16. AGRICULTURE

Table 16–1. Federal Resources in Support of Agriculture
(In millions of dollars)

Function 350	1999 Actual	Estimate					
		2000	2001	2002	2003	2004	2005
Spending:							
Discretionary Budget Authority ...	4,503	4,462	4,586	4,583	4,544	4,652	4,749
Mandatory Outlays:							
Existing law	18,447	26,100	14,259	9,824	9,725	7,598	6,635
Proposed legislation	.....	710	3,384	3,290	.....	.....	.....
Credit Activity:							
Direct loan disbursements	10,038	12,165	10,630	N/A	N/A	N/A	N/A
Guaranteed loans	2,593	6,584	6,631	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	885	915	960	995	1,050	1,100	1,140

N/A = Not available.

The Federal Government helps to increase U.S. agricultural income by boosting productivity, ensuring that markets function fairly, and providing a safety net for farmers and ranchers who often face unreasonable market forces, financial risk and natural disasters. Agriculture Department (USDA) programs disseminate economic and agronomic information, ensure the integrity of crops, inspect the safety of meat and poultry, and help farmers finance their operations and manage risks from both 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. Agriculture, food, and its related activities account for 15 percent of the total U.S. personal consumption expenditure.

Conditions on the Farm

Economic conditions facing U.S. agriculture in 1999 again highlighted the need for a Federal role. Supplies of farm commodities continued to exceed demand, and some record high market prices of the mid-1990s fell to their lowest levels in years. While farmers and ranchers in many areas suffered crop production losses due to weather, disease, and pests in 1998 and 1999, these crop losses did not offset production increases in other regions of the country. Gross cash receipts fell three percent to $192 billion, still 11 percent above the average level for 1990–95. Net cash income rose $4 billion above 1998 to nearly the 1993 record of $59.3 billion, emergency with the Government payments. Forecasts for 2000 put net cash income (without a Government aid package) below the 1990–95 average of $53.6 billion. Farmers are expected to earn slightly less from 2000 crop sales than last year due to lower feed grain prices. Livestock prices in 1999 began to recover from recent lows, and receipts are slightly above the record level of $96.6 billion in 1997. Beef cattle and hog prices are expected to strengthen modestly in 2000, but remain low for many other commodities.

Macro-economic agricultural conditions in 1998–99 were nearly the reverse of conditions that led to record farm income and prices earlier in the decade. Growth in crop yields and a fourth year of generally fine weather led to robust world-wide production of major grains, which flattened export demand for U.S. crops. These conditions prompted the Federal Government to expand spending on

agriculture for a second year, including $9.1 billion in emergency disaster relief enacted in the 2000 Agriculture Appropriations Act and the 2000 Consolidated Appropriations Act. Overall, Federal Government farm payments reached a record $22.7 billion in 1999 (from $12.2 billion in 1998).

Despite generally low commodity prices, farm assets and equity continue to rise. Farm sector assets increased slightly in value in 1999, to $1.04 trillion. Farm asset values are forecast to remain at historic high levels in 2000, as farm real estate values increase for the twelfth straight year. In 1999, farmers' debt burden was only about 40 percent of their repayment capacity, comparable to the 1997 level of record economic performance. Farmer loan delinquencies are at a low and flat level. However, a continuation of low commodity prices may cause increasing financial stress for many producers.

Exports remain key to future U.S. farm income. The Nation exports 35 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. By 1999, with export volume flat, lower world market prices reduced exports to $49 billion in value terms. In 2000, export growth is likely to be minimal. Pacific Asia, including Japan, is the most important region for U.S. farm exports, accounting for 36 percent of total U.S. export sales in 1999.

The 1996 Farm Bill

The 1996 Farm Bill, effective through 2002, fundamentally redesigned Federal income support and supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and cotton. It expanded the market-oriented policies of the previous two major farm bills, which had gradually reduced the Federal influence in the agricultural sector, at the same time, however, it frayed significantly the existing farm net.

Under previous laws dating to the 1930s, farmers who reduced plantings could get income support payments when prices were low, but farmers had to plant specific crops in order to receive such payments. Even when market signals encouraged the planting of a different crop, farmers had limited flexibility to do so. By contrast, the 1996 Farm Bill eliminated most such restrictions and, instead, provided fixed, but declining payments to eligible farmers through 2002, regardless of market prices or production volume. This law decoupled Federal income support from planting decisions and market prices. The law brought changes in the crop acreage planted in response to market signals. In 1997, wheat acreage fell by six percent, or about five million acres, from the previous year, while soybean acreage rose by 10 percent, or over six million acres.

The Farm Bill's freedom from planting restrictions meant greater potential volatility in crop prices and farm income. Not only can USDA no longer require farmers to grow less when supplies are great, but the size of farm income-support payments no longer varies as crop prices fluctuate. The previous farm bills were not perfectly counter-cyclical: participants in USDA commodity programs whose crops were totally ruined when prices were high got no income-support payment then, but would now through fixed payments. The 1996 Farm Bill also provides additional marketing loan payments to farmers when commodity prices fall below a statutorily set loan rate. These reached the historic high level of nearly $7 billion in 1999, before being supplemented by the second straight year of emergency aid to producers. Nonetheless, the market conditions in 1998 and 1999 raised the issue of whether the Federal farm income safety net was sufficient, and how it should be improved. Specifically, many crop prices greatly decreased in 1997–1999 from previous years, but the farm bill's decoupled income assistance did not adjust upward to compensate. Because commodity prices remain low, the budget includes through the end of the Farm Bill an $11 billion package to enhance the farm income safety net. It includes counter-cyclical income assistance when farm revenues are low, a freeze on USDA marketing assistance loan rates for the 2000 crop, and major increases in new and existing USDA conservation programs, among other things.

The 1999 crop experience also highlighted problems with the crop insurance program, which is intended to be the foundation of the farm safety net. Farmers who experience multi-year losses are left with insufficient coverage at higher cost; there is no coverage available for many commodities including livestock; and, most fundamentally, coverage that provides adequate compensation is simply not affordable for many farmers. The Administration's safety net package, therefore, includes funds to increase crop insurance subsidies.

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; conserving 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 are described in other chapters in this Section.)

Farming and ranching are risky. Farmers and ranchers face not only the normal vagaries of supply and demand, but also uncontrollable risk from 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 Federal Government mitigates risk through a variety of programs:

Federal Farm Commodity Programs: Since most Federal income support payments under the 1996 Farm Bill are now fixed, farm income can fluctuate much more from year to year due to supply and demand changes. Farmers must rely more on marketing alternatives, and develop strategies for managing financial risk and stabilizing farm income. However, in response to unprecedented crop/livestock price decreases and regional production problems, Congress included as part of the $9.1 billion in emergency disaster relief in 2000 a doubling of the 1996 Farm Bill's fixed $5 billion in income-support payments. In addition, the Federal Government continues to provide other safety-net protections, such as the marketing assistance loans that guarantee a minimum price for major commodities, which paid producers $7 billion in 1999 and will pay them a similar amount in 2000.

Insurance: USDA helps farmers manage their risks by providing subsidized crop insurance, delivered through the private sector, which shares the insurance risk with the Federal Government. Farmers pay no premiums for coverage against catastrophic production losses, and the Government subsidizes their premiums for higher levels of coverage. Over the past three years, an average 65 percent of eligible acres have been insured, the highest in the program's 60-year history. USDA now targets an average indemnity payout of $1.08 for every $1 in premium, down from the historical average indemnity of $1.40 for every $1 in premium. Crop insurance costs the Federal Government about $1.5 billion a year, including USDA payments to private companies for delivery of Federal crop insurance.

Early in 2000, as part of the $9.1 billion in emergency disaster relief the President signed into law, nearly $1.4 billion in crop loss payments was paid to producers to compensate for natural disasters in 1999. Payments also were made to uninsured farmers, but with the requirement that those farmers purchase insurance in the 2000 and 2001 crop years. Moreover, $400 million was provided in 2000, as it was in 1999, to help farmers pay insurance premiums. Consequently, crop insurance participation, and therefore subsidy costs, are expected to be above average in these years, due to eligible acres insured rising toward 70 percent and current policyholders taking advantage of reduced premiums to increase their coverage. Both increased participation and higher coverage have the effect of enhancing the farm safety net, and reducing the need for disaster assistance legislation. USDA also continues to develop crop insurance policies on new crops and expand several insurance products that mitigate revenue risk—price and production risk combined. These revenue insurance pilots have shown 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 declined by about 30 percent in 1999 to $11.6 billion, after experiencing faster growth in recent decades than any other sector of the economy. This is largely the result of the drop in commodity prices rather than a loss of export volume. The Foreign Agriculture Service's efforts to negotiate, implement, and enforce trade agreements play a large role in creating a strong market for exports.

In 2001, USDA will:

- take action to overcome 650 new trade barriers, up from 400 in 1993; and,
- generate 4,500 trade leads for U.S. agricultural export sales, 10 percent greater than in 1993.

USDA is authorized to spend over $1 billion in 2001 on export activities (not counting funds for overseas donations of farm commodities), 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 and processes that often discourage the smaller, less experienced firms from taking advantage of export opportunities. USDA outreach and exporter assistance activities help U.S. companies address these problems and enter export markets for the first time.

USDA programs also help U.S. firms, especially smaller-sized ones, export more aggressively. Their high-value products now account for more than half of agricultural export value even as total U.S. farm exports have been declining recently. By participating in the Market Assistance Program (MAP) or USDA-organized trade shows, firms can more easily export different products to new locations on their own. Small and medium-sized firm recipients (those with annual sales of under $1 million) now represent all of the MAP branded-promotion spending, up from 60 percent in 1993.

In 2001, USDA will:

- assist 2,000 U.S. firms to establish export activities and overseas marketing distribution channels, 750 more than in 1993; and,
- increase the number of new firms that the MAP supports in establishing marketing and distribution channels for a total of 625 participants, up from 525 in 1994.

Agricultural Research: In 2001, the Federal Government expects to spend $2.2 billion for agricultural research, education, economics and statistics programs whose goals are to make U.S. agriculture more productive and competitive in the global economy.

The Agricultural Research Service (ARS) is USDA's in-house research agency. In 2001, ARS' $950 million proposed funding level will increase emphasis in high-priority areas, such as improving human nutrition, food safety and food quality protection; combating emerging and exotic animal and plant diseases and invasive species; improving the understanding of agriculture's role and response to climate change issues; increasing available genetic resources and improving the ability to identify useful properties of organisms; and, using biotechnology to find new products and energy sources from existing and converted crops, as well as to fund needed facility construction.

During 1999, ARS developed new procedures to reduce crop losses due to post-harvest decay of stored commodities; initiated a cooperative project to sequence, map and analyze publicly available DNA clones for crop genomes; and, determined the role of various nutrients in providing maximum health benefits to the public, including children and the elderly.

The Cooperative State Research, Education and Extension Service (CSREES) provides grants, mainly through open competition or legislative formula. The largest recipients of these grants are land grant universities and State agricultural experiment stations. In 2001, CSREES' $1.1 request billion (including $120 million for mandatory programs) will increase funding for competitive grants for several programs, mainly through the National

Research Initiative—USDA's major source of competitive research grant funding—as well as integrated research, education and extension grants, and mandatory authority provided in 1998. CSREES also will provide increased support in areas such as pest management and control, sustainable agriculture, biotechnology, food quality protection, small farms programs and gleaning. It also will provide support to minority institutions of higher education, and a large increase has been requested for Native American programs.

USDA economics and statistics programs, which are funded at $150 million, improve U.S. agricultural competitiveness by reporting and analyzing information. The Economic Research Service (ERS) provides economic and other social sciences information and analysis for decision-making on agriculture, food, natural resources and rural development policy. The National Agricultural Statistics Service (NASS) provides estimates of production, supply, price and other aspects of the farm economy, providing information that helps ensure efficient markets.

- In 2001, NASS will include over 95 percent of national agricultural production in its commodities reports, up from 92 percent in 1997.

Inspection and Market Regulation: The Federal Government spends a half-billion dollars a year to secure U.S. cropland from pests and diseases and make U.S. crops more marketable. The Animal and Plant Health Inspection Service (APHIS) inspects agricultural products that enter the country, searching for goods or commodities that could harbor potential infestations; monitors the disease status of agricultural plants and animals; controls and eradicates diseases and infestations; helps control damage to livestock and crops from animals; and uncovers cruel treatment of many domesticated animals. The Agricultural Marketing Service (AMS) and the Grain Inspection, Packers and Stockyards Administration (GIPSA) help market U.S. farm products, ensure fair trading practices, and promote a competitive, efficient market place.

In 2001, APHIS will provide increased funding to stop the importation of goods and commodities that could endanger U.S. agriculture; monitor the potential for infestations; use discretionary funding to respond to ongoing emergencies such as Medfly, citrus canker and scrapie; improve the inspection of plants and animals; and, take actions to respond to the threat of invasive plant and animal species. APHIS resources also will significantly increase animal welfare activities (for which a $5 million increase is requeted for 2001). The amounts requested will fund more inspectors to help ensure that licensed or regulated wholesalers, certain pet stores, zoos, circuses and other public displays and research facilities follow regulations for the humane treatment of animals. Examples of performance in 2001 are:

- APHIS expects to reduce the number of Medfly infestations in Chiapas, Mexico, that could threaten the U.S., from 239 in 1998 to 50; and,
- APHIS will increase the number of animal welfare inspections from 10,000 in 1998 to 17,000 in 2001.

AMS will increase funding a microbiological surveillance program on domestic fruits and vegetables through the President's Food Safety Initiative, and fund the recently authorized program to provide the public with daily information on livestock transactions.

- AMS will increase the number of markets covered by its market news program from 1,681 in 1998 to 1,831 in 2001.

Conservation: The Farm Bill was the most conservation-oriented farm bill in history, enabling USDA to provide incentives to farmers and ranchers 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), provides cost-share and incentive payments to encourage farmers to adopt new and improved farming practices or technology, and reduce 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. Another new Farm Bill program was the Farmland Protection Program (FPP), which provides cost-share funds for agricultural easements to State, local, and

tribal governments to preserve farmland and prevent its conversion to other uses.

The Administration's farm safety net proposal expands several conservation programs and their mandatory funding, increasing the financial and technical assistance available to farmers and ranchers who wish to implement costly but environmentally-sound land management practices or those who want to permanently protect their farmland from development. (see also, Chapter 4, "Protecting the Environment"). The safety net proposal removes the Wetlands Reserve Program's (WRP) cumulative 975,000 acre cap to allow enrollment of 250,000 acres per year, as outlined in the Clean Water Action Plan, and increases the Conservation Reserve Program's (CRP) enrollment cap by 3.6 million acres, to 40 million. Both of these programs remove land from agricultural use and restore natural habitats. The safety net proposal also provides $65 million for the FPP, which remains part of the Administration's Lands Legacy initiative, and $50 million for the Wildlife Habitat Incentives Program (WHIP), which helps landowners establish fish and wildlife habitat on their land. The EQIP's annual authorized funding level is also increased by $125 million to $350 million. Also included in the proposal is $600 million for a new Conservation Security program, which will provide varying levels of payments to producers based on the conservation practices they implement.

In 2001 USDA will:

- increase the number of acres enrolled each year for riparian buffers and filter strips to 2.9 million, from an estimated 2.0 million acres in 2000;
- Develop resource management systems for 12.3 million acres of cropland and grazing land, and,
- protect approximately 130,000 productive farmland acres through the FPP from being permanently lost to development.

For more information on conservation, and USDA's investments in public land management, see Chapter 15, "Natural Resources and Environment." USDA programs also help to maintain vital rural communities, as described in Chapter 19, "Community and Regional Development."

Agricultural Credit: USDA provides about $700 million a year in direct loans and over $3 billion in guaranteed loans to finance farm operating expenses and farmland purchases. Direct loans, which carry interest rates at or below those on Treasury securities, are targeted to beginning or socially disadvantaged farmers who cannot secure private credit.

In 2001, USDA will:

- increase the proportion of loans targeted to beginning and socially-disadvantaged farmers to 18 percent, from an estimated 16 percent in 2000 and nine percent in 1996 when USDA first began measuring this activity; and,
- reduce the delinquency rate on farm loans to 14 percent, from an estimated 16 percent in 2000 and over 24 percent in 1994.

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 for resale as bundled securities. In 1996, Congress gave the institution authority to pool loans as well as more years to attain required capital standards, which Farmer Mac has now achieved.

Personnel, Infrastructure, and the Regulatory Burden: USDA administers its many farm, conservation, and rural development programs through 2,500 county offices with over 17,000 staff. The increasing costs of maintaining the current delivery system and the investment in new information technology have prompted the Department to re-examine its staff-intensive field office-based infrastructure. In 2001, USDA will: (1) consolidate information technology staff of the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development into one staff to service all three agencies under USDA's Chief Information Officer; (2) identify centers of investment to allocate limited technology invest-

ments and reduce the number of free-standing county offices; and, (3) continue to streamline its collection of information from farmers and better disseminate information across USDA agencies.

In 2001, USDA will utilize county-office pilot sites to test new management structures and program delivery options that improve customer service and collectively reduce operating costs. USDA will also merge all of the non-information technology administrative support staffs for its field office agencies (Farm Services Agency, Natural Resources Conservation Service, Rural Development), consistent with the cost-benefit analysis done to support the investment in modern technology by providing more efficient and coordinated support services. Efficiency savings of $21 million from sharing common administrative processes and staff were delayed past 2001 due to postponement of this initiative in 2000 by Congress.