7. AGRICULTURE

Table 7–1. Federal Resources in Support of Agriculture
(Dollar amounts in millions)

Function 350	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	4,297	4,792	12%
Mandatory outlays	16,109	20,356	26%
Credit Activity:			
Direct loan disbursements	11,132	10,879	–2%
Guaranteed loans	4,564	6,492	42%
Tax expenditures	290	1,080	NA

NA = Not applicable.

The U.S. Department of Agriculture (USDA) 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. (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.

Over the past eight years, as farm income rose to a record level and then receded, the Federal Government has helped to make U.S. farmers more productive, ensure that markets function fairly, and provide a safety net for farmers and ranchers. Among its other missions, USDA disseminates economic and agronomic information, ensures the integrity of crops, inspects the safety of meat and poultry, and helps 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

The farm economy has swung widely in the past eight years. By 1993, the farm sector had recovered from the economic farm crisis of the 1980s. Net cash income reached a record $59.1 billion. Production losses that year, because of widespread flooding in the Midwest, were ameliorated by a surge of Federal Government payments. Farm equity increased and debt ratios fell. Although commodity prices soared to record highs in 1995 through 1997, farm cash income in 1993 remains the record level. Following the historic tight supplies of major commodities in the mid-1990s, repeated years of over-production caused prices to decline beginning in 1998. Gradually prices and market income are recovering, aided by activities and funding by the Federal Government.

Economic conditions facing U.S. agriculture in 2000 continued to challenge the Federal role. While supplies of farm commodities continued to exceed demand, prices have started to recover from the lows of the past two years. Gross cash receipts rose slightly (three percent above the previous year) to $195 billion, well above the average level for 1990–1995. Net cash income also rose slightly, remaining above average, due once again to Federal emergency payments. Farmers are expected to earn slightly more from 2001 crop sales due to a larger crop 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 conditions in 2000 prompted the Federal Government to expand spending on agriculture for a third year, including a total of $9.1 billion in emergency disaster relief enacted in both the 2001 Agriculture Appropriations Act and the Agriculture Risk Protection Act of 2000. Overall, Federal payments to farmers from USDA's Commodity Credit Corporation (CCC, the major farm-assistance program) reached a record $28 billion in 2000 (from $10 billion in 1998 and $12 billion in 1993). Table 7–2 provides detail on these payments by fiscal year, while Chart 7–1 displays on a calendar/tax year basis the share of net farm income that was provided through USDA payments.

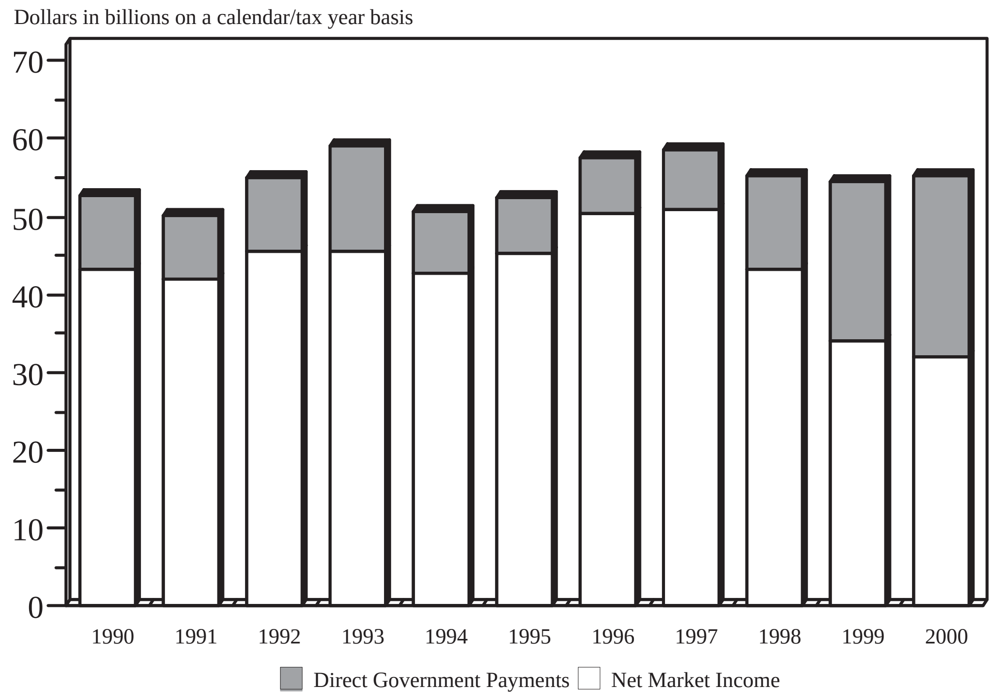
Despite generally low commodity prices, farm assets and equity continue to rise. Farm sector assets increased in value in 2000, to $1.1 trillion. Farm asset values are forecast to remain at historically high levels in 2001, as farm real estate values increase for the twelfth straight year. Farm business debt declined slightly in 2000, from its highest level since 1986; and the 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 may cause increasing financial stress for certain producers, although farm income overall and in most regions is expected to improve in 2001.

Exports hold the key to future U.S. farm income. 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 1999, 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.

Table 7–2. USDA/Commodity Credit Corporation Payments to Farmers
(Outlays, in millions of dollars)

	Actual		Estimate	
	1993	1999	2000	2001
Income Assistance	8,607	5,476	5,049	4,056
Loan Deficiency Payments	352	3,360	6,387	5,259
Conservation Reserve Program and other Conservation Programs	1,579	1,754	1,770	2,058
Emergency Assistance	1,254	5,853	14,504	3,698
Total	11,792	16,443	27,710	15,071

Chart 7-1. Federal Payments & Market Income: Relative Shares of Net Cash Farm Income



The 1996 Farm Bill

President Clinton emphasized, when he signed the Federal Agriculture Improvement and Reform Act of 1996 (the 1996 Farm Bill), that its income safety net was not sufficient. Events in the agricultural economy, and the Federal response, since then have borne out his concern. When commodity prices dropped in 1998, statutory Federal assistance was insufficient, prompting a series of emergency funding legislation that has nearly doubled the 1996 Farm Bill's income assistance during 1998–2000. In response, the Administration proposed legislation to amend the Farm Bill to provide counter-cyclical farm income assistance that would target payments to farmers in need when market income falls below the five-year average level. Congress did not adopt the legislation, but the proposal provides important recommendations for the next Farm Bill, which will be legislated within the next two years.

In the absence of legislative reform, the Clinton-Gore Administration moved forward under existing authorities to bolster commodity prices and support for family farmers. These administrative actions included purchasing surplus commodities to expand humanitarian donations at home and abroad; freezing the commodity price-support loan rates instead of allowing them to fall; and, expanding alternative uses of commodities through programs such as the bioenergy initiative in which bonuses are paid to bioenergy producers who increase their purchases of commodities. These actions increased farm income by over $500 million for the 2000 crop year.

The 1996 Farm Bill, effective through 2002, redesigned Federal income support and supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and cotton. 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 thus “decoupled” Federal income support from planting decisions and market prices. The law has 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 1996 Farm Bill’s elimination of planting restrictions on farmers 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 1996 Farm Bill also provides “marketing loan” payments to farmers when commodity prices fall below a statutorily set “loan rate”. These payments reached the historic-high level of nearly $7 billion in calendar year 2000. Payments to farmers were further supplemented by emergency aid: $6 billion was appropriated in 1999 for 1998 crop-year losses, and $15 billion was legislated in 2000 to address both 1999 and 2000 crop-year losses.

Market conditions in 1998–2000 raised the issue of whether the Federal farm income safety net was sufficient, and how it should be improved. Some crop prices significantly decreased from previous years, but the Farm Bill’s decoupled income assistance did not sufficiently adjust upward to compensate. The recent crop experience also highlighted problems with the crop insurance program, which is intended to be the foundation of the farm safety net. Farmers did not have sufficient coverage when they experienced multiyear losses; there was no coverage available for many commodities including livestock; and, most fundamentally, coverage that provides adequate compensation was simply not affordable for many farmers.

Crop 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 cost the Federal Government an average of $1.2 billion a year over the last eight years, including USDA payments to private companies for delivery of Federal crop insurance.

In 1998, the Secretary of Agriculture used the authority and funds provided in an emergency farm assistance package to increase crop insurance premium subsidies, thereby providing incentives for more producers to enroll in the program and purchase higher coverage that might mitigate the need for future ad hoc crop-loss legislation. The Secretary’s plan was highly successful, as farmers responded with purchases of unprecedented insurance coverage levels. Congress has since followed the Administration’s lead and enacted further crop insurance discounts in subsequent years, culminating in codifying the reform through the Agriculture Risk Protection Act, enacted in June 2000. With the new legislation, the Administration will have taken the crop insurance program from a narrow, ineffective program in 1993 to a comprehensive program that is the centerpiece of a more market-oriented farm safety net. Over the same period, major enhancements and innovative risk management products have been brought to market, including the first Government program to subsidize the use of options contracts for the purpose of managing price risk on milk. The recent reforms will increase average premium subsidies to over 50 percent, and also pave the way for the program’s first livestock policy.

Trade

The trade surplus for U.S. agriculture declined more than 50 percent from its peak of $27.4 billion in 1996 to $11.9 billion in 1999, after experiencing faster growth in recent decades than any other sector of the economy. The trade surplus level in 1993 was $18.6 billion, and averaged $17.9 billion per year from 1994–1999. The reduction was largely the result of decreased commodity prices, and significantly greater U.S. imports drawn by the strong dollar, rather than a loss of agricultural export volume. USDA's international programs helped to shape the growth in agricultural exports, and maintain the volume of foreign demand. Its Foreign Agriculture Service's efforts to negotiate, implement, and enforce trade agreements play a large role in creating a strong market for exports.

USDA is authorized to spend over $1 billion in 2001 on agricultural 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 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, and high-value products now account for more than half of agricultural export value. By participating in USDA's 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 nearly all of the MAP branded-promotion spending, up from 70 percent in 1996.

Most significantly in recent years, the Administration has greatly increased overseas donations of U.S. commodities, using current authorities to dispose of crop surpluses. Since 1998, U.S. food aid has tripled to nearly 10 million metric tons annually, at a total cost of about $5 billion. The donation of U.S. commodity surpluses has capitalized on the opportunity to boost U.S. exports of surplus crops while feeding hungry people abroad. In 2001, USDA is also implementing a pilot program, the Global Food for Education Initiative, to donate $300 million in commodities and associated transportation and distribution costs to create a school lunch program in lower-income foreign countries. Through this initiative, the Administration is expanding the overseas donation program to strengthen the link between good nutrition and education that has been demonstrated in the United States.

Conservation

Although the Administration had serious concerns with the 1996 Farm Bill's commodity provisions, it strongly supported the bill's extensive conservation provisions, which were developed with bipartisan cooperation. These provisions made the 1996 Farm Bill the most conservation-oriented farm bill in history, enabling USDA to help farmers and ranchers protect the natural resource base of U.S. agriculture while augmenting farm income. USDA's Environmental Quality Incentives Program (EQIP) provides cost-share and incentive payments to farmers and ranchers that implement conservation practices such as integrated pest management or animal waste management systems. EQIP is also designed to help farmers comply with Federal, State, and local environmental regulations, and, by law, at least half of its funds must be used to address conservation concerns associated with livestock production. USDA's Conservation and Wetlands Reserve Programs are discussed in Chapter 6, "Natural Resources and Environment." Another new 1996 Farm Bill program was the Farmland Protection Program (FPP), which provides financial assistance to State, local, and Tribal governments to permanently protect farmland from development and preserve open spaces. The new Wildlife Habitat Incentives Program (WHIP) provides financial assistance to landowners that wish to improve aquatic or terrestrial habitat on their land. Eligible practices include stream restoration, tree planting, and prescribed burning.

Since the inception of these programs, USDA has:

- helped approximately 1,000 communities assess the status of their natural resource base and develop locally-led natural resource action plans through EQIP;
- worked with non-Federal partners to permanently protect approximately 150,000 acres of prime farmland from development through the FPP, maintaining communities' open spaces and helping sustain agriculture-related economies; and,
- entered into nearly 8,500 long-term WHIP contracts with landowners to improve wildlife habitat on over 1.3 million acres.

Agricultural Credit

USDA provides over $700 million a year in direct loans and over $2.6 billion a year 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, is targeted to beginning or socially-disadvantaged farmers who cannot secure private credit.

The Administration acted to increase farm loan programs in response to the downturn in the farm economy. USDA's Farm Service Agency's direct and guaranteed farm loans, which totaled $2.1 billion in 1993, will reach over $3 billion in 2001—and close to $5 billion including funds that will carry over from 2000 emergency appropriations. As the farm crisis became apparent in 1999, USDA understood farmers could not wait for the Congress to enact additional funding. The Administration's timely response channeled funds to farm loan programs through administrative transfer authorities. Moreover, USDA monitoring of loan program activity allowed for strategic reprogramming of funds across loan programs to meet producers' greatest financing needs. In addition, the Secretary of Agriculture made it a priority to increase the amount of USDA lending to beginning and socially-disadvantaged farmers to 18 percent, while simultaneously reducing delinquencies through the underwriting skills of staff and the hands-on loan servicing provided all borrowers. Consistent with the goals of the Vice President's Reinventing Government initiative, this improvement has come at a time of staff reductions, partially as a result of the Administration's efforts to streamline loan underwriting procedures.

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) 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, the Congress gave the institution authority to pool loans as well as more years to attain required capital standards, which Farmer Mac achieved.

Agricultural Research, Education and Extension Programs

The Federal Government underwrites agricultural research, education, economics and statistics programs whose goals are to make U.S. agriculture more productive and competitive in the global economy. These programs, currently funded at approximately $2.3 billion ($1.8 billion in 1993), provide for in-house research by USDA scientists at over 100 Federal facilities; grants for research, education and extension work at eligible institutions, such as land grant colleges and universities; and, economic and statistical support for USDA programs and the agricultural sector.

Through its in-house research program, USDA continued to support increases for high-priority initiatives of national importance in human nutrition, food safety, the environment, invasive species, genetics and genomics, and biobased products. In addition, USDA continued to emphasize the importance of competitive peer-reviewed grants for both research and education and extension grants programs, and saw funding specifically for these grants more than double during the last eight years, in large part due to new authorities in the 1998 Agricultural Research, Extension, and Education Reform Act, which includes $120 million in annual mandatory agricultural research funding. In addition, USDA's Cooperative State Research, Education and Extension Service increased its support to minority institutions of higher education by 47 percent since 1993, as well as to areas such as integrated pest management and alternative control technologies (an increase of 53 percent), sustainable agriculture (an increase of 94 percent), and also initiated programs for food safety.

USDA economics and statistics programs improve U.S. agricultural competitiveness by reporting and analyzing information. The Economic Research Service provides economic and other social sciences information and analysis of agriculture, food, natural resources and rural development policy issues. The National Agricultural Statistics Service provides estimates of commodity production, supply, price and other aspects of the farm economy, to help ensure efficient markets through informed participants.

Marketing and Inspection Programs

USDA's Animal and Plant Health Inspection Service is responsible for protecting America's productive land from foreign and domestic plant and animal infestations. As the international movement of people and goods increases, the threat of infestations becomes even more serious, as shown in recent years by the outbreaks of citrus canker, plum pox, Pierce's Disease, Medfly, and the Asian Longhorned Beetle. The Administration responded to these and other outbreaks by seeking appropriations and using existing emergency authority to provide funding for invasive species detection and eradication, as well as compensation for lost income where appropriate. During 1999 and 2000, the Administration provided an annual average of $180 million to combat infestations and compensate losses from them—eight times the annual amount made available during the previous six years of the Administration, and 11 times the annual amount provided during 1989 through 1992. In addition, in July 2000, USDA and OMB submitted proposed guidelines to the Congress on the Federal role in responding to pest and disease infestations.

The Administration also increased funding to improve border checks at airports, seaports, and land border crossings, to intercept dangerous goods. In 2001, almost $240 million will be available for this purpose. In addition, in order to comply with World Trade Organization requirements that trade decisions be based upon scientific, risk-based criteria, the Administration implemented a policy that requires countries seeking to import goods to the United States from regions where there may be a disease threat to American agriculture, to undergo a rigorous risk analysis and be subject to risk mitigation requirements to reduce the risk to a "negligible level." These regulatory actions are open to public scrutiny and comment.

Another growing concern to which the Administration responded is the increasing concentration in the livestock marketing industry, both horizontally across the entire industry, and vertically through agreements between packers and sellers that can limit competition. The Administration took action to create a more open market place, by providing additional funds to investigate anti-competitive actions in the industry, as well as to implement mandatory livestock reporting requirements that provide up-to-date information on contractual arrangements to better ensure a level playing field, particularly for smaller livestock producers.

In December 2000, the Administration issued final regulations providing the first national standards for the production, handling, and processing of organically-grown crops and livestock. These standards provide consumers with confidence in the integrity of products advertised as organic, and provide farmers with clear guidelines on how to gain organic certification for their commodities in order to take advantage of the rapidly increasing consumer demand for organic products.

USDA was also a leader in the Administration's initiative to improve food safety, particularly the safety of meat and poultry products. This initiative is discussed in Chapter 12, "Health."

Improved Customer Service

USDA has three agencies with a nationwide system of field offices, the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development. These county offices deliver a diverse menu of programs including commodity price support, emergency disaster, and conservation programs, as well as farm real estate, operating and rural housing loan programs. The field operations' structure and operating procedures of these agencies had been essentially unchanged in decades. Their dispersed field office locations, with their high and increasing costs of maintaining the current delivery system including separate information technology systems, prompted significant reform. In 1993, the Vice President's National Performance Review called for creating "one-stop shopping" service centers from USDA county offices, to significantly improve customer service and achieve operating efficiencies. The streamlining devised by USDA included three key components: co-location of county offices, integration of their information systems, and modernization of their business processes in keeping with the new tools provided by enhanced information technology. Throughout the 1990s, with the support of both the Administration and the Congress, the field offices were largely co-located and work began on integrating business processes and information systems. Consolidating and relocating the field offices reduced their number over the last eight years from over 7,500 offices in 3,700 locations to approximately 5,500 offices in 2,500 service centers.

The USDA systems integration initiative, known as the Common Computing Environment (CCE), is scheduled to be complete in 2002. The CCE was planned as a common architecture and shared information system to replace outdated "stove-pipe" (single agency) systems currently supported by USDA agencies. The CCE's goal is to enable new technology and methods to be easily shared and implemented by all USDA agencies, to reduce the burden of data collection on its customers as well as the costs to the Government. The business process reenginering component of this initiative is still under way and, while dependent on the CCE for completion, will bring USDA agencies into compliance with the Freedom to E-file Act of 2000. These new procedures and information systems will allow electronic filing that will reduce the paperwork burden on those who participate in multiple USDA programs and reduce the county-office workload. Many of the forms used by USDA customers are now available on line, though e-filing is not available in most instances. E-filing capability is targeted for completion in the next two years.

While true one-stop shopping and significantly improved customer service will not be available until these reforms are complete and USDA processes and administrative functions are harmonized, USDA made great strides over the last eight years to modernize its county-office program delivery.

Civil Rights

Since 1993, USDA's leadership made improvement of the Department's civil rights record one of its top priorities. The Agriculture Secretary re-established a USDA Office of Civil Rights, which was closed in the 1980s, to provide a focal point for USDA's civil rights functions and oversight. The Office is responsible for policy development, analysis, coordination, and compliance activities. Comprehensive training in civil rights has been provided to USDA employees, and the accountability of managers has been clarified and increased. Even with downsizing, representation of minorities and women in USDA's work force improved. In addition, the Farm Service Agency increased its lending to African-American farmers by 67 percent over the last five years. USDA also worked to improve its civil rights complaint processing to reduce the time it takes to resolve cases. In the late 1990s, African American farmers filed a class-action discrimination law suit against USDA, primarily based on charges of past discriminatory treatment by USDA loan officers in the county offices. The suit exposed widespread discriminatory practices, and USDA settled the suit in 1999. That settlement, known as the Pigford Consent Decree, provides payments of $50,000 from the Department of the Treasury's Claims, Judgements, and Relief Acts Fund that is administered by the Department of Justice, and forgiveness of USDA debt to thousands of African American farmers. As of mid-December 2000, over 9,500 claims have been paid, totaling about $480 million.

Tax Expenditures

Tax expenditures for agriculture are estimated to be just over $1 billion in 2001. Expenditures due to the treatment of certain agricultural income as capital gains rather than ordinary income increased by over $650 million, or over 500 percent, since 1993. In addition, 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.