Briefs

Ag Policy

Potential Impacts of an Agricultural Aid Package

The $7.4-billion farm aid package passed by the U.S. Senate on August 4, 1999, was a response to this year's low field crop prices. The House of Representatives is expected to consider a similar measure after the August congressional recess. Drought relief is not part of the current Senate legislation, despite the extremely dry weather affecting parts of the country, particularly the eastern U.S. and Pacific Northwest. Legislation incorporating disaster and related relief may be forthcoming once the full impacts are known.

What are the impacts of the $7.4-billion package, if enacted, and how is the agricultural sector faring during the current market downturn?

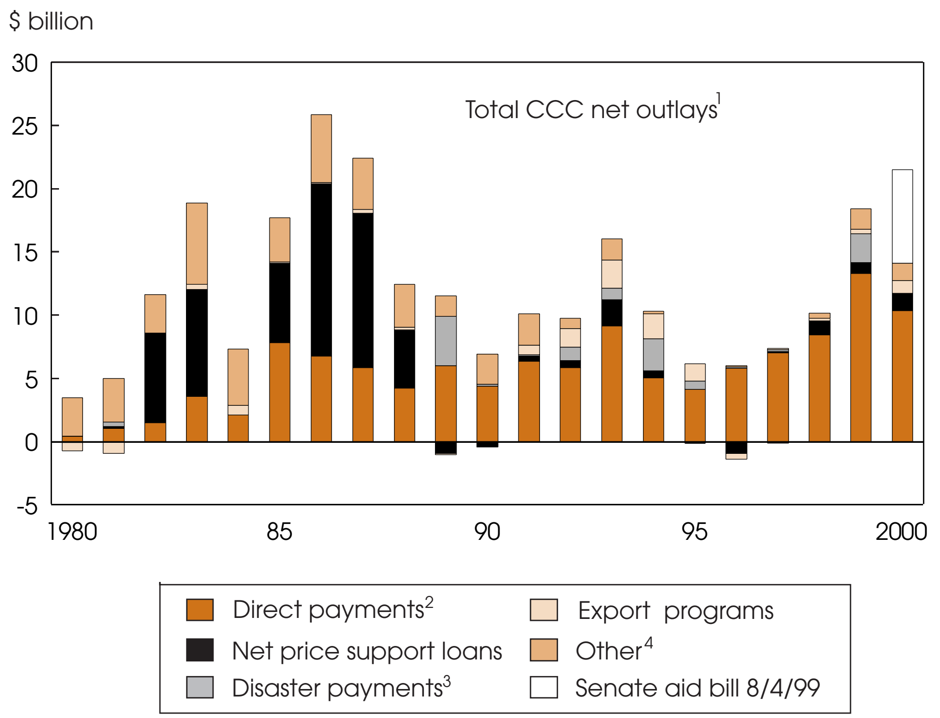
Farm income under the aid package would increase by about $6.7 billion—spread over calendar years 1999 and 2000. Not all of the proposed aid is in the form of direct payments to farmers and landowners. The package includes other items (e.g., additional crop insurance and cotton marketing payments) that benefit the farm sector but do not directly boost income. If the aid is delivered before the calendar yearend, the legislation would raise 1999 total net farm income well above last year's level and the average level of the 1990's. However, the effect of aid on farm income will vary by region and enterprise.

The current USDA forecast for net farm income is $43.8 billion for 1999 (excluding any subsidies from potential 1999 legislation), down just $300 million from 1998 and $1.7 billion below the 1990's average. In addition to government payments under the 1996 Farm Act, farm income in 1999 is already bolstered by government support provided under the 1999 Appropriations Act (passed in October 1998). Under existing legislation, total direct payments are forecast at $16.6 billion for calendar year 1999, up from $12.2 billion in 1998 and second only to the 1987 record of $16.7 billion. More than $6 billion of direct payments in 1999 are forecast to be loan deficiency payments (LDP's), which are available to producers when farm prices drop below government loan rates for marketing assistance loan crops. This is well above 1998, when LDP's amounted to nearly $2 billion.

Stable production expenses and stronger receipts for some commodities (notably beef, fruit, and nursery and greenhouse products) have mitigated the impact of low grain prices on sector-wide farm income in 1999. In contrast to field crops, livestock receipts are expected to remain the third highest in the 1990's, although they are forecast to decline slightly in 1999 from 1998 levels.

Financial problems currently faced by producers are primarily related to cash-flow. In the 1980's, by comparison, a number of other factors led to a widespread financial crisis in the agricultural sector—including high interest rates, sharp declines in asset values, and excessive debt, combined with a weak, inflationary nonfarm economy. Direct payments under an aid package would ease current cash-flow problems, particularly for producers of program crops in the Midwest and southern regions of the U.S. where net income is declining the most, and in the Great Plains where farm businesses are experiencing persistent debt repayment problems.

U.S. Farm Program Spending Could Reach Highest Level Since 1980's



Fiscal years beginning October 1. 1999 and 2000 forecasts as of June 1999.
1. USDA's Commodity Credit Corporation (CCC) handles all money transactions for agricultural price and income support and related programs. 2. Includes production flexibility contract payments, loan deficiency payments, and regular deficiency payments (under previous legislation). 3. Crop disaster and emergency assistance. 4. Includes items such as net commodity purchases and producer storage payments. See table 35 on page 56 for data.

Economic Research Service, USDA

Drought Is Reducing Farm Income Prospects in Eastern U.S.

Farm income is expected to be hard hit in some states as drought and excessive heat hamper agricultural production in the Mid-Atlantic, New England, and parts of the eastern Corn Belt. Fourteen states have at least two counties with extreme rainfall deficits. The drought combined with the heat wave has slashed crop yields, reduced livestock productivity, and raised death rates for some livestock.

The impact on commodity receipts in the affected states is estimated at $975 million, according to a preliminary assessment by USDA's Economic Research Service based on information as of August 16. The potential reduction in farm income in drought states could be as much as $1.1 billion, reflecting both shrinking farm receipts and higher expenses for feed and utilities (e.g., electricity for irrigation). However, expectations of higher yields and production for unaffected commodities may offset the negative impacts of drought on overall financial prospects in 1999.

The potential reduction in farm income represents a 55-percent decline from 1998 in Pennsylvania and a 42-percent drop in New York. For the region, commodity receipts decline 3 percent while the combination of shrinking receipts and higher expenses leads to a 19-percent reduction in farm income.

In addition to the eastern states, the Secretary of Agriculture has designated parts of several western states (e.g., Arizona, New Mexico, Nevada, and Montana) as drought disaster areas. Information on impacts there was unavailable at the time of this analysis.

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	Drought-induced declines from 1998			
State/leading commodities	Commodity receipts		Net income	
	$ million	*Percent*	*$ million*	*Percent*
Pennsylvania				
Dairy, greenhouse, cattle, eggs	240	6	366	55
New York				
Dairy, greenhouse, apple, cattle	154	5	186	42
Ohio				
Soybeans, corn, dairy, greenhouse	159	3	93	7
Maryland				
Broilers, greenhouse, dairy, soybeans	60	4	86	28
Virginia				
Broilers, dairy, cattle, turkeys	45	2	83	17
Other*	317	3	306	11
Total—14 states, all commodities	**975**	**3**	**1,120**	**19**

States with largest absolute drop in income.
*Includes Delaware, Connecticut, Indiana, Kentucky, Massachusetts, New Jersey, Rhode Island, Vermont, and West Virginia.

Economic Research Service, USDA

Aside from farm income and cash-flow impacts, legislation to inject more money into the agricultural sector has implications for land values and for Federal budget outlays.

Land markets take into account current and future income from government payments. The steady stream of farm payments under the 1996 Farm Act, for example, is "bid into" land prices. This in turn can result in higher rental rates for farmers who lease land. Any additional payments provided under "emergency" spending such as the 1999 Senate bill would have a similar effect on land values if frequent emergency assistance packages lead to an expectation of government support during market downturns.

Producer planting decisions could also be affected if these payments increase farmer expectations of future emergency spending legislation. In the near term, plantings could also be influenced by marketing assistance loan benefits if market prices are below loan rates.

If the Senate version of legislation for supplemental spending is enacted, total Federal outlays on agricultural programs (net outlays paid through the Commodity Credit Corporation) could rise above $20 billion in fiscal 2000 (including direct payments, export programs, and net commodity purchases). This would be the third-highest Federal agricultural spending level ever and more than four times this decade's lowest level. AO

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For more information on current farm income forecasts

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