Order Code RS21999
Updated July 13, 2007

CRS Report for Congress

Farm Commodity Programs and the 2007 Farm Bill

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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 Committee has 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 to address current market conditions, 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] Commodity support typically is enumerated in Title I of a farm bill. Other titles address conservation, trade, nutrition, credit, rural development, and research.

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[1] For more background, see CRS Report 96-900, *Farm Commodity Legislation: Chronology, 1933-2002*, and CRS Report RL33037, *Previewing a 2007 Farm Bill*.

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 set by Congress in the 2002 farm bill and the House Agriculture Committee's draft markup of the 2007 farm bill.

- The "covered commodities" are the primary crops eligible for support: **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. 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**. These commodities are eligible for the marketing loan program only.

- **Dairy** prices are supported through federal purchases of nonfat dry milk, butter, and cheese. Producers also receive a counter-cyclical "milk income loss contract" (MILC) payment when prices fall below a target price. See CRS Report RL34036, *Dairy Policy and the 2007 Farm Bill*.

- **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.

Policy Background

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. About 150,000 specialized farms (7% of all farms) account for 76% of sales. Most of the country's 2 million farms are part-time, and operators rely on off-farm jobs for most of their income.

The commodity programs have evolved since the 1930s to respond to changes in agriculture, the economy, the federal budget, and international trade. Despite attempts to make farming more market-oriented, periods of low prices and economic pressures on smaller farms have made the goal of reducing government support difficult to achieve.

Table 1. Support Prices for Farm Commodities

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"**	
Law or proposal	**2002 farm bill**	**Change in 2007 House draft**	**2002 farm bill**	**Change in 2007 House draft**	**2002 farm bill**	**Change in 2007 House draft**
"Covered commodities"						
Wheat, $/bu	0.52	+0	3.92	+0.23	2.75	+0.19
Corn, $/bu	0.28	+0	2.63	+0	1.95	+0
Sorghum, $/bu	0.35	+0	2.57	+0	1.95	+0
Barley (malt), $/bu	0.24	+0	2.24	+0.49	1.85	+0.65
Barley (feed), $/bu						+0.10
Oats, $/bu	0.024	+0	1.44	+0.06	1.33	+0.06
Upland Cotton, $/lb	0.0667	+0	0.724	-0.024	0.52	+0
Rice (long grain), $/cwt	2.35	+0	10.50	+0	6.50	+0
Rice (medium, short grain)						+0
Soybeans, $/bu	0.44	+0	5.80	+0.30	5.00	+0
Minor Oilseeds, $/lb	0.008	+0	0.101	+0.014	0.093	+0.014
Other commodities						
Peanuts, $/ton	36	+0	495	+0	355	+0
ELS cotton, $/lb	*		*		0.7977	+0
Wool, graded, $/lb	*		*		1.00	+0.10
Wool, nongraded, $/lb	*		*		0.40	+0
Mohair $/lb	*		*		4.20	+0
Honey, $/lb	*		*		0.60	+0
Peas, dry, $/cwt	*		*		6.22	-0.82
Lentils, $/cwt	*		*		11.72	-0.44
Chickpeas, small, $/cwt	*		*		7.43	+1.11
Sugar, raw cane, $/lb	*		*		0.18	+0.005
Sugar, beet, $/lb	*		*		0.229	+0.006

* not applicable.

Source: CRS, compiled from the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), and the House Agriculture Committee's "Chairman's Mark for Full Committee Consideration," July 6, 2007.

2007 Farm Bill Issues

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 general information on the status of farm bill proposals, see CRS Report RL33934, *Farm Bill Proposals and Legislative Action in the 110th Congress.*

The House Agriculture Subcommittee on General Farm Commodities held its markup on June 19, 2007. The subcommittee set aside its "discussion draft" and unanimously adopted an amendment to extend the 2002 farm bill's commodity provisions until the 2012 crop year. Several subsequent amendments were adopted that are favorable to cotton and rice, and offer limited planting flexibility for tomatoes in Indiana. The subcommittee's action signals its preference for the status quo, rather than the limited adjustments to target prices, loan rates, and payment limits in the subcommittee's original discussion draft. Before adopting the farm bill extension, the subcommittee considered three comprehensive amendments that proposed more fundamental reforms. The subcommittee unanimously defeated the "Farm 21" proposal by Representative Kind (H.R. 2720), which would phase out subsidies and create risk management savings accounts, and a voluntary buyout program advanced by Citigroup. Also, it voted down (17-1) an amendment containing USDA's farm bill proposal for the commodity programs.

The chairman's mark for full committee consideration in the House, released on July 6, follows the subcommittee mark but contains some of the "re-balancing" of target prices and loan rates among commodities that was in the original discussion draft (**Table 1**).

The Senate Agriculture Committee has not released any legislative language.

Budgetary Considerations. As with all areas of the federal budget, the farm bill faces spending constraints. The joint budget resolution for FY2008 (S.Con.Res. 21) 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. 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 to the agriculture committees. The farm bill reserve fund is one of over 20 deficit-neutral reserve funds competing for additional funding.

The "baseline" is the expectation of what the current farm programs would cost under forecasted economic conditions, and is the point of comparison for whether new proposals would cost more or less than current law. For the farm commodity programs, the baseline contains $35.3 billion over five years (FY2008-FY2012), plus $1.2 billion for MILC subsequent to the FY2007 Iraq war supplemental appropriations bill (H.R. 2206). Many note that the commodity baseline is down significantly since last year or since the 2002 farm bill. This is not because funds have been taken away from the farm bill, but rather because of the budget effect from the rapid increases in the futures market price of corn and other commodities since mid-2006. This "smaller pie" does not reduce the ability to continue the current mandatory programs, nor does it set an upper limit on subsidy outlays if future price realizations change and higher outlays are needed.

Payment Limits. Payment limits set the maximum amount of farm program payments that 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 debate over payment limits usually focuses on the size of farms that should be supported, whether payments should be proportional to production or limited per individual, and the need to reduce spending. The effect of limits varies greatly across individuals and regions. Cotton and rice farms in the South and West are affected more often than corn, soybean, and wheat farms in the Midwest. Supporters of tighter limits say that large government payments support consolidation into large farms and are difficult to justify fiscally in terms of wealth and equity. Payment limit opponents say that farm supports ensure U.S. agricultural productivity and competitiveness, regardless of farm size or household income, and should not penalize efficiency. For more information, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.

The House markup draft does not change payment limits. Originally, the subcommittee's discussion draft would have moved toward stronger enforcement through "direct attribution" to individuals, but it also would have removed existing limits from the marketing loan program. Some media reports suggest that the agriculture committee is developing compromise language for tighter limits that may be incorporated during markup to reduce the possibility of amendments when the bill reaches the House floor.

The Administration's farm bill proposal would preserve the $360,000 payment limit, but deny all payments to households with more than $200,000 AGI. In Congress, H.R. 2720 (Kind) would tighten the AGI limit to $200,000. S. 1486 (Dorgan/Grassley) would lower the maximum government payment to $250,000 and apply limits to all commodity payments, some of which are not subject to the limits.

Direct Payments. Direct payments are fixed annual payments based on historical production. Recent high commodity prices and high farm incomes have made it difficult to justify the annual $5 billion in direct payments. Thus, in the tight budget environment facing the agriculture committees, direct payments are receiving increased scrutiny. The House markup draft does not change the direct payment program, although the notion of reducing the ratio of eligible base acres below the current 85% was considered as a way to score budgetary savings. However, to score savings, the House markup draft eliminates the advanced installment of direct payments in the last year of the farm bill (2012). This would shift about $1 billion of payments into a later fiscal year without reducing total payments to farmers.

The full committee draft also would eliminate direct and counter-cyclical payments to recipients entitled to less than $10 of benefits, saving $94,000 per year from 28,000 recipients, according to USDA. This approach differs from the original subcommittee draft which would have eliminated payments to recipients with less than 10 acres of base.

Planting Flexibility, Fruits and Vegetables, and the WTO. The direct payments program gives producers the flexibility to make planting choices based on market conditions instead of subsidy rules, but there are prohibitions on planting fruits, vegetables, and wild rice on program crop acreage. The planting restriction is intended to protect growers of unsubsidized fruits and vegetables from competing with production on subsidized crop land. As reasonable as this may appear, problems have arisen with the policy. The WTO determined that the restrictions on planting fruits and vegetables are inconsistent with the rules of a minimally distorting subsidy. This jeopardizes the "green box" classification that the United States asserts for direct payments.

The House markup draft does not change the fruit and vegetable planting restriction, although it does create a pilot program allowing up to 10,000 acres of tomatoes to be grown on base acres in Indiana with a corresponding one-year reduction in payment acres. The pilot program (similar to H.R. 1371/S. 1188) aims to address the concerns of midwestern fruit and vegetable processors who faced reduced supplies once soybeans became a program crop. But the pilot program does not address concerns over WTO compliance. USDA proposes that the 2007 farm bill eliminate the fruit and vegetable planting restriction completely. 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*.

Counter-cyclical Payments. Counter-cyclical payments are one part of a safety net for farm income. Counter-cyclical payments provide automatic payments to farmers when market prices are below a target price set in statute. Historically, farm commodity programs have focused on price, while crop insurance programs have focused on yield. But producers cite insufficient government 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 and the USDA, among others, propose shifting a portion of current farm subsidies to a revenue-based policy.

The House markup draft does not change the counter-cyclical payment program, other than to adjust target prices for certain commodities (**Table 1**).

Risk management also has been raised in various "farmer savings account" proposals (H.R. 1882, Everett; S. 1422, Lugar/H.R. 2720, Kind). These special purpose savings accounts would encourage farmers to set aside income during good years that would be available for withdrawal during bad years. The government could encourage savings by allowing tax deductions or making matching contributions. The Everett bill would provide both types of incentives; the Lugar/Kind bills would channel direct payments into the accounts and require participation in order to receive other commodity program benefits. The Kind bill was rejected during House subcommittee markup.

Dairy. The House markup draft would extend the dairy support program, but modify it to directly support the prices of manufactured dairy products rather than supporting the farm price of milk. The MILC program would be extended for the life of the new farm bill. For more background, see CRS Report RL34036, *Dairy Policy and the 2007 Farm Bill*.

Sugar. The House markup draft extends the sugar program. H.R. 2720 (Kind) would repeal current authorities for both the nonrecourse loan program and the sugar tariff-rate quota, but would establish a recourse loan program for sugar. The Senate companion measure, S. 1422 (Lugar), would repeal the sugar program, and both would allow sugar growers to take advantage of the proposed farmer savings accounts. For more background, see CRS Report RL33541, *Sugar Policy Issues*.