POLICY DEVELOPMENTS IN UNITED STATES AGRICULTURE SINCE 1986

Edwin Young, Frederick Nelson, Praveen Dixit, and Neilson Conklin

INTRODUCTION

U.S. agricultural policy has shifted towards increased market orientation and more reliance on non trade-distorting or "green box" programs. The 1996 Farm Act substituted decoupled income support payments for price sensitive deficiency payments. However, price sensitive marketing loan related benefits increased in importance in 1998 and 1999 with low market prices. In addition, acreage supply control programs were terminated in the 1996 Farm Act.

OVERVIEW OF CHANGES TO POLICY ORIENTATION

The focus of government spending is shifting towards more market orientation with increased reliance on non trade-distorting or "green box" programs as defined by the World Trade Organization (WTO) Agreement on Agriculture. A decoupled income support program (production flexibility contract payments) has replaced the price-sensitive target price/deficiency payment program. Planting flexibility increased under the 1996 Farm Act. The acreage reduction program (ARP) was eliminated. Producers now have the flexibility to plant any program crop on contract acres, as long as the producer does not violate conservation and wetland provisions and some limitations on fruits and vegetables.

Price support levels are capped. Marketing loan provisions for grains and oilseeds changed the commodity loan program from a price support program to more of an income support program. Expenditures on long-run conservation reserve and environmental cost-share programs have increased.

The Organization for Economic Cooperation and Development (OECD) uses the Producer Support Estimate (PSE) as an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers arising from policy measures which support agriculture. The United States percentage PSE was less than the 1986-88 average percentage PSE all during 1989-1999. It moved up close to the 1986-88 percentage by 1998 and 1999 due to the lower market prices and increased benefits from loan deficiency payments, marketing loan gains, and emergency legislation.

MONITORING AND EVALUATING AGRICULTURAL POLICIES

The following sections describe agricultural policy and policy changes in the United States, 1986 to 1999, based on the policy measures and categories used in the OECD monitoring of producer and general support to agriculture (the PSE's and the GSSE).

Market Price Support (MPS)

The United States provides market price support by guaranteeing minimum prices for commodities. This is accomplished through: (1) non-recourse commodity loans for crops at predetermined per-unit loan rates, with occasional acquisition of crop production used as collateral for the loans, (2) government purchases of dairy products at predetermined support prices, combined with a system of classified pricing in several regulated Federal milk marketing regions, or "orders," and (3) application of import restrictions, which are currently WTO-related tariff-rate-quotas

Program Changes. Commodity loan provisions have been revised to greatly reduce the extent of government stock accumulation at low market prices. For most crops, minimum commodity loan rates are now derived from a formula based on a percentage of a moving average of recent past prices. Maximum loan rates were established for most program crops. Provisions now available for most loan commodities allow producers to repay loans at less than the original loan rate when market prices are below loan levels, resulting in a "marketing loan gain" that is equivalent to a per-unit direct payment. Alternatively, producers may forgo obtaining a loan and receive this same per-unit benefit in the form of a "loan deficiency payment." Provisions for special reserve loans and reserve storage payments on farmer-owned grain were suspended in 1996. Effective loan rates for sugar and peanuts were reduced in 1996 and are to be held constant through 2002.

Export Subsidies

While not guaranteeing minimum prices, the use of export subsidies (the Export Enhancement Program and the Dairy Export Incentive Program) can facilitate maintenance of domestic price levels over world market price levels, reducing the role of loans, acquisitions, purchases, and import restrictions in supporting domestic market prices.

The Export Enhancement Program has not been used in recent years. The 1996 Farm Act requires the Secretary to operate Dairy Export Incentive Program in order to maximize the amount of exports consistent with WTO Agreement on Agriculture obligations.

Dairy Program

U.S. dairy policy includes a system of Federal milk marketing orders designed to facilitate marketing of milk by specifying conditions under which milk handlers must operate within certain geographic areas and price support provided through government purchases.

Program Changes. The 1996 Farm Act called for consolidation of the dairy marketing orders (to be reduced from 33 orders to 10 -14 orders). Market order reform was implemented on January 1, 2000. Dairy support prices were gradually reduced from 1997 through 1999, and were scheduled to end on January 1, 2000. However, low prices during the fall of 1999 and delays in reaching agreement on Market Order reform resulted in a one-year extension of the program.

The Northeast Interstate Dairy Compact was authorized in the 1996 Farm Act to provide for an increase in the regulated price of Class I milk marketed in the compact region. Although authorization for the Compact was to end with implementation of market order reform, the authorization was extended until September 30, 2001.

Direct Payments

The United States currently provides direct payments and input subsidies to producers in several different ways, including (1) decoupled income support payments—payments not related to current production, prices or resource use; (2) commodity loan related payments and interest subsidies linked with current market prices and production; (3) natural-disaster related payments and subsidies using crop insurance, revenue insurance, and ad hoc disaster relief programs; (4) emergency income transfers to compensate for low market prices and lost markets; (5) income-based benefits due to Federal income tax provisions; (6) subsidies on inputs such as water, grazing land, fuel, advisory services, and feed; and (7) payments to support and encourage conservation and environmental-oriented practices.

Program Changes. *Decoupled payments:* The 1996 U.S. Farm Act fundamentally changed agricultural income support programs by replacing the price-sensitive target price/deficiency payment program with a new program of predetermined income transfers that are not related to current farm-level production decisions or market prices. Total outlays for the new production flexibility contract payments were capped at slightly over $36 billion for 7 years, 1996-2002.

Planting flexibility: Planting flexibility increased under the 1996 Farm Act. Participating producers are permitted to plant 100 percent of their contract acreage plus any other cropland acreage to any crop (with some limitations on fruits and vegetables) with no loss in payments, as long as the producer does not violate conservation and wetland provisions. Authority for acreage reduction programs (ARPs) and other planting regulations was eliminated.

Risk management: Assisting producers in the use of risk management practices is an increasingly important policy goal in United States agriculture. The

1994 Crop Insurance Reform Act provided new, low-cost catastrophic coverage and instituted procedures to restrict enactment of disaster assistance. Crop and revenue insurance, provided through private insurance companies, give producers an important income safety net. USDA's Risk Management Agency provides direction and financial support to the insurance companies and directly subsidizes producers by setting below-cost insurance premiums. In addition, educational and pilot programs are provided to help farmers learn more about risk management tools.

Emergency and disaster relief payments: Although crop insurance reform legislation in 1994 included language intended to eliminate ad hoc disaster assistance programs that have been used occasionally, emergency spending legislation enacted in 1998 and 1999 included disaster assistance for crop losses as well as direct "market loss assistance" and other payments to the sector. The total spending on these programs amounted to about $15 billion.

Input subsidies: In addition to changes in subsidized insurance and emergency programs, the United States made several changes or refinements for subsidies related to use or limitations on the use of farm inputs. The most significant change during this period involved the implementation of the Conservation Reserve Program (CRP), initiated in 1986. The 1990 and 1996 Farm Acts extended the CRP. Higher environmental and conservation criteria provide that new acreage must provide significant soil erosion, water quality, or wildlife benefits. New rules introduced in 1998 expanded the number of acres eligible to enter the reserve to over two-thirds of total crop land.

Other new programs: Also introduced during the period was the Wetlands Reserve Program, designed to protect wetlands or return cropped land to wetland status. The Environmental Quality Incentives Program (EQIP) introduced in 1996 simplified and consolidated Federal conservation and environmental cost share programs. EQIP involves technical assistance and direct payment incentives to implement certain practices. At least half of the funding must be allocated to livestock operations. Other direct assistance programs implemented involve flood risk protection and farmland protection through purchase of easements.

Income tax regulations: The Taxpayer Relief Act of 1997 reduced taxes generally and gave farmers several relief measures that they had requested. In particular, capital gains rates were reduced, loss carry-back provisions (income averaging) were provided, and estate tax exemptions were increased. The Tax and Trade Relief Extension Act of 1998 extended the loss-carry back to 5 years, made income averaging permanent, and provided acceleration of self-employment health insurance deductibility.

General Services Support Estimate

The General Services category of support includes assistance to agriculture in general, rather than direct subsidies to producers in the form of higher prices or payments. United States programs in order of importance, as measured by 1998 outlays include: (1) domestic food assistance through the food stamp program, (2) agricultural research and development programs, (3) foreign assistance and other marketing and promotion programs, (4) miscellaneous state expenditures on agriculture, (5) inspection services, and (6) off-farm rural infrastructure development.

SUMMARY AND CONCLUSIONS

The market-orientation of United States' agriculture policy increased since 1986-88. The focus of government spending is shifting to non trade-distorting or "green box" programs as defined by the World Trade Organization (WTO) Agreement on Agriculture.

- Income support programs are more market oriented. Payments based on historical production were substituted for deficiency payments tied to current prices with acreage constraints.
- Price supports were capped, with the grain and oilseed programs restructured to substitute direct payments for price support through stock accumulation.
- While emergency legislation in 1998 and 1999 provided market loss payments to compensate for recent price declines, nevertheless the payments were made after production decisions occurred and were also based on historical rather than current production levels.

- Recent policy changes are focusing on improving the farm safety net and helping farmers manage risk. A variety of new and innovative crop and revenue insurance options are being offered to farmers through private insurance companies. In addition, USDA's Risk Management Agency provides educational and pilot programs to help farmers learn more about risk management tools.
- Environmental concerns are increasingly being addressed through agricultural policy with programs targeted to soil conservation, water quality and wildlife habitat. The Conservation Reserve Program has grown to include over 30 million acres since its inception in 1986.