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Farm Economic Relief: Issues and Options for Congress

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SUMMARY

In response to low prices, natural disasters, and other farm-related problems, Congress has, over 3 successive years, provided a total of about $23 billion in supplemental aid – in addition to funds already programmed through the 1996 farm bill (P.L. 104-127). The most recent aid was attached to a crop insurance reform bill signed into law on June 22, 2000 (P.L. 106-224). This Agriculture Risk Protection Act of 2000 includes $7.113 billion for additional farm income and related assistance, of which $5.5 billion is to be spent in FY2000.

This latest assistance follows a series of relief efforts that began in 1998. The 105th Congress included nearly $6 billion in emergency farm aid in the omnibus FY1999 appropriations law (P.L. 105-277). The 106th Congress provided more assistance. The FY1999 supplemental appropriation (P.L. 106-31) included $574 million in farm assistance. Another supplemental aid package, totaling about $8.7 billion, was incorporated into the FY2000 USDA appropriations bill (P.L. 106-78, Title VIII, October 22, 1999). An additional $576 million, largely for Hurricane Floyd farm victims, was included in H.R. 3425 and incorporated into the Consolidated Appropriations Act for FY2000 (P.L. 106-113, November 29, 1999).

Counting 1996 programmed funding, plus money from the aid packages, direct farm payments reached $22.7 billion in *calendar year* 1999 — the highest ever — helping to offset losses due to low commodity prices. Another measure of public support to the farm sector is *fiscal year* spending by USDA's Commodity Credit Corporation (CCC), which finances price and income support programs. Analysts now expect that CCC outlays for FY2000 will exceed $32 billion, eclipsing the previous record of nearly $26 billion set in FY1986.

Not all producers have received federal farm subsidies. Indeed, critics charge that farm income support policy as implemented by the 1996 farm bill and supplemented by recent emergency assistance does not necessarily reach farms in need, while those not in need may receive such assistance. Others point out that farm support is to preserve the productive and competitive integrity of the sector, not be welfare for individual farms.

The Administration proposed changes in current farm commodity programs with the release of its FY2001 budget proposal. The centerpiece of these recommendations is the Supplemental Income Assistance Program (SIAP) budgeted at $2.464 billion in FY2001. The plan so far has attracted little support in Congress. Meanwhile, the House Agriculture Committee has been holding hearings on farm programs and policies, raising at least the possibility of changes in the 1996 bill prior to its expiration in 2002.

Farm risk management changes have progressed with final adoption of crop insurance legislation (P.L. 106-224, H.R. 2559). Besides the $7.113 billion in supplemental aid attached to the bill, it also provides $7.219 billion in new federal crop insurance spending over 5 years by, among other things, offering higher premium subsidies to attract more farmers to the program.

MOST RECENT DEVELOPMENTS

On June 22, 2000, the President signed the Agricultural Risk Protection Act of 2000 (P.L. 106-224, H.R. 2559). Originally a crop insurance reform bill, authorizing $7.219 billion in new crop insurance spending over 5 years, an amendment adopted by conferees adds $7.113 billion in supplemental farm income and related agricultural assistance. The farm assistance provisions specify that $5.5 billion is to be used in FY2000 and most of the remainder in FY2001. This follows the $9.3 billion in emergency and disaster assistance already provided in two earlier FY2000 appropriations bills. The crop insurance title provides for higher premium subsidies to attract more farmers to the program and higher coverage for producers with multi-year losses.

Meanwhile, regular FY20001 USDA appropriations bills (H.R. 4461; S. 2536) cleared both the House and Senate during July and await a likely conference agreement and final enactment during September. Additional supplemental farm aid could be added to the measure prior to final passage; for example, the Senate version contains a total of more than $1.5 billion for dairy, livestock, and crop producers.

BACKGROUND AND ANALYSIS

Overview

The last omnibus farm bill, the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127), prescribed farm commodity support policy through 2002. The key farm income support feature was Agricultural Market Transition Act (AMTA) payments (also called "contract payments" and "freedom to farm" payments), which total about $36 billion over 7 years. The fixed annual AMTA payments gradually decline each year. As prescribed by law, about $5.5 billion in payments were made in FY1999, and $5.1 billion are programmed for FY2000. (See CRS Report RS20271, *Support Programs for Major Crops: Description and Experience.*)

Low commodity prices coupled with natural disasters in some major growing regions (which cut many farmers' income) prompted the 105th Congress to include nearly $6 billion in additional "emergency" farm assistance in the omnibus FY1999 appropriations law (P.L. 105-277), over and above the levels authorized under the 1996 farm bill. The 106th Congress passed another major supplemental package of $8.7 billion in emergency farm relief in the FY2000 USDA appropriation act (P.L. 106-78, H.R. 1906; H. Rept. 106-354), enacted October 22, 1999. Additional farm assistance, amounting to $576 million, was included in the Consolidated Appropriations Act for FY2000 (P.L. 106-113). The $576 million were targeted primarily at eastern producers hurt by Hurricane Floyd and by drought in 1999. [See also CRS Report RL30201, *Appropriations for FY2000: U.S. Department of Agriculture and Related Agencies*, and CRS Report RS20389, *Emergency Farm Assistance in the FY2000 Agriculture Appropriations Act (P.L. 106-78)*.]

Again in 2000, Congress is providing additional farm income support. Recognizing that additional assistance likely would be forthcoming and avoiding the requirement for an emergency designation, the congressional budget resolution (H.Con.Res. 290) reserved $7.14

billion expressly for additional income assistance for farmers. Of the total, $5.5 billion was set aside for the current fiscal year (FY2000). Instead of providing this money through either the annual USDA appropriation or a supplemental spending bill, House and Senate conferees attached it to an authorizing bill, the crop insurance reform legislation (H.R. 2559), which was signed into law on June 22, 2000 (Agriculture Risk Protection Act of 2000, P.L. 106-224). Some additional assistance also might come later in this session through the pending FY2001 USDA appropriations bill (H.R. 4461, S. 2536).

As with last year, there has been little debate over whether or not additional farm income assistance is needed. The disagreements have revolved around the design of the assistance program (who should get it, and what should be the delivery mechanism). A closely related issue continues to be the adequacy and effectiveness of the 1996 farm bill programs designed to support and stabilize producer incomes. AMTA accelerated a longer-term policy trend toward exposing U.S. farmers to the greater opportunities, but also the higher risks, of the global marketplace. In 3 out of 5 years, AMTA has been supplemented with additional payments.

The fact that large supplemental payments have been passed for 3 years in a row has caused a closer critical examination of domestic support policy. From early 1998 through May 2000 (i.e., counting the latest $7.113 billion), supplemental appropriations for agriculture and related activities have reached a total of about $23 billion. That represents a 41% unanticipated increase in spending under the 1996 farm law, which was about $56 billion exclusive of nutrition programs. So, the debate about future farm policy, designed to begin in 2002, already is underway. (See also CRS Report RL30501, *Appropriations for FY2001: U.S. Department of Agriculture and Related Agencies*.)

Economic Situation

Overall, depressed agricultural export values and low U.S. farm prices will help to hold total farm commodity receipts to a forecast $194.6 billion in 2000, an improvement from last year's $188.6 billion but substantially below the 1997 record high of $207.6 billion. USDA data show that total livestock receipts have risen, but that prices and receipts for major crops have not.

U.S. agriculture's prosperity is heavily dependent on exports, which account for about 20% of the value of U.S. farm production, and for an estimated 30% of all harvested crop acreage. However, export value is down, from the record of $60 billion in FY1996, to a projected $50 billion in FY2000. Much of the decline can be explained by financial crises in key overseas markets, particularly Asia (which had been the fastest growing market for U.S. farm goods), and in Russia (where U.S. imports declined by about 80% between 1997 and 1998). The high value of the U.S. dollar relative to other exporting countries' currencies adds to the competitive difficulties.

USDA forecast data show that 2000 net cash farm income will be substantially up from 1999, largely due to record high direct government payments to farmers. Also, U.S. agriculture's overall farm business balance sheet looks strong. According to USDA, the value of farm real estate and other farm assets has continued to rise, while debt stabilized in 1999 and 2000. Farm debt, measured as a percentage of farm assets (the so-called debt-to-asset ratio), is forecast by USDA to be 15.5% in 2000, generally regarded by credit experts as a highly favorable level. Total income for the average farm operator household (taking into account off-farm as well as on-farm sources) rose from $52,562 in 1997, to $59,734 in 1998, to $64,347 in 1999, and a forecast $64,645 in 2000, according to USDA. However, on average, off-farm income now constitutes over 90% of all household income received by farm operators.

According to USDA, calendar 2000 direct federal farm payments amounting to $22.7 billion — which exceeded the previous record level of $16.7 billion in 1987 — more than offset income losses due to low commodity prices. Another measure of public support to the farm sector is spending by USDA's Commodity Credit Corporation (CCC), which finances price and income support programs. Analysts now expect that CCC net outlays for FY2000 will exceed $32.3 billion, eclipsing the previous record of nearly $26 billion set in FY1986.

Still, these aggregate figures can mask the financial difficulties faced by some producers, particularly in certain commodity categories and regions of the country. In the absence of the recently enacted Agricultural Risk Protection Act, USDA's Economic Research Service forecast net cash income to decline from $54.4 billion in 1999 to $49.3 billion in 2000, a 9% drop of $5.1 billion. (See the most recent monthly issue of *Agricultural Outlook*, published by USDA's Economic Research Service, for more detailed data on farm economic conditions.)

Previous Farm Relief Legislation

As farm income in some sectors and regions was declining (albeit from generally record highs in 1996), Congress began to debate the adequacy and design of farm assistance under the 1996 farm bill. During the summer of 1998, for example, Democrat farm state Senators attempted several times to win increases in the loan rates for major commodities. Although these were not adopted, Congress did pass the Emergency Farm Financial Relief Act (P.L. 105-228, signed August 12, 1998), which allowed AMTA contract holders to receive all of their FY1999 payments ahead of schedule, in October 1998.

Subsequent passage of the FY1999 Omnibus Consolidated and Emergency Appropriations Act (P.L. 105-277, signed October 21, 1998) contained $5.9 billion in new emergency spending for USDA programs, most of it to shore up farm income and to indemnify producers for natural disasters. Nearly $2.9 billion was direct "market loss payments" (disbursed in late 1998) to compensate grain and cotton producers enrolled in AMTA for "regional economic dislocation, unilateral trade sanctions and the failure of the government to pursue trade opportunities aggressively." Another $200 million was made available to dairy farmers for the same purposes; USDA released the dairy funds in 1999 after milk prices declined from 1998's record highs. Another nearly $2.4 billion in the Act was for direct payments to crop farmers who experienced 1998 disaster-related losses higher than 35% of normal yields or who had losses in 3 of the past 5 years. The money was disbursed in spring 1999. The rest of the $5.9 billion was designated for livestock disaster assistance ($200 million), commodity loans for honey and mohair ($28 million), and additional funding for farm operating loans ($31 million to support new lending of $540 million), among other smaller categories.

More assistance was provided for calendar 1999 through the FY1999 Supplemental Appropriations Act (P.L. 106-31, signed May 21, 1999). Although primarily for Kosovo military operations and for Central American and Midwestern storm victims, the measure also included $574 million in new funding for USDA farm programs, including $106 million to support $1.1 billion in farm loans; $145 million for Section 32 assistance for hog producers; $74 million for livestock disaster assistance; $43 million in USDA salary and expense money to expedite delivery of disaster aid; and $120 million for conservation programs to restore farmland and watersheds damaged by natural disasters.

An $8.7 billion emergency farm assistance package was included as Title VIII in the FY2000 agriculture appropriations act (P.L. 106-78, H.R. 1906, H. Rept. 106-354), signed into law October 22, 1999. It is estimated that about $6 billion of the $8.7 billion reached farmers during calendar 1999, with the remainder going out in calendar year 2000.

Table 1. Farm Relief Provisions in Title VIII P.L. 106-78

Provision	Millions
Crop disaster loss payments: coverage for 1999 losses [Sec. 801]	$1,200
Crop market loss assistance: 100% increase in 1999 AMTA payment [Sec. 802]	$5,544
Peanuts: direct payments equal to 5% of the loan rate for quota or additional peanuts produced in 1999 [Sec. 803(a)]	$42
Sugar: 2-year suspension of assessments (0.2475-cent/lb. on raw cane sugar; 0.2654-cent/lb. on refined beet sugar) [Sec. 803(b)]	$42
Tobacco: distributions to growers based on formulas in National Tobacco Grower Settlement Trust [Sec. 803(c)]	$328
Soybeans/oilseeds: payments to 1999 AMTA crop producers [Sec. 804]	$475
Livestock: emphasis on feed losses through grants or other in-kind assistance [Sec. 805 & 825]	$200
Dairy relief: direct assistance as determined by Secretary [Sec. 805 & 825]	$125
Cotton: replenish "Step 2" funding, which provides incentives for U.S. exporters and processors to buy U.S. cotton when U.S. prices are above world prices [Sec. 806]	$201
Dairy price support: one-year extension of expiring price support program; (also, delay of recourse loans results in FY2000 savings) [Sec. 807]	($102)
Advance AMTA payments: permits payment of full annual contract payment on Oct. 1 each year rather than in two separate installments [Sec. 811]	$0
Commodity certificates: permits farmers to receive loan deficiency payments as certificates in lieu of cash. Certificates can be redeemed for USDA commodities or, at USDA's discretion, cash; certificates are not subject to payment limits [Sec. 812]	$0
Payment caps: doubles per-person cap on gains from 1999 crop marketing loans and loan deficiency payments to $150,000 per farm; $300,000 for up to three farms [Sec. 813]	$0
Crop insurance: assist producers to buy more 2000 crop coverage, plus [Sec. 814]	$651
TOTAL:	**$8,706**

Source: Congressional Budget Office (CBO) estimates.

In addition to the provisions shown in Table 1, the package includes "sense of Congress" language calling on the Administration to: request "fast track" trade negotiating authority from Congress; to use World Trade Organization (WTO) negotiations to reduce barriers to agricultural trade; to conduct a comprehensive evaluation of current U.S. export and food aid programs; and to use existing authority under these programs to promote the export of additional quantities of soybeans, beef, pork, and poultry products. Also in the bill are provisions: mandating that meat packers report, several times per day, the prices they pay for live animals (for background see CRS Report RS20079, *Livestock Price Reporting Issues*);

changing operating and funding procedures for the National Sheep Industry Improvement Center; and, authorizing USDA's Farm Service Agency to reserve up to $56 million of the emergency aid money for administration.

Damage from Hurricane Floyd prompted additional emergency assistance for farmers and rural communities in the southeast. The FY2000 Consolidated Appropriations Act (P.L. 106-113), enacted on November 29, 1999, included $576 million for USDA-administered assistance. (For more information on emergency assistance legislation, see CRS Report RS20269, *Emergency Funding for Agriculture: A Brief History of Congressional Action, 1988-June 1999;* and CRS Report RS20416, *Emergency Farm Assistance in FY2000 Appropriations Acts*.)

Policy Setting

Economic forecasters have long expected weak markets and relatively low farm prices for major crops to persist through 2000. That prospect led Congress and the President to propose more assistance to the agricultural sector. (The 2000 election cycle, already well underway, has added to the momentum.) Most farm policymakers argue that supplemental assistance, to help farmers cope with low prices and disaster-related problems, is much needed.

However, some critics take issue with this assertion. It is argued that low prices, particularly for grains, encourage foreign customers to purchase higher volumes of U.S. agricultural commodities. Also, lower feed grain prices reduce costs for livestock producers as they await recovery of export markets. Moreover, it is noted that lower prices ultimately correct the oversupply problem by discouraging excess production — by overseas competitors as well as in this country. Finally, opponents contend that U.S. taxpayers already are making large direct farm payments, even without supplemental farm relief. (Such payments include AMTA, marketing loan subsidies, disaster payments, and conservation assistance, among others.) Farm real estate values are continuing to rise and the ratio of debt to assets is declining with the additional assistance. Economists argue that the federal assistance is being capitalized into higher land prices and rents at a time when the market is signaling for a reduction in agricultural investments and production. Furthermore, there is some criticism that higher farm spending leaves fewer dollars for other national priorities, such as tax relief, debt reduction, or spending on social programs.

The emergency farm relief measures approved in 1998, 1999, and 2000 advanced the time frame for payments to farmers and increased the size of payments primarily by utilizing the farm policy framework established by the 1996 farm bill. That framework benefits farms that had land in the former grain and cotton programs. Critics argue that AMTA does not attempt to target assistance to farmers most in need. Farm bill supporters note that market loss assistance payments is the most efficient method for quickly channeling badly needed funds to the farm sector. Furthermore, supporters argue, federal farm programs are intended to maintain the productive and competitive capacity of U.S. agriculture, not serve as welfare for individually needy farms.

Still, some Members of Congress favor fundamental design changes to current support programs to make assistance more counter cyclical to market prices, and/or targeted to farms in the greatest financial need. Also, among the many questions before policymakers are the budgetary and trade impacts of additional assistance.

Trade Considerations

U.S. trading partners are watching closely to assess whether the emergency farm assistance is compatible with U.S. commitments under the Uruguay Round (UR) Agreement on Agriculture. Generally, that agreement places countries' domestic farm support programs into one of several broad categories, based on their relative likelihood to distort trade. Most major agricultural trading countries are required to "discipline," (limit) total spending (i.e., their aggregate measure of support, or AMS) for their most trade-distorting (so-called "amber box") policies. Countries report to the World Trade Organization (WTO) on their domestic farm spending for each year (although such reports are often submitted 2 to 3 years after the end of the marketing year in question).

The United States, like virtually all other countries, has been below its allowable annual levels. U.S. amber box programs have included dairy, peanut, and sugar price supports; crop marketing loans, loan deficiency payments, and other direct crop payments linked to per-unit levels of production; storage payments; and crop insurance and loan interest subsidies, among others. The least trade-distorting programs, in the so-called "green box" category, are exempt from AMS reductions. These programs include income supports not coupled to current production, such as AMTA payments; conservation and environmental activities, such as the Conservation Reserve Program (CRP); farm disaster relief payments; and domestic food aid.

The UR agreement provides latitude to U.S. policymakers in developing both the emergency farm measures and proposed changes in long-term farm policy. Many analysts predict that this latitude will enable the United States to claim that its 1998, 1999, and 2000 supplemental farm payments are exempt from AMS commitments because they are not tied to current production of a specified commodity. Nonetheless, some member nations of the WTO could argue that the payments were made specifically in response to current price and supply conditions and are so large as to affect world trading patterns, thereby undermining the objectives of the agreement. The question could become a point of contention in the ongoing negotiations among WTO member nations to further reform agricultural trade – although the United States might counter that others (notably the EU) continue to subsidize their farm sectors at much higher levels. (See CRS Report RL30612, *Farm Support Programs and World Trade Commitments,* July 26, 2000.)

Freedom to Farm and the "Farm Safety Net"

Supporters of the policy changes made by the 1996 farm law saw benefits to farmers because it released them from the planting and cropland set-aside requirements of earlier price support and supply management policies. The new law's transition (or contract) payments to farmers were expected to help them while they grew accustomed to making their own planting and selling decisions based on market supply and demand signals. Policymakers recognized that farm prices would continue to fluctuate from year to year, as they always have. However, there also was the expectation that farmers would use some portion of the transition payments received during high price years as a cushion to help them during low price periods. Additional risk protection was maintained by continuation of the marketing assistance loan programs, revision of the crop insurance program, and adoption of pilot revenue insurance projects, also authorized by the 1996 farm law.

Opposition to the 1996 farm law — enacted during a period of high farm prices for most commodities — came from those concerned about farmers if their financial situation worsened at a time of gradually declining AMTA payments. These opponents had long viewed the previous farm program as a counter cyclical safety net that would offset price declines and stabilize farm incomes. Although almost all farmers and policymakers recognize that the farm economy will always be subject to periods of weak demand and low prices, few predicted that the recent price declines would be so steep, affect so many commodities, and last so long.

While some accuse Freedom to Farm of not adequately protecting farmers from low prices and incomes, few believe that the 1996 law was the cause of these problems. While some policy makers have argued that Washington should "stay the course" and not change the basic, market oriented premise of the 1996 farm bill, they also have expressed support for substantial *ad hoc* farm aid. Others are calling for more fundamental policy changes, but few are seeking a return to past supply management and government inventory-holding programs.

Administration Views

The Administration has been among those calling for changes in permanent farm policy. Secretary Glickman presented the Administration's proposed changes along with the FY2001 budget sent to Congress in February 2000. The Secretary has criticized the 1996 farm law for failing to offer "counter-cyclical assistance" to offset low prices, and for not targeting assistance to smaller farmers and producers most in need.

The "centerpiece" of the Administration's proposals is a new Supplemental Income Assistance Program (SIAP) that compensates farmers for current low prices based on actual production, not on past production as with AMTA payments. It is similar in concept to the "Supplemental Income Payment" program proposed by Representative Stenholm in H.R. 2792. SIAP would make payments to grain, cotton, and oilseed producers if projected gross income for the crop falls below 92% of the preceding 5-year average. Gross income would include gross market revenues plus government payments. Payments to individual farmers would be based on current production. Annual SIAP payments would be capped at $30,000 per person. Furthermore, SIAP payments would be adjusted downward to zero as AMTA payments reach and exceed $30,000. SIAP would only make up for the difference that Agriculture Market Transition Act (AMTA) payments are below $30,000. Legislation also is requested to extend the dairy price support program to 2002. Plus, the Secretary states his intention to use his existing authority to preserve grain, cotton, and oilseed marketing assistance loan rates in 2000 at their 1999 levels, as well as to implement a grain storage facility loan program for farmers. Together, these so-called farm income support proposals would cost an estimated $3.264 billion in FY2001 and $2.695 billion in FY2002.

Recent Congressional Developments

So far, the Administration's proposal has not gained much momentum in Congress. Nor have other proposals for major changes in the 1996 farm law. However, federal farm policies, including the 1996 law and possible alternatives to its basic structure, have been the subject of extended debate. For example, on August 3, 4, and 5, 1999, Senate Agriculture Committee Chairman Lugar held 3 days of comprehensive hearings on the farm income situation. Secretary Glickman was the lead witness at these hearings. The House Agriculture Committee has been conducting a lengthy series of farm policy hearings that began in September 1999. The Chairman of the House Committee has indicated that no consensus on how to change farm policy has emerged from these hearings. Meanwhile, Congress has continued to make available significant levels of *ad hoc* aid to the agricultural sector, as described in the following section. This section also describes a number of other selected proposals for changing longer-term farm policy.

Supplemental Farm Aid in the Crop Insurance Reform Law

The most recent infusion of supplemental farm assistance, totaling $7.113 billion, was provided not through appropriations legislation but rather through an amendment – added during conference – to crop insurance reform, an authorizing bill (H.R. 2559) signed into law as P.L. 106-224 on June 22, 2000. The funds were made possible with passage of the FY2001 budget resolution (see "Budgetary Considerations," above). However, the details of this supplemental farm spending were not reviewed by the full House and Senate, until they reached the floor as part of the crop insurance conference report.

As is typical with such measures, some of the spending is earmarked for purposes other than farm price and income supports, such as grants for research and for marketing assistance, and conservation and nutrition programs. Other titles of the crop insurance bill also authorize a new Biomass Research and Development Act (Title III) and enhance USDA's authorities to regulate plant health (Title IV), among other things.

Table 2 highlights the major supplemental spending provisions, which are contained in Title II of H.R. 2559. Of the total in the table, $5.5 billion will be spent in FY2000, including the $5.466 billion in market loss payments to AMTA contract holders that are required to be distributed in September 2000, plus $34 million in USDA commodity purchases for the school lunch program. The balance of the $7.113 billion will be spent in later years, most of it in FY2001, according to CBO estimates.

Crop Insurance Provisions in the Reform Law

H.R. 2559 initially was passed as crop insurance "reform" legislation. Early in 1999, many Members of the House and Senate Agriculture Committees indicated that improvements in crop insurance would be a legislative priority. An important objective was to alter the program to raise participation and eliminate the need for virtually annual *ad hoc* emergency disaster assistance. The bill cleared the House on September 29, 1999. A similar Senate bill (S. 2251) was adopted March 23, 2000. The Agricultural Risk Protection Act of 2000 bill was enacted into law as P.L. 106-224 on June 22, 2000. Title I, Crop Insurance, is estimated to cost $7.219 billion over the FY2001-05 period. The law contains provisions to: increase the premium subsidy for all levels of crop insurance above the basic (catastrophic) coverage level; subsidize some of the additional cost of revenue insurance products; improve coverage for farmers affected by disasters in multiple years; authorize pilot insurance programs for livestock producers; and ease eligibility requirements for permanent disaster aid for noninsurable farmers. (For details see CRS Issue Brief IB10033, *Federal Crop Insurance: Reform Issues in the 106th Congress*.)

Table 2. Selected Farm Relief Provisions in Agricultural Risk Protection Act

Provision	Millions
Market loss assistance (grains/cotton): increase payments to AMTA contract holders [Sec. 201(a)]	$5,466
Soybeans/oilseeds: payments to producers of 2000 crops [Sec. 202]	$500
Fruits/vegetables: $71 million for the Perishable Agricultural Commodities Act reserve fund and for licensing costs and inspection services so that fees charged to industry participants do not have to be increased; $200 million to purchase various fruits and vegetables from producers experiencing low prices in 1998 and 1999; $25 million compensation for fruit and grape growers for certain disease losses; $5 million in low interest loans for apple growers [Sec. 203(a-f)]	$301
Peanuts: direct payments of $30.50/ton for quota and $16/ton for additional peanuts produced in 2000 [Sec. 204(a)]	$47
Tobacco: payments via states to tobacco quota owners, lessees, & growers [Sec. 204(b)]	$340
Honey: recourse loans at 85% of recent market prices [Sec. 204(c)]	$7
Wool & mohair: payments for 1999 marketings at 20 cts./lb. for wool and 40 cts./lb. for mohair [Sec. 204(d)]	$10
Cottonseed: 2000 crop year assistance (likely direct payments) to producers & first handlers [Sec. 204(e)]	$100
Loan deficiency payments (LDP): wheat, oat and barley LDP benefits permitted if eligible acreage is grazed rather than harvested in 2000 and 2001; also, expansion of LDPs to those growing grains and cotton but not on AMTA land [Secs. 205 & 206]	$43 $35
Conservation: $10 million for the Farmland Protection Program; $40 million in cost-share or incentive payments to farmers for water & other conservation activities [Sec. 211]	$50
Research: funding for various earmarked projects, such as construction of a corn-based ethanol research pilot plant, and carbon cycle research [Subtitle C]	$51
Marketing: competitive grants to producers for value-added marketing [Sec. 231]	$15
Animal diseases: Texas boll weevil eradication loan losses($5 million); pseudorabies and for Michigan bovine TB control ($13 million) [Sec 251, 252]	$13
Domestic nutrition programs: additional purchases of school lunch commodities and changes in other programs [Subtitle E]	$81
Flood compensation: payments (capped at $40,000 per person) for 2000 losses due to floods on certain crop and pasture lands [Sec. 257]	$24
TOTAL: (includes items not described above)	**$7,113**

Source: Estimates by CBO as published in June 20, 2000, transmittal to Congress.

Supplemental Funds in Pending Appropriations Bills

Final approval of the $7.113 billion farm relief measure does not preclude the possibility that Congress might provide additional emergency assistance to the agricultural sector this year, particularly if natural disasters severely affect crop production or if farm income prospects worsen. Possible vehicles include various pending appropriations bills. The Senate and House versions of the FY2001 USDA appropriation bill (S. 2536 and H.R. 4461) were reported by their respective committees in May, and approved by the full House and Senate in July. Approval of a conference agreement is expected during September. The Senate version already contains supplemental farm spending for FY2000 including approximately $443 for dairy market loss payments, $450 million for disaster feed assistance for livestock producers, $450 million for crop disaster payments, $100 million for apple growers, and a one-year extension of the dairy price support program now scheduled to expire at the end of calendar 2000. The House version, which also extends the dairy program for one year, contains $115 million for apple and peanut growers. Whether these provisions will be retained – or other supplemental assistance added – as the bill advances remains to be seen.

Other possible vehicles include a House-passed FY2000 supplemental funding bill (H.R. 3908), not taken up by the Senate, that contains some agricultural disaster aid, and an end-of-the-session omnibus appropriations bill for FY2001, if needed because Congress has not passed all regular appropriations bills by adjournment.

Other Long Term Options

Crop Loan Program Changes. The 1996 farm bill continued marketing assistance loans for major crops, which are designed to facilitate marketing by providing short-term financing to farmers. When market prices fall below the commodity loan rates (now capped at 1995 levels), repayment may be made at the lower market price, instead of the higher loan rate. The marketing loan gain is an income subsidy to the farmer-borrower. Farmers eligible for, but who forego, the loans can receive loan deficiency payments (LDPs), equal to the marketing loan gains. (See CRS Report 98-744, *Agricultural Marketing Assistance Loans and Loan Deficiency Payments.*)

Several bills (S. 30, H.R. 1299, and H.R. 1468) would remove the caps imposed by the 1996 farm bill on loan rates for grains, cotton, and oilseeds. Also, S. 30 and H.R. 1299 would permit the Secretary of Agriculture to extend the term of a loan (now 9 months) for an additional 6 months. H.R. 2704 (Minge), would restore the farmer-owned reserve (FOR) for grain, which was suspended by the 1996 farm bill. The FOR effectively functions as a 3-year extension of the marketing loan, during which time farmers might not accrue interest on the loan, and also could receive storage payments under certain conditions.

Such loan proposals appeal to those who want more of a link between commodity prices and government payments than is the case under Freedom to Farm. Eliminating the cap on marketing loan rates was proposed but not adopted at the end of the 105th Congress, largely because of the cost (then estimated at about $5 billion), its potential for reversing the decoupled design of farm policy and, in some views, possibly exacerbating the oversupply/low price problem — i.e., longer loan periods can lead to the build-up of more surplus stocks, further lengthening the duration of depressed prices.

Payment Limitation. The 1996 farm bill imposes a per person limit on marketing loan/LDP gains at $75,000 per year. This counts against all crops, not each one. (A separate limit of $40,000 is in place for AMTA payments.) Low prices (below established crop loan rates) mean large marketing loan/LDP gains for more farmers, many of whom will reach their annual payment limit. There is no limit on quantity of commodities that a farmer can place under loan and then forfeit to settle the loan obligation in order to circumvent the payment limitation. However, few policy officials want to see the CCC acquiring forfeited grains, cotton, or oilseeds.

The enacted farm relief provisions of Title VIII doubled the per-person limit on loan gains to $150,000 per farm, for 1999 crop year loans only. H.R. 4895 would raise the cap to $150,000 for crop years 2000 through 2002. Proponents contend that farm prices are so low that even many medium-sized family farms will be reaching the payment limitations at the time they most need assistance. Those who want to retain lower caps note that the combination of marketing loan and AMTA payment caps already are effectively doubled by the "three-entity rule," which allows for the full limit on the first farm plus half on each of two additional farming operations. This, they argue, is already a generous government subsidy — particularly when it is available regardless of a farmer's financial situation. In February 2000, the Secretary approved the sale of commodity certificates to farmers for their use to repay nonrecourse commodity loans. This was done to avoid forfeiture of commodities to CCC. The action effectively eliminates the per person payment limitation on loan gains. However, certificates have their own constraints and administrative requirements that make them unworkable in some situations and burdensome in others.

Supplemental Income Payment Program. Representative Stenholm introduced, on August 5, 1999, a bill (H.R. 2792) to establish a new system of supplemental income payments for producers of crops eligible for marketing assistance loans — wheat, feed grains, cotton, rice, and oilseeds. The payments would be made whenever the current year's national gross revenue for a crop falls below 95% of its previous 5-year average. A per-acre payment rate would be calculated, based on the difference between 95% of that 5-year average and the current year's revenue per acre. This calculation would be used to set a per-unit payment for each producer's harvested production; in addition, the bill attempts to ensure that farms with weather-reduced yields receive the same level of assistance as other participants. Representative Stenholm unsuccessfully offered a version of his bill as an amendment to the crop insurance legislation (H.R. 2259) marked up prior to the August 1999 recess by the House Agriculture Committee. This proposal served as the conceptual framework for the Secretary's SIAP proposal.

Farm Income and Trade Equity Act. Senator Conrad on July 26, 1999, introduced the Farm Income and Trade Equity Act (S. 1436), aimed at altering the basic long-term provisions of the 1996 farm bill. This bill would permit farmers to forgo their AMTA contract payments in exchange for a new, two-tiered system of subsidies. The first tier would provide marketing loans for grains, cotton, and soybeans set at 100% of past market prices. A second tier of "transitional international marketing equity" (TIME) payments would be based on the USDA-calculated difference between the new loan rate and the level of support received by European Union (EU) producers for the same crops. The payments would be designed as a direct challenge to EU domestic farm subsidies, which in recent years have been three to five times higher than the those in the United States. The Senator in 1999 tentatively estimated the annual cost of the plan at $7 billion more than the current program.

Risk Management. Crop insurance (see above) is one method farmers can use to manage their financial risk. Other examples include participating in the federal farm income and price support programs, utilizing the private futures market to cushion themselves against lower future prices, and entering into production or marketing contracts with food processors or other buyers of their commodities. Earlier in the crop insurance debate, Senate Agriculture Chairman Lugar had promoted his bill (S. 1666) that would have made a direct payment to any producer who adopts at least two of a variety of risk management strategies. However, his committee opted instead to focus on crop insurance program improvements as contained in S. 2251.

Another risk management approach is the so-called Farm, Fishing, and Ranch Risk Management (FFARRM) account, as proposed by Senator Grassley, included in the tax bill adopted by Congress on August 5, 1999, but subsequently vetoed by the President (H.R. 2488). (See also H.R. 957, Hulshof, and S. 642, Grassley, and refer below to "Tax and Regulatory Proposals").

Tax and Regulatory Proposals. The comprehensive tax relief bill H.R. 2488 (adopted by Congress on August 5 but vetoed by the President on September 23) contained several provisions of interest to farmers. Farm, Fishing, and Ranch Risk Management Accounts (FFARRM), initially introduced in the 106th Congress as S. 642 (Grassley) and H.R. 957 (Hulshof), would have modified federal tax law by permitting farmers to set aside money in higher income years without having to pay taxes on it until the money is withdrawn — presumably in years when taxable income is lower. Also, in the tax bill was the acceleration to 2000 of full deductibility of health insurance premiums (now set to take effect by 2003). Farm organizations are supportive of H.R. 8, a pending measure to end estate taxes that, they contend, make it difficult for farmers to pass their businesses to their children.

Producer interests such as the American Farm Bureau Federation also believe that long-term improvements in farm income could be achieved if the federal government relaxed a variety of regulatory requirements affecting producers' costs. Overly stringent application of the federal pesticide, endangered species, and water quality laws are often cited (although supporters of these laws argue that changes proposed by agricultural groups would jeopardize the health of consumers, natural resources, and the environment).

Competition Policy. Agricultural businesses, like other sectors of the economy, have long been subject to organizational changes, including consolidation of processing and production into fewer and larger operations; more vertical control of the various stages of production, processing, and marketing; and the shift from open cash markets to closed systems involving contractual arrangements between buyers and sellers. Many economists, and many within the industry itself, believe that such changes effect more efficient resource allocation, make U.S. agricultural exports more competitive on world markets, and benefit consumers by providing a wider variety of lower-priced, and higher-quality foods.

However, many producers believe that these types of changes stifle competition, cause lower farm prices and farm incomes, and force families out of agriculture. Concern about structural change, and its potential to adversely affect many farmers, intensifies during periods of low farm prices. Many farm groups have called on government to strengthen enforcement of existing antitrust and competitiveness authorities, and/or to adopt new laws if necessary.

Both the House and Senate Agriculture Committees have held a number of hearings in the 106th Congress on concentration and competition problems and policies, and several bills have been introduced. For example, S. 2252 and S. 2411 both would provide USDA with expanded authority to address business mergers in agriculture. S. 2252, along with H.R. 2829, would extend to poultry the same types of oversight USDA's Grain Inspection, Packers and Stockyards Administration now has over livestock markets. H.R. 3159 would impose an 18-month moratorium on large agricultural mergers and acquisitions; S. 1738 and H.R. 3324 would ban the ownership of slaughter animals by meat packers. (See CRS Report RS20562, *Merger and Antitrust Issues in Agriculture*.)