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Farm Economic Relief and Policy Issues in the 106th Congress: A Retrospective

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Farm Economic Relief and Policy Issues in the 106th Congress: A Retrospective

Summary

The 1996 omnibus farm bill, the Federal Agriculture Improvement and Reform (FAIR) Act (P.L. 104-127), prescribed farm commodity support policy through 2002. Most significantly, producers of wheat, corn and other feed grains, rice, and cotton would receive annual fixed payments (contract payments) starting at $5.6 billion and declining gradually to $4 billion, for a total of about $36 billion over the 7-year life of the law. At the time of enactment, market prices for these commodities and most others were high and expected to remain high.

By the middle of 1998, prices for many commodities began a sharp decline and remained at low levels. Compounding the depressed market conditions were production disasters in some regions caused by droughts, floods, and diseases. Congress responded to the deteriorating farm revenue situation with a series of emergency economic and disaster relief measures.

The 105th Congress included nearly $5.7 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). 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). The Agriculture Risk Protection Act of 2000 (P.L. 106-224) included about $7 billion in farm relief, in addition to crop insurance provisions estimated to cost $7.2 billion over the coming 5 years. Finally, approximately $3.5 billion in additional assistance for farmers was included in the FY2001 USDA appropriations (P.L. 106-387, October 28, 2000).

Nationally, total direct government payments to farmers are estimated to be about $23.3 billion in calendar year 2000, 42% of farmers $55.4 billion in net farm income. Included in the government payments figure is $8.9 billion in emergency assistance. Due largely to these government payments, the farm economy is in comparatively strong financial condition at the beginning of 2001.

However, 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 has not necessarily reached farms in need, while those not in need may receive assistance. Others point out that farm support is intended to preserve the productive and competitive integrity of the sector, not be welfare for individual farms. What nearly all policy makers agree upon is the desire to end the pattern of frequent *ad hoc* relief with more predictable federal farm support. Numerous policy options were offered but none developed a consensus of support during the 106th Congress.

The task of developing future farm support policy now moves to the 107th Congress.

Contents

List of Figures

List of Tables

Farm Economic Relief and Policy Issues in the 106^{th} Congress: A Retrospective

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 seven years. The fixed annual AMTA payments gradually decline each year. As prescribed by law, about $5.5 billion in payments were made in FY1999, $5.1 billion are programmed for FY2000, and $4.1 billion are scheduled for FY2001. (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 105^{th} Congress to include about $5.7 billion in additional "emergency" farm assistance in the omnibus FY1999 appropriations law (P.L. 105-277, October 21, 1998), over and above the levels authorized under the 1996 farm bill. The 106^{th} Congress passed another major supplemental package of $8.7 billion in emergency farm relief in the FY2000 USDA appropriations act (P.L. 106-78, October 22, 1999). Additional farm assistance, amounting to $576 million, was included in the Consolidated Appropriations Act for FY2000 (P.L. 106-113, November 29, 1999). The $576 million were targeted primarily at eastern producers hurt in 1999 by Hurricane Floyd and by drought.

Economic forecasters 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 added to the momentum. In order to avoid the requirement for an emergency designation, the FY2001 congressional budget resolution (H. Con. Res. 290, Sec. 216, agreed to April 13, 2000) reserved $7.14 billion expressly for additional income assistance for farmers. Of the total, $5.5 billion was set aside for 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) titled the Agriculture Risk Protection Act of 2000 (P.L. 106-224, June 22, 2000). Later, approximately $3.5 billion in additional assistance for farmers was included in the FY2001 USDA appropriations act (P.L. 106-387, October 28, 2000).

During calendar 2000, as with 1999, there was little debate over whether or not additional farm income assistance was needed. The disagreements revolved around the design of the assistance program (who should get it, and what should be the delivery mechanism). Only a few critics argued against additional farm assistance, claiming that the problems would self-correct through reduced production and increased domestic and export sales caused by low prices. Others maintained that U.S. taxpayers already were making large direct farm payments to farmers that were not financially needy. Furthermore, some argued that higher farm spending would leave fewer dollars for other national priorities, such as tax relief, debt reduction, or spending on social programs.

The fact that large supplemental payments were adopted 3 years in a row is causing a critical examination of domestic support policy. A substantial portion of the farm relief was disaster assistance, which is not related to commodity support policy. However, about $17 billion in supplemental relief was paid to farmers solely in response to low prices. This spending led the congressional agriculture committees to focus on policy alternatives long before expiration of the 1996 farm bill.

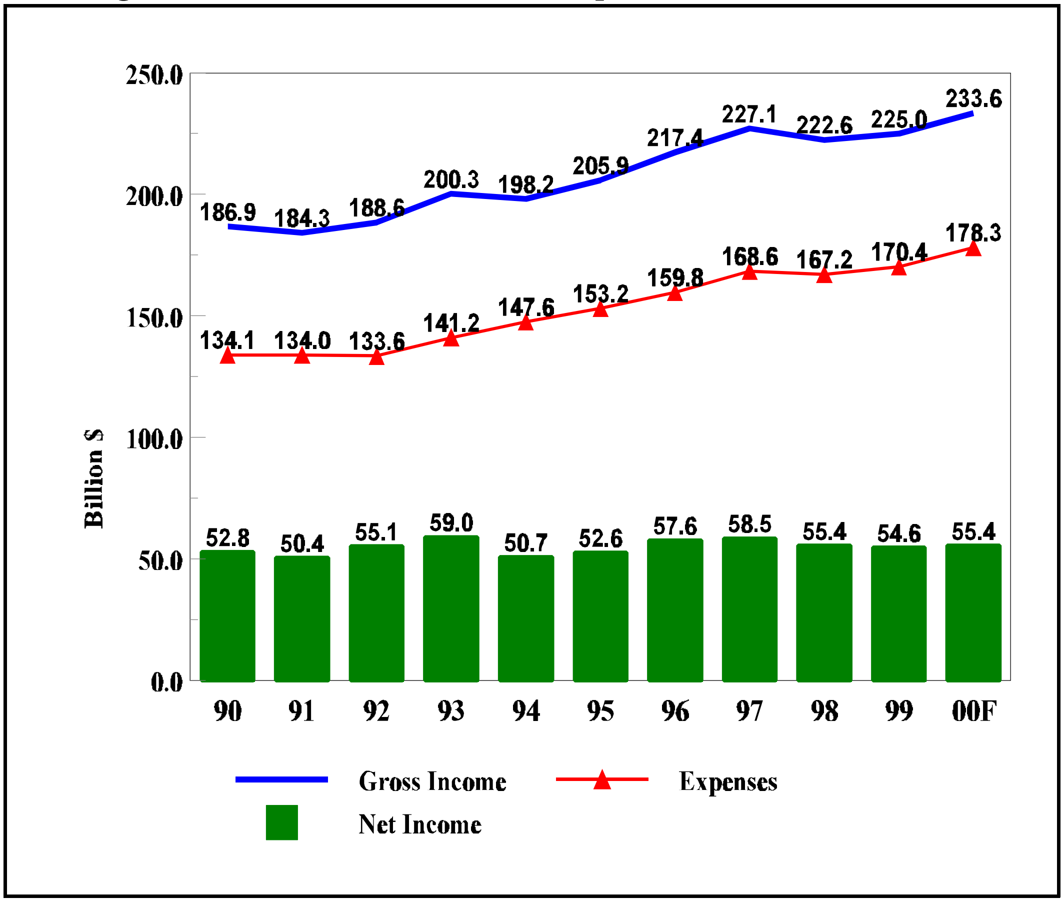
Farm Economic Situation

Overall, depressed agricultural export values and low U.S. farm prices helped to hold total farm commodity receipts to a forecast $194.5 billion in 2000, an improvement from the previous year's $188.6 billion but substantially below the 1997 record high of $207.6 billion. USDA data show that total livestock receipts rose, but that prices and receipts for major crops remained relatively flat.

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 was down, from the record of $60 billion in FY1996, to a projected $50.9 billion in FY2000 and a projected $53 billion in FY2001. Much of the decline was 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 added to the competitive difficulties.

USDA forecast data show that 2000 net cash farm income was $55.4 billion, $800 million more than in 1999 and close to the 1998 level, largely due to record high direct government payments to farmers (see Figure 1). Also, U.S. agriculture's overall farm business balance sheet was strong. According to USDA, the value of farm real estate and other farm assets 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), was forecast by USDA to be 15.9% in 2000, generally regarded by credit experts as a highly favorable level.

Figure 1. Gross cash income, cash expenses, and net cash income



According to USDA, calendar 2000 direct federal farm payments amounting to $23.3 billion — which exceeded the previous record levels of $20.6 billion in 1999 and $16.7 billion in 1987 — offset income losses due to low commodity prices (see Figure 2). Another measure of taxpayer support to the farm sector was spending by USDA's Commodity Credit Corporation (CCC), which finances price and income support programs, and related activities such as conservation, export promotion, and disaster assistance. Analysts estimate that CCC net outlays for FY2000 exceeded $32.3 billion, eclipsing the previous record of nearly $26 billion set in FY1986 (see Figure 3).

Figure 2. Direct government payments to farmers

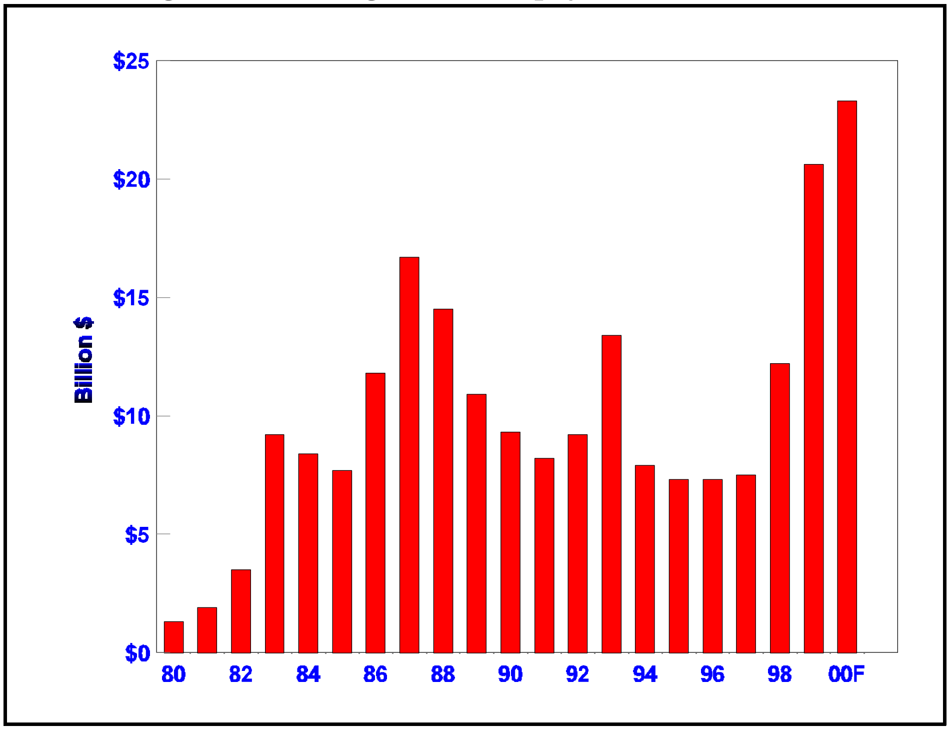
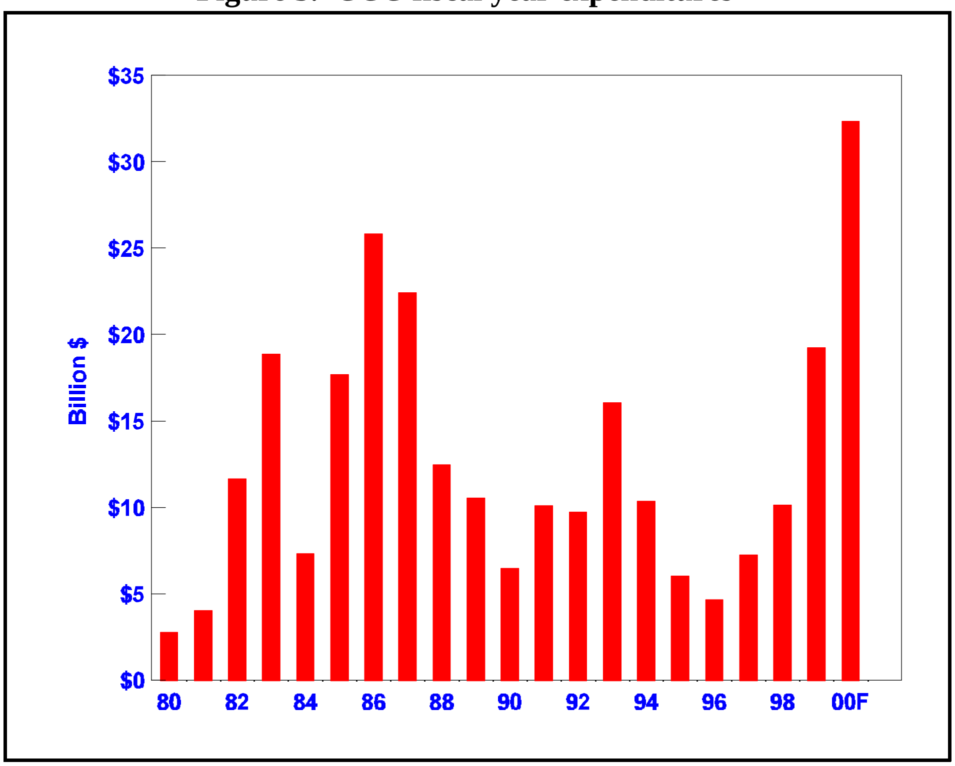


Figure 3. CCC fiscal year expenditures



Farm Relief Laws, 1998-2000

Emergency Farm Financial Relief Act of August 12, 1998. 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, Democratic 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.

(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.*)

Omnibus Consolidated and Emergency Appropriations Act of October 21, 1998. The FY1999 Omnibus Consolidated and Emergency Appropriations Act (P.L. 105-277, signed October 21, 1998) contained $5.8 billion in new emergency spending for producer assistance, most of it to shore up farm income and to indemnify producers for natural disasters (see Table 1). Nearly $2.9 billion were 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 three of the past 5 years. The money was disbursed in spring 1999. Farmers who had not purchased crop insurance were included in the program even though they had signed agreements declining future assistance when they refused to purchase insurance. 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.

Table 1. Selected Farm Relief Provisions in the FY1999 Omnibus Consolidated and Emergency Appropriations Act (P.L. 105-277, October 21, 1998)

Provision	Millions
Crop market loss assistance: direct payment's equal to about 50% of 1998 crop AMTA payments [Sec. 1111]	**$2,857**
Dairy market loss assistance: direct payments for dairy farmers [Sec. 1111]	**$200**
Alaska salmon assistance: payments to salmon fishermen [Sec. 1124]	**$50**
Crop disaster loss payments: for 1998 quantity and quality losses [Sec. 1102]	**$1,300**
Crop disaster loss payments: for multi-year losses [Sec. 1102]	**$575**
Crop insurance premium subsidy: additional premium subsidy for growers purchasing insurance on 1999 crops [Sec 1102]	**$400**
Crop insurance purchase requirement: cost of requiring uninsured producers receiving disaster payments to buy crop coverage [Sec. 1102]	**$66**
Livestock feed assistance: for livestock producers to replace damaged forage and feed [Sec. 1103]	**$200**
Dairy disaster assistance: for the dairy production indemnity program [Title XIII]	**$3**
Georgia cotton payments: producer payments for 1998 and 1999 cotton lost due to the financial failure of a warehouse in Georgia [Sec. 1121]	**$5**
California raisin assistance: authorizes noninsured crop assistance payments for qualified producers unable to meet deadlines [Sec. 1123]	**$3**
Honey recourse loans: authorizes recourse loans for 1998 crop honey [Sec 1122]	**$1**
Mohair recourse loans: authorizes no-interest recourse loans for mohair produced during or before FY1999 [Sec. 1126]	**$27**
Farm operating loan subsidy: for increased direct and guaranteed low interest farm operating loans [Title XIII]	**$31**
TOTAL:	**$5,718**

Source: Congressional Budget Office (CBO) estimates.

Supplemental Appropriations Act of May 21, 1999. More assistance was provided for calendar 1999 through the FY1999 Supplemental Appropriations Act (P.L. 106-31, 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 relief, 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.

Agriculture Appropriations Act of October 22, 1999. 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, October 22, 1999) (see Table 2). 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. Supplemental market loss payments effectively doubled the AMTA payments. Crop disaster victims received $1.2 billion. For the first time, AMTA contract holders received direct payments for soybean and minor oilseed production. The limit on marketing loan gains was doubled to $150,000 per person. Other beneficiaries included dairy, tobacco, peanut, and sugar producers, and domestic cotton buyers.

Table 2. Selected Farm Relief Provisions in the FY2000 Agriculture Appropriations Act (P.L. 106-78, Title VIII, October 22, 1999)

Provision	Millions
Crop disaster loss payments: coverage for 1999 losses [Sec. 801]	**$1,200**
Crop market loss assistance: 100% increase in 1999 AMTA payments [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 limit: doubles the per-person limit 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 [Sec. 814]	**$400**
TOTAL:	**$8,659**

Source: Congressional Budget Office (CBO) estimates.

In addition to the provisions shown in Table 2, the package included "sense of Congress" language calling on the Clinton 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 were provisions: mandating that meat packers report, several times per day, the prices they pay for live animals (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.

Consolidated Appropriations Act of November 29, 1999. 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, November 29, 1999) included $576 million for USDA-administered assistance largely to repair and replace storm-caused damage to crops, buildings, and land.

Agricultural Risk Protection Act of June 20, 2000. Early in the 2nd session of the 106th Congress, supplemental farm assistance, totaling $7.113 billion, was provided not through appropriations legislation but rather through an amendment – added during conference – to a crop insurance reform bill (H.R. 2559). 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. The Agricultural Risk Protection Act of 2000 was signed into law as P.L. 106-224 on June 20, 2000. The funds were made possible with passage of the FY2001 budget resolution (H.Con.Res. 290).

As typical with such measures, some of the spending was earmarked for purposes other than farm price and income support, such as: grants for research and for marketing assistance, conservation, nutrition; new biomass research and development (Title III), enhanced USDA authority to regulate plant health (Title IV).

Table 3 highlights the major supplemental spending provisions contained in Title II of P.L. 106-224. Market loss payments were disbursed in September 2000 to AMTA contract holders ($5.466 billion) and soybean and minor oilseed producers ($500 million). The balance of the $7.113 billion is to be spent in later years, most of it in FY2001, according to CBO estimates.

Table 3. Selected Farm Relief Provisions in Agricultural Risk Protection Act (P.L. 106-224, Title II, June 20, 2000)

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 year 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¢/lb. for wool and 40¢/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]	**$18**
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 year 2000 losses due to floods on certain crop and pasture lands [Sec. 257]	**$24**
TOTAL:	**$7,053**

Source: Congressional Budget Office (CBO) estimates.

H.R. 2559 initially was designed as crop insurance "reform" legislation. Early in 1999, many Members of the House and Senate Agriculture Committees had 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. CBO estimates the crop insurance provisions (Title I), will cost $7.219 billion over the FY2001-05 period. The law increased the premium subsidy for all levels of crop insurance above the basic (catastrophic) coverage level; subsidized some of the additional cost of revenue insurance products; improved coverage for farmers affected by disasters in multiple years; authorized pilot insurance programs for livestock producers; and eased eligibility requirements for permanent disaster aid for noninsurable farmers. (See CRS Issue Brief IB10033, *Federal Crop Insurance: Reform Issues in the 106th Congress*.)

Agriculture Appropriations Act of October 28, 2000. Approval of the Agricultural Risk Protection Act was not the end to farm relief from the 106th Congress. The FY2001 agriculture appropriations act (P.L. 106-387, H.R. 4461, H. Rept. 106-948, October 28, 2000) included Emergency and Market Loss Assistance as Title VIII. About $1.7 billion was for crop disaster losses during crop year 2000. Livestock producers suffering disaster losses received about $500 million. Milk and specialty crop producers received more than $900 million in income support due to low prices. Total supplemental farm relief in this law amounted to about $3.474 billion (see Table 4). The per person limit on marketing loan gains was doubled to $150,000 for only the 2000 crop year.

Table 4. Selected Farm Relief Provisions in the FY2001 Agriculture Appropriations Act (P.L. 106-387, Title VIII, October 28, 2000)

Provision	Millions
Farm disaster payments: year 2000 crop quantity and quality losses [Sec. 815]	**$1,622**
Livestock feed assistance: to replace forage lost or damaged by natural disaster [Sec. 806]	**$490**
Livestock loss indemnity: payments to replace livestock killed by natural disasters [Sec 813]	**$10**
Direct payments to dairy farmers: Low commodity price assistance [Sec. 805]	**$473**
Apple and potato payments: Direct payments to compensate for low 1998 and 1999 apple prices [Sec. 811] Direct payments for 1999 and year 2000 apple and potato quality losses [Sec. 811]	 **$100** **$38**
Wetlands reserve program: Increase enrollment by 100,000 acres [Sec. 806]	**$117**
Emergency watershed program: Repair flood damage to waterways [Title VIII]	**$110**
Emergency conservation program: Rehabilitate farmland after a disaster [Title VIII]	**$80**
Crop disease and insect assistance: $26 for each tree removed to combat citrus canker [Sec. 810] Mexican fruit fly, plum pox, Pierce's disease, watermelon wilt, and crickets [Sec. 804]	 **$58** **$19**
Tobacco farmer assistance: Forfeiture of 1999 tobacco loans to CCC [Sec. 844] Market loss payments for quota holders not producing a year 2000 crop [Sec. 841]	 **$250** **$3**
Honey producer assistance: Nonrecourse loans and loan deficiency payments [Sec. 812]	**$20**
Wool & mohair producer assistance: $0.40/lb payment for marketing year 2000 [Sec. 814]	**$20**
Cranberry producer assistance: Direct payment for low commodity prices [Sec. 816]	**$20**
California fruit growers: Direct payments for lost sales due to insolvency of a coop buyer [Sec. 843]	**$20**
Crop insurance: Additional premium subsidies [Title VIII]	**$13**
Hawaiian sugar transportation assistance: Payment to a sugar transportation cooperative [Sec. 822]	**$7**
Vermont sheep producers: Indemnity payments to producers for sheep lost to disease [Sec. 809]	**$2**
Shared appreciation agreements: Low-interest loans and extension of repayment period for shared-appreciation agreements [Sec. 818]	**$2**
Payment limit: doubles the per-person limit on gains from 2000 crop marketing loans and loan deficiency payments to $150,000 per farm; $300,000 for up to three farms [Sec. 837]	**$0**
TOTAL:	**$3,474**

Source: Congressional Budget Office (CBO) estimates.

Trade Considerations

U.S. trading partners watched closely to assess whether the emergency farm assistance provided over the past two years was 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 relief payments are exempt from AMS commitments because they were 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 immediate price and supply conditions and were 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 substantially higher levels. (See CRS Report RL30612, *Farm Support Programs and World Trade Commitments,* July 26, 2000.)

Other Policy Proposals

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 provide a stable and known amount of income support while farmers would make their planting and selling decisions based on market price signals. Policymakers recognized that commodity 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 payment 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 that AMTA contract payments would not increase but would continue to decline when market prices fell. Although almost all farmers and policymakers recognize that the farm economy will always be subject to periods of low prices caused by excess production or weak demand, few predicted that the recent price declines would be so steep, affect so many commodities, and last so long.

While some Members accused Freedom to Farm of not adequately protecting farmer incomes, few believed that the 1996 law was the cause of these problems. Some argued that Washington should "stay the course" and not change the basic, market-oriented premise of the 1996 farm bill, but they also expressed support for substantial *ad hoc* farm aid. Others called for more fundamental policy changes, but few sought a return to past supply management and government inventory-holding programs.

The emergency farm relief measures approved in 1998, 1999, and 2000 advanced the time frame and increased the size of payments to farmers without changing the framework of support established by the 1996 farm bill. That framework benefits farms that had land in the former grain and cotton programs. Critics argued that AMTA does not attempt to target assistance to farmers most in need. Farm bill supporters noted that market loss assistance payments are the most efficient method for quickly channeling badly needed funds to the farm sector. Furthermore, supporters argued, 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 favored fundamental design changes to current support programs to make assistance counter cyclical to market prices, and/or targeted to farms in the greatest financial need. Also, among the many questions before policymakers were the budgetary and trade impacts of additional assistance.

Administration Views. The Clinton Administration was among those calling for changes in permanent farm policy. Secretary Glickman criticized the 1996 farm law for failing to offer "counter cyclical assistance," and for not targeting assistance to smaller farmers and those producers most in need. However, not until the Administration sent its FY2001 budget to Congress in February 2000 did the Secretary make any specific proposals for change.

The "centerpiece" of the Administration's proposals was a new Supplemental Income Assistance Program (SIAP) that would compensate farmers for current low prices based on actual production, not on past production as with AMTA payments.[1] 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

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[1] This proposal was similar in concept to the "Supplemental Income Payment" program proposed by Representative Stenholm in H.R. 2792 in the 106th Congress and described on page 16 of this report.

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 reached and exceeded $30,000. SIAP would only make up for the difference that Agriculture Market Transition Act (AMTA) payments were below $30,000. Legislation also was requested to extend the dairy price support program to 2002. In addition, the Secretary stated 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 were estimated to cost $3.264 billion in FY2001 and $2.695 billion in FY2002.

The Administration's proposal did not gain much momentum in Congress. Nor did any 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, did become the subject of extended debate. For example, on August 3, 4, and 5, 1999, Senate Agriculture Committee Chairman Lugar held three days of comprehensive hearings on the farm income situation. Secretary Glickman was the lead witness at these hearings. The House Agriculture Committee conducted a lengthy series of farm policy hearings that began in September 1999. The Chairman of the House Committee indicated that no consensus on how to change farm policy emerged from those hearings.

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 introduced in the 106th Congress (S. 30, H.R. 1299, H.R. 1468, H.R. 4979) proposed removing or raising the farm bill cap on loan rates for grains, cotton, and oilseeds. Also, S. 30, H.R. 1299, and H.R. 4979 would have permitted the Secretary of Agriculture to extend the term of a loan (now nine months) for additional periods. H.R. 2704 would have restored 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 appealed to those who wanted 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 could lead to the build-up of more surplus stocks, further lengthening the duration of depressed prices.

Raising Payment Limitation. The 1996 farm bill imposed 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) meant large marketing loan/LDP gains for farmers, many of whom reached this annual payment limit. In contrast to limits on payments, there is no maximum on the quantity of commodities that a farmer can place under loan and then forfeit to settle the loan obligation and thereby circumvent the payment limitation. However, few policy officials wanted to see the CCC acquire forfeited grains, cotton, or oilseeds.

The farm relief provisions of P.L. 106-78 doubled the per-person limit on loan gains to $150,000 for the 1999 crop year only. Then, in February 2000, the Secretary approved the sale of commodity certificates to farmers for use in repaying nonrecourse commodity loans. This was done to avoid forfeiture of commodities to CCC. The action effectively eliminated 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. Legislation (such as H.R. 4895 and S. 3049) was introduced in the 106th Congress to continue the higher cap, and the FY2001 USDA appropriations act (P.L. 106-387, Sec 837) again doubled it to $150,000, but only for the 2000 crop year.

Those who wanted to retain lower payment limitations noted that the combination of marketing loan and AMTA payment limits already effectively double 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 argued, is already a generous government subsidy — particularly when it is available regardless of a farmer's financial situation.

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 attempted to ensure that farms with weather-reduced yields would 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 have permitted farmers to forgo their AMTA contract payments in exchange for a new, two-tiered system of subsidies. The first tier would have provided 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 have been 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 have been designed as a direct challenge to EU domestic farm subsidies, which are much higher than those in the United States. The Senator in 1999 tentatively estimated the annual cost of the plan at $7 billion more than the scheduled AMTA payments.

Risk Management. Crop insurance is one way farmers can 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 future price declines, and entering into production or marketing contracts with food processors or other buyers of their commodities. Early in the crop insurance debate in the 106th Congress, Senate Agriculture Chairman Lugar promoted a bill (S. 1666) that would have made a direct payment to any producer who adopted at least two of a variety of risk management strategies. However, the committee did not act on S. 1666 and instead to focused on crop insurance program improvements proposed in H.R. 2559 and approved the Agriculture Risk Protection Act of 2000 (P.L. 106-224).

Tax and Regulatory Proposals. The comprehensive tax relief bill (H.R. 2488, adopted by Congress on August 5, 2000, but vetoed by the President on September 23) contained several provisions of interest to farmers. Farm, Fishing, and Ranch Risk Management Accounts (FFARRM), 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 for the self-employed (now set to take effect by 2003). Farm organizations supported H.R. 8, a measure to end estate taxes that they contend make it difficult for farmers to pass their businesses to their children. On July 19, 2000, Chairman Lugar introduced S. 2894, a wide-ranging bill to provide tax and regulatory relief to farmers. None of these proposals was enacted during the 106th Congress.

Producer interests such as the American Farm Bureau Federation also believed 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 were often cited. Supporters of these laws argued 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 create a 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 such 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 called on government to strengthen enforcement of existing antitrust and competitiveness authorities, and/or adopt new laws where necessary.

Both the House and Senate Agriculture Committees held a number of hearings in the 106th Congress on concentration and competition problems and policies, and several bills were introduced. For example, S. 2252 and S. 2411 both would have provided USDA with expanded authority to address business mergers in agriculture. S. 2252, along with H.R. 2829, would have extended to poultry the same types of oversight USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) now has over livestock markets. H.R. 3159 would have imposed an 18-month moratorium on large agricultural mergers and acquisitions; S. 1738 and H.R. 3324 would have banned the ownership of slaughter animals by meat packers. S. 3091 would have implemented General Accounting Office recommendations aimed at improving GIPSA's ability to address livestock market competition issues. S. 3243 would have addressed agricultural contracts, strengthened bargaining associations, and brought poultry under USDA's enforcement authority. (See CRS Report RS20562, *Merger and Antitrust Issues in Agriculture*.)

Conclusions

An unanticipated and sharp drop in agricultural export demand followed the financial crises of 1997 and 1998 in much of Asia and Russia. Reduced demand, combined with large commodity inventories and continued high levels of production in exporting countries, pushed prices down from near record highs to near record lows that did not recover. Little more than two years into a seven-year policy of market-oriented farm programs, Congress responded to the dramatic drop in prices by adopting a series of *ad hoc* emergency farm income support laws.

Since the Agricultural Market Transition Act of 1996 was enacted, about $17 billion in supplemental income support payments were authorized, almost all of them in the 106th Congress. The legislation also provided about $3 billion in disaster assistance to offset losses from floods, droughts, and diseases, and an estimated $8 billion in crop insurance subsidies.

The emergency assistance was accompanied by substantial criticism of the policy and tools contained in AMTA. However, changes in policy were postponed. AMTA expires with crop year 2002and so some of the policy proposals offered in the 106th Congress, as well as new ideas, will be introduced in the 107th Congress.