17. AGRICULTURE

Table 17–1. FEDERAL RESOURCES IN SUPPORT OF AGRICULTURE
(In millions of dollars)

Function 350	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	4,225	4,310	4,074	3,949	3,883	3,862	3,780
Mandatory Outlays:							
Existing law	4,960	6,391	6,973	6,765	5,440	5,425	5,649
Proposed legislation	....	....	–155	–299	–170	–161	–163
Credit Activity:							
Direct loan disbursements	6,402	7,450	8,651	8,505	7,738	7,177	6,856
Guaranteed loans	3,961	7,255	6,895	6,894	6,894	6,894	6,894
Tax Expenditures:							
Existing law	660	680	730	750	760	750	765

Since early in the Nation's history, the Federal Government has helped increase U.S. agricultural productivity. Agriculture Department (USDA) programs focus to a large extent on ensuring that markets function fairly and that farmers do not face unreasonable risk. Federal programs disseminate economic and agronomic information, ensure the integrity of crops, inspect the safety of meat and poultry, and help farmers face risks from weather and variable export conditions. The results are found in the public welfare that Americans enjoy from an abundant, safe, and inexpensive food supply, free of severe commodity market dislocations.

Conditions on the Farm

Agriculture and its related activities account for 16 percent of the Gross Domestic Product. With strong demand and record market prices for several crops in 1996, gross crop cash receipts exceeded $109 billion in 1996, a new record, and up nearly $10 billion from 1995. Net cash income also set a record in 1996 at $60 billion. Forecasts for 1997 put net cash income down $5 billion from the record level, but still within the last five year's average. Farmers will earn slightly less from 1997 crop sales due to lower feed grain prices. Livestock receipts in 1997 will increase from the $93 billion of 1996; higher beef cattle prices, the result of reductions in the beef herd, will be the most important influence. After three years of steady declines in cattle and calf receipts, this year will mark the turnaround point.

Farm assets, debt, and equity continue to rise. Farm sector business assets rose six percent in value in 1996, to $1 trillion. Farm asset values will grow another five percent in 1997, while farm real estate values will rise for the tenth straight year. Farm business debt will rise $5 billion in 1997, the highest level since 1986, but growing debt shows few signs of precipitating a repeat of the widespread financial stress in the farm sector of the 1980s.

Exports are key to future farm income. The Nation now exports 30 percent of its farm production, and agriculture produces the greatest balance of payments surplus, for its share of national income, of any economic sector. Agricultural exports reached a record $60 billion in 1996. Lower world market prices and bulk export volume will reduce exports by an estimated $3 billion in 1997 but, in 1998, exports will grow by a projected $2 billion, to $59 billion. Pacific Asia, including Japan, is the most important region for U.S. farm exports, accounting for 42 percent of total U.S. export sales in 1996. Consequently, the financial turmoil in certain Asian countries could affect U.S. exports.

The 1996 Farm Bill

Known officially as the Federal Agriculture Improvement and Reform Act (FAIR) of 1996, the Farm Bill was a milestone in U.S. agricultural policy. The bill, effective through 2002, fundamentally redesigns Federal income support and supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and cotton. It expands the market-oriented policies of the previous two major farm bills, which have gradually reduced the Federal influence in the agricultural sector.

Under previous laws dating to the 1930s, farmers who reduced plantings when prices were low could get income support payments, but farmers had to plant specific crops in order to receive support payments. Even when market signals might have suggested planting a different crop, farmers had limited flexibility to do so. By contrast, the 1996 Farm Bill eliminated most such restrictions and, instead, provides fixed, but declining payments to eligible farmers through 2002, regardless of market prices or production volume. Thus, the law "decouples" Federal income support from planting decisions and market prices. Not surprisingly, the law has brought significant changes in cropped acreage in response to market signals. In 1997, wheat acreage fell by seven percent, or almost five million acres, from the previous year, while soybean acreage rose by 10 percent, or almost seven million acres.

Federal Programs

USDA seeks to enhance the quality of life for the American people by supporting production agriculture; ensuring a safe, affordable, nutritious, and accessible food supply; caring for agricultural, forest, and range lands; supporting sound development of rural communities; providing economic opportunities for farm and rural residents; expanding global markets for agricultural and forest products and services; and working to reduce hunger in America and throughout the world. (Some of these missions fall within other budget functions and, thus, are described in other chapters.)

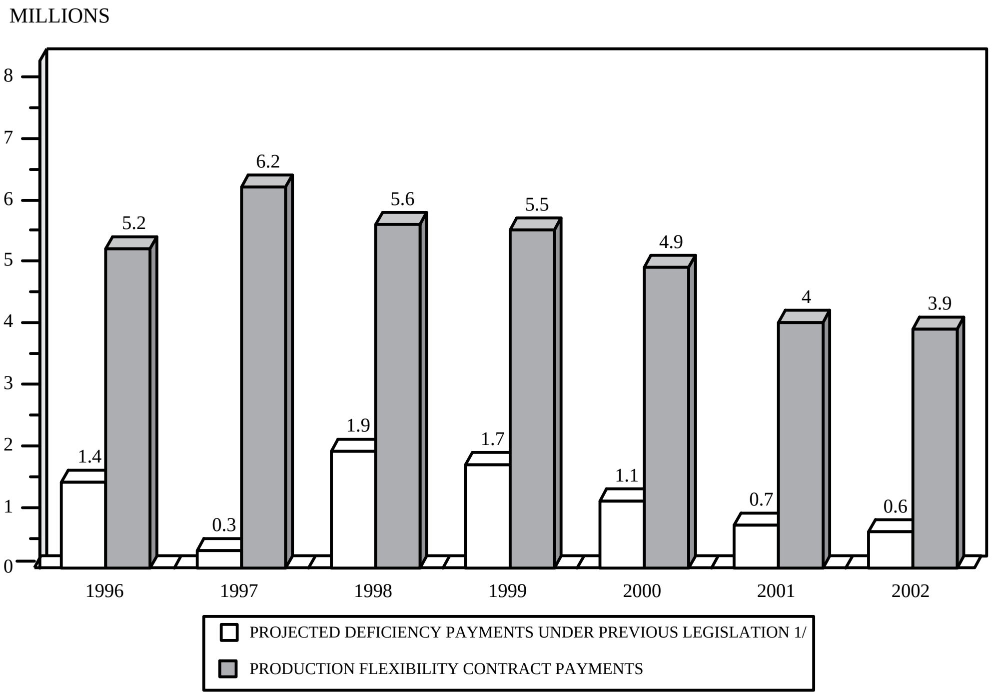
Farming is a risky business. Farmers not only face the normal vagaries of supply and demand, but also uncontrollable risk from Mother Nature. Federal programs are designed to accomplish two key economic goals: (1) enhance the economic safety net for farmers and ranchers; and (2) open, expand, and maintain global market opportunities for agricultural producers.

The Government mitigates risk through a variety of programs:

Farm Commodity Programs: Since Federal payments are now fixed, farm income could fluctuate more from year to year due to supply and demand changes. Farmers will need to rely more on marketing alternatives. To better use Federal assistance to protect against risk and stabilize farm income, producers should set aside funds from, or otherwise develop strategies to utilize, the income-support payments, allocating savings from years of high income for use when income falls. (See Chart 17–1 for the estimated increased Federal income-support payments due to the 1996 Farm Bill.) The Federal Government, however, continues to provide other safety-net protections, such as the marketing assistance loans that guarantee a minimum price for major commodities.

Insurance: USDA helps farmers manage their risks by providing subsidized crop insurance, delivered through the private sector. Farmers pay no premiums for coverage against catastrophic production losses, and the Government subsidizes their premiums for additional coverage. Over the past three years, an average 80 percent of eligible acres have been insured, with an average gain of $0.10 for every $1 in insurance premiums—down from the historical average of $0.40 loss for every $1 in premium. Crop insurance costs the Federal Government about $1.4 billion a year, including USDA payments to private companies for costs tied to administering Federal crop insurance. Since the Farm Bill ended major elements of USDA's traditional price and income support programs, producers now bear most of the price risk. In 1997, USDA expanded several insurance products that mitigate "reve-

Chart 17-1. PRODUCTION FLEXIBILITY CONTRACT PAYMENTS EXCEED PROJECTED DEFICIENCY PAYMENTS



1/ Source: USDA, Based on supply and demand estimates as of November 10, 1997

nue risk"—price and production risk combined. These "revenue insurance pilots" showed that farmers generally want these types of products, and USDA will continue to expand their application and availability.

Trade: The trade surplus for U.S. agriculture has grown faster in recent decades than for any other civilian sector of the economy, and USDA's international programs helped to shape that growth. The Foreign Agriculture Service's efforts to negotiate, implement, and enforce trade agreements have played a large role in creating a strong market for exports.

In 1999, USDA will:

- take action to overcome 660, or 17 percent, more trade barriers than in 1998;
- help 5,000, or 25 percent, more U.S. companies in U.S. agricultural export sales; and
- help in 1,545, or 13 percent, more projects to build U.S. export markets in developing countries.

USDA spends about $750 million a year on export activities, including subsidies to U.S. firms facing unfairly-subsidized overseas competitors, and loan guarantees to foreign buyers of U.S. farm products. USDA also helps firms overcome technical requirements, trade laws, and customs that often discourage the smaller, less experienced ones from taking advantage of export opportunities. USDA will help less experienced firms develop their export capacity by increasing the number of outreach events.

In 1999, USDA will:

- increase the number of its trade shows by 13 percent, to 400; and
- increase the number of firms that the Market Assistance Program (MAP) supports in establishing marketing and distribution channels by eight percent, to 1,700 firms.

In addition, USDA shares some of the risk when firms or trade organizations experiment in the export market. USDA helps educate firms about the requirements and process of developing an overseas market. By participating in the MAP or USDA-organized trade shows, firms can more easily export different products to new locations on their own.

The programs have helped U.S. firms, especially smaller-sized ones, export more aggressively, and high-value products now make up a growing share of export value (see Chart 17–2). Small and medium-sized firm recipients (those with annual sales of under $1 million) now represent 84 percent of the MAP-branded promotion spending, up from 70 percent in 1996, and USDA expects to raise that figure to 100 percent by 1999.

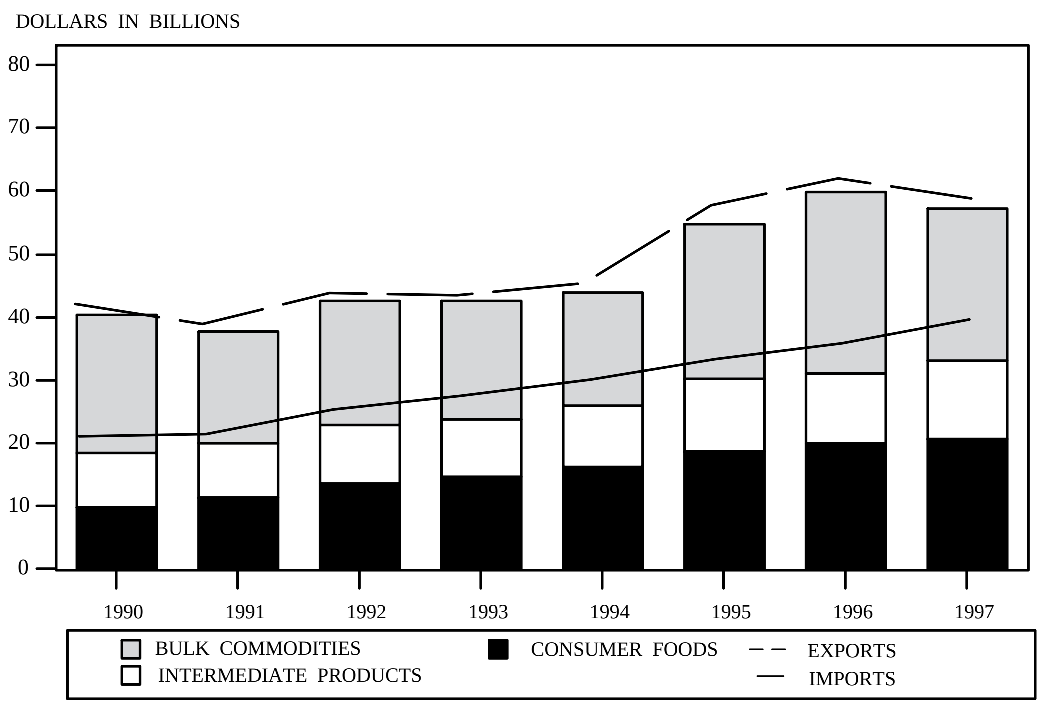
Agricultural Research: The Federal Government spends over $1.5 billion a year to support agricultural research and enhance U.S. and global agricultural productivity. The average annual return to publicly-funded agricultural research exceeds 35 percent, according to recent academic estimates.

The Agricultural Research Service (ARS) is USDA's in-house research agency, addressing a broad range of food, farm, and environmental issues. It puts a high priority on transferring its research findings to the private sector.

- In 1999, ARS expects to submit 60 new patent applications, participate in 85 new Cooperative Research and Development Agreements, license 25 new products, and develop 70 new plant varieties to release to industry for further development and marketing.

The Cooperative State Research, Education, and Extension Service provides grants for agricultural, food, and environmental research; higher education; and extension activities. The National Research Initiative competitive research grant program, launched in 1990 on the recommendation of the National Research Council, works to improve the quality and increase the quantity of USDA's and the private sector's farm, food, and environmental research.

Chart 17-2. U.S. AGRICULTURAL EXPORT PROFILE AND TRADE SURPLUS



Notes: High-value products now make up over 50 percent of total exports.
Trade surplus was at $21.5 billion in 1997.

Economic Research and Statistics: The Federal Government spends about $160 million to improve U.S. agricultural competitiveness by reporting and analyzing economic information. The Economic Research Service provides economic and other social science information and analysis for decision-making on agriculture, food, natural resources, and rural America. The National Agricultural Statistics Service (NASS) develops estimates of production, supply, price, and other aspects of the farm economy.

- In 1999, NASS will include over 95 percent of national agricultural production in its annual commodities program, up from 92 percent in 1997.

Inspection and Market Regulation: The Government spends a half-billion dollars a year to secure U.S. cropland from pests and diseases and make U.S. crops more marketable. In addition, USDA's Food Safety and Inspection Service ensures that U.S. meat and poultry do not threaten consumers' health. The Animal and Plant Health Inspection Service (APHIS) inspects agricultural products that enter the country; controls and eradicates diseases and infestations; helps control damage to livestock and crops from animals; and monitors plant and animal health and welfare. The Agricultural Marketing Service (AMS) and the Grain Inspection, Packers, and Stockyards Administration help market U.S. farm products in domestic and global markets, ensure fair trading practices, and promote a competitive, efficient marketplace.

In 1999, APHIS will:

- make about 48 million inspections of airline passengers, aircraft, commercial vessels, trucks, and rail cars to prevent the entry of illegal plants and animals that could endanger U.S. agriculture, a slight increase over estimated 1998 levels.
- clear most international air passengers through its inspection process in 30 minutes or less, an estimated 20-percent improvement over 1997 rates.
- clear most passengers crossing U.S. land borders in non-peak traffic periods in 20 minutes or less on the northern border, and 30 minutes or less on the southern border.

In 1999, the AMS Pesticide Data Program will:

- initiate a microbiological surveillance program on domestic and imported fruits and vegetables as part of the President's Food Safety Initiative.
- perform about 55,000 analyses on 14 different commodities, collecting 9,200 samples to measure pesticide residues, an increase from the estimated 1998 activities of 51,000 analyses, 13 commodities, and 8,900 samples.

Conservation: The 1996 Farm Bill is the most conservation-oriented farm bill in history, enabling USDA to provide incentives to farmers to protect the natural resource base of U.S. agriculture. Farmers can now use crop rotations, which earlier price support programs had severely limited. Also, the bill created several new programs. The Environmental Quality Incentives Program (EQIP), with $200 million in annual spending (and another $100 million proposed for 1999) provides cost-share and incentive payments to encourage farmers to adopt new and improved farming practices or technology, and it reduces the environmental impact of livestock operations. Farmers may use different nutrient management or pest protection approaches, with USDA offering financial assistance to offset some of the risk. The Conservation Farm Option program helps landowners adopt innovative approaches to improving environmental quality; groups of farmers may submit proposals to create comprehensive conservation farm plans, with a host of different land use and funding alternatives.

USDA's conservation programs give technical and financial help to farmers and communities. They include the Conservation and Wetlands Reserve Programs, which remove land from farm uses; and the Conservation Operations program, which provides technical assistance.

In 1999, USDA will:

- increase the number of acres enrolled each year for riparian buffers and filter strips to 3.76 million, from an estimated 3.36 million acres in 1998; and

- increase the acreage of restored wetlands to 1.34 million acres, from an estimated 1.2 million acres in 1998.

For more information on conservation, and USDA's investments in public land management, see Chapter 16, "Natural Resources and Environment." USDA programs also help to maintain vital rural communities, as described in Chapter 20, "Community and Regional Development."

Agricultural Credit: USDA provides about $600 million a year in direct loans and over $2.5 billion in guaranteed loans for farm operating and ownership. Direct loans, which carry interest rates at or below those on Treasury securities, generally go to beginning or socially disadvantaged farmers who cannot secure private credit.

In 1999, USDA will:

- increase the proportion of loans made to beginning and socially-disadvantaged farmers to 14.4 percent, from an estimated 12.6 percent in 1998 and nine percent in 1996; and
- reduce the delinquency rate on farm loans to 17 percent, from an estimated 18 percent in 1998 and 20 percent in 1996.

The Farm Credit System and "Farmer Mac"—both Government-Sponsored Enterprises—enhance the supply of farm credit through ties to national and global credit markets. The Farm Credit System (which lends directly to farmers) has recovered strongly from its financial problems of the 1980s, in part through Federal help. Farmer Mac increases the liquidity of commercial banks and the Farm Credit System by purchasing agricultural loans. In 1996, Congress gave the institution authority to pool loans as well as more years to attain required capital standards, which it has largely achieved already.

Personnel, Infrastructure, and the Regulatory Burden: USDA administers its many farm programs through 2,500 county offices with over 17,000 staff. The Farm Bill significantly cut USDA's workload, prompting the department to re-examine its staff-intensive field office-based infrastructure. In 1998, USDA will: (1) conduct a study to find ways to operate more efficiently; (2) continue an Administration initiative to scrap duplicative and unnecessary regulations and paperwork; and (3) review and upgrade its computer systems to streamline its collection of information from farmers and better disseminate information across USDA agencies.

In 1999, USDA will:

- merge the headquarters and State office administrative support staffs for its field office agencies (Farm Services Agency, Natural Resources Conservation Service, Rural Development) to provide more efficient and coordinated support services.