7. AGRICULTURE

Table 7–1. Federal Resources in Support of Agriculture
(In millions of dollars)

Function 350	2000 Actual	Estimate					
		2001	2002	2003	2004	2005	2006
Spending:							
Discretionary Budget Authority	4,725	5,111	4,833	5,242	5,152	5,264	5,383
Mandatory Outlays:							
Existing law	31,990	20,437	13,162	9,819	8,759	8,789	9,099
Credit Activity:							
Direct loan disbursements	11,005	10,280	10,392	8,949	8,791	8,564	8,868
Guaranteed loans	5,435	6,492	6,783	6,886	6,886	6,886	6,886
Tax Expenditures:							
Existing law	1,040	1,080	1,130	1,180	1,230	1,290	1,340

Through the Department of Agriculture (USDA), the Federal Government seeks to enhance the quality of life for the American people by supporting agricultural production; 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. (Many of these missions fall within other budget functions and are described in other chapters in this section.)

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 face financial risk and natural disasters. Farming and ranching are risky. Federal programs are designed to accomplish two key economic goals: (1) provide an economic safety net for farmers and ranchers; and (2) open, expand, and maintain global market opportunities for agricultural producers.

USDA programs disseminate economic and agronomic information, and help farmers finance their operations and manage risks from both weather and variable export conditions. Agriculture, food, and its related activities account for 15 percent of total annual U.S. personal consumption expenditures.

Conditions on the Farm

Farm conditions are improving. While supplies of farm commodities continued to exceed demand, some prices have started to recover from the lows of the past two years. Gross cash market receipts rose three percent to $195 billion in 2000, above the average level for 1990-1995. Net cash income also rose slightly, remaining above average due to Federal emergency payments. Farmers are expected to earn slightly more from 2001 crop sales due to a larger harvest and improving prices. Livestock prices in 2000 recovered from previous lows, and livestock receipts exceeded the record level of $96.5 billion in 1997. Crop and livestock prices are expected to strengthen modestly in 2001.

Economic and weather conditions in the 2000 crop year prompted the Federal Government to expand spending on agriculture for a third year, including $11 billion in emergency disaster relief enacted in the 2001 Agriculture Appropriations Act and Agriculture Risk Protection Act of 2000. Overall, Federal Government farm payments and related expenditures reached a record $32 billion in 2000 (up significantly from the $10 billion provided in 1998).

Farm assets and equity continue to rise, notwithstanding the generally low commodity prices. Farm sector assets increased in value in 2000, to $1.1 trillion. Farm asset values are forecast to remain at historic high levels in 2001, as farm real estate values increase for the thirteenth straight year. Farm business debt declined slightly in 2000, from its highest level since 1986; and debt-to-equity and debt-to-asset ratios also improved slightly in 2000, and are much stronger than on the eve of the financial stress in the farm sector during the 1980s. Farmer loan delinquencies are at a low and flat level. However, continuing low commodity prices and higher input costs due to increasing energy costs, may cause certain producers some increasing financial stress.

Future farm income will be closely linked with exports. The Nation 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 reduced exports to $49 billion in value terms, although export volume was steady in that period, but in 2000 exports increased to $51 billion. In 2001, export growth is likely to continue to improve gradually to $53 billion, with the agricultural trade net surplus expected to reach $13 billion.

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 it significantly altered Federal support payments.

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.

Since the Farm Bill eased planting restrictions, there has been greater potential volatility in crop prices and farm income. The size of farm income-support payments no longer varies as crop prices fluctuate, and USDA can no longer require farmers to grow less when supplies are great. 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 does provide some counter-cyclical price protection because it provides additional marketing loan payments to farmers when commodity prices fall below a statutorily set loan rate. These marketing loan payments reached the historic high level of nearly $7 billion in calendar year 2000. Farmers also received additional emergency assistance: $6 billion was appropriated in 1999 for 1998 crop-year losses, and $14 billion was legislated in 2000 to address both 1999 and 2000 crop-year losses.

The budget does not assume supplemental income assistance for farmers for the 2001 crop year because it appears that commodity prices are improving, net cash income is projected to be over 90 percent of the average income in the 1990s, and it is too early to know what the crop quality and yield situation will be. However, the 2002 Budget provides a reserve fund that could be used to provide emergency support. USDA will work to enhance the competitiveness of American agriculture and to expand market opportunities for agricultural products using its trade, export, research and education and other programs.

Federal Programs

Federal Farm Commodity Programs: Since the amount of Federal income support payments under the 1996 Farm Bill is largely 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 $14 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 2000 and will pay them about $6 billion in 2001. Since July 1998, USDA has been seeking to support U.S. crop prices by purchasing surplus commodities to donate overseas.

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 of nearly 70 percent of eligible acres has 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 $3 billion a year, including USDA payments to private companies for delivery of Federal crop insurance. Producers pay about $1 billion in premium costs for this protection.

The Agricultural Risk Protection Act (ARPA), enacted in June 2000, included broad crop insurance reforms. Premium subsidies were increased to levels that will roughly double the cost of the program (from $1.5 billion to $3 billion) and targeted to higher levels of coverage. Consequently, participation is expected to increase to an estimated 84 percent of insurable acres, and the average coverage purchased by a farmer is expected to reach more than 70 percent of expected revenue. The program is expected to provide over $36 billion in risk protection in 2001, up from $34 billion in 2000. Both increased participation and higher coverage have the effect of enhancing the farm safety net, and reducing the need for disaster assistance legislation. ARPA provides incentives for the private sector to develop crop insurance policies on new crops and expand several insurance products that mitigate revenue risk, price and production risk combined. Revenue insurance policies are now among the most popular crop insurance products, and USDA will continue to expand their application and availability.

Trade: The trade surplus for U.S. agriculture rose to $12.0 billion in 2000 after having declined in recent years. This is largely the result of the growth in high-value agricultural products rather than bulk commodities. USDA's Foreign Agriculture Service (FAS) negotiates, implements, and enforces trade agreements to strengthen the market for U.S. exports.

In 2002, FAS will work to carry out the President's commitment to expand overseas agricultural markets by strengthening USDA's market intelligence capabilities in order to address more effectively governmental policies and issues that affect the competitiveness of U.S. exports. FAS, the Agricultural Marketing Service, Grain Inspection Packers and Stockyards Administration, and Animal and Plant Health Inspection Service will work to enhance the USDA's expertise in addressing and resolving technical trade issues with foreign trading partners and expand participation in the development of international commodity standards.

USDA is authorized to spend more than $1 billion in 2002 on a wide range of trade promotion programs that expand overseas market opportunities and develop long-term trade relationships with foreign countries. These include subsidies to export firms that face unfairly subsidized overseas competitors and credit guarantees for the commercial financing of U.S. agricultural exports. A small, but fast growing component of the guarantees is made available under the Supplier Credit Guarantee Program. This relatively new program was developed in response to changing trade patterns and was tailored specifically to facilitate sales of high value and consumer ready products, among the fastest growing components of U.S. agricultural trade.

USDA also provides outreach and exporter assistance activities that are designed to assist businesses identify marketing opportunities overseas and enter export markets for the first time. This effort includes assistance in addressing laws, customs, and technical requirements that can discourage smaller, less experienced firms from taking advantage of export opportunities. USDA also facilitates participation in international trade shows and market promotion events. In these activities, increased emphasis is being placed on emerging markets in order to assist U.S. exporters to offset the initial costs and risks involved in capturing new market opportunities.

Agricultural Research: In 2002, the Federal Government expects to spend $2.1 billion for agricultural research, education, economics and statistics programs 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 2002, ARS' $946 million proposed funding level will increase emphasis in high-priority areas, such as combating emerging and exotic diseases, controlling weeds and arthropods, as well as for biotechnology, and genomics. Working towards the ultimate goal of having a method to rapidly detect the presence of Bovine Spongeform Encephalopathy (BSE) disease agents in live animals, USDA will develop one or more BSE tests that will be ready for field evaluation in 2002. To accommodate these high priority items, funding for some lower-priority earmarked projects will be discontinued and funding for facility modernization will be limited to the most urgent needs.

Another important ARS initiative is to develop technologies that will enhance the range of uses for agricultural commodities and byproducts. This work would result in competitively priced value-added products and spur jobs and business activity, especially in rural areas. Of particular promise is a new USDA research program carried out in collaboration with the Department of Energy. This effort focuses on developing biobased products and biofuels products made from renewable resources that can meet environmental needs, reduce dependence on petroleum-based products, and expand market opportunities for U.S. agriculture. In addition to developing new products, the USDA also will create new ways to ensure their efficient mass-production and processing. In 2002, USDA will:

- Expand transfer of research results to industry in order to increase the number of high quality and economically competitive bio-based products for sale.

The Cooperative State Research, Education and Extension Service (CSREES) provides grants, through open competition, statutory formula, or, less desirably, direct earmark. Most of these grants are provided to land grant universities and State agricultural experiment stations. In 2002, CSREES' $991 million request (including $120 million for the Initiative for Future Agriculture and Food Systems) will maintain funding for all programs except those that were funded with congressional earmarks in 2001.

USDA economics and statistics programs, which are funded at $181 million, improve U.S. agricultural competitiveness by reporting and analyzing information. The Economic Research Service 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) conducts the Census of Agriculture and provides estimates of production, supply, price and other aspects of the farm economy, providing information that helps ensure efficient markets. In 2002, NASS will:

- Provide timely information needed to support orderly marketing of agricultural products by meeting scheduled report release dates 100 percent of the time.

Inspection and Market Regulation: The Federal Government will spend approximately $825 million 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 2002, APHIS will provide increased funding to stop the importation of goods and commodities that could endanger U.S. agriculture; use appropriated discretionary funding to respond to ongoing emergencies such as Medfly, citrus canker and Asian Longhorned Beetle; and improve trade issues and management. Reductions of unneeded funding will be made in boll weevil and brucellosis activities. An example of a performance goal in 2002 is:

- APHIS will continue to ensure that at least 95 percent of air travelers comply with restrictions to prevent entry of pests and diseases despite growing passenger traffic.

For AMS and GIPSA, more funding will be devoted towards active participation in the development and resolution of international commodity standards. Examples of performance goals in 2002 are:

- AMS will establish accredited procedures and methods for testing bio-engineered fruits and vegetables similar to those already established for grains by GIPSA; and

- GIPSA will become the International Standardization Organization certifier to promote the marketing of value-added products through internationally recognized quality assurance systems, thus opening new market opportunities and avoiding costly trade disputes.

Conservation: The 1996 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. The bill created several new conservation programs and extended and expanded other ongoing programs. The largest new program is the Environmental Quality Incentives Program, which provides cost-share and incentive payments to encourage farmers to adopt improved farming practices, and reduce the environmental impact of livestock operations. In a typical year, USDA, through the Natural Resources Conservation Service, provides technical assistance to 650,000 landowners, farmers and ranchers.

In 2002, USDA will:

- increase the number of acres enrolled in riparian buffers and filter strips to 2.5 million, from an estimated 1.6 million acres in 2001;

- develop conservation systems on 18 million acres of cropland and grazing land to control erosion;

- help landowners apply integrated pest management systems on four million acres;

- help landowners apply conservation measures to reduce nutrient runoff on five million acres; and

- improve fish and wildlife habitat on five million acres of private land.

For more information on conservation, and USDA's investments in public land management, see Chapter 6, "Natural Resources and Environment." USDA programs also help to maintain vital rural communities, as described in Chapter 10, "Community and Regional Development."

Agricultural Credit: USDA provides about $800 million a year in direct loans and nearly $3 billion in guaranteed loans to finance farm operating expenses and farmland purchases. A portion of direct loans, which carry interest rates at or below those on Treasury securities, are targeted to beginning or socially disadvantaged farmers. Both direct and guaranteed loans are limited to family farmers who cannot obtain adequate credit from other sources.

In 2002, USDA will:

- Increase the proportion of loan amounts targeted to beginning and socially-disadvantaged farmers to 30 percent, from an estimated 28 percent in 2001 and nine percent in 1996 when USDA first began measuring this activity; and
- Reduce the delinquency rate on farm loans to 18 percent, from 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.

Management Reform: USDA administers its many farm, conservation, and rural development programs through 2,500 county-level service centers with over 25,000 staff. During the prior Bush Administration, an effort was begun to streamline USDA's county office structure to improve service and reduce costs. The increasing costs of maintaining the current delivery system and the investment in new information technology have prompted the USDA to continue to examine its staff-intensive field office-based infrastructure. USDA will merge information technology staff of the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development into one staff to service all three agencies, and review the field office structure to identify additional opportunities to improve efficiency, realize savings, and recognize the growth in farm business transacted via computers and fax machines. With requested resources, USDA will complete implementing its systems integration initiative, known as the Common Computing Environment (CCE). The CCE will reduce the paperwork burden by allowing for electronic filing of information from farmers and other USDA customers.

USDA will also review streamlining and efficiency-enhancing measures for the Forest Service's field structure, work force, and administrative operations to provide more resources for "on-the-ground" activities. Program modifications and reforms will also be considered for USDA's food aid, trade, and marketing programs. These will ensure that Section 416(b) food aid donations, in particular, significantly benefit U.S. farmers, target necessary humanitarian feeding, and avoid adverse commercial impacts consistent with Administration policy. The USDA will look for ways to reduce layers of management where doing so will increase program responsiveness without sacrificing needed oversight and accountability.

Improving management and financial accountability is also a key priority for the Department. USDA will develop centralized and integrated management information systems to provide timely and reliable information on USDA's finances, people, and purchases. Such systems will help USDA resolve major management challenges, including improving computer security.

USDA will continue working towards the goal of an unqualified audit opinion on USDA's consolidated financial statements. To assist in this goal USDA is implementing a corporate administrative accounting system (estimated completion by 2003). Last year, three stand alone component agency statements received unqualified audit opinions, two received qualified opinions and one received a disclaimer.

Tax Expenditures

Tax expenditures for agriculture are estimated to be $1.1 billion in 2002, and $6 billion between 2003 and 2006. Legislation in 1999 made permanent the ability for farmers and ranchers to lower their tax liability by averaging their taxable income over the prior three-year period. Producers of certain crops, such as corn, also receive indirect benefits from the ethanol tax credit, due to the higher commodity prices that result from the increased demand for their commodities.

The Administration proposes to establish Farm, Fish, and Ranch Risk Management (FFARRM) savings accounts for owners of farming, fishing, and ranging businesses. Each year, up to 20 percent of taxable income attributable to an eligible farming, fishing, or ranching business could be contributed to a FFARRM account and deducted from income. The income earned on the account would be taxable as earned. Distributions from the account (except those attributable to income from the account) would be included in gross income. Any amount not distributed within five years of deposit would be deemed to have been distributed and included in gross income, plus subject to a 10 percent surtax. This proposal would be effective for taxable years beginning after December 31, 2001.