 1983 would have been reduced by about 534,800 acres, or about 12.5 percent.

THE BILL WOULD REDUCE YIELDS FOR COTTON AND RICE

We also compared the yield formula contained in the bill (sec. 106) with the proven yield formula (determined on the basis of production records) used by USDA. Yields, like base acres, are used by USDA as a factor in determining the amount of program payments a participating farmer can receive.

For 1984, a comparison of USDA's proven yields with the yields computed using the criteria set out in the bill shows minor differences for wheat and feed grains and significant differences for cotton and rice. Overall, the yield formula contained in the

bill improves on that now being used by USDA because it provides yield data that would be based entirely on actual production.

Under the bill, yields for all programs crops would be determined by using harvested yields for the most recent 5-year period with such adjustments as the Secretary may prescribe. Generally, the highest and lowest yields would be eliminated and the remaining 3 years' yields would be averaged to obtain the yield for the farm. In contrast, USDA determines a proven yield for wheat and feed grain producers by using planted yields for the most recent 5-year period. However, if any year's yield is less than 80 percent of the 5-year average, that year can be increased up to 80 percent of the 5-year average. A comparison of these two yield determination methods for 1984 wheat and feed grains results in very small differences.

For cotton and rice, USDA's yield determination method consists of computing an average yield for each producer using the highest yields for 4 of the last 5 years. If this average yield is higher than any of the yields for the most recent 3 years, this average yield is inserted in place of the lower yield(s). Once the yields for the most recent 3 years are adjusted (if necessary), an average is computed for this 3-year period which then becomes the producer's current-year yield for payment purposes. Yield determinations for cotton and rice result in significant differences, about 16 percent and 9 percent, respectively, from USDA yields if the formula in the bill is used.

THE BILL WOULD REDUCE PROGRAM PAYMENTS

We found that program payments to the 562 farms in our sample would have been less for both the 1983 and 1984 farm programs had the bill been in effect. However, there are two key assumptions that we used in making our estimates. First, we assumed the same farmer participation levels that existed in 1983 and in 1984 and, second, we assumed that commodity supply and demand, as well as the price of commodities, would have remained the same in 1983 and in 1984 had the bill been in effect.

We found that payments made to farmers for our 562 sample farms in 1983 would have been reduced by about $1.9 million, or 16 percent, had the bill been in place. For 1984, the only commodity for which payments were made for taking land out of production was wheat. Our estimates show that for the participating farms in our sample, payments would have been reduced by about $207,300, or about 8 percent.

INCLUDING OTHER CROPS IN THE BILL

As the bill (sec. 102 and 108) is now written, the farm acreage base would include program crops plus soybeans. As a result, producers who grow soybeans would have increased flexibility as their farm acreage base would be higher and they could adjust their individual crop acreage bases more than if soybeans were not

included. For example, assume a producer with 300 acres has a wheat and corn crop acreage base of 100 acres each for a total base of 200 acres for these two program crops. In addition, this producer normally plants the program crops plus 100 acres of soybeans. The producer can increase or decrease the crop acreage base for any program crop up to a maximum of 20 percent of the farm acreage base in the first year and up to 10 percent each year thereafter. Accordingly, by including soybean acres in the farm acreage base, a producer's flexibility in choosing the amount of acreage to plant to a particular program crop will increase--in this example by 20 acres in the first year.

Whether soybeans or other crops should be included in this bill is a policy matter for the Congress to debate and decide. However, if soybeans are included, consideration might be given to including other commodities to provide increased flexibility for producers of those commodities.

OBTAINING YIELD DATA AS PROPOSED IN THE BILL MAY PROVE DIFFICULT

The bill proposes a yield determination system which uses actual production evidence as the basis for assigning yields to farms. However, we have some observations you may wish to consider on the difficulty of implementing such a system for all crops.

The yield formula in the bill (sec. 106) uses harvested acres as the basis for determining annual program yields. Consideration should be given to using planted acres for harvest instead of harvested acres since (1) farm program payments are made on the basis of planted acres for harvest and (2) farmers currently report planted acres to USDA.

Further, for determining the yield for program payment purposes, the bill prescribes a procedure of averaging the actual annual yields per harvested acre determined for each of 3 years. Instead of using a simple average for determining average annual yields, consideration should be given to using a weighted average calculation which takes into account the total number of acres planted for harvest in determining program yields.

During our review, we obtained comments from Agricultural Stabilization and Conservation Service (ASCS) state and county officials on the difficulties of moving to the system of yields proposed by the bill. They told us that such a system would be time consuming and costly and may not provide any better yield data than are now obtained. Their rationale was that under current procedures, county ASCS offices can only accept as proof of production (1) certain warehouse documents, (2) storage bin measurements made by ASCS personnel, or (3) field appraisals by ASCS personnel. They further said that, because few wheat and feed grain producers now prove their yields, going to a system of all proven yields would greatly increase the workloads and that

full-time staff could increase by as much as one to four people in each county. Another problem pointed out by ASCS officials was the inherent difficulties in verifying that producers do not comingle crops from different years or different farms.

DOUBLE CROPPING PRACTICES

As requested, we obtained information on USDA's procedures for double cropping practices. USDA currently defines double cropping as the practice of planting and harvesting two different crops from the same acreage in the same crop year. This includes situations where the first crop is destroyed after the crop's normal planting season but before harvest, and another crop is planted and harvested. According to USDA officials, each of the crops being double cropped stands alone and the acreage reduction requirements that might apply are treated just as if the crops had been planted on different acreages.

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That concludes our statement. We will be glad to respond to any questions.