

Background for Development of the 2002 Farm Act

Since before the founding of the United States, farmers have received support through a series of markedly different policy approaches (Effland). Agricultural policy has at different times focused on distribution of the Nation's vast land resources, on increasing the productivity and standard of living of American farmers, and on assisting farmers in marketing their products. From the 1930s, U.S. farm commodity policy has focused on price and income supports. Through much of this period until 1996, farm policy relied partly on supply management in the form of acreage limits and commodity storage programs.

Agricultural policy also has broadened its scope considerably to include agricultural trade issues, food safety, food assistance, and conservation and environmental concerns, in addition to the more traditional commodity-focused policies. Concern with liberalizing world trade and competing in world markets led to efforts to reduce the influence of government programs in farm-level decisionmaking, thereby increasing the flexibility for farmers to make production and marketing decisions based on supply and demand conditions.

Beginning with the 1985 Farm Act and continuing with farm legislation in 1990, a series of important changes in commodity programs and other agricultural policies began to move the sector toward greater market orientation and reduced government involvement. Commodity loan rates and target prices were lowered in the 1985 Farm Act. The 1990 Farm Act introduced partial planting flexibility through 15 percent "normal flex acres" and 10 percent "optional flex acres." It also changed rules for grain removal from the farmer-owned reserve, providing more discretion to producers in the marketing of crops.

The 1996 Farm Act

Two themes dominated the policy setting in 1995-96. First, controlling farm program costs was part of an overriding concern for reducing the Federal budget deficit. Second, farmers were calling for less government intervention to free them from regulations and allow them to produce to meet the demands of the marketplace.

The 1995/96 market setting also contributed to the reform effort, as high commodity prices weakened the case for price and income-support programs. Additionally, during the 1996 Farm Bill debate, generally favorable global economic growth was projected,

which, combined with liberalized trade associated with the Uruguay Round Agreement on Agriculture, supported expectations of strong growth in global agricultural trade and U.S. agricultural exports. However, World Trade Organization (WTO) concerns did not play a large role in the 1996 farm policy debate (Orden, Paarlberg, and Roe).

In this market setting, the 1996 Farm Act responded to these issues by furthering the trend toward market orientation in the agricultural sector (Young and Westcott, 1996). Passage of the 1996 Farm Act was viewed by many as a milestone in the evolution of U.S. agricultural policy because it fundamentally redesigned income support for major crops with the termination of target-price-based deficiency payments, the introduction of decoupled production flexibility contract payments, and almost total planting flexibility. Producers would be able to respond to market signals rather than government commodity programs, making the sector more economically efficient and putting U.S. farmers in a favorable position for competing in the global marketplace.

With this increased emphasis on market orientation and reduced government involvement in commodity markets under the 1996 Farm Act, management of risk was seen as being increasingly important for farmers. Farmers in general were expected to face greater risk of income volatility with the ending of supply management programs (such as acreage reduction programs and the Farmer-Owned Reserve program) and the termination of deficiency payments. There were some concerns expressed at the time of the enactment of the 1996 Farm Act that the reduced role for the Government in agricultural commodity policy was too extreme and represented a "dissolution of the safety net that protects farmers and rural America during lean times" (Secretary of Agriculture Glickman).

Emergency Legislation in the Intervening Years

Following the high commodity prices of the mid-1990s, prices weakened considerably beginning in 1998 in response to increased global supplies and weaker demand. High prices of the mid-1990s combined with planting flexibility provided by 1996 Farm Act led to expansion of U.S. crop production. High prices also encouraged expansion in foreign markets, and as acreage expanded, production reached record levels. In addition, the 1997-99 economic and financial crisis in Asia slowed economic growth and weakened global demand for agricultural products (Langley).

As a result of these factors, U.S. net farm income was projected to decline from \$49.8 billion in 1997 to \$42 billion in 1998 (Strickland). As the projected decline in farm income became apparent, Congress enacted the first of five supplemental emergency assistance packages in October 1998. Market loss assistance (MLA) payments totaling \$2.857 billion were provided for 1998 crops. Additional MLA payments for dairy producers and disaster assistance for crop and livestock producers were also provided. Further direct payments totaling more than \$24 billion in 1999-2001 were provided in subsequent assistance packages (fig. 1).

Shaping the New Farm Act

Many factors led to the final provisions of the 2002 Farm Act. Farm bill discussions covered a number of broad issues regarding how to address the needs of farmers and other stakeholders, including assuring an income safety net for producers, enhancing risk management options, supporting conservation and environmentally beneficial practices, improving agricultural trade opportunities, and assisting small and limited-resource farms.

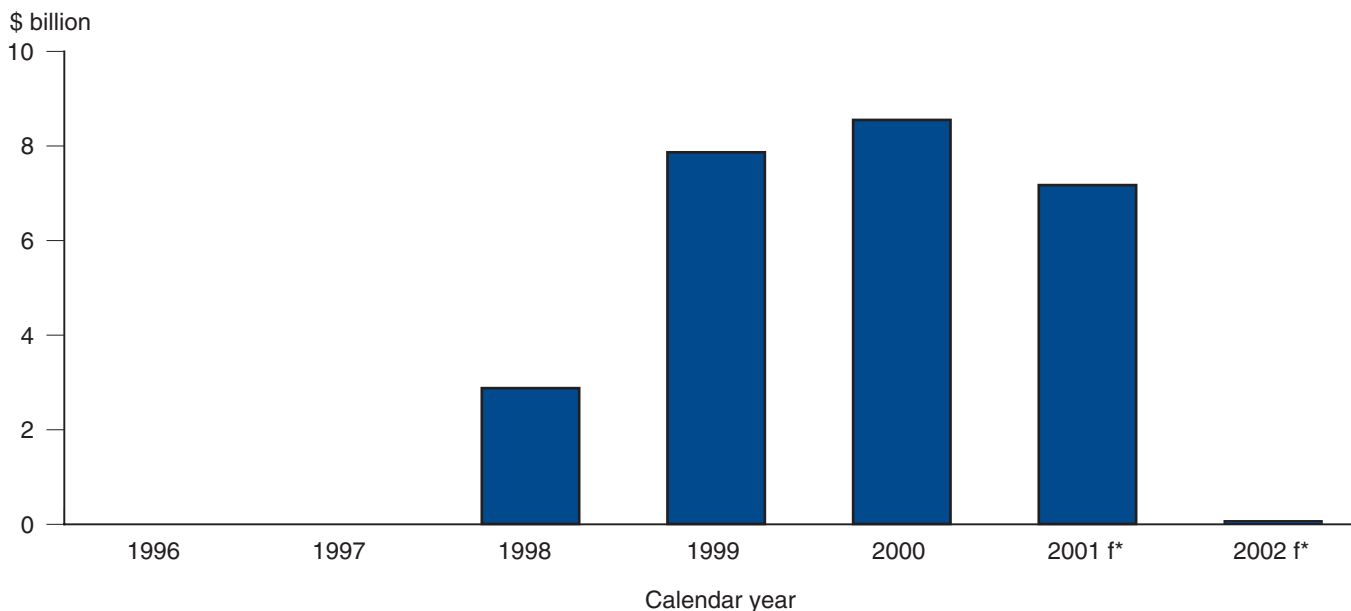
Most proposals for commodity programs supported a continuation of planting flexibility to allow farmers to respond to market signals in their production choices. Decoupled production flexibility contract payments of

the 1996 Farm Act were also favored in most proposals. Many called for automatic counter-cyclical payments to replace the ad hoc market loss assistance payments. Some proposals wanted higher commodity loan rates and the opportunity to update base acres and payment yields. A few favored a return to supply controls, while others favored continued movement to more market-oriented policies. Additionally, WTO concerns added a new dimension to the domestic farm commodity policy debate as U.S. commitments to the WTO played a more important and visible role (Effland and Young; Young and Effland).

Further, on May 10, 2001, the U.S. Congress passed its annual budget resolution for fiscal year 2002, which also provided a multi-year budgetary framework for the new farm legislation. The resolution earmarked a total of \$73.5 billion in additional funding for agriculture beyond baseline-projected levels for fiscal years 2002 through 2011.

The House of Representatives passed a version of the farm bill in October 2001. The Senate passed its version in February 2002. A House-Senate conference to craft the final bill took place in March-April 2002. The conference version of the farm bill was passed by both the House and the Senate in early May, with the legislation then sent to the President for signature.

Figure 1
Emergency assistance payments



f* = June 2002 forecast.

Source: Economic Research Service, USDA.