CBO TESTIMONY

Statement of
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before the
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I am pleased to appear before the Subcommittee today to discuss the outlook for U.S. farm commodities over the next several years. The Congressional Budget Office's (CBO's) outlook is, of course, linked to its recent baseline projections for outlays of the Commodity Credit Corporation (CCC) for 1993 through 1998. I will also discuss CBO's estimates of the proposals regarding agriculture in President Clinton's budget.

CBO'S BASELINE OUTLAY ESTIMATES FOR THE COMMODITY CREDIT CORPORATION

CBO estimates that spending by the CCC during most years of CBO's baseline period will remain below the $9 billion to $10 billion range of the last two years. However, because of huge crops and continued high outlays for export subsidies and disaster payments, outlays for 1993 are expected to be noticeably higher. We project that CCC outlays will fall sharply in 1994 and will average about $8 billion a year over the 1994-1998 period, assuming normal weather and no major disruptions in international commodity markets.

CBO estimates that outlays for the CCC programs will exceed $15 billion in 1993, up from $8.8 billion last year and $9.9 billion in 1991 (see Table 1). Outlays are expected to rise for all the major commodities, as well

TABLE 1. COMMODITY CREDIT CORPORATION OUTLAYS
(By fiscal year, in millions of dollars)

	Actual 1992	Projected 1993	1994	1995	1996	1997	1998
Commodity							
Feed grains	2,510	5,886	2,733	2,460	2,667	2,747	2,949
Wheat	1,719	2,133	1,766	1,864	1,768	1,881	1,925
Rice	715	899	714	815	762	691	613
Upland cotton	1,443	2,306	2,060	1,420	910	920	879
Soybeans	-29	178	-70	-24	-20	-14	-10
Peanuts	41	33	1	1	0	0	-2
Tobacco	29	-2	-13	-99	-112	-73	-45
Honey	17	17	12	10	6	4	3
Sugar	-19	-28	-30	-31	-30	-30	-30
Dairy	232	254	257	277	293	307	297
Other commodities	90	351	66	57	42	29	15
Subtotal	6,748	12,025	7,496	6,751	6,286	6,463	6,593
Noncommodity							
Disaster payments	1,054	1,226	0	0	0	0	0
Export programs	720	1,275	1,171	1,197	1,098	1,095	1,043
Other noncommodity	-211	247	178	158	159	160	141
Net interest	531	237	193	269	240	230	251
Subtotal	2,094	2,985	1,543	1,624	1,497	1,485	1,436
Total	8,842	15,010	9,039	8,375	7,783	7,948	8,029

SOURCES: Actual data from Department of Agriculture; projections from March 1993 baseline of the Congressional Budget Office.

as for disaster payments and cash export subsidies. Major jumps are projected for corn and cotton outlays. Higher yields for 1992 crops are generally causing higher deficiency payments and loan activity. In addition, legislation and the use of discretionary program authority by the Secretary of Agriculture are responsible for part of the jump in 1993 outlays.

The two Dire Emergency Supplemental Appropriations Acts of 1992 provided disaster payments for crop losses in 1990 through 1992, which may reach $1.2 billion in 1993. The Agriculture Department is continuing to run the Export Enhancement Program with a high level of cash subsidies. Also, the advance payments for the 1993 crops, which will be paid this spring, have been announced at 50 percent of the estimated total instead of the usual 40 percent. Thus, 10 percent of payments for the 1993 crop year have been shifted into 1993 from 1994 for wheat, feed grains, cotton, and rice.

CBO's projection for CCC outlays shows a decline to $9 billion in 1994 and outlays of between $7.8 billion and $8.4 billion in later years. Outlays directly attributed to commodities account for about 80 percent of CCC outlays, with export subsidies making up the bulk of the remainder. Total outlays for feed grains account for almost two-fifths of the CCC total in 1993, more than the spending on wheat, rice, and cotton combined. However, in later years the share of feed grain outlays declines, while that of the other commodities rises.

The CBO projections assume current law will be continued through 1998 for the CCC commodity programs, even though the current farm bill runs only through the 1995 crop year. As specified in law, the baseline reflects frozen target prices, producer discretion to use the 0/92 and 50/92 paid diversion programs, unpaid flexible acreage at 15 percent each year, an increase of conservation reserve acres to 40 million acres, and frozen program yields (those yields used in the payments formulas). In addition, the Secretary of Agriculture has the authority to set the annual acreage reduction program percentages, allow entry into the farmer-owned reserve of wheat or feed grains under specific conditions, and lower the basic loan rate. CBO assumes use of this discretionary authority when the forecast conditions for supply and demand warrant it.

The outlook for exports is contingent on numerous domestic and foreign policy decisions, especially those involving the continuation of the European Community agricultural reform and U.S. trade credits to Russia. CBO assumes that Russia will reschedule current debt and that export credit will continue to be made available later in 1993 and in subsequent years. However, U.S. exports of grains are sensitive to the level of credits or aid actually made available. Table 2 summarizes the major assumptions underlying our baseline projections.

Corn and Other Feed Grains

Corn yields hit a record 131.4 bushels per acre in 1992, generating an estimated \$3.7 billion in crop-year deficiency payments. Even with yields for the 1993 crop expected to fall by almost 10 bushels per acre, deficiency payments for the 1993 crop are expected to reach almost \$3 billion. A doubling of carryover stocks expected at the end of the 1992 crop year is depressing prices expected for 1992, leading to a deficiency payment rate of \$0.73 per bushel, up from \$0.41 per bushel in 1991.

The Secretary of Agriculture attempted to offset the adverse price and cost impacts of the huge 1992 crop by raising the percentage of acreage that participants in the 1993 corn program must keep idle to receive program benefits. However, even with a higher acreage set-aside rate of 10 percent--double the 1992 level--announced for the 1993 crop, end-of-the-year stocks are still expected to decline about 11 percent but to remain at almost 2 billion bushels. Prices may climb to \$2.24 per bushel, and CBO anticipates a deficiency payment rate of \$0.60 per bushel for the 1993 crop (see Table 3).

TABLE 2. PROGRAM ASSUMPTIONS IN THE CBO BASELINE FOR THE COMMODITY CREDIT CORPORATION (By crop year)

	1993	1994	1995	1996	1997	1998
	Target Prices (Dollars per bushel, except as noted)					
Corn	2.75	2.75	2.75	2.75	2.75	2.75
Wheat	4.00	4.00	4.00	4.00	4.00	4.00
Rice[a]	10.71	10.71	10.71	10.71	10.71	10.71
Cotton[b]	0.729	0.729	0.729	0.729	0.729	0.729
	Nonrecourse Loan Rates (Dollars per bushel, except as noted)					
Corn	1.72	1.67	1.65	1.65	1.64	1.65
Wheat	2.45	2.20	2.21	2.17	2.18	2.18
Rice[a]	6.50	6.50	6.50	6.50	6.50	6.50
Cotton[b]	0.524	0.522	0.517	0.500	0.500	0.500
Soybeans	5.02	5.02	5.02	5.02	5.02	5.02
	Acreage Reduction Requirements (Percentage of base acreage)					
Corn	10.0	7.5	5.0	7.5	7.5	7.5
Wheat	0	5.0	5.0	0	0	0
Rice	5.0	0	0	0	0	0
Cotton	7.5	12.5	15.0	12.5	15.0	15.0

SOURCE: March 1993 projections of the Congressional Budget Office.

a. In dollars per hundredweight.

b. In dollars per pound.

TABLE 3. MAJOR SUPPORTED COMMODITIES (By crop year)

	1991	1992	1993	1994	1995	1996	1997	1998
	Corn (Millions of bushels)							
Production	7,474	9,479	8,249	8,546	8,790	8,840	9,155	9,360
Exports	1,584	1,650	1,675	1,708	1,782	1,865	1,932	1,996
Total Use	7,915	8,345	8,495	8,636	8,845	9,016	9,173	9,318
Ending Stocks	1,100	2,237	1,996	1,911	1,862	1,691	1,678	1,725
Price (Dollars per bushel)	2.37	2.07	2.24	2.30	2.25	2.28	2.28	2.27
	Wheat (Millions of bushels)							
Production	1,981	2,459	2,475	2,381	2,380	2,494	2,570	2,629
Exports	1,281	1,275	1,209	1,250	1,294	1,331	1,375	1,410
Total Use	2,416	2,400	2,368	2,437	2,501	2,552	2,616	2,666
Ending Stocks	472	580	737	731	660	651	655	668
Price (Dollars per bushel)	3.00	3.26	2.91	2.91	3.03	3.06	3.05	3.08
	Rice (Millions of cwt)							
Production	157.5	179.1	162.6	172.8	171.5	170.6	169.7	169.4
Exports	66.4	75.3	74.3	74.8	73.3	70.6	65.4	61.1
Total Use	160.1	174.1	174.5	178.0	179.3	179.4	177.2	175.6
Ending Stocks	27.3	38.0	32.2	33.4	32.5	30.8	30.7	32.0
Price (Dollars per cwt)	7.58	6.12	6.35	6.35	6.60	6.90	7.20	7.45
	Upland Cotton (Millions of bales)							
Production	17.22	15.71	16.95	16.41	16.53	17.01	17.15	17.30
Exports	6.35	5.90	6.20	6.40	6.55	6.70	6.81	6.88
Total Use	15.89	15.58	16.03	16.38	16.68	16.95	17.19	17.38
Ending Stocks	3.58	3.82	4.85	4.99	4.95	5.11	5.17	5.19
Price (Dollars per pound)	0.57	a	a	a	a	a	a	a
	Soybeans (Millions of bushels)							
Production	1,987	2,197	2,054	2,076	2,104	2,113	2,142	2,165
Exports	685	745	727	727	733	739	749	760
Total Use	2,041	2,122	2,094	2,093	2,104	2,117	2,138	2,163
Ending Stocks	278	355	318	305	308	307	313	319
Price (Dollars per bushel)	5.60	5.46	5.58	5.71	5.70	5.73	5.70	5.68
	Dairy Products[b] (Billions of pounds)							
Production	148.6	150.9	152.1	154.1	156.6	159.5	162.4	165.3
Commercial Use	138.7	141.3	144.3	146.9	149.7	153.0	156.0	158.8
CCC Removals	10.4	10.2	8.2	7.8	7.4	7.0	6.9	6.9
Price (Dollars per cwt)	11.93	13.26	12.60	12.46	12.35	12.32	12.36	12.34

SOURCE: March 1993 projections of the Congressional Budget Office.

NOTES: cwt = hundredweight, CCC = Commodity Credit Corporation

a. Government agencies are prohibited from publishing price projections for cotton.

b. Dairy projections are presented on a fiscal year basis.

In addition to the costs associated with deficiency payments, CCC outlays are rising in 1993 because of higher loan costs for corn. The Secretary permitted entry into the 1992 farmer-owned reserve for corn, which allows corn to remain under loan for 33 months instead of the regular nine months and provides farmers with storage payments on the grain. CBO assumes that the Secretary also will open the 1993 reserve. The additional loan placements, combined with the delay in repayment of loans, are expected to generate $1.2 billion in net loan outlays this fiscal year. However, as those loans are repaid in later years, net loan outlays are expected to be negative in most years through 1998.

CBO estimates that outlays for corn for 1993 will be $5.3 billion, up from $2.1 billion last year. Costs would be higher except for a 5 percent increase in the use of the 1992 supplies (see Table 3). The biggest rise is for use of feed at 5.2 billion bushels, accounting for more than three-fifths of total corn use. In later years, use of feed is expected to continue rising slowly. Exports are also higher than last year and are expected to rise in later years. The largest increase in use, however, is expected for industrial use, largely with expanded ethanol production. By 1998, CBO projects that ethanol use will rise by 70 percent from the 1991 level.

CBO projects that acreage reduction percentages (ARPs) for corn will range between 5 percent and 7.5 percent a year from 1994 to 1998. These ARP rates, combined with the forecast increases in various components of use, will keep stocks from growing. Annual carryover stocks are expected to fall from 1.9 billion bushels in 1994 to 1.7 billion bushels in 1998. Average annual farm prices are projected to be between $2.25 and $2.30 a bushel for those years, and deficiency payment rates are likely to fall to around $0.50 per bushel each year. Thus, corn outlays should decline to half the 1993 level for the later years, ranging between $2.1 billion and $2.6 billion for 1994 through 1998.

Outlays for other feed grains--sorghum, barley, and oats--are forecast to be $0.6 billion in 1993, but are expected to fall by half for the remaining years of the baseline period.

Soybeans

Soybean outlays, which were negative last year, are estimated at $178 million in 1993. In later years, outlays are expected to be negative as net annual loan activity remains close to zero and loan origination fees generate receipts. The 1992 average farm price is expected to fall to $5.46 per bushel, down from

$5.60 in 1991. Higher yields and output are forecast to result in a sharp rise in stocks this year. For 1993 and later years, CBO expects higher plantings, approaching 60 million acres, ending stocks around 300 million bushels, and prices ranging from $5.58 per bushel to $5.73 per bushel.

Wheat

Outlays for wheat in 1993 are estimated to rise by 24 percent to $2.1 billion. The increase results from higher loan outlays as loan placements rise. Wheat yields for the 1992 crop jumped 15 percent to 39.4 bushels per acre, resulting in a 2.5 billion bushel crop. But average prices for the year are forecast at $3.26 a bushel--a healthy rise from the previous year. Use declined only slightly as export demand is remaining strong so far this year. Carryover stocks for wheat are expected to climb to 580 million bushels--about 24 percent of use.

Output next year is expected to remain at this year's level, as the zero ARP announced for the 1993 crop will encourage more acres to be planted, offsetting the lower expected yield. With use expected to decline in 1993, and stocks expected to rise, prices may fall below $3.00. CBO expects deficiency payment rates for the 1993 crop to rise to $1.14 per bushel and deficiency payments for the 1993 crop to reach $2.1 billion, up 50 percent.

In later years, end-of-the-year stocks are expected to decline below 700 million bushels. Use is projected to rise 2 percent to 3 percent a year, but export growth depends somewhat on the response to changes in the European Community's Common Agricultural Policy. The ARP is expected to be set at 5 percent for two years and then at zero. Prices may rise gradually to $3.08 a bushel with deficiency payment rates ranging from $1.09 to $0.92 a bushel. Wheat outlays are estimated at between $1.9 billion and $1.8 billion annually for 1994 to 1998.

Rice

Rice outlays are projected to rise to $0.9 billion in 1993, up from $0.7 billion. The bulk of the costs are from deficiency payments, but almost one-quarter come from costs for marketing loans, as loans are repaid at market prices or producers receive payments to preclude using the loan program. Rice prices are expected to average below the $6.50 loan rate for crop years 1992 through 1994. In fact, prices for the remainder of the baseline period are expected to remain below the $7.58 average reached in the 1991 crop.

End-of-the-year stocks for the 1992 rice crop are estimated to rise to 38 million hundredweight, 40 percent above last year. This increase results from a combination of higher planted area--with a zero ARP--and a higher yield. For the rest of the baseline period, stocks are expected to fall and remain around 31 million to 33 million hundredweight, with prices trending upward each year. Outlays are estimated to range between $0.8 billion and $0.6 billion a year.

Cotton

CBO projects a huge jump in cotton outlays in 1993--to $2.3 billion from $1.4 billion last year. Depressed exports for the 1992 crop and increased production in 1993 pressured prices. Loan costs account for about 40 percent of the total, as prices are expected to remain below the loan rate of $0.524 per pound. Marketing loan costs are generated when producers repay loans at a market price that is below the level loaned against the crop and also when loan deficiency payments are made. These payments are given to producers not to put their crop under loan.

Cotton yields rose 6 percent for the 1992 crop, but a 10 percent ARP kept plantings and production down. However, depressed exports reduced use and raised carryover stocks. In later years, CBO projects ARPs ranging from 7.5 percent to 15 percent to maintain stocks at the mandated 30 percent stocks-to-use ratio. Outlays are estimated to remain high in 1994--at $2.1 billion--as loan costs and deficiency payments remain high. In later years, outlays are expected to continue falling, from $1.4 billion to $0.9 billion.

Dairy

CBO estimates dairy outlays of $254 million in 1993, similar to last year's level and sharply below the $840 million recorded in 1991. In later years, annual dairy outlays are expected to remain near the 1993 level, ranging from $257 million to $307 million.

Net CCC removals are forecast at 8.2 billion pounds in 1993, falling to 6.9 billion by 1998 as increases in production slightly lag increases is use each year. The continuing drop in the size of the dairy herd is expected to be more than offset by increases in the annual yield of milk per cow. The receipts from assessments in the Omnibus Budget Reconciliation Act of 1990--about $200 million a year--and from sales equal about half the annual purchase costs of the program.

Other Commodities and Noncommodity Items

Other commodities generally have small annual costs or, as in the case of tobacco and sugar, small annual receipts. However, in 1993, deliveries of food to Russia under the Food for Progress program are estimated to cost around $200 million.

CCC outlays for specific noncommodity items account for $3 billion in 1993, up by 50 percent from last year. The major changes include a jump in cash subsidies for the Export Enhancement Program (EEP), as the program no longer uses commodity certificates to pay exporters; an increase in disaster payments; and a decline in interest costs. In later years, no disaster payments are assumed in the baseline. Also, since no agreement on the General Agreement on Tarrifs and Trade is assumed in the baseline, CBO projects that EEP spending will continue at levels of $1 billion for 1994 and 1995, dropping slowly in later years.

The Market Promotion Program was constrained to $148 million for 1993 in appropriation legislation, but for later years the baseline assumes a return to the mandated $200 million annual level. Net interest costs are projected at $200 million to $250 million a year.

The Export Credit Guarantee Program

Other accounts that used to be part of the CCC and are related to CCC outlays include the liquidating and subsidy accounts of the Export Credit Guarantee program. The liquidating account reflects the net cash outlays for defaults on guarantees made before 1992, and the subsidy account reflects the estimated net present value of the cost of annual loan guarantees beginning in 1992. Costs in the liquidating account are estimated at $764 million in 1993, largely reflecting payments to banks on defaulted loans made to the states of the former Soviet Union. Another $558 million in net outlays is projected for 1994. Thereafter, net receipts are expected each year as repayments of previous defaults are made.

The cost of loan guarantees is estimated at $428 million for 1993. That assumes loan guarantees of $1.4 billion to the former Soviet states and $3.2 billion to the rest of the world during 1993. CBO assumes the rescheduling of debts by Russia and other former Soviet states in 1993. In later years, the subsidy cost is somewhat higher--$504 million--as the level of loan guarantees to Russia is assumed to be higher than in 1993. Also, at the end of the baseline period, CBO assumes that an upward adjustment will be made to the estimated cost of the 1992 program to reflect the unrealistically low subsidy rate used by the Treasury for this credit program.

CBO ESTIMATES OF THE CLINTON BUDGET'S MANDATORY PROPOSALS IN AGRICULTURE

President Clinton's preliminary budget proposals outlined in *A Vision of Change for America* include cuts in eight mandatory agriculture programs within function 350. Six of those proposals change programs in the Commodity Credit Corporation account, one changes the wool program, and one changes the crop insurance program. CBO has estimated the savings from the President's proposals against its baseline at $4.9 billion for 1994 through 1998 combined.

The CBO estimate of five-year savings from the Clinton budget proposals is significantly lower than the Administration's estimate of $6.9 billion. CBO's savings estimates are lower for most of the proposals. We estimate the budgetary impact of each proposal as it affects each program crop and include likely behavioral effects on farmers--such as shifting to other crops, idling acreage, or changing participation in the programs--and the likely changes in program parameters that can be adjusted by the Secretary of Agriculture, especially the level of acreage reduction.

The Office of Management and Budget (OMB) may not be making similar adjustments. CBO also adjusted its estimates for savings to take account of interrelationships among the proposals and probable farm restructurings.

The proposals that account for the biggest savings are changes to the commodity programs beginning with the 1996 crops, after the current farm bill expires. As a result, three-quarters of the savings from the Administration's proposals are estimated to come in 1997 and 1998 (see Table 4).

Increasing Unpaid Flexible Acres

One proposal raises the percentage of unpaid flexible or "flex" acres from the current level of 15 percent to 25 percent. This increase affects the program crops--wheat, corn and other feed grains, cotton, and rice--and reduces payments to farmers participating in the annual commodity programs. On the flexible acreage, farmers can plant their original program crop or other crops, but they would not receive deficiency payments for those acres regardless of what is planted.

For wheat and rice, CBO assumes that the Secretary would set the annual acreage reduction percentages at zero for the 1996 through 1998 crops, meaning those participants would lose 12 percent of payments.

TABLE 4. ESTIMATE OF CLINTON BUDGET'S MANDATORY PROPOSALS IN FUNCTION 350--AGRICULTURE (By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	Total
CBO Estimates of Outlay Changes from the Baseline						
Increase unpaid flexible acres to 25 percent in 1996	0	0	-323	-801	-923	-2047
Eliminate 0/92 in 1996	0	0	-164	-406	-467	-1037
Increase assessments on nonprogram crops in 1996	0	0	-149	-235	-260	-644
Crop insurance reform	-14	-56	-99	-144	-207	-520
Extend Market Promotion Program cut	-26	-52	-52	-52	-52	-234
Eliminate deficiency payments to those with off-farm income above $100,000	-26	-55	-60	-61	-60	-262
Limit wool to $50,000	0	-42	-32	-28	-27	-129
Eliminate honey subsidies	-34	-14	-6	-5	-3	-61
Total	-99	-219	-884	-1733	-1999	-4934

SOURCE: Congressional Budget Office (March 1993).

That is, payments would be made on 75 percent of base acres instead of 85 percent. For corn, the loss of payments would be slightly higher at 13 percent, since CBO assumes that a 7.5 percent ARP would be used in the 1996 through 1998 crops. Thus, farmers would lose payments of an additional 10 percent over the maximum base of 77.5 percent that is assumed for acres eligible for payment.

The increase in unpaid flex (triple-base) acres saves an estimated $2.0 billion from 1996 through 1998. This estimate is very uncertain because behavioral responses are difficult to gauge for major changes. This proposal affects all program crops, but relative prices among them would change, with changes varying by region.

Moreover, prices of program crops would change relative to nonprogram crops, such as soybeans, hay, fruits, vegetables, and others. CBO assumes a limited shift of the additional flex acres out of the original program crops, based on recent responses of producers to the 1990 legislation that introduced the current level of 15 percent of flex acres. Other shifts assumed in the CBO analysis include small reductions in base acres and participation rates because of the reduced deficiency payments and increased underplantings in some areas.

Eliminating the 0/92 and 50/92 Programs

The Administration has also proposed eliminating the 0/92 and 50/92 programs beginning with the 1996 crop years. Current law allows a producer who is participating in a commodity program to receive deficiency payments for acreage the producer idles voluntarily, up to 100 percent of wheat and feed grain acres (the "0/92" program), but only up to 50 percent of rice and cotton acres (the "50/92" program). A substantial amount of acreage--estimated at almost 12 million base acres in 1996 and much higher in subsequent years--is estimated to fall into this category in the baseline.

In estimating the savings that should accrue from not paying the deficiency payments on these acres, CBO adjusts estimates of yield on the assumption that the additional planted acres are lower-yielding than those in the baseline. It also increases ARPs to offset increased acreage and production.

CBO estimates the savings from eliminating the 0/92 and 50/92 programs at $1.0 billion for 1996 through 1998. This amount includes the interaction with the proposal to increase flex acres, and the combined savings would be less than the sum of the individual proposals.

Increasing Assessments on Nonprogram Commodities

The next largest saver among the eight mandatory proposals is the increase in assessments for nonprogram crops beginning with the 1996 crop years. This proposal corresponds with the increase in unpaid flex acres for program crops from 15 percent under current law to a proposed 25 percent--a 67 percent increase. However, the impacts on producers may be quite different. CBO estimates that savings from a 67 percent increase in assessments would be $644 million for 1996 through 1998. Most of the increase comes from dairy assessments.

Commodities covered by this proposal include sugar, tobacco, peanuts, wool and mohair, soybeans, and dairy products. The estimate of savings results from a 67 percent increase in the dollar value of assessments currently assumed to be collected in the baseline for those commodities. However, actual savings could vary depending on how the assessments were levied and the behavioral response of the producers. For instance, a large increase in the fee for soybean loan placements could result in a reduced volume of soybeans being put under loan and could push soybean assessments lower than those assumed in the baseline. However, a heavy increase could also affect loan placements for corn on farms growing both commodities, as farmers attempt to generate cash at harvest at the lowest cost.

Reforming Crop Insurance

The President is proposing to replace the current crop insurance program with an expanded version of the current pilot program for area-yield soybean insurance. CBO estimates that this proposal would save $520 million in the Federal Crop Insurance Fund from 1994 to 1998. The new program would offer a different insurance package--one that would tie payments to losses in yield for the county as a whole and not on the individual farm.

Many of those familiar with the pilot program feel that adequate data are not yet available to generate large benefits from expanding the pilot program. To realize large savings the agency would have to set premiums accurately by crop and region. CBO estimates that the annual loss ratio indemnity payments divided by premiums--in the program could fall slowly if the program is expanded gradually and if premiums are set based on actuarial data. CBO assumes that the loss ratio would fall from the 1.35 level in the baseline for 1994 and later years to 1.1 by 1998.

CBO held both the level of insured acreage and average premium rates at baseline levels in pricing this option. Nevertheless, large changes could occur in both of these variables. If premiums are set on an actuarially sound basis, many producers who face increased rates could drop out of the program. Since the crop insurance program runs at a cost--with premiums subsidized at 25 percent--a drop in enrollment in the program would save outlays. Conversely, participation could rise based on changes in premiums.

Cutting the Market Promotion Program

CBO estimates that the proposed cuts in the Market Promotion Program would save $234 million from 1994 through 1998. For fiscal year 1993, the program is limited to $148 million, but under current law an annual program minimum is set at $200 million in later years. This proposal would cap future annual levels at the 1993 level.

Eliminating Payments to Those with Off-Farm Incomes Above $100,000

CBO estimates that the proposal to eliminate deficiency payments and program benefits to those with off-farm incomes above $100,000 will save $262 million from 1994 to 1998. Tax data compiled several years ago implied that roughly 2 percent of total deficiency payments went to those with off-farm incomes above $100,000.

That percentage would overstate potential savings, however, because past experience indicates that farmers are likely to restructure their operations to avoid a loss of benefits from payment limitations. CBO's estimate assumes that a significant amount of restructuring would occur, particularly since the bulk of those affected would tend to have off-farm incomes close to the cutoff of $100,000. Types of restructuring include cash leasing of farmland, so that tenants collect the deficiency payments rather than the owner, reorganizing off-farm holdings to shift tax incidence, and moving income into a future year.

<u>Limiting Wool Payments to $50,000 per Person</u>

Similar reasoning affected the CBO estimate of savings from limiting payments in the wool and mohair programs to $50,000 per person. CBO estimates savings of $129 million from 1994 through 1998. The proposal to cap the payments could affect 35 percent of wool and mohair program payments, but savings would be limited by restructuring of farm operations.

Eliminating the Honey Program

The last mandatory proposal affecting function 350 is to eliminate the honey program beginning with the 1994 marketing year. CBO estimates that five-year savings of $61 million could be realized. Savings to the CCC come from not making new loans in 1994 and subsequent years. Savings in the first year would be $34 million because CBO expects that 1993 loans would still be repaid at the market price, just as in the baseline.