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CRS Report for Congress

Farm Commodity Policy: Programs and Issues for Congress

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Summary

Congress has begun writing a new farm bill that may change the farm commodity programs. These farm income support and commodity price support provisions represent the heart of U.S. agriculture policy. A new bill is necessary because the 2002 farm bill expires with the 2007 crop year and, without an update, an undesirable reversion to permanent laws would occur. About 25 commodities representing a third of gross farm sales currently qualify for support. Five crops (corn, wheat, cotton, rice, and soybeans) account for over 85% of government commodity payments to farmers.

The Administration issued its own recommendations, and the House Agriculture subcommittees have begun markup. Several key issues include eliminating planting restrictions on fruits and vegetables, whether to continue direct payments, adoption of revenue counter-cyclical payments, and tightening payment limits. The overall question is whether to continue with the current system or reduce support in response to federal spending constraints, economic conditions, legal challenges from international trade agreements, and equity considerations. This report will be updated.

Since the 1930s, federal law has required the U.S. Department of Agriculture (USDA) to offer price and income support to producers of certain farm commodities. Authority comes from three permanent laws: the Agricultural Adjustment Act of 1938 (P.L. 75-430), the Agricultural Act of 1949 (P.L. 81-439), and the Commodity Credit Corporation (CCC) Charter Act of 1948 (P.L. 80-806). Congress typically alters these laws through multi-year omnibus farm bills or annual appropriations acts to address current market conditions, federal budget constraints, or other policy concerns. Reverting to permanent law is incompatible with current national economic objectives, global trading rules, and federal budgetary policies; thus consensus builds at the end of one farm bill to enact another.[1]

[1] For more information about the history of federal farm income support programs, see CRS Report 96-900, *Farm Commodity Legislation: Chronology, 1933-2002.*

Like most farm bills, the 2002 farm bill (P.L. 107-171) temporarily suspended most provisions of the permanent law for five to six years. Title I contains provisions for farm income and commodity price support programs for the 2002-2007 crop years. Other titles in the law affect conservation, trade, nutrition, credit, rural development, and research.[2]

Commodities Eligible for Support

This report summarizes the subsidies that are available for about 25 agricultural commodities representing about one-third of gross farm sales. Five crops (corn, cotton, wheat, rice, and soybeans) account for about 90% of government payments. The largest 64,000 farms (3.1% of the total) have sales over $500,000 and produce 45% of production; they receive 27% of government payments. **Table 1** lists the support prices that Congress set by statute.

- The "covered commodities" are the primary crops eligible for support and include **wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, and other oilseeds (including sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe,** and **sesame seed**). **Peanuts** are supported similarly. Farmers receive constant "direct payments" that are tied to historical production, and "counter-cyclical" and "marketing loan" payments that increase when market prices are low. For background on the types of payments and how they work, see CRS Report RL33271, *Farm Commodity Programs: Direct Payments, Counter-Cyclical Payments, and Marketing Loans.*

- "Loan commodities" include all of the "covered commodities" plus **wool, mohair, honey, dry peas, lentils,** and **small chickpeas**.

- **Dairy** prices are supported through federal purchases of nonfat dry milk, butter, and cheese. In addition, producers also receive a counter-cyclical "milk-income loss contract" (MILC) payment when prices fall below a target price. See CRS Report RL33475, *Dairy Policy Issues*.

- **Sugar** support is indirect through import quotas and domestic marketing allotments. No direct payments are made to growers and processors. See CRS Report RL33541, *Sugar Policy Issues*.

Commodities Not Eligible for Support

The list of commodities that normally do not receive direct support includes **meats, poultry, fruits, vegetables, nuts, hay,** and **nursery products** (about two-thirds of farm sales). Producers of these commodities, however, may be affected by the support programs because intervention in one farm sector can influence production and prices in another. For example, program commodities such as corn are feed inputs for livestock.

Congress and the Administration often provide periodic assistance to some non-program commodities. For example, the 2002 farm bill provided $94 million to apple

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[2] The scope of a farm bill is summarized in CRS Report RL33037, *Previewing a 2007 Farm Bill*.

growers for 2000 market losses, and $200 million annually to purchase fruits, vegetables, and specialty crops for food assistance (see CRS Report RS20235, *Farm and Food Support Under USDA's Section 32 Program*). Other food assistance programs such as food stamps and school lunches also promote fruit and vegetable consumption.

Table 1. Support Prices for Commodities in the 2002 Farm Bill

Type of payment	**Direct Payment**	**Counter-cyclical**	**Marketing Loan**
Payment based on	Historical base acres and yield		Actual production
Price used in formula	**Payment rate**	**Target price**	**Loan rate (national average)**
"Covered commodities"			
Wheat, $/bu	0.52	3.92	2.75
Corn, $/bu	0.28	2.63	1.95
Sorghum, $/bu	0.35	2.57	1.95
Barley, $/bu	0.24	2.24	1.85
Oats, $/bu	0.024	1.44	1.33
Upland Cotton, $/lb	0.0667	0.724	0.52
Rice, $/cwt	2.35	10.50	6.50
Soybeans, $/bu	0.44	5.80	5.00
Minor Oilseeds, $/lb	0.008	0.101	0.093
Other commodities			
Peanuts, $/ton	36	495	355
ELS cotton, $/lb	*	*	0.7977
Wool, graded, $/lb	*	*	1.00
Wool, nongraded, $/lb	*	*	0.40
Mohair $/lb	*	*	4.20
Honey, $/lb	*	*	0.60
Peas, dry, $/cwt	*	*	6.22
Lentils, $/cwt	*	*	11.72
Chickpeas, small, $/cwt	*	*	7.43
Milk, $/cwt	*	16.94	9.90
Sugar, raw cane, $/lb	*	*	0.18
Sugar, beet, $/lb	*	*	0.229

* not applicable.
Source: CRS, compiled from the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), Title I, Sections 1103, 1104, 1202, 1303, 1304, 1307, 1401, 1501, and 1502.

Policy Background

Historical Origins. When farm programs were first authorized in the 1930s, most of the 6 million farms in the United States were small and diversified. Imports and exports were small. Policymakers reasoned that stabilizing farm incomes with price supports and supply controls would help a large part of the economy (25% of the population lived on farms) and assure the capacity to produce abundant domestic food supplies.

In recent decades, the face of farming has changed. The United States is now a major exporter of farm commodities, yet we import many specialty or seasonal foods based on consumer preferences. Farmers now comprise less than 2% of the population. Most agricultural production is concentrated in fewer, larger, and more specialized operations. About 7% of farms account for 76% of sales; these 150,000 farms had average sales over $1 million, yet are often "family farms." Most of the country's 2 million farms are part-time, and operators rely on off-farm jobs for most of their income.

Although some features of the commodity programs date to the 1930s, the programs have evolved to respond to changes in agriculture, the economy, the federal budget, and international trade. Congress and the Administration have sought for decades to make farming more market-oriented. However, periods of low prices and economic pressures on smaller "family farms" from consolidation have made that goal difficult to achieve.

Issues in Congress

Since most provisions of the 2002 farm bill expire in 2007, the 110th Congress will be making decisions about the content of a new farm bill. Congress and the USDA both have held field hearings and listening sessions. The Administration released its farm bill proposal in January 2007, and the House Agriculture subcommittees began markup in May. For general information on the status of farm bill proposals, see CRS Report RL33934, *Farm Bill Proposals and Legislative Action in the 110th Congress.*

A key question for the 110th Congress will be whether to follow the lines of the 2002 farm bill or adopt different approaches in response to federal spending constraints, prevailing economic conditions, potential challenges to U.S. farm policies from international trade agreements, and requests from groups not currently receiving support. For more background, see CRS Report RL33037, *Previewing a 2007 Farm Bill*.

Budgetary Considerations. As with all areas of the federal budget, the farm bill faces spending constraints imposed by Congress. The joint budget resolution for FY2008 (S.Con.Res. 21) allocates funding across the government, including setting limits for the agriculture committees to write the farm bill. The budget resolution gives the agriculture committees the March 2007 Congressional Budget Office (CBO) "baseline" amount, plus a $20 billion deficit-neutral reserve fund. Staying within the budget resolution amounts provides protection from certain legislative points of order.

The CBO "baseline" contains $35.3 billion over five years (FY2008-FY2012) in expected outlays for the farm commodity programs. The baseline assumes that the current farm bill continues under expected economic conditions, and is the point of comparison for whether new proposals would cost more or less than current law. Many note that the baseline is down nearly a third since the March 2006 baseline, largely due to rapid increases in the futures market price of corn and other commodities. However, this "smaller pie" does not reduce the ability to continue the current mandatory programs, nor does it set an upper limit if price forecasts change and higher outlays are needed.

For the reserve fund to become available, offsets need to be found elsewhere in the federal budget and allocated by the leadership in the House and Senate. The farm bill reserve fund is one of over 20 deficit-neutral reserve funds in the budget.

The FY2007 Iraq war supplemental appropriations bill (H.R. 2206) contains a one-month extension of the MILC program. This effectively creates a $1.2 billion baseline over five years for MILC, which had no baseline in the March 2007 baseline. This gives the agriculture committees the funds needed to extend MILC, if desired, without offsets.

Administration Proposal. The Administration's proposal for the 2007 farm bill is unusually detailed. For the commodity programs, the major points of the Administration's plan would reduce marketing loan rates and link benefits to the sale of the commodity (to reduce speculative gains), raise direct payments for some crops (especially cotton), create a revenue-based counter-cyclical program, eliminate the fruit and vegetable planting restriction, deny payments to households with over $200,000 in adjusted gross income (AGI), and offer extra benefits for beginning farmers.

For all areas in the farm bill, the Administration requests $5 billion more than the 10-year baseline, with commodity programs receiving $4.5 billion less than the $74 billion 10-year baseline, and conservation $7.8 billion more than the $49 billion baseline. CBO's score of the plan is twice as high, at $9.9 billion above the 10-year baseline, with commodities down $65 million and conservation up $4.9 billion. For more information, see CRS Report RL33916, *The USDA 2007 Farm Bill Proposal: Possible Questions*.

WTO Trade Disputes. Price support in the United States has become a focus of developing country criticism in trade negotiations. A World Trade Organization (WTO) dispute settlement panel released findings in summer 2004 in a case brought by Brazil against the United States cotton subsidies. The United States lost an appeal of the case in March 2005, and has subsequently eliminated the upland cotton step-2 program. Other findings affect programs that the United States had considered WTO-compliant, particularly restrictions on planting flexibility. In January 2007, Canada raised a WTO complaint against the U.S. corn program. See CRS Report RS22522, *Potential Challenges to U.S. Farm Subsidies in the WTO: A Brief Overview*.

Planting Flexibility, Fruits and Vegetables, and the WTO. Owners of cropland with a history of growing "program crops" receive federal subsidy payments without regard to what crops are currently being produced on these base acres. While the direct payments program is characterized as giving producers the flexibility to make planting choices based on actual market conditions instead of subsidy rules, there are prohibitions on planting fruits, vegetables, and wild rice on program crop base acres.

The purpose of the fruit and vegetable planting restriction is to protect growers of unsubsidized fruits and vegetables from competing production on subsidized cropland. As reasonable as this may appear, problems have arisen with the policy. First, producers of processing vegetables (canned and frozen) in the Midwest sharply curtailed production after soybeans became a program crop in the 2002 farm bill. Second, in a high-profile case by Brazil against the U.S. cotton program, the World Trade Organization (WTO) determined that the prohibition on planting fruits and vegetables was not consistent with the rules required of a minimally distorting subsidy. This determination jeopardizes the "green box" classification of the direct payments for all the program crops.

The Administration proposes that the 2007 farm bill eliminate the fruit and vegetable planting restriction. Companion bills have been introduced in the House and Senate that would allow any producer to use base acres to grow fruits and vegetables for canning and freezing as long as they give up program payments on those acres for one year, but without additional penalties ("Farm Flex" — H.R. 1371, Baldwin, and S. 1188, Lugar). The partial approach of farm flex likely would not satisfy WTO concerns. Other options include the status quo, and eliminating the underlying direct payment. Most fresh fruit and vegetable growers oppose eliminating the restriction without some type of compensation. For more information, see CRS Report RL34019, *Eliminating the Planting Restrictions on Fruit and Vegetables in the Farm Commodity Programs.*

More Equitable Distribution of Payments. Farm program critics and some in the Administration point out that income and price support benefits are not equitably shared across the sector. Subsidies are directed at a limited number of commodities and are based largely on output, meaning that larger producers fare better than smaller ones. They argue that these imbalances should be addressed. One option could be to further tighten annual payment limits. Some have further suggested that payments be denied to people with high income (i.e., means-tested). Defenders of the current policy counter that payments are designed to support U.S. agricultural productivity and competitiveness, regardless of farm size or household income.

Current payment limits set the maximum amount of farm program payments a person can receive at $360,000 per year. In addition, an income test denies payments to households with adjusted gross income (AGI) over $2.5 million. The Administration's farm bill proposal would deny payments to households with more than $200,000 AGI, but preserve the $360,000 payment limit. A proposal by Senator Lugar and Representative Kind also would tighten the AGI limit to $200,000. Tighter limits were part of the Senate-passed 2002 farm bill, but were dropped in conference committee. Bills in the 108th and 109th Congress, including a Senate amendment during budget reconciliation, would have tightened payment limits to a total of $250,000 from the current limit of $360,000, but were not enacted. For more information, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.

Counter-Cyclical Support. Historically, farm commodity programs have focused on price, while crop insurance programs have focused on yield. Some reformers recommend a revision of the counter-cyclical price support program into a revenue-based program. Producers cite insufficient support during drought years when yields are low and prices are high because they have little to sell and receive no counter-cyclical price support. The National Corn Growers Association, among others, has proposed shifting a portion of current farm subsidies to a revenue-based policy. The Administration also proposes a revenue-based counter-cyclical program. Questions remain about whether to tie payments to national or regional yield levels, the effectiveness of such a safety net in areas where most of a commodity is grown versus outlying areas, and whether to include costs of production in the revenue calculation.

Counter-cyclical and risk management support also have been proposed in the form of "farmer saving accounts." These risk management savings accounts would encourage farmers to set aside income during good years that would be available for withdrawal during lower-income years. Withdrawals could be used to cover shortfalls that are not fully compensated by crop insurance or other types of counter-cyclical support. The government could encourage savings by allowing tax deductions or making matching contributions. H.R. 1882 (Everett) and S. 1422 (Lugar) would create such accounts.