

The 2002 Farm Bill

*Is it farmer welfare
or a consumer subsidy?*

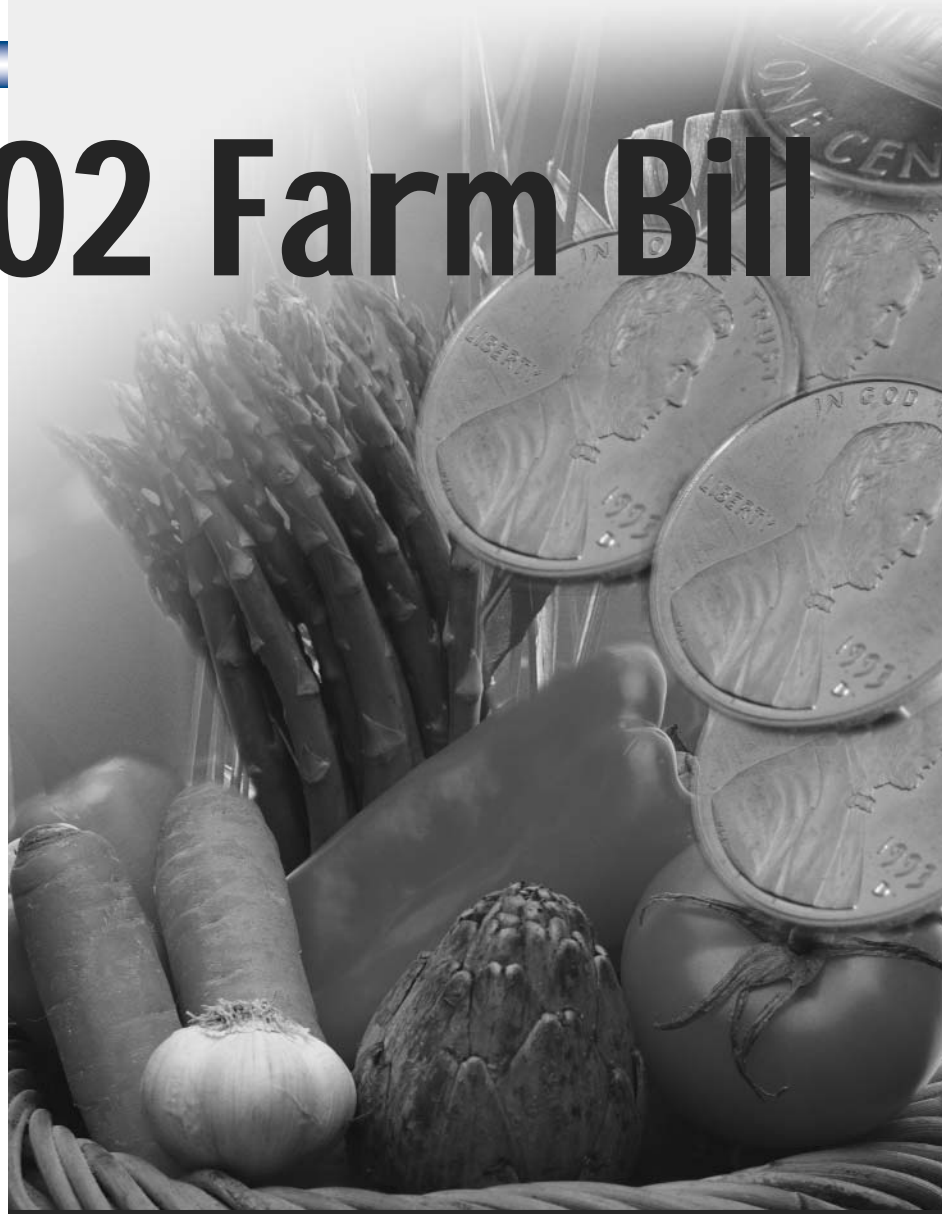
BY CAROLYN ORR

Agriculture is an essential part of America's security, economy and way of life. The food and fiber industry creates 25 million jobs, 15 percent of the U.S. Gross Domestic Product (GDP) and is larger than construction, transportation and utilities combined. Governmental farm policy, while it costs just over 0.5 percent of the U.S. budget, has important implications with regard to other budget items.

In November 2001, The Council of State Governments (CSG) convened a forum on the 2002 Farm Bill from which a series of recommendations entitled "Providing Food Security and Renewable Energy to America" was released. Many of these recommendations were addressed in the legislative conference report that was enacted as the "Farm Security and Rural Investment Act of 2002" (Farm Bill). It became law early in May, and quickly became the subject of debate from all sides. Critics assailed it for everything from its cost to benefits distribution, but these complaints have been heard about every farm bill ever enacted. The 1996 Freedom to Farm bill was supposed to decrease subsidies, reduce regulations and increase trade, while in reality there are more regulations, markets did not increase and emergency assistance programs totaled \$30 billion over the last four years. The majority of criticism of the 2002 bill has been aimed at the Commodity Title, while ignoring other features of the new legislation.

Keeping food prices low

Members of the agricultural communi-



"Farming looks mighty easy when your tractor is a pencil, and you are a thousand miles away from the corn patch." President Dwight Eisenhower in reference to Uncle Sam taking up farming, Sept. 1956.

ty have tried not to react defensively to the criticism. Farmers realize that there is a great disconnect between producers and consumers, the so-called gate-to-plate distance. "The whole U.S. economy is based on a cheap food policy," said Chad Sullivan, who raises row crops in partnership with his father and grandfather in rural Kentucky. "It is not realistic to expect farmers to get all their income from the market, because of our stance in the past, we have lost market opportunities to countries like Brazil and Argentina who could undersell us. The public may not like subsidies, but they don't want higher food prices either. Politically, it's easier this way."

The U.S. farm policy is intended to keep most of America's food coming

from American farmers while keeping food prices low. Kentucky Commissioner of Agriculture Billy Ray Smith says the distaste for the farm bill would be nothing compared to the public outcry if food inflation and availability suddenly became a problem. "In the United States we have a very cheap food policy," said Rep. Jo Ann Emerson (Mo), during Congressional consideration of the Act. "Consumers spend 11 cents of every dollar on food, while in Europe they spend about 22 cents. In Russia they spend 50 cents."

State officials need to be aware of the opportunities available in the different titles of the 2002 Farm Bill, and how to maximize the legislation for their communities. According to USDA Secretary

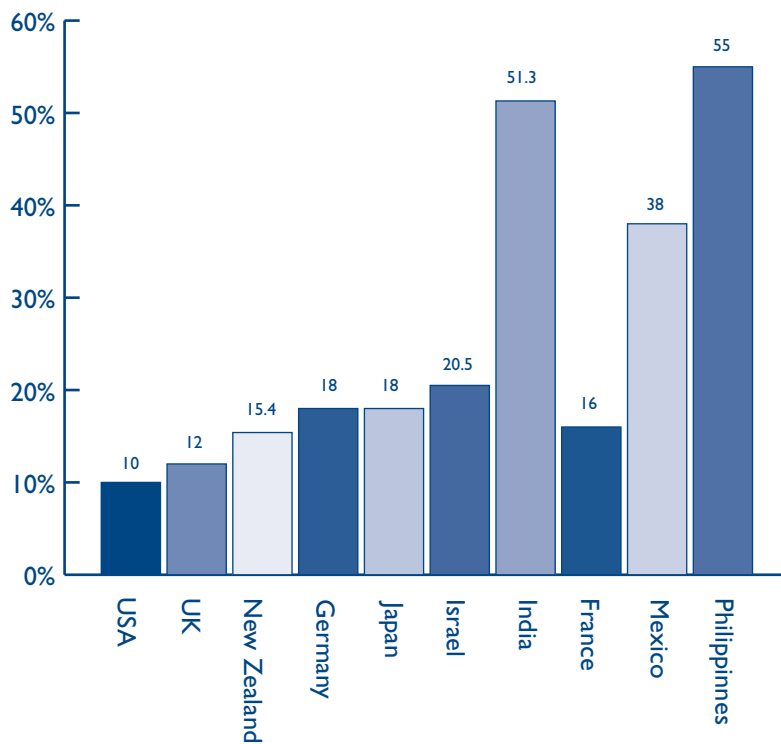
Ann Veneman, “The new bill will bring much-needed stability to farmers and ranchers as they conduct their business. It creates a new system of counter-cyclical payments based on market prices in relation to target prices. It provides a record level of support for conservation, and it adds new programs to preserve wetlands and improve soil and water quality.”

The state legislative and executive branch officials who participated in CSG’s Farm Bill Forum recommended that the 2002 farm bill strengthen the safety net for America’s agriculture producers. According to Kansas Sen. Steve Morris, it is “not a perfect bill but it does provide a safety net for farmers.” In his region, “90 percent of the farmers would be out of business if it weren’t for government payments and crop insurance” (that safety net includes the first time ever counter-cyclical dairy payment for 2.4 million pounds of milk produced – approximately the yield of 135 cows.

The 1996 Bill authorized direct payments with little relationship to the level of farm prices, which resulted in emergency bills to supplement farm incomes. The 2002 bill’s dairy program safety net, like those of other commodities, is more closely tied to the performance of the farm economy. Under the new farm bill, producers of wheat, corn, sorghum, barley, oats, cotton, rice, soybeans, peanuts, peas, lentils, sugar, honey, wool and mohair are provided with loans, loan deficiency payments or counter-cyclical payments to allow them to manage their operations with less uncertainty and risk. While program spending may be higher over the life of the new farm bill, this is due to lower expected farm prices, not a large increase in the structure of support, with forecasted costs being virtually identical to that spent from 1998-2001.

This price support system generates most of the complaints. The outcry from international trading partners was immediate and intense in response to the levels of commodity support provided. The fact is, it is compatible with our existing trade agreements under the World Trade Organization. The WTO figures show that 22 percent of American farmers’ income comes from the government. European Union farmers average 38 per-

Percent of income spent on food



U.S. citizens spend a smaller percentage of their total budget on food than residents of any other country, according to the United States Department of Agriculture.

cent and are subsidized at an average of \$300 per acre compared to \$40 for U.S. farmers.

The bill contains the largest conservation funding increase in history, significant gains for food stamps and nutrition, more resources for agricultural research, increased incentives for renewable fuels production, and a strengthened commitment to rural communities, all within the limits of the Congressional Budget Resolution.

Feeding the needy

The farm bill includes the food stamp program and other emergency food assistance programs that have often been administrative quagmires for states. These programs are extended and expanded under the provisions of the 2002 bill. Altogether, nutrition program spending is increased by \$6.4 billion above baseline levels. These programs serve “the children, the elderly, and the working poor, most of whom live in urban areas,” said Sen. Marge Kilkelly of Maine. She said, “the expansion of a pilot program that has been providing seniors

and WIC recipients with free vegetables from farmers’ markets improves the diet of consumers and the profitability of farmers’ markets in the Northeast.”

The legislation also offers states a transitional food stamp that would eliminate paperwork requirements for those families moving from welfare to work. States’ flexibility is increased under the new legislation, while reducing the federally required paperwork. The bill also provides states the opportunity to align definitions of income and resources in the food stamp program with the ones used for Medicaid. This will give states the authority to align eligibility.

One of the most profound reforms to the food stamp program is the new direction for the quality control system. The new system eliminates the current law that puts half of the states under sanctions each year. Now the USDA will focus its energies on states with persistent payment accuracy problems.

Cleaner water and air

While much of the criticism is focused on the Commodity portion of the Act, its



future success or failure actually lies in the Conservation, Rural Development, Energy and Research Titles. Many of our international trading partners avoid WTO review by assisting farmers through conservation funds. The 2002 Farm Bill follows this pattern, providing an 80 percent increase in conservation spending. Agricultural producers are facing ever-increasing environmental concerns and regulations with issues like air and water quality affecting decisions made at every opening of the farm gate. The public officials attending the CSG Forum in November strongly recommended that the new farm bill provide a variety of flexible conservation programs. The new bill addresses environmental concerns on a whole farm basis through a large increase in flexible conservation spending.

According to Commissioner Smith, "helping farmers become better stewards of their environment helps everyone, and with the new Conservation Security Program the public that benefits from cleaner air and water will help carry the financial burden." Previous farm bills stressed land retirement programs as a way to achieve environmental goals, often affecting rural communities. When farmers had to forgo producing or harvesting crops near creeks and rivers to maintain water quality, the farmer paid the price. Under a separate Credit Title, a beginning farmer and rancher development program and a pilot program for contract land sales have been initiated to provide opportuni-

ties for beginning and disadvantage farmers to get into farming.

The 2002 legislation provides almost one billion dollars to states for farmland conservation. The attendees at the CSG Forum were unanimous in supporting the reauthorization of this program. According to the American Farmland Trust, states have already preserved over 900,000 acres from development. This new infusion could help slow urban sprawl and keep family farmers in business. According to Sen. Kilkelly, this program is critically important due to pressure on aging farmers to fund their retirement by selling their producing

farms to developers." There is also funding to create market systems for pollution reduction and the restoration and protection of native grasslands, wetlands and wildlife habitats. The nuts and bolts portion of previous conservation titles, the Environmental Quality Incentives Program (EQIP), will provide increases in funding to livestock and crop farmers for construction of facilities that reduce agriculture's effects on soil and water quality.

Profitability

Agriculture is one of the few industries where the U.S. has a positive balance of trade. The CSG Forum recognized the importance of broadening international trade to the profitability of agriculture and the strength of the American economy. They recommended that methods to enhance trade and marketing of agriculture products be made an inherent part of the 2002 Farm Bill – and got their wish. The Farm Security and Rural Investment Act of 2002 has increased emphasis on the export of value-added products into emerging markets as well as increased spending for the Market Access Program. Domestic sales may be strengthened by the inclusion of a requirement that food labels identify the country of origin of meat, fruits and vegetables, fish, and



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Farm program spending (millions of dollars) FY2002-2011

TITLE	BASELINE SPENDING	2002 FARM BILL	TOTAL SPENDING	% OF TOTAL
Commodities	77,045	47,771	124,816	16.7%
Conservation	21,412	17,079	34,491	5.2%
Trade	2,610	1,144	3,754	.5%
Food stamps, Child nutrition	528,657	6,400	535,057	71.64%
Rural development	0	870	870	.1%
Research	360	1,323	1,683	.2%
Forestry	0	100	100	.01%
Energy	0	405	405	.05%
Miscellaneous	43,316	-1,594	41,772	5.6%
TOTALS	673,400	73,497	746,897	100%

- Based on CBO's 4/01 baseline.
- Does not include costs of discretionary programs which are funded through annual appropriations process, (i.e. salaries and administration, etc.)
- Most research is funded through annual appropriations.

peanuts and by the Value-added Market Development Grants program. This program has been broadened in its scope and emphasis to include technical assistance and feasibility studies that can offer help to small and medium-sized farms.

Revitalizing rural communities


The farm bill should never be considered a substitute for progressive rural policy, but this Act establishes a National Board on Rural America and provides it with \$100 million for planning grants to regional investment boards. It also includes funding for initiatives in improving rural Internet and telecommunications service. The benefits of sustainable forest management and related industries to rural communities were recognized through the funding of a program to manage and restore private woodlands.

Promoting renewable, domestic energy

An important conclusion of the CSG Forum was the need for increased emphasis on renewable energy as an alternative market for agriculture products. In addition

to a value-added marketing alternative for farmers, the use of renewable energy sources reduces the nation's dependence on foreign oil. This is the first farm bill to recognize the importance of bioproducts and renewable energy. The new program includes funds to educate government and private fleet operators about the benefits of biodiesel, promotes the purchase of biobased products by federal agencies, initiates a certification and labeling program, and provides financial and technical assistance for farmers and rural small businesses to convert to renewable energy systems. Rep. Mark Kennedy (Minn) reported that the bill would be of significant benefit to his state through rural development and increasing clean energy.

Rep. Douglas Jones of Idaho, co-chair of CSG's Agriculture and Rural Policy Task Force, is concerned "that the bill and the process that formed it didn't help agriculture's image," but he was impressed that many of the recommendations that were drafted during CSG's forum ended up as part of the final legislation. The USDA is currently developing the implementation plans for all the

programs and is keeping the public updated at a new web site (<http://www.usda.gov/farmbill/>). 

—Carolyn Orr is a Senior Policy Analyst for Agriculture and Rural Policy for The Council of State Governments.

Resources

Providing Food Security and Renewable Energy to America; State Government Recommendations on National Farm Policy. The Council of State Governments. November, 2001

The Facts on the U.S. Farm Policy. House Agriculture Committee, June 2002. Washington, D.C.

State PACE Programs—Status. American Farmland Trust Fact Sheet, January 2002