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Progress Made Toward Goals of 1985 Farm Bill

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Resources, Community, and
Economic Development Division

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March 30, 1989

The Honorable Rudy Boschwitz
United States Senate

The Honorable Bill Bradley
United States Senate

You asked us to provide observations on results of the Food Security Act of 1985 (P.L. 99-198)—commonly known as the 1985 farm bill. Your inquiry centered on provisions of the law that were designed to help (1) stabilize the financially stressed farm economy, (2) enhance the U.S. competitive position as a supplier in world agricultural markets, and (3) prevent the buildup of large surplus stocks. These provisions include price- and income-support and export programs for such major program crops as wheat, corn and other feed grains, rice, cotton, and soybeans. In response to your request, we gathered and analyzed information on changes in the farm economy, exports, and surplus stock levels before and after the 1985 farm bill's passage. We also analyzed changes in farm program costs and administrative costs and difficulties.

In summary, we found that progress has been made toward the major goals of the farm bill. Most economic indicators have turned positive. Exports have increased. And stock levels have generally moved lower. Although the 1985 farm bill has been a factor influencing these positive developments, it is uncertain how much progress can be attributed to the legislation versus other important factors such as monetary exchange rates.

The U.S. Department of Agriculture's (USDA) total costs for price- and income-support and export programs have been slightly higher under the first 3 full years of the 1985 farm bill than the last 3 full years of the previous farm bill. USDA has also had higher administrative costs because it increased staff levels to handle the greater work load under the 1985 farm bill. Even with more staff, USDA has found its greater responsibilities difficult to administer.

This briefing report is divided into six sections. The first summarizes the information provided later in the report. The second describes the 1985 farm bill and farm programs. The third section provides detailed information on the farm economy, exports, and stock levels before and after passage of the farm bill. The fourth and fifth sections identify changes

in program and administrative costs, respectively. The last section provides detailed information on the objective, scope, and methodology of our review.

To conduct our study we gathered and analyzed numerous data and past studies from USDA, universities, and research and industry groups. We also interviewed various farm policy experts in these organizations. To explore the implementation of farm programs by county offices, we interviewed numerous USDA officials at the federal, state, and local levels. We performed our work between February 1988 and November 1988.

USDA officials reviewed portions of a draft of this briefing report for technical accuracy, and changes have been made where appropriate. However, as requested by your offices, we did not obtain official agency comments.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 3 days after the date of this letter. At that time, we will send copies of this briefing report to the chairmen of the Senate and House agriculture, appropriations, government affairs/operations, and budget committees; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties. If we can be of further assistance, please contact me at (202) 275-5138.

Major contributors to the report are listed in appendix I.

John W. Harman
Director, Food and
Agriculture Issues

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Abbreviations

ARP	acreage reduction program
ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
DTP	Dairy Termination Program
EEP	Export Enhancement Program
ERS	Economic Research Service
OIG	Office of Inspector General
PLD	paid land diversion
TEA	Targeted Export Assistance
USDA	United States Department of Agriculture

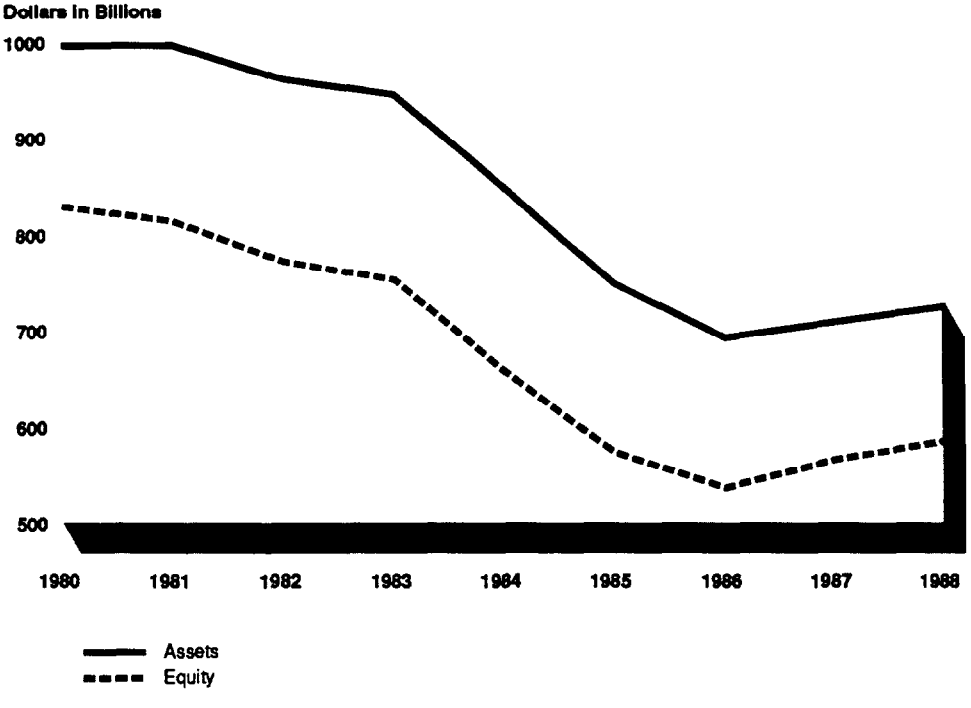
Summary

This section summarizes the information provided in sections 2 through 5.

Improvements Seen in U.S. Agricultural Economy, Exports, and Stock Levels

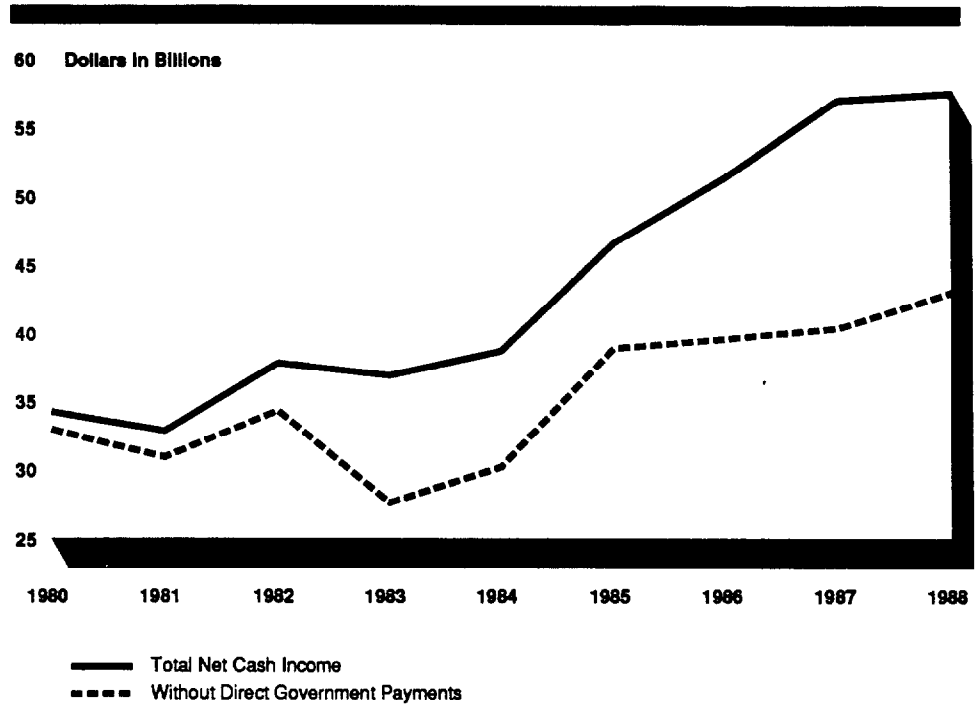
In the 1985 farm bill, price and income support and export programs were designed to help stabilize the farm economy, enhance U.S. agricultural exports, and prevent the buildup of large surplus stocks. Following passage of the farm bill in December 1985, improvements have been seen in the U.S. farm economy, exports, and stock levels. Farmers' assets and equity (assets minus debt) began moving up in 1987 after a period of steady decline. Farmers' net cash income continued the rise that began in 1985. Without government payments, however, net cash income rose only slightly after 1985. Farmers' debt burden—measured by interest payments as a percentage of net cash income—reached a peak in 1981 but declined as the decade progressed. (See figs. 1.1 through 1.3).

Figure 1.1: Farmers' Assets and Equity



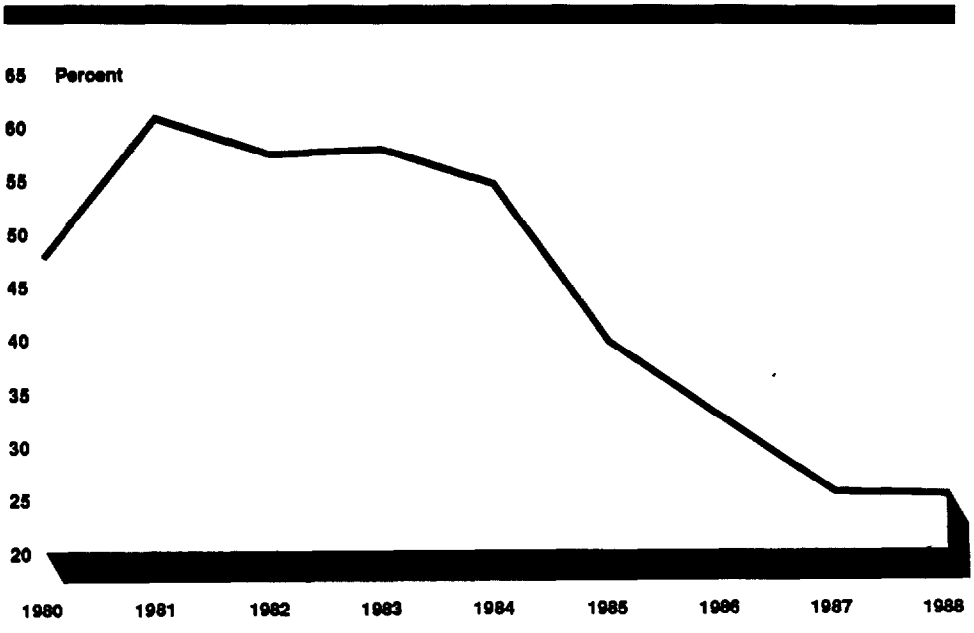
Note: 1988 data are estimated.
Source: U.S. Department of Agriculture (USDA).

Figure 1.2: Farmers' Net Cash Income



Note: 1988 data are estimated.
Source: USDA.

Figure 1.3: Farmers' Interest Payments as a Percentage of Net Cash Income



Note: 1988 data are estimated.
Source: USDA.

Since the 1985 farm bill took effect, U.S. agricultural exports have increased. (See fig. 1.4.) Also, as shown in table 1.1, the U.S. share as a supplier in world agricultural markets has generally increased in the first 3 years of the 1985 farm bill compared with the last 3 years of the previous farm bill. Its share of world soybean markets, however, continued to decline. (Reasons for this decline are discussed in section 3.)

Figure 1.4: U.S. Agricultural Exports

Note: 1988 data are estimated.
Source: USDA.

Table 1.1: Changes in U.S. Agricultural Export Market Share (In Volume) **Before and After Passage of 1985 Farm Bill**

Figures in percent

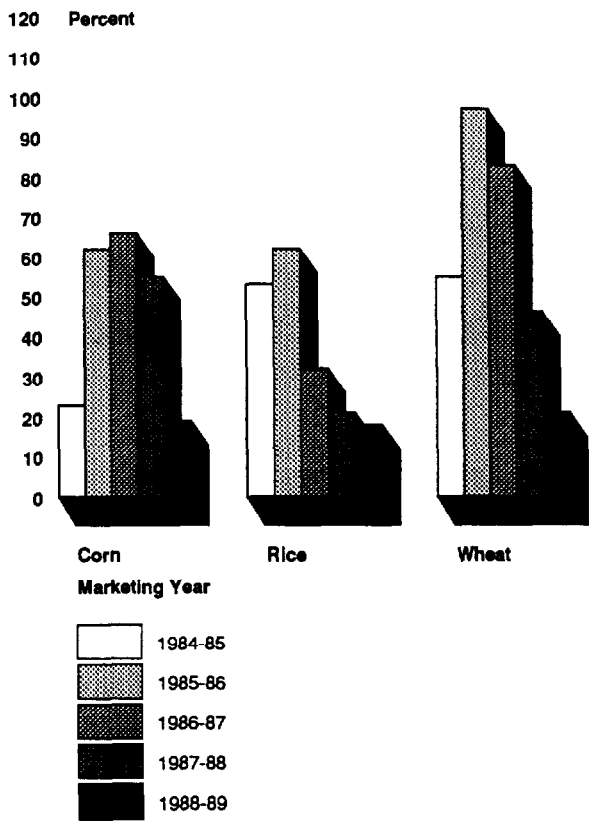
	Change from 1983-4 to 1985-6	Change from 1986-7 to 1988-9
Coarse grains	-6.7	+39.5
Wheat	−12.8	+42.3
Rice	-5.3	+66.7
Soybeans	−24.4	-6.5

Notes: Marketing years are used here. They begin June 1 for wheat, August 1 for rice, and September 1 for corn and soybeans. 1988-89 data are estimated.

Source: USDA.

Since passage of the 1985 farm bill, stock levels of surplus commodities have generally declined. A useful measure of surplus conditions is ending stocks (the quantity in private and public stocks carried over from one marketing year to the next) as a percentage of total (domestic and export) use. (See fig. 1.5.)

Figure 1.5: Ending Stocks as a Percentage of Total Use



Note: 1988-89 data are estimated.
Source: USDA.

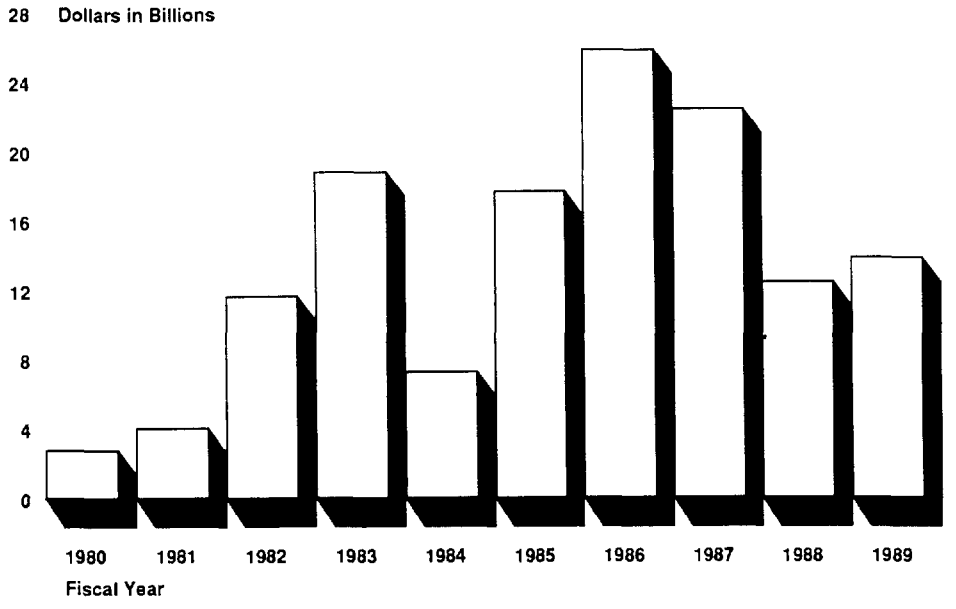
Farm Program Costs Have Been Slightly Higher

The cost of price- and income-support and export programs, as represented by total Commodity Credit Corporation (CCC)[1] net outlays, increased from a total of about $44 billion for the last 3 full years of the 1981 farm bill (fiscal years 1983-85) to an estimated $49 billion during the first 3 full years (fiscal years 1987-89) of the 1985 farm bill.[2] Total CCC outlays have varied widely. For example, they decreased from about $22.4 billion in fiscal year 1987 to about $12.5 billion in fiscal year 1988. (See fig. 1.6.)

[1]The CCC is a wholly owned government corporation created to stabilize, support, and protect farm prices and farmers' income. CCC funds the various price- and income-support programs and relies on Agricultural Stabilization and Conservation Service personnel and facilities to carry out the programs.

[2]Fiscal year 1986 is a transition year; some outlays are attributable to the 1985 farm bill and others to the previous farm bill.

Figure 1.6: CCC Net Outlays



Note: 1989 data are estimated.
Source: USDA.

USDA's costs for direct (deficiency and diversion) payments for the first 3 years (1986-88 crops) of the 1985 farm bill have been higher than for the 4 years (1982-1985 crops) under the previous farm bill. Including cash, in-kind, and commodity certificate payments, deficiency and diversion payments totaled about $32 billion for the 1986-88 crops and $25 billion for the 1982-85 crops.

The role of USDA export programs has expanded dramatically in the export of U.S. agricultural products under the 1985 farm bill. In fiscal year 1987, for example, programs such as export enhancement, food aid, and export credit guarantees assisted (in volume) about 68 percent of wheat and flour exports and 22 percent of feed grains exports. This compares with 46 percent of wheat and flour and 11 percent of feed grains exports in fiscal year 1985.

Farm Bill's Design Allows Costs to Vary Widely

The 1985 farm bill's design has allowed costs for price- and income-support programs to vary widely. The bill requires USDA to absorb much of farmers' "price risk," so that program costs tend to go up when market prices of program crops such as corn and wheat go down, and costs tend

to decrease when prices increase. Also, the farm bill gives USDA only limited control over the ultimate level of program costs.

Through deficiency payments and price-support loans, the government absorbs much of farmers' "price risk." With deficiency payments, USDA makes up the difference between "target" prices (established by law) and "support" prices (established by law and USDA administrative action) or market prices, whichever are higher. As market prices decline (yet remain above support prices), USDA's costs for deficiency payments increase. When prices increase toward target prices, payments decrease.

With price-support loans, USDA enables farmers to put their crops under loan at the support price and (1) hold their crops off the market until higher prices encourage them to redeem the crops and sell them or (2) forfeit their crops to USDA as full loan repayment. When market prices increase above support prices, government costs for these loans decrease because farmers are more likely to redeem and sell their crops. When market prices decrease toward or below support prices, costs increase because farmers are more likely to forfeit their crops.

When support prices were lowered in 1986, market prices fell. As a result, USDA's program costs increased. When market prices went up in 1988, costs decreased.

The 1985 farm bill gives USDA only limited control over the ultimate level of program costs. In effect, deficiency payments and price-support loans are "entitlement" programs in that the total amount of benefits due eligible producers is not constrained by congressional appropriations. Deficiency payments make up whatever the difference is between the target price and the market price or support price, up to prescribed individual payment limitations. And, as the "market of last resort," USDA makes an open-ended commitment to acquire all crops under price-support loan. USDA can try to cause prices to rise, through its supply control authorities, by limiting acres planted to program crops. However, if foreign countries increase their production, prices could fall anyway, and the costs of deficiency payments and price-support loans could be expected to increase.

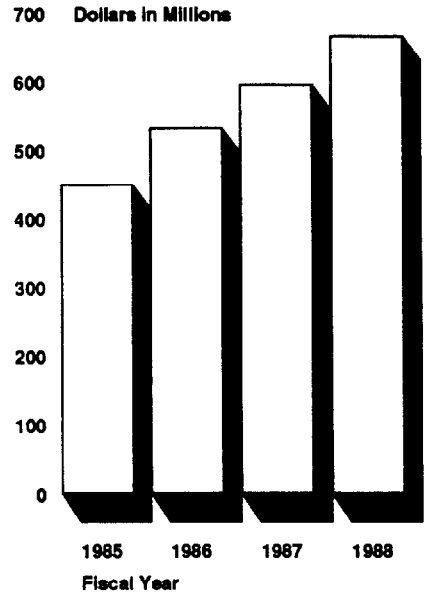
The 1985 Farm Bill Has Been More Costly and Difficult for ASCS to Administer

The Agricultural Stabilization and Conservation Service (ASCS)—the USDA agency responsible for administering federal price- and income-support programs—has had its work load increased substantially under the 1985 farm bill. Expanded administrative responsibilities have included additional yield payments, commodity certificates, the Conservation Reserve Program, the Dairy Termination Program, sod/swampbuster and conservation compliance provisions, new methods for determining crop acreage base and yields, marketing loans, payment limits, and increased loan-making and compliance activities.

For example, under the 1985 farm bill, ASCS has made far more payments and loans. The number of payments increased from about 5 million payments in fiscal year 1985 to over 16.6 million in fiscal year 1987, an increase of more than 230 percent. The number of loans increased as well, from about 470,000 in fiscal year 1985 to over 1.2 million loans in fiscal year 1987, an increase of more than 155 percent.

To meet the work load challenge, ASCS staff levels increased from 16,095 in fiscal year 1985 to 20,681 in fiscal year 1988. ASCS salary and expense costs increased 48 percent, or $217 million, during this period. (See fig. 1.7.)

Figure 1.7: ASCS Salary and Related Expenses



Source: ASCS.

Even with increased staffing, headquarters, state, and local ASCS officials have acknowledged that the expanded responsibilities under the 1985 farm bill have been very difficult to implement. Many expressed their frustrations to us. For example, the administration of payments was called a "monster." We were told that the increased number and complexity of the 1985 farm bill programs resulted in a tremendous volume of forms, documents, and continual updates of regulations. In particular, paperwork for loans and deficiency payments, acreage compliance, and payment limitation justifications has caused problems. Some ASCS officials told us that, in their opinion, the Congress would be "shocked" at the volumes of procedures and administrative requirements that are necessary to implement the farm programs it authorizes.

The work load burden has likely harmed the performance of ASCS county office staff in effectively administering farm programs. Recent USDA Office of Inspector General reports on ASCS operations have pointed out numerous examples of errors made by local offices. Some ASCS officials have acknowledged that compliance checks and staff training have been shortchanged. With the heavy work load, they said that making payments and loans to farmers has taken precedence over other tasks. ASCS officials also acknowledged that the local offices' computer system,

which was designed before passage of the 1985 farm bill, has insufficient capacity to meet the bill's requirements. Furthermore, ASCS headquarters officials said that the Disaster Assistance Act of 1988 (P.L. 100-387) was creating even more tasks for local ASCS offices.

Background on the 1985 Farm Bill

The Food Security Act of 1985—commonly known as the 1985 farm bill—is the latest in a series of agricultural laws that date from the Great Depression.[1] Signed into law on December 23, 1985, it replaced the Agriculture and Food Act of 1981. The 1985 farm bill established a comprehensive framework within which USDA would administer federal farm programs from 1986 through 1990. Included in the wide-ranging bill are provisions affecting specific agricultural commodities, crop insurance, exports and trade, farm credit, conservation practices, research and extension, food stamps, and other agricultural and food programs.

Following is a description of the economic conditions that led to passage of the 1985 farm bill and a description of how the bill responded to these conditions.

Economic Conditions Leading to 1985 Farm Bill's Passage

As the Congress deliberated over the 1985 farm bill, it faced a U.S. farm economy that was becoming ever more financially stressed. The financially stressed farm economy of the 1980s followed a boom period in the 1970s. The boom had been fueled by

- rapid economic growth throughout the world,
- a weak dollar that encouraged other countries to buy American agricultural products,
- low "real" (inflation adjusted) interest rates that made credit less costly,
- inflation boosting the value of farm assets, and
- relatively high commodity prices.

The early 1980s, however, brought a reversal of those economic forces. Foreign economic growth waned, the dollar strengthened, real interest rates rose to unprecedented levels, and inflation slowed. As real commodity prices moved lower worldwide, federal support prices set in the 1981 farm bill for major commodities proved to be uncompetitively high. Foreign competitors could price their export commodities just below the U.S. support-price "umbrella" and expand their share as a supplier in world agricultural markets.

As a result of these reversed economic forces, the U.S. farm economy went into decline in the first half of the 1980s. U.S. agricultural

[1]The Food Security Act of 1985 is Public Law 99-198. For a detailed description of the act, see Lewrene K. Glaser, Provisions of the Food Security Act of 1985, USDA/ERS AIB No. 498 (Apr. 1986).

exports—both in total value and market share—fell sharply. The lowered demand for U.S. agricultural products at price-supported levels led U.S. farmers, in effect, to sell their commodities to the government at the higher, price-supported levels rather than compete in world markets at the lower price. Government stockpiles grew. The value of farmers' assets—particularly land—decreased significantly. And many farmers who incurred debts on the basis of the high expectations of the 1970s found it difficult to repay those debts. (Section 3 provides details on the declining financial and export position of the U.S. farm economy in the early 1980s.)

1985 Farm Bill's Response to Decline in U.S. Farm Economy

The 1985 farm bill was designed to help stabilize the U.S. farm economy, enhance the U.S. competitive position as a supplier in world agricultural markets, and prevent the buildup of large commodity surpluses. To achieve its goals, the bill modified traditional farm policy tools, such as support prices, target prices, supply controls, and export assistance programs. The following sections describe the farm bill's major provisions.

Support Prices

The 1985 farm bill lowered support prices to (1) make U.S. farm products more price competitive, (2) lower the price umbrella that allowed foreign competitors to expand their market share, and (3) reduce government acquisitions of surplus crops. USDA was given authority for additional discretionary reductions in support prices if the formula-determined prices were likely to hamper U.S. competitiveness.

Support prices are administered through commodity loans from CCC. Farmers store their crops as collateral for such loans. CCC is required by law to accept crops from eligible farmers in exchange for a loan—generally within 9 to 12 months—equal to the number of units (e.g., bushels) placed under loan multiplied by a price, established in legislation and USDA administrative regulations, called the support price or "loan rate."

If farmers choose not to repay their loans, CCC must accept the crops under loan as payment in full (including interest). The loan is a "nonrecourse" loan in that CCC cannot insist on cash repayment. In effect, CCC is the "market of last resort." It makes an open-ended commitment to acquire crops forfeited by farmers.

If the market price rises above the loan rate before the end of the loan period, farmers usually (1) pay off the loans (plus interest costs), (2) redeem the crops, and (3) either sell them at the higher market price or

store them, hoping for a further price increase. If the market price is lower than the loan rate (less accumulated interest) at the end of the loan period, farmers usually forfeit their grain to CCC as full payment for the loans.[2] CCC acquisitions normally prevent the market price from falling much below the loan rate.

The 1985 farm bill also authorized the use of two mechanisms that affect the price-support program: the marketing loan and commodity certificates. The marketing loan, by allowing cotton and rice producers to repay their loans at the world market price if that is lower than the support price or loan rate, removes the support price as a minimum price. Commodity certificates are issued in lieu of some cash payments to farmers and merchants of agricultural products. (See discussion of target prices in the next section.) Certificates could be exchanged for cash or for commodities under a price-support loan or owned by the CCC. They enable farmers to take out a price-support loan and immediately exchange certificates (at the lower of the support or market price) for the crops, thereby benefiting from the support price while avoiding the costs of storing the loan collateral. Without certificates, farmers would be obligated to store the loan collateral, at their expense, during the loan term.

The 1985 farm bill set the basic support price for corn in 1986 at $2.40 per bushel, down from $2.55 in 1985; for wheat, the basic support price in 1986 was $3.00 per bushel, down from $3.30 in 1985. Support prices for 1987 through 1990 were set at 75 to 85 percent of the simple average of the season prices received by farmers during the 5 preceding years, dropping the years with the high and low prices. Support prices could be further reduced by up to 20 percent if the average market price was 110 percent of the announced loan rate during the prior year or if USDA decided that this reduction was necessary to maintain domestic and export markets. In fact, USDA did lower the loan rate to $1.92 for corn and $2.40 for wheat in 1986. The support prices for cotton and rice were not given such flexibility. However, they could be reduced for cotton from the 1986 level of 55 cents per pound to 50 cents and for rice from the 1986 level of $7.20 per hundredweight to $6.50.

[2]Wheat and feed grain producers may have the option to extend their price-support loans for 3 years in the Farmer Owned Reserve. USDA pays storage costs. Producers agree not to take their grain out of storage unless the market price reaches a specified "release price."

Target Prices

The 1985 farm bill set target prices as an income-support tool for wheat, feed grains, cotton, and rice producers. If the market price falls below the target price, an amount equal to the difference between the target price and the support price or market price, whichever is higher, is paid to eligible farmers in deficiency payments. Target prices allow farmers to receive a price that is above the free market level. The amount of deficiency payments to any one producer is constrained by maximum limits set by law.[3]

Under the 1985 farm bill, USDA makes deficiency payments—advance and final—to participating farmers for each program crop. USDA is permitted to make payments in cash and/or commodity certificates. Consequently, multiple separate payment transactions can be made for each program crop.

The 1985 farm bill froze target prices at their 1985 levels until 1987 for cotton and rice and until 1988 for wheat and feed grains. After being unfrozen, target prices were set to decline gradually through 1990. The bill lowered wheat target prices from $4.38 per bushel in 1986 to $4.00 in 1990. Corn target prices were reduced from $3.03 per bushel in 1986 to $2.75 in 1990. The bill lowered cotton target prices from $0.81 per pound in 1986 to about $0.73 in 1990 and rice target prices from $11.90 per hundredweight in 1986 to $10.71 in 1990.[4]

Supply Controls

The 1985 farm bill authorized USDA to control supply through the acreage reduction program (ARP), the paid land diversion program, the "50-92" program, and other program provisions. By reducing production, supply controls are designed to support market prices and limit government costs by reducing outlays for deficiency payments and commodity storage and handling.

To control production, the 1985 farm bill continued the 1981 farm bill's requirement that farmers establish an individual farm acreage base for "program" crops, such as corn, as a condition for being eligible to receive program (price and income support) benefits. The farmers must

[3]Concerns about farmers circumventing the payment limitations set by the 1985 farm bill led to subsequent legislation. The Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203), section 1302, redefined eligibility and limited payments to active farmers. For more information about problems implementing the farm bill's payment limits, see our report, Farm Payments: Farm Reorganizations and Their Impact on USDA Program Costs (GAO/RCED-87-120BR, Apr. 1, 1987).

[4]The Omnibus Budget Reconciliation Act of 1987 lowered target prices slightly from levels prescribed in the 1985 farm bill.

limit planting of program crops to a percentage of the base (which is called permitted acreage) and idle the remainder under the ARP provisions. (For example, in 1988, the ARP level was set at 20 percent for corn, so farmers' permitted acreage was no more than 80 percent of their corn base.) If farmers plant more than the acceptable percentage of their base, they are penalized and become ineligible for program benefits.[5]

USDA establishes annual ARP levels to account for existing stock levels, economic conditions, cost, domestic and foreign production, foreign countries' trade practices, weather, and other factors. For example, with stocks lower in 1988 because of that year's drought, USDA announced that it will allow greater production by lowering the ARP level for corn in 1989. When establishing ARPs, USDA was directed by the farm bill to target a 30-million-hundredweight year-end carryover of rice and 4 million bales of cotton. USDA was also directed to establish higher ARP set-asides if wheat carryover stocks exceed 1 billion bushels and feed grains 2 billion bushels. Under the 1985 farm bill, USDA set higher ARPs for wheat, corn, and rice in 1986 through 1988 compared with the 1985 levels. (See table 2.1.)

Table 2.1: Acreage Reduction Program Levels

Figures in percent

	1985	1986	1987	1988	1989
Wheat	20	22.5	27.5	27.5	10
Corn	10	17.5	20	20	10
Rice	20	35	35	25	25
Cotton	20	25	25	12.5	25

Other supply control provisions in the 1985 farm bill include the paid land diversion (PLD) and the "50-92" programs. The PLD program pays farmers to idle a percentage of their base acres. The "50-92" program allows farmers to plant as little as 50 percent of their permitted acreage and earn deficiency payments on 92 percent of the permitted acreage.[6]

[5]To maintain program benefits, farmers need to have an established crop base acreage. For wheat and feed grains, this acreage is the average of the acreages planted and considered planted for harvest during the 5 preceding crop years. For a more detailed description of the crop acreage base provisions, see Lewrene K. Glaser, Provisions of the Food Security Act of 1985.

[6]The Omnibus Budget Reconciliation Act of 1987 authorized a "0-92" supply control program for wheat and feed grain producers. They can plant none of their permitted acres yet still earn deficiency payments on 92 percent of these acres.

Export Assistance Programs

The 1985 farm bill reauthorized and added various export assistance programs. The Export Enhancement Program (EEP) provides CCC-owned commodities as bonuses to make U.S. commodities more competitive in specific targeted markets. The Targeted Export Assistance (TEA) program offsets the adverse effect of subsidies, import quotas, or other unfair trade practices of foreign competitors by providing organizations with funds or commodity certificates to finance market development activities. The farm bill also reauthorized various food aid programs, including Public Law 480 (titles I, II, and III) and Section 416 programs to developing countries. Further, the farm bill authorized credit guarantees up to 3 years through the Export Credit Guarantee Program (GSM-102) and up to 10 years through the Intermediate Export Credit Guarantee Program (GSM-103). These export credit programs are intended to permit foreign countries to buy U.S. agricultural commodities when guarantees are needed to get private financing.

Improvements Seen in U.S. Agricultural Economy, Exports, and Stock Levels

Major objectives of the 1985 farm bill were to help (1) stabilize the financially stressed U.S. farm economy, (2) enhance the U.S. competitive position as a supplier in world agricultural markets, and (3) prevent the buildup of large surplus stocks. Following passage of the 1985 farm bill, progress was, in fact, made toward each of these goals. As discussed below, most indicators of the farm economy began to strengthen around mid-decade.[1] Exports—both in value and volume—increased. And stock levels generally decreased.

It is uncertain how much of this progress can be attributed to changes in agricultural legislation versus other factors. Such 1985 farm bill provisions as lower support prices, relatively fixed target prices, stronger export programs, and commodity certificates have certainly exerted considerable influence over agricultural markets. However, U.S. macroeconomic policy, monetary exchange rates, foreign countries' trade and farm policies, and last year's major U.S. drought have also had major impacts. In this section, we provide information on trends in the farm economy, exports, and stock levels before and after passage of the 1985 farm bill without addressing the degree to which various factors may have influenced these trends.

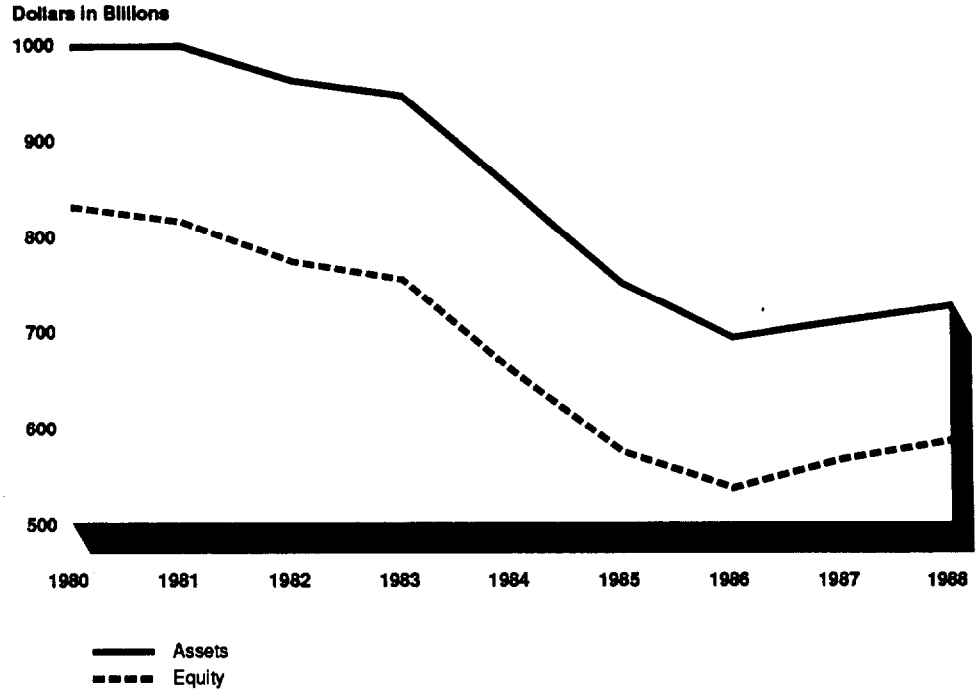
Farm Economy Recovery Began in Mid-1980s

In the early 1980s, the value of farmers' assets and equity (assets less debts) fell markedly. The nominal (not inflation-adjusted) value of total assets declined from about $996 billion in 1980 to $750 billion in 1985; equity fell more than 30 percent—from about $829 billion to $575 billion—during this period. Assets reached a low of about $692 billion in 1986 and rose slightly to an estimated $725 billion in 1988. Similarly, equity dropped to about $536 billion in 1986 and increased to an estimated $585 billion in 1988. (See fig. 3.1.) Real (inflation-adjusted) assets and equity dropped even more sharply in the early 1980s before leveling off from 1986 to 1988.[2] Real assets and equity in 1986 reached their lowest levels since the 1950s.

[1] Additional information on the farm economy is provided in our four reports on the financial condition of American agriculture (see list in bibliography).

[2] All USDA data estimates and forecasts in this report are as of November 1988, unless otherwise noted.

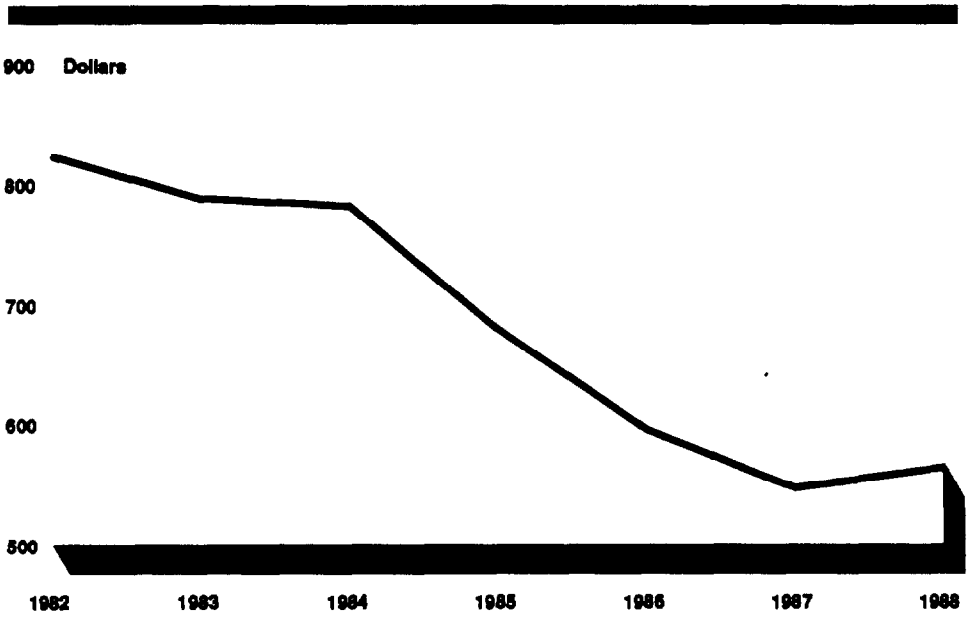
Figure 3.1: Farmers' Assets and Equity



Note: 1988 data are estimated.
Source: USDA.

Land values fell nationally from an average of $823 per acre of farm land in 1982 to $679 per acre in 1985. Land values nationally continued their fall, reaching $547 per acre in February 1987. Adjusted for inflation, the drop in land values was even more pronounced. Land values rose slightly to $564 per acre by February 1988. (See fig. 3.2.) Grain-producing, export-dependent regions such as the Corn Belt and Northern Plains had suffered sharp declines. However, these midwestern regions saw land values move up from 1987 to 1988. The Southern Plains and Pacific and Mountain States regions saw a continued decline. (See fig. 3.3.)

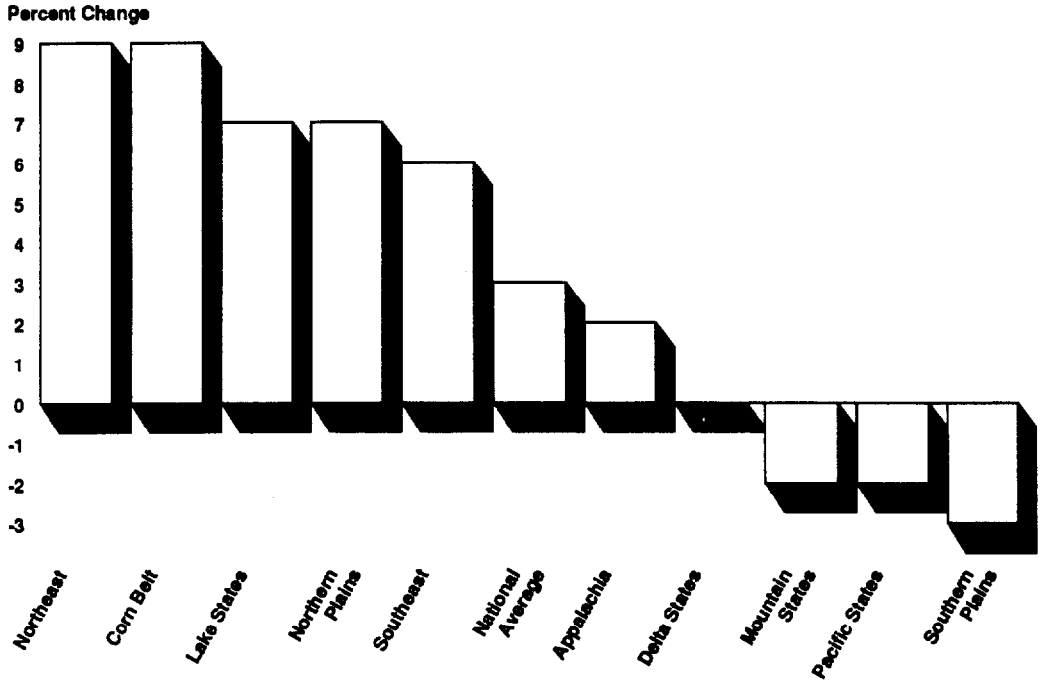
Figure 3.2: Farmland Average Value Per Acre



Note: Values as of April 1 for 1982 through 1985 and February 1 for 1986 through 1988. Value includes farmland and buildings.

Source: USDA.

Figure 3.3: Regional Farm Real Estate Value Changes, 1987-88



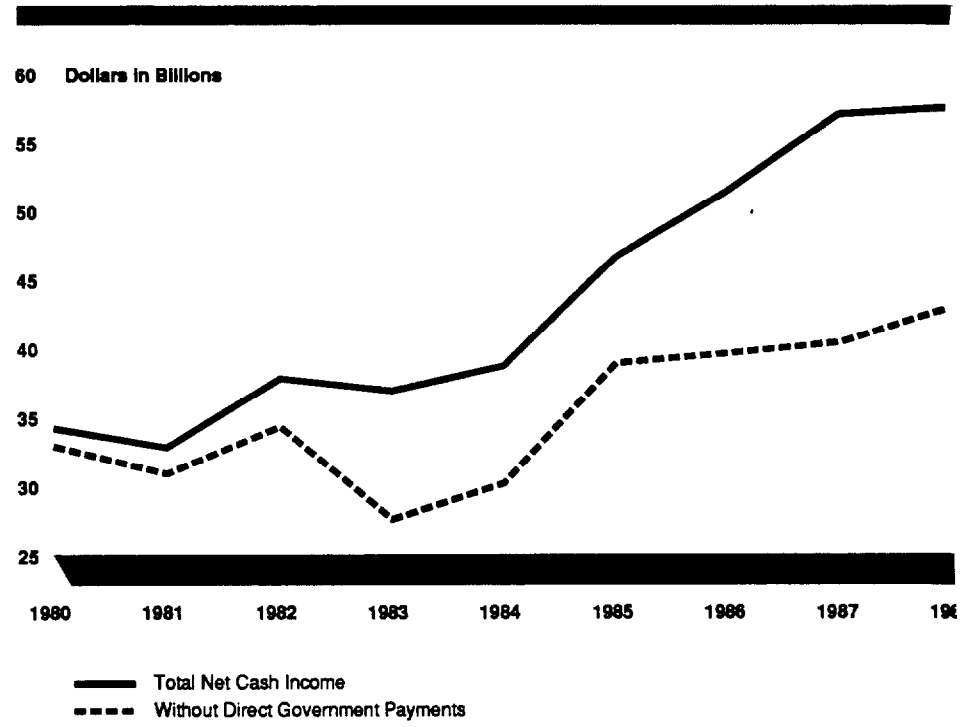
Note: Data include farmland and buildings. Data exclude Alaska and Hawaii. Values are for Feb. 1, 1987 to Feb. 1, 1988.
Source: USDA.

Farmers' total net cash income remained fairly level, between about $33 billion and $39 billion, from 1980 to 1984; it jumped to about $47 billion in 1985.[3] By maintaining the level of target prices while reducing support prices, the 1985 farm bill was designed to help protect farmers' incomes against lower commodity prices through increased deficiency payments. Following passage of the 1985 farm bill, net cash income moved up further. Total net cash income rose to about $51 billion in 1986, $57 billion in 1987, and an estimated $58 billion in 1988. Adjusted for inflation, net cash income rose somewhat less sharply. Real net cash income in the early 1980s had reached its lowest level since World War II. By 1987, real net cash income had nearly returned to the average level of the 1970s. Nominal net cash income without direct government

[3]Net cash income is defined as gross sales and other farm-related income (including government payments and net CCC loans) less cash operating expenses and interest and principal repayment.

payments rose slightly from about $39 billion in 1985 to about an estimated $43 billion in 1988. The increase in nominal net cash income came largely from higher government payments. (See fig. 3.4.)

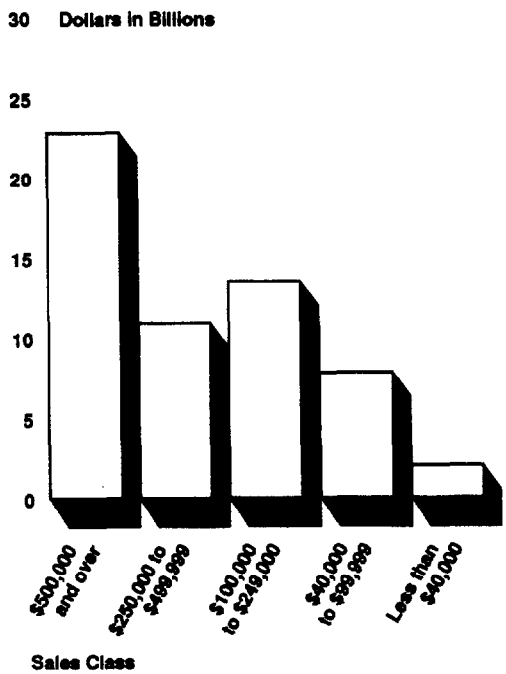
Figure 3.4: Farmers' Net Cash Income



Note: 1988 data are estimated.
Source: USDA.

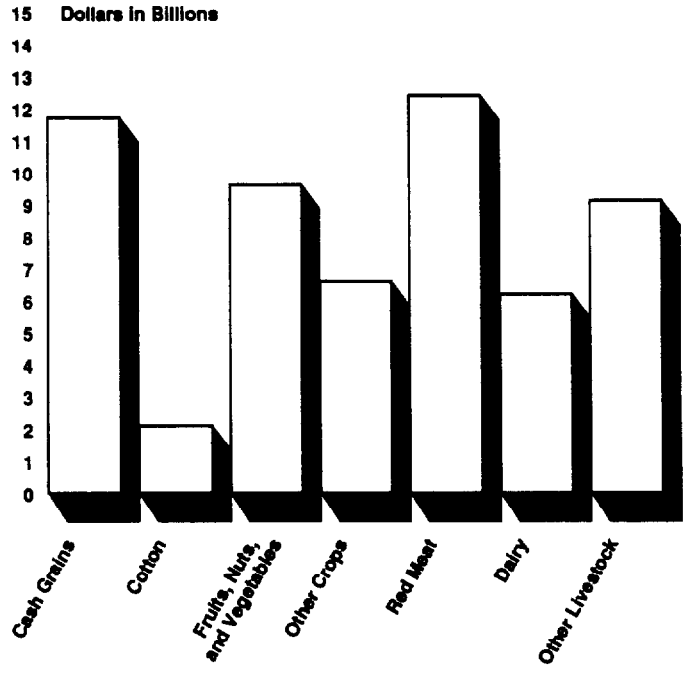
Farms with sales exceeding $500,000 made about 40 percent of the sector's net cash income in 1987. (See fig. 3.5.) Distribution of net cash income by farm type shows that the largest shares went to red meat; cash grain; fruit, nut, and vegetable; and other livestock farms (see fig. 3.6).

Figure 3.5: Farmers' Net Cash Income by Sales Class, 1987



Source: USDA.

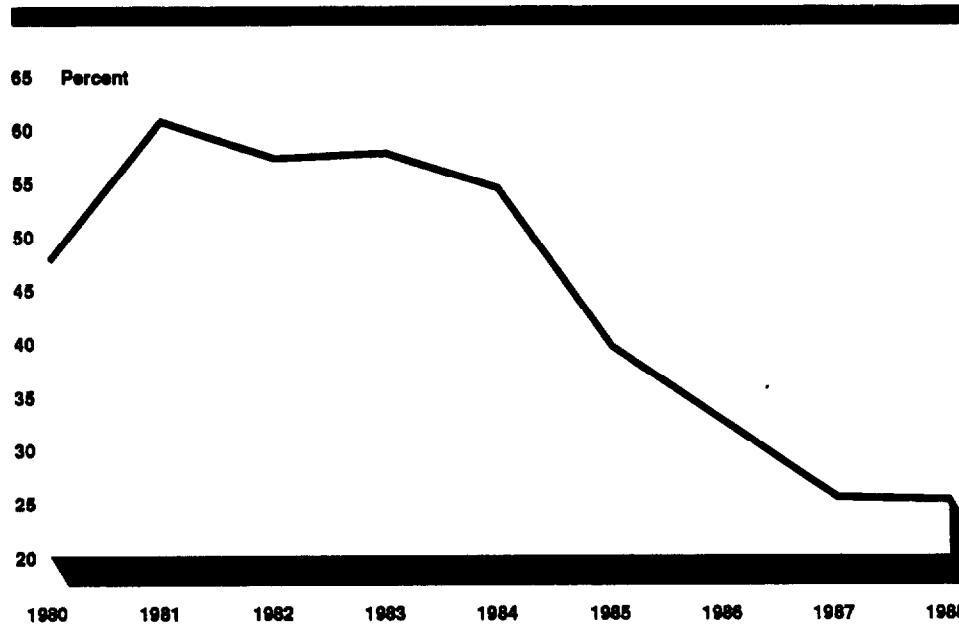
Figure 3.6: Farmers' Net Cash Income by Farm Type, 1987



Note: Cash grains include wheat, corn, soybeans, rice, sorghum, barley, and oats.
Source: USDA.

The farmers' debt burden rose in the early 1980s but declined as the decade progressed. One indicator of debt burden is the ratio of interest payments to net cash income. This ratio reached a peak of 61 percent in 1981, compared with an average of 23 percent in the 1970s. The ratio began to fall sharply in 1985, reaching an estimated 25 percent in 1988. (See fig. 3.7.)

Figure 3.7: Farmers' Interest Payments as a Percentage of Net Cash Income



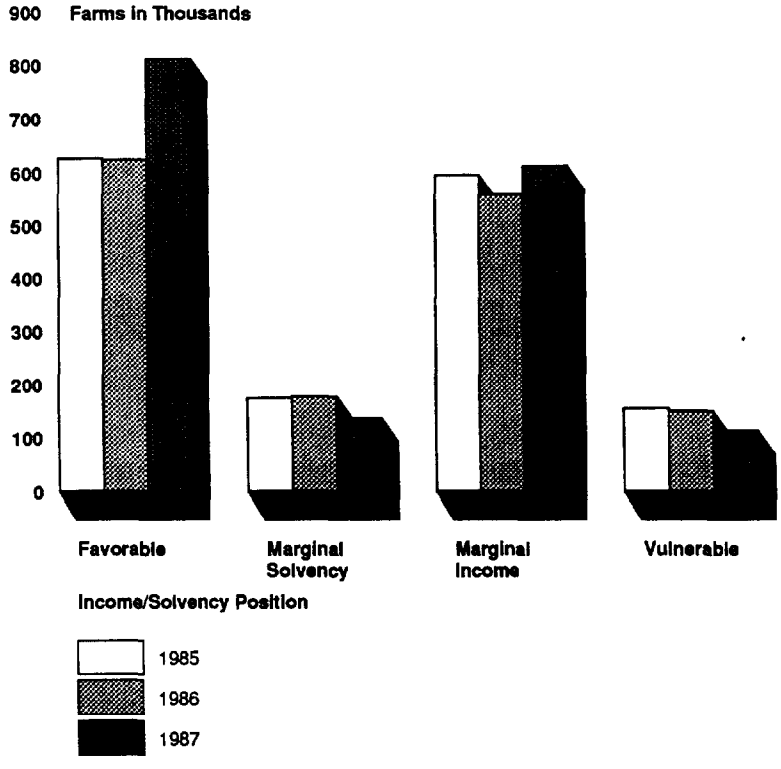
Note: 1988 data are estimated.
Source: USDA.

As the 1985 farm bill took effect, more farms moved into a favorable financial position. And, overall, fewer farms were marginal or worse. Using four income and solvency definitions, USDA's Economic Research Service (ERS) classified

- 811,000 farms as favorable in 1987, compared with 626,000 farms in 1985;
- 136,000 farms as marginal solvency in 1987, compared with 175,000 farms in 1985;
- 611,000 farms as marginal income in 1987, compared with 595,000 farms in 1985; and
- 113,000 farms as vulnerable in 1987, compared with 155,000 farms in 1985. (See fig. 3.8.)[4]

[4]Favorable farms have positive net farm cash income and favorable solvency—a debt-to-asset ratio of 40 percent or less. Marginal solvency farms have positive net farm cash income but high leverage—a debt-to-asset ratio over 40 percent. These farms, without current earnings problems, have high debt service requirements that could lead to future earnings problems. Marginal income farms have favorable solvency—a debt-to-asset ratio of 40 percent or less—but negative net farm cash income. These farms, without short-term debt problems, have current earnings problems that could lead to future solvency problems. Vulnerable farms have high leverage—a debt-to-asset ratio exceeding 40 percent—and negative net farm cash income. ERS changed its methodology slightly for compiling the 1987 information.

Figure 3.8: Number of Farms by Income/ Solvency Position, 1985-87



Source: USDA.

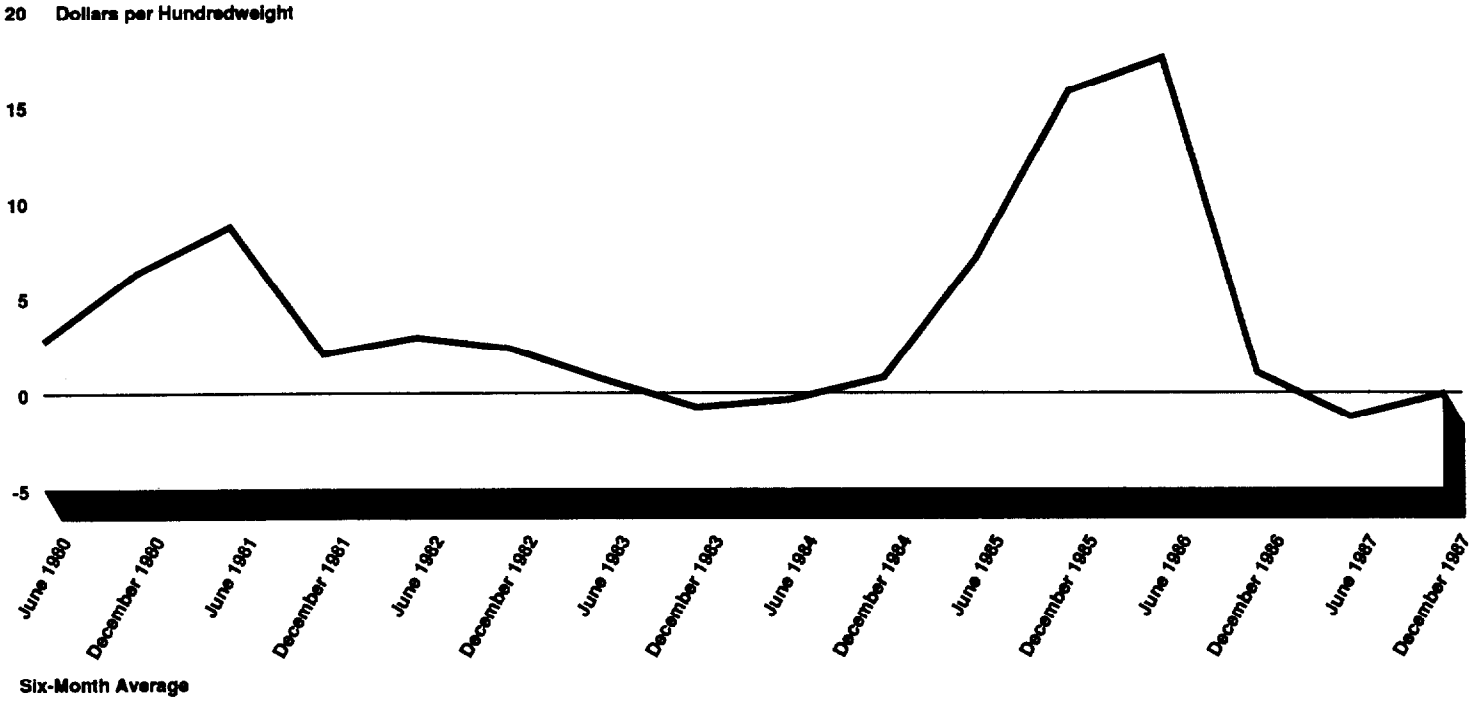
U.S. Exports and Market Share Have Increased

By lowering support prices and strengthening export programs such as EEP, the 1985 farm bill was designed to help make U.S. commodities more competitive in world agricultural markets. Since the bill took effect, the spread between U.S. prices and its foreign competitors' prices has narrowed for corn, rice, and cotton but not for wheat. Also, U.S. agricultural exports have increased and the U.S. share of the world market for wheat, coarse grains, cotton, and rice has rebounded from lower levels. However, the U.S. share of world soybean markets continued to decline.

U.S. Versus Major Competitors' Prices

When lower support prices under the 1985 farm bill went into effect, the spread between U.S. prices and foreign competitors' prices (at port and adjusted for exchange rate changes) for three of four major export commodities narrowed.[5] U.S. cotton and rice prices dropped abruptly to major competitors' levels in 1986. U.S. corn prices edged lower compared with a major competitor's prices. Despite a drop in U.S. wheat prices, however, the spread between U.S. and a major competitor's wheat remained basically the same.[6] (See figs. 3.9 through 3.12.)

Figure 3.9: U.S. Cotton Price Minus "A" Index Price

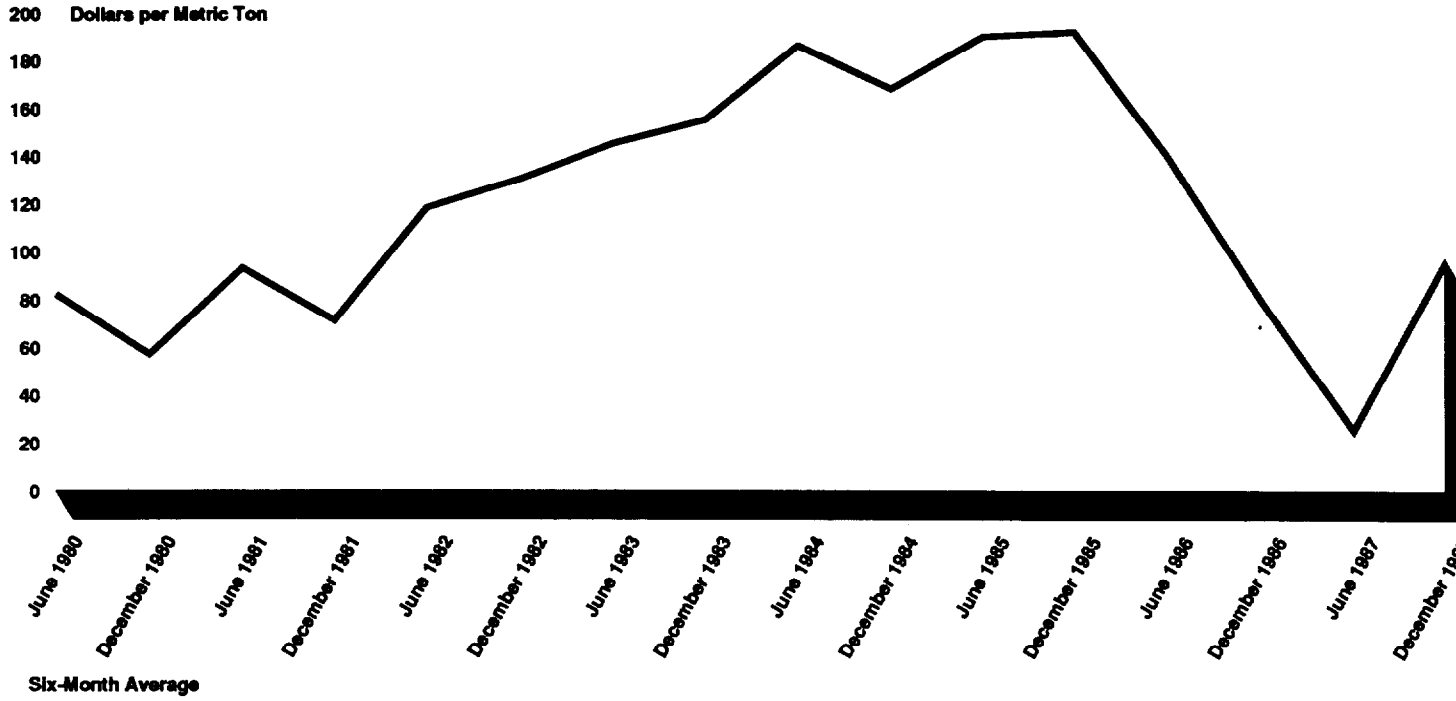


Note: The "A" index price is an average of the 5 lowest of 10 prices quoted in Northern Europe.
Source: USDA.

[5]The importance of exchange rate changes are discussed in our report, Agricultural Competiveness: An Overview of the Challenge to Enhance Exports (GAO/RCED-87-100, May 1987), pp. 16-17.

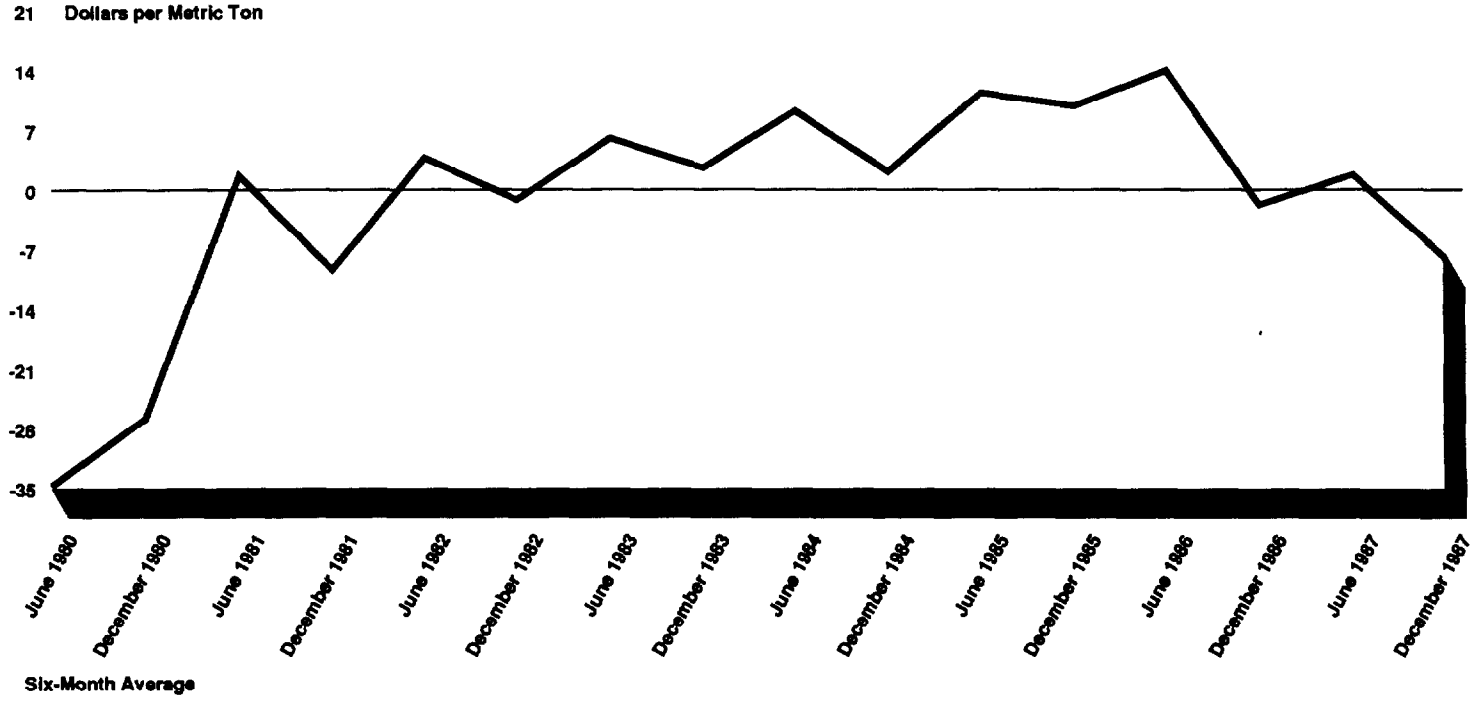
[6]At the recommendation of ERS staff economists, we selected Argentina as the competitor country for corn and wheat, Thailand for rice, and the "A" index group of countries for cotton.

Figure 3.10: U.S. Rice Price Minus Thailand's Price



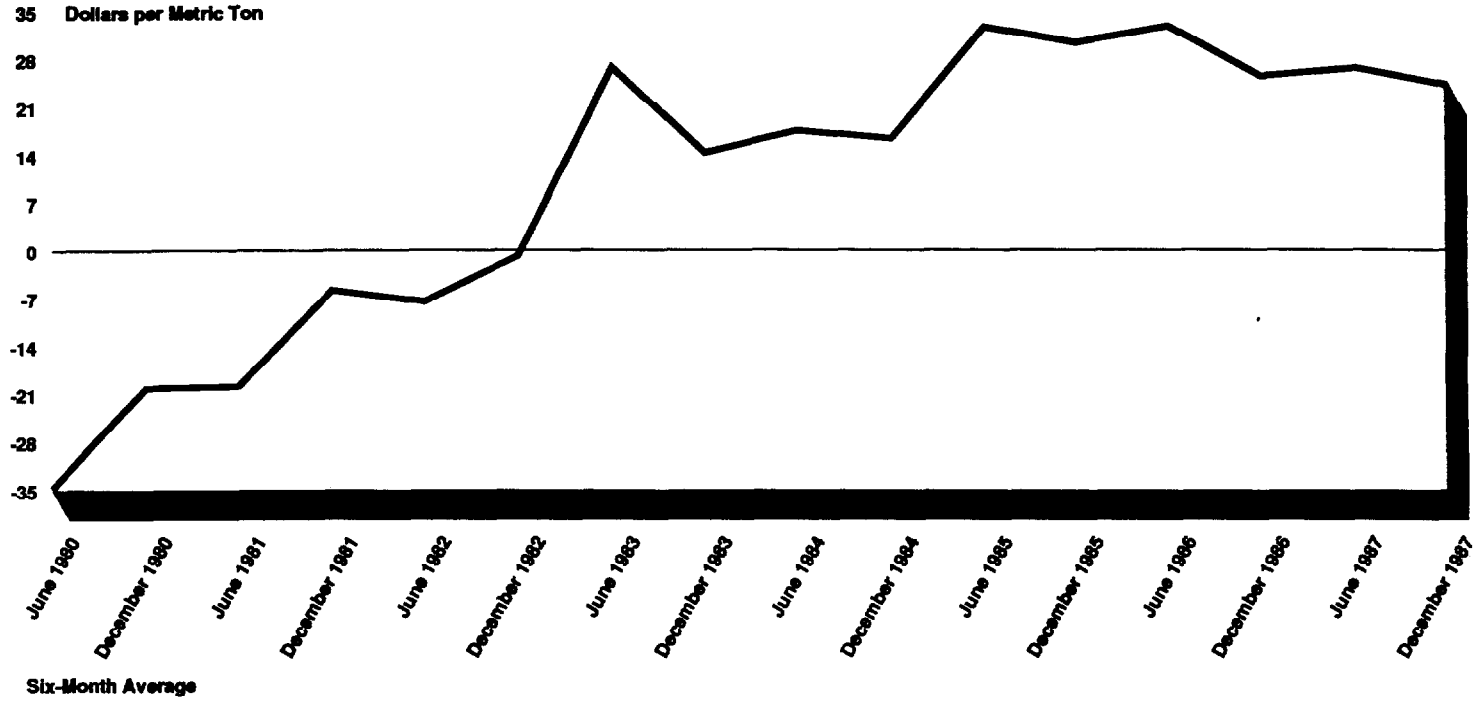
Source: USDA.

Figure 3.11: U.S. Corn Price Minus Argentina's Price



Source: USDA.

Figure 3.12: U.S. Wheat Price Minus Argentina's Price

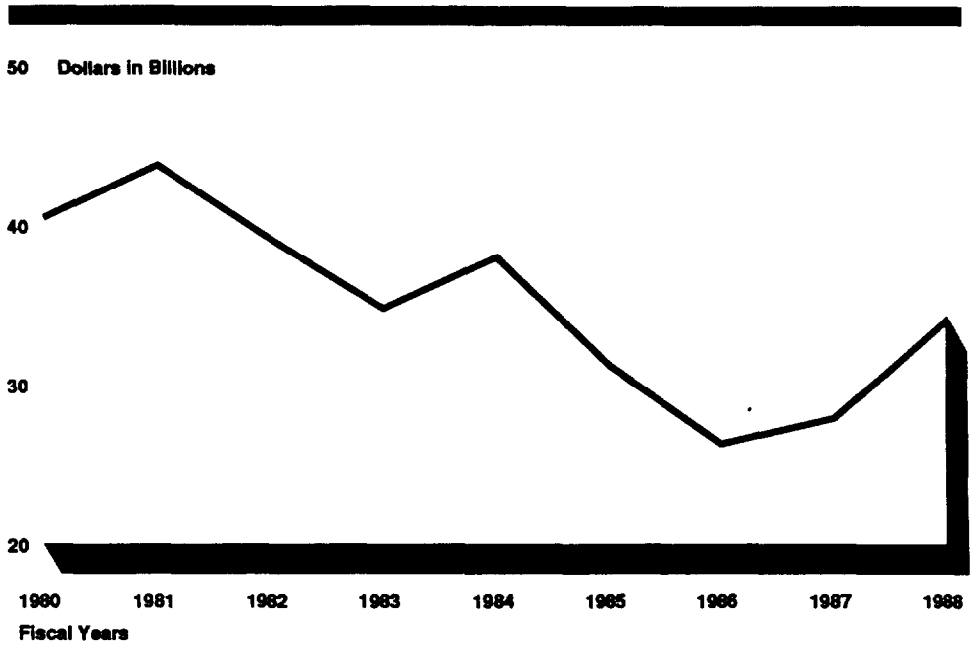


Source: USDA.

Change in Total Exports and Market Share

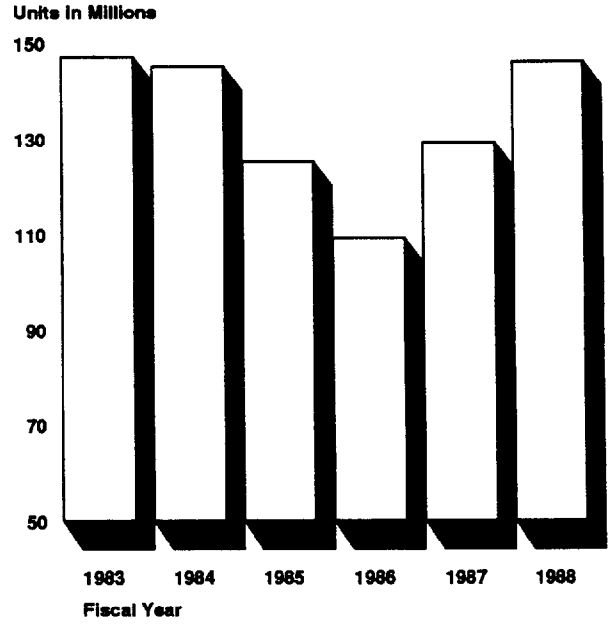
Total U.S. agricultural exports have increased since passage of the 1985 farm bill. The nominal value of U.S. exports increased between 1986 and 1988, but it is still below the level of the early 1980s. Total U.S. agricultural exports had fallen from about $44 billion in fiscal year 1981 to about $26 billion in fiscal year 1986. In fiscal year 1988, these exports are estimated by USDA to have climbed to $34 billion. The real value of exports shows that the decrease in the early 1980s was even more substantial. (See fig. 3.13.) The volume of U.S. agricultural exports decreased by about 25 percent from 1983 to 1986 and then increased by a comparable percentage from 1986 to 1988. (See fig. 3.14.)

Figure 3.13: U.S. Agricultural Exports
(Value)



Source: USDA.

Figure 3.14: U.S. Agricultural Exports (Volume)



Source: USDA.

As an exporter of agricultural products, the U.S. share of world agricultural markets has also rebounded to some degree. Between the 1981-82 and 1985-86 marketing years,[7] the U.S. market share (in volume) declined from 44 to 26 percent for wheat, from 54 to 39 percent for coarse grains, from 22 to 15 percent for rice, and from 33 to 10 percent for cotton.[8] For the 1988-89 marketing year, the U.S. share has been projected by USDA to be about 37 percent for wheat, 52 percent for coarse grains, 20 percent for rice, and 21 percent for cotton. (See table 3.1.)

The U.S. share of the world soybean trade, however, has not rebounded. It declined from 87 percent in the 1981-82 marketing year to 77 percent in 1985-86. It has fallen to an estimated 59 percent in 1988-89. Lower U.S. soybean production precluded an expansion of soybean exports.[9]

[7]Marketing year begins June 1 for wheat, August 1 for cotton and rice, and September 1 for corn and soybeans.

[8]The cotton share in 1985-86 may be misleading because buyers probably waited until the marketing loan provision of the 1985 farm bill took effect to make their purchases, according to an ERS analyst.

[9]See Paul C. Westcott, Agricultural Policy Provisions Affecting Soybean Plantings, paper presented to Outlook '89 Conference (Nov. 30, 1988), and Joseph Glauber, "Why Aren't Corn Farmers Moving to Soybeans?" in Agricultural Outlook, USDA/ERS (June 1988).

According to analyses by USDA economists, two reasons are the following: (1) producers prefer to plant corn, which is subject to a guaranteed target price under the federal corn program, rather than soybeans, which have no target price protection and are subject to greater price variability, and (2) until greater flexibility was allowed by the Disaster Assistance Act of 1988, farmers could not plant soybeans on corn base permitted acreage without losing corn program benefits.

Table 3.1: U.S. Share of World Trade by Commodity (In Volume)

Figures in percent

Marketing year	Wheat	Coarse grains	Rice	Cotton	Soybeans
1981-82	44	54	22	33	87
1982-83	38	55	19	27	86
1983-84	35	55	17	35	78
1984-85	34	50	18	31	65
1985-86	26	39	15	10	77
1986-87	27	48	21	26	72
1987-88	38	55	19	28	74
1988-89	37	52	20	21	59

Note: Rice data for 1981-82 and 1982-83 reflect calendar years 1982 and 1983.

Source: USDA.

Stock Levels Have Generally Declined

By lowering support prices, strengthening export programs, and authorizing the use of production controls and commodity certificates, the 1985 farm bill was designed to help reduce stock levels of surplus commodities. Since passage of the 1985 farm bill, stocks levels have generally declined. To illustrate, total U.S. "ending stocks" (the total publicly and privately held stocks carried over from one marketing year to the next) for wheat reached their highest level in the 1985-86 marketing year—some 1,900 million bushels. However, wheat stocks began a steady decline the following year and are forecasted to reach about 500 million bushels in the 1988-89 marketing year. Rice stocks also peaked during the 1985-86 marketing year, but they have declined in the subsequent years and are forecasted to reach their lowest level since passage of the 1985 farm bill in the 1988-89 marketing year. Corn stocks, which constitute the majority of all feed grains carryover, peaked in the 1986-87 marketing year. Since then, they have been reduced. Cotton stocks declined in 1986-87, but they are estimated to increase substantially in 1988-89 and exceed 8 million bales. According to USDA, cotton stocks are increasing because of a higher-than-anticipated U.S. cotton crop and

fierce competition from generally lower-priced foreign crops. (See table 3.2.)

Table 3.2: Ending Stocks and Total Use by Commodity

	Marketing year				
	1984-85	1985-86	1986-87	1987-88	1988-89
Wheat (million bushels)					
Ending stocks	1,425	1,905	1,821	1,236	528
Total use	2,578	1,961	2,197	2,705	2,555
Stocks/use	0.55	0.97	0.83	0.46	0.21
Corn (million bushels)					
Ending stocks	1,648	4,040	4,882	4,260	1,407
Total use	7,036	6,496	7,410	7,690	7,410
Stocks/use	0.23	0.62	0.66	0.55	0.19
Rice (million cwt.)					
Ending stocks	64.7	77.3	51.6	31.5	28.4
Total use	122.6	124.5	161.7	150.8	158.5
Stocks/use	0.53	0.62	0.32	0.21	0.18
Cotton (million bales)					
Ending stocks	4.1	9.4	5.0	5.8	8.4
Total use	11.8	8.4	14.1	14.2	12.2
Stocks/use	0.35	1.12	0.35	0.41	0.69

Note: The figures for 1986 through 1989 are based on October 12, 1988, supply and demand estimates.

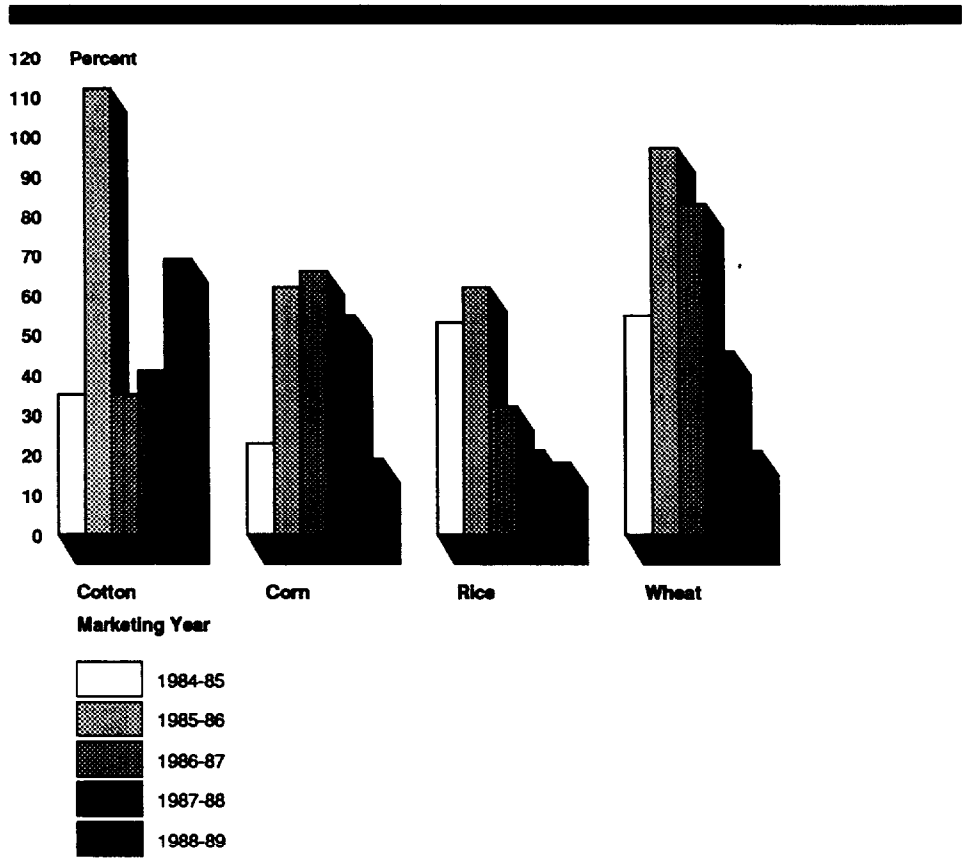
Source: USDA.

One indicator of surplus conditions is the ratio of ending stocks to that year's total (domestic and export) use. The ratio represents the portion of total utilization that can be covered by the existing stock level and gives a measure of the relative tightness or looseness of supply with respect to demand.

For wheat, corn, rice, and cotton, ending stocks as a percentage of total annual use increased just before the 1985 farm bill took effect (between 1984-85 and 1985-86). Except for cotton, the stocks-to-use ratio has moved much lower. Three consecutive years of utilization above production has caused the wheat stocks-to-use ratio to drop from 97 percent in 1985-86 to a forecasted 21 percent in 1988-89. The corn stocks-to-use ratio rose to about 66 percent during the 1986-87 marketing year and is forecasted to fall to 19 percent in 1988-89, given that the stock level declined substantially because of the 1988 drought. Rice stocks as a percentage of use have gradually declined since passage of the farm bill. The cotton stocks-to-use ratio was unusually high—112 percent—in

1985-86 and then dropped substantially in 1986-87. It is forecasted to increase to 69 percent in 1988-89. (See fig. 3.15.)

Figure 3.15: Ending Stocks as a Percentage of Total Use



Note: 1988-89 data are estimated.
Source: USDA.

Farm Program Costs Have Been Slightly Higher Under the 1985 Farm Bill

This section is divided into two parts. First, we identify the direct costs of price- and income-support and export programs. Total costs have been slightly higher under the first 3 full years of the 1985 farm bill than under the last 3 full years of the previous farm bill. However, costs decreased substantially from fiscal year 1987 to fiscal year 1988 and are estimated to remain near this lower level in fiscal year 1989. Second, we explain why program costs have varied widely.

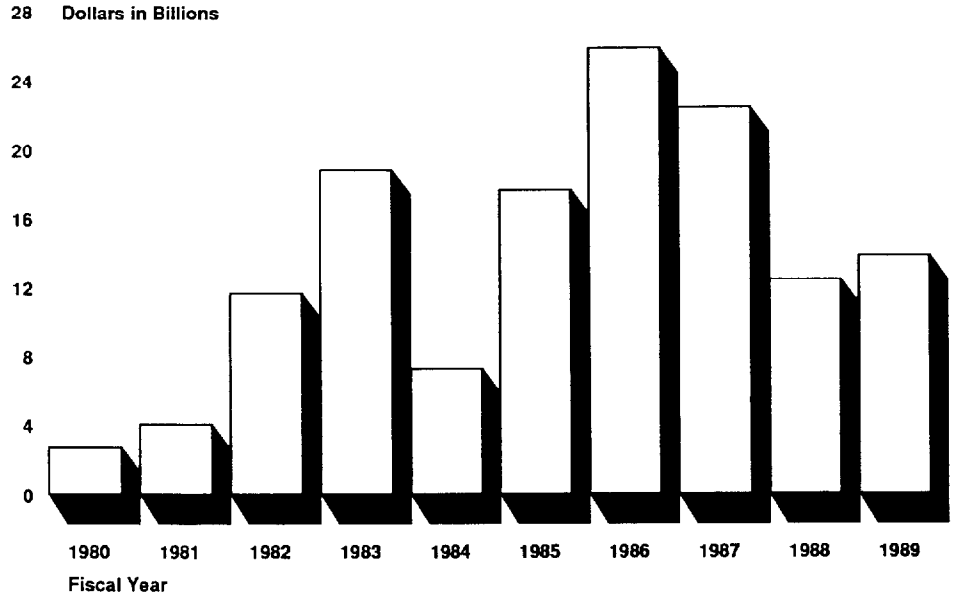
Direct Program Costs Have Been Slightly Higher

The cost of federal price- and income-support and export programs, as represented by total CCC net outlays, increased from a total of about $43.8 billion for the last 3 full years of the 1981 farm bill (fiscal years 1983-85) to an estimated $48.7 billion for the first 3 full years of the 1985 farm bill (fiscal years 1987-89).[1] Total outlays were about $22.4 billion in fiscal year 1987; they decreased to $12.5 billion in fiscal year 1988, and USDA estimates that outlays will be about $13.8 billion in fiscal year 1989. (See fig. 4.1 and table 4.1.)

By commodity, feed grains make up the largest portion of CCC outlays. In fiscal year 1988, for example, about $9.1 billion of the $12.5 billion (about 73 percent) went for feed grains. By function, the largest component is generally price-support loans. Net loan outlays increased sharply from about $6 billion in fiscal year 1985 to almost $14 billion in fiscal year 1986 and over $12 billion in fiscal year 1987. For fiscal year 1988, the costs of price-support loans have declined substantially, and a similar decline is expected for fiscal year 1989.

[1]Fiscal year 1986—in which total outlays reached about $25.8 billion—is a transition year. Some fiscal year 1986 outlays are attributable to crops produced under the 1981 farm bill's programs and other outlays to crops under the 1985 farm bill's programs. For example, final deficiency payments on 1985 crops—subject to the 1981 farm bill—were made during fiscal year 1986. Advance deficiency payments on 1986 crops—subject to the 1985 farm bill—were also made during fiscal year 1986. Net loan outlays in fiscal year 1986 are not as clearly attributable to either farm bill. For example, by reducing support prices and contributing to lower market prices, the 1985 farm bill discouraged farmers from redeeming their 1985 crop loans in fiscal year 1986. This would have caused an increase in net loan outlays in fiscal year 1986.

Figure 4.1: CCC Net Outlays



Note: 1989 data are estimated.
Source: USDA.

Table 4.1: CCC Net Outlays by Commodity & Function

Dollars in millions

	Fiscal Year								
Commodity/Program	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
Feed grains	1,286	−533	5,397	6,815	−758	5,211	12,211	13,967	9,053
Wheat	879	1,543	2,238	3,419	2,536	4,691	3,440	2,836	678
Rice	−76	24	164	664	333	990	947	906	128
Upland cotton	64	336	1,190	1,363	244	1,553	2,142	1,786	666
Tobacco	−88	−51	103	880	346	455	253	−346	−453
Dairy	1,011	1,894	2,182	2,528	1,502	2,085	2,337	1,166	1,295
Soybeans	116	87	169	288	−585	711	1,597	−476	−1,676
Peanuts	28	28	12	−6	1	12	32	8	7
Sugar	−405	−121	−5	49	10	184	214	−65	−246
Honey	9	8	27	48	90	81	89	73	100
Wool	35	42	54	94	132	109	123	152	4
Operating expense	157	159	294	328	362	346	457	535	621
Interest expenditure	518	220	−13	3,525	1,064	1,435	1,411	1,219	395
Export programs	−669	−940	65	398	743	134	102	276	193

(continued)

Commodity/Program	Fiscal Year 1980	1981	1982	1983	1984	1985	1986	1987	1988
Other	−113	1,340	−225	−1,542	1,295	−314	486	371	1,696
Total	**2,752**	**4,036**	**11,652**	**18,851**	**7,315**	**17,683**	**25,841**	**22,408**	**12,461**
Function									
Price-support loans (net)	−66	174	7,015	8,438	−27	6,272	13,628	12,199	4,578
Direct payments									
Deficiency	79	0	1,185	2,780	612	6,302	6,166	4,833	3,972
Diversion	56	0	0	705	1,504	1,525	64	382	8
Disaster	258	1,030	306	115	1	0	0	0	6
Dairy termination	0	0	0	0	0	0	489	587	259
Other	25	0	0	0	0	0	27	60	0
Total direct payments	418	1,030	1,491	3,600	2,117	7,827	6,746	5,862	4,244
Purchases (net)	1,681	1,602	2,031	2,540	1,470	1,331	1,670	−479	−1,131
Producer storage payments	254	32	679	964	268	329	485	832	658
Processing, storage, & transportation	259	323	355	665	639	657	1,013	1,659	1,113
Operating expense	157	159	294	328	362	346	457	535	621
Interest expenditure	518	220	−13	3,525	1,064	1,435	1,411	1,219	395
Export programs	−669	−940	65	398	743	134	102	276	193
Other	200	1,436	−265	−1,607	679	−648	329	305	1,790
Total	**2,752**	**4,036**	**11,652**	**18,851**	**7,315**	**17,683**	**25,841**	**22,408**	**12,461**

Note: Totals may not add because of rounding. Payments made in commodity certificates are not captured as an outlay by CCC, although changes in net price-support loan outlays resulting from certificate use are. In our August 16, 1988, report, Budget Issues: USDA's Commodity Certificates Should Be Recognized in Budget Totals (GAO/AFMD-88-27), we concluded that the exclusion of the issuance of certificates from the budget is correct under the current cash-based unified budget concepts. However, we stated that the use of certificates should be subject to systematic congressional budget review and that a new set of budget concepts should be developed to accomplish this.

Source: USDA.

Direct Payment Costs

Deficiency and diversion payments for the first 3 years (1986-88 crops) of the 1985 farm bill have been higher than the 4 years (1982-85 crops) under the 1981 farm bill combined. Including cash, in-kind, and commodity certificate payments, deficiency and diversion payments have totaled about $32 billion for the 1986-88 crops and $25 billion for the 1982-85 crops. By lowering support prices and keeping target prices nearly level, the 1985 farm bill established the basis for higher USDA costs for deficiency payments.

Table 4.2: USDA's Costs for Deficiency and Diversion Payments

Dollars in millions

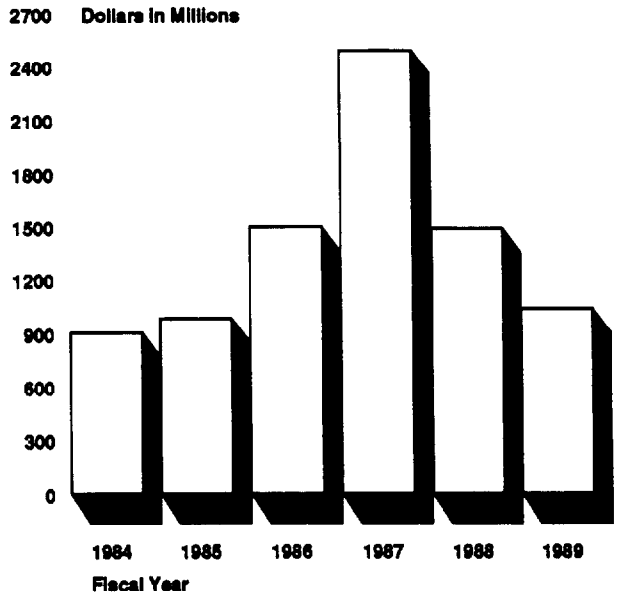
Crop year	Payments
1982	$1,676
1983	12,084
1984	4,830
1985	6,573
1986	12,616
1987	13,166
1988	6,651

Note: Crop year data include payments made for crops harvested during that calendar year, regardless of when the payments were actually made. For example, deficiency payments for corn harvested in September 1985 could be made in fiscal year 1985 and fiscal year 1986. However, they would be considered 1985 crop year payments. Included in USDA's costs are cash, in-kind, and commodity certificate payments. Crop year 1988 payments do not include disaster assistance or payments accrued in fiscal year 1989.

Storage and Handling Costs

As shown in table 4.1 and figure 4.2, government costs related to stockpiling surpluses increased sharply following passage of the 1985 farm bill. Producer storage payments rose from $329 million in fiscal year 1985 to $832 million in fiscal year 1987. Processing, storage, and transportation outlays increased from $657 million in fiscal year 1985 to nearly $1.7 billion in fiscal year 1987. By fiscal year 1989, total storage and handling costs are estimated to be returning to 1985 levels.

Figure 4.2: CCC Storage and Handling Outlays



Note: Estimated outlays do not incorporate the impact of drought legislation. 1989 outlays are estimated.

Source: USDA.

Commodity Certificates Costs

Although commodity certificates themselves do not count as cash budget outlays, certificates can lead to higher outlays for price-support loans. We reported that the $3 billion in certificates exchanged through February 25, 1987, increased net price-support loan outlays by about $107 million to $653 million.[2] According to USDA, net costs were an estimated $341 million, or 5 percent, higher in fiscal year 1987 because certificates were used instead of cash. According to USDA, because of the large number of certificates exchanged for CCC stocks and the high cash prices for corn and wheat during the 1987-88 marketing year, the costs of issuing certificates in fiscal years 1988 and 1989 may actually be about equal to using cash.[3] USDA issued certificates worth more than $21 billion through August 1988.

[2]Farm Payments: Cost and Other Information on USDA's Commodity Certificates (GAO/RCED-87-117BR, Mar. 26, 1987).

[3]USDA, Generic Certificates (July 1988).

Export Program Levels

Overall, export programs have expanded under the 1985 farm bill. As shown in table 4.3, total USDA export program levels increased from less than $5 billion in fiscal year 1985 to more than an estimated $8 billion in fiscal year 1989. Export credit programs are loan guarantee commitments that only result in outlays when borrowers default on their loans. Actual outlays for other export programs—P.L. 480, EEP, and TEA—are reflected in CCC net outlays.

Table 4.3: USDA Export Program Levels

Dollars in millions

Fiscal year	Export credit	P.L. 480	EEP	TEA	Total
1982	$1,387	$1,254	[a]	[a]	**$2,641**
1983	4,096	1,712	[a]	[a]	**5,781**
1984	3,800	1,918	[a]	[a]	**5,718**
1985	2,724	2,185	[a]	[a]	**4,909**
1986	2,535	1,825	$405	$110	**4,875**
1987	2,873	1,994	1,333	110	**6,310**
1988	4,505	1,845	1,155	110	**7,615**
1989	5,505	1,845	770	200	**8,320**

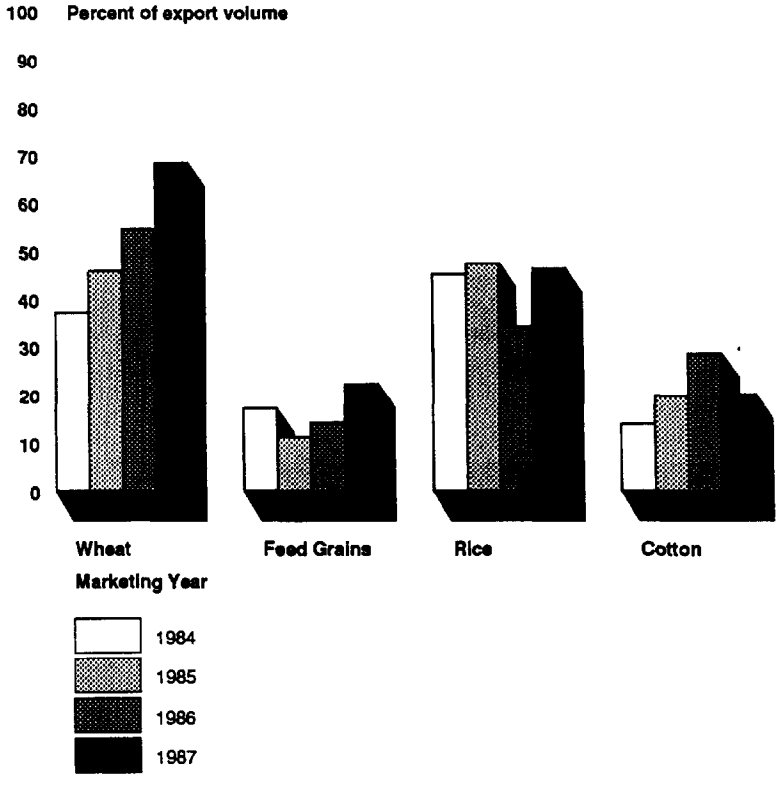
Note: Small export programs, such as the Cooperator Market Development Program, are excluded. 1989 data are estimated.

[a]Not applicable

Source: USDA.

The role of USDA's export programs has expanded dramatically in the export of U.S. agricultural products under the 1985 farm bill. In 1987, programs such as export enhancement, food aid, and credit guarantees assisted about 68 percent of the volume of wheat and flour exports, 22 percent of feed grains exports, 47 percent of rice exports, and 20 percent of cotton exports. (See fig. 4.3.) In fiscal year 1987, EEP alone supported almost one-half of U.S. wheat and flour exports. Before passage of the farm bill, lower percentages of the volume of U.S. wheat and feed grains exports were assisted by government programs. For example, these programs subsidized about 46 percent of wheat and flour exports and about 11 percent of feed grains exports in 1985.

Figure 4.3: Percentage of U.S. Agricultural Exports Assisted by U.S. Export Programs



Note: Government assistance includes CCC and EEP program funds.
Source: USDA, ERS.

Farm Bill's Design Allows Costs to Vary Widely

The 1985 farm bill's design has allowed costs for price- and income-support programs to vary widely. The bill requires USDA to absorb much of farmers' "price risk," so that program costs tend to go up when market prices of program crops such as corn and wheat go down, and costs tend to decrease when prices increase. In addition, the farm bill gives USDA only limited control over the ultimate level of program costs.

Through deficiency payments and price-support loans, the government absorbs much of the farmers' "price risk." USDA makes up the difference between the target prices and market prices or support prices, whichever are higher. As market prices decline (yet remain above support prices), USDA's costs for deficiency payments increase. When prices increase toward target prices, payments decrease. USDA's costs for price-support loans are also linked to market prices of program crops. When market prices decrease to levels near or below support prices, net price-

support loans increase because farmers are more likely to put their crops under loan and (1) hold their crops off the market until higher prices encourage them to redeem the crops and sell them or (2) forfeit their collateral to USDA. When market prices increase above support prices, net price-support loans decrease because farmers are more likely to redeem and sell their crops.

When support prices were lowered in 1986, market prices fell. As result, USDA's program costs increased. When market prices went up in 1988, costs decreased. (See table 4.4.)

Table 4.4: Percentage Changes in Market Prices and USDA Program Costs

Figures in Percent

	Change from FY 1985 to FY 1986	Change from FY 1987 to FY 1988
Market prices		
Wheat	−10.8	+21.4
Corn	−17.0	+36.4
Program costs		
Price-support loans	+117.3	−63.6
Direct payments	+ 53.2	−10.2
Storage and handling	+ 51.9	−40.2

Note: Costs for direct payments include commodity certificates and represent calender year values.

Source: USDA.

The 1985 farm bill gives USDA only limited control over the ultimate level of program costs. In effect, deficiency payments and price-support loans are "entitlement" programs in that the total amount of benefits due eligible producers and resulting program costs are not constrained by congressional appropriations or limits on U.S. Treasury borrowing. Deficiency payments make up whatever the difference is between the target price and the market price or support price, up to prescribed individual payment limitations. And, as the "market of last resort," USDA makes an open-ended commitment to acquire all price-support loan collateral. USDA can try, for example, to cause prices to rise by increasing the size of the ARP set-asides. However, if foreign competitors increase their production, prices could fall anyway, and the costs of deficiency payments and price-support loans could be expected to increase.

The 1985 Farm Bill Has Been More Costly and Difficult for ASCS to Administer

The 1985 farm bill created new farm programs, expanded others, and provided financial incentives that encouraged more farmers to participate in the programs. Even with increased staffing, ASCS has found under the 1985 farm bill its greater responsibilities more difficult to administer than under the previous farm bill.[1]

Farm programs administered by ASCS are designed to stabilize and enhance the prices of certain agricultural commodities and the incomes of producers who grow the commodities. As the programs have become increasingly complex to accomplish these price and income protection objectives, ASCS has been faced with more complicated and time-consuming tasks.

The 1985 farm bill increased the time that ASCS offices have spent administering the programs by adding some complex programs that were difficult to administer and providing financial incentives that encourage greater program participation. Added responsibilities have included additional yield payments, commodity certificates, the Conservation Reserve Program, the Dairy Termination Program, sod/swampbuster and conservation compliance provisions, new methods for determining crop acreage base and yields, marketing loans, payment limits, and increased loan-making and compliance activities.

We identified the additional staff costs incurred since passage of the 1985 farm bill and discussed with ASCS officials the difficulties they experienced in implementing and administering the bill's farm programs.[2] Between fiscal years 1985 and 1988, ASCS staff levels increased by about 4,600 staff-years and salary-related expenses increased by about 48 percent, or $217 million.

Even with the substantial staff increases, headquarters, state, and local ASCS officials acknowledged that they have had difficulty handling the work load caused by the 1985 farm bill. They described the increased number and complexity of farm programs as very time-consuming to understand, explain, and implement. Furthermore, the officials often

[1] The farm bill also mandated additional responsibilities for USDA's Foreign Agricultural Service in administering export programs. Top Service officials have acknowledged to us that the agency has had difficulty in handling the expanded work load. (See Agricultural Trade: Review of Targeted Export Assistance Program (GAO/NSIAD-88-183, May 24, 1988), p. 19.) A separate GAO review of the Service's response to the 1985 farm bill is now underway.

[2] ASCS offices are responsible for implementing the August 1988 drought assistance legislation, which channels $4 billion to farmers in virtually all of the major agricultural regions. Although we have not examined the effects of the legislation on ASCS' administrative burden, ASCS' work load can be expected to increase significantly.

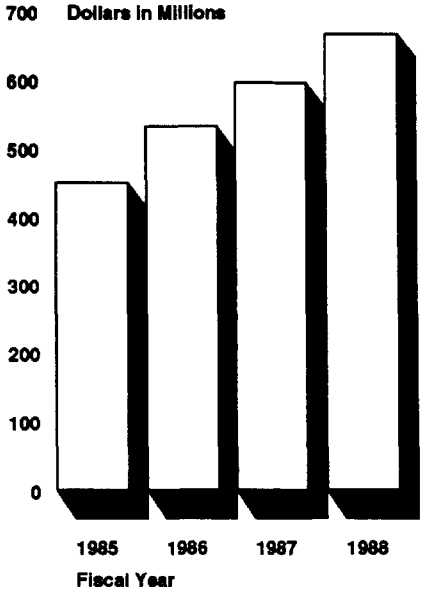
noted that the ASCS county office staff are "stressed out" because of the demands placed upon them in implementing and administering the farm bill programs. One ASCS county official noted that it was "rather scary" to think that a GS-3 ASCS employee was responsible for understanding and administering all these programs that the farmers depended on for their livelihood. Some ASCS officials said that, in their opinion, the Congress would be "shocked" to learn what it required to implement the programs Members had authorized and to learn how the legislation affected the people implementing the program provisions. ASCS headquarters officials also said that the Disaster Assistance Act of 1988 was creating even more tasks for local ASCS offices.

On the following pages, we present information on increases in ASCS staffing and salary expenses. We also discuss specific program implementation problems, including the increased complexity and number of payments and crop loans, payment limitation justifications, compliance activities, and computer system and software limitations.

ASCS Staffing and Salary and Related Expenses Increased

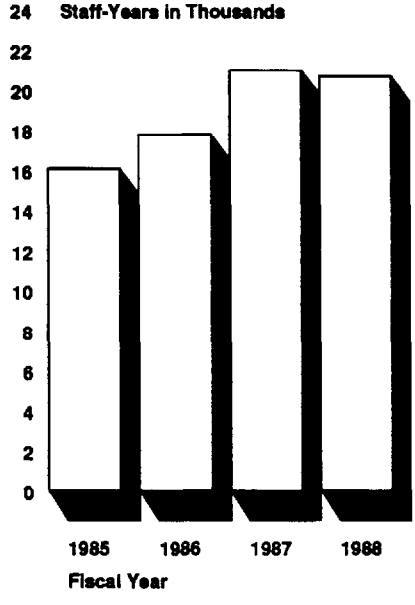
Additional ASCS staff were added to implement the 1985 farm bill provisions. ASCS staff levels increased from 16,095 in fiscal year 1985 to 17,810 in fiscal year 1986, 21,013 in fiscal year 1987, and 20,681 in fiscal year 1988. More than 90 percent of the increases were for staff at the county level. The additional staff increased the ASCS salaries and related expenses account by more than $217 million, or 48 percent, between fiscal years 1985 and 1988. About $174 million of this increase was for ASCS county office operations. The following figures illustrate the changes in total salary and related expenses and staffing for ASCS.

Figure 5.1: ASCS Salary and Related Expenses



Source: ASCS.

Figure 5.2: Number of ASCS Staff-Years



Source: ASCS.

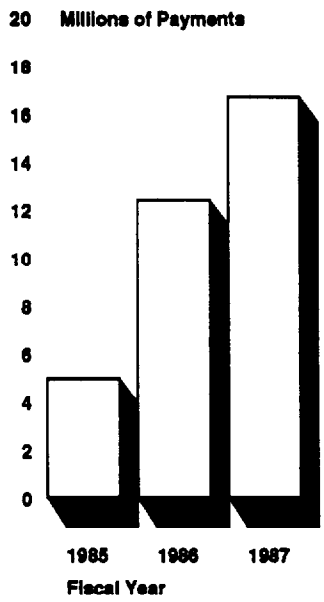
More Deficiency Payments and Loans Increased Work Load

ASCS' work load increased because the 1985 farm bill provided financial incentives that encouraged more farmers to participate, resulting in more deficiency and diversion payments and crop loans. Also, while deficiency payments have been made under previous farm bills, ASCS did not administer such a complicated and time-consuming payment process. Prior to the 1985 farm bill, ASCS generally issued two cash deficiency payments—an advance and a final payment—to participating farmers for each program commodity. Under the 1985 farm bill, ASCS may also issue additional deficiency payments. Further, each of these deficiency payments can be issued as two types of payments—one as cash and the remainder as a payment-in-kind commodity certificate for each commodity.[3] An ASCS official said that this payment process creates a huge burden for the county office staff, and he believes that if the Congress had considered how much time would be spent issuing the sequence of payments, its members would have realized that the process required too much time and expense to administer. Other ASCS officials described the "incredible" number of payments and the complexity of the deficiency payment process as cumbersome and time-consuming, and as "a monster" to administer.

Since 1985, ASCS has made far more payments and loans. The number of deficiency and diversion payments increased from about 5 million payments in fiscal year 1985 to about 12 million payments in fiscal year 1986. There were more than 16.6 million deficiency and diversion payments in fiscal year 1987, an increase of more than 230 percent over the number of payments made by ASCS in fiscal year 1985. The number of loans increased as well, from about 470,000 in fiscal year 1985 to about 996,000 loans in fiscal year 1986. The loan volume increased again in fiscal year 1987 to reach a total of over 1.2 million loans, or an increase of more than 155 percent over the volume in fiscal year 1985. According to ASCS officials, the dramatic increase in the number of loans and deficiency payments and the volume of required paperwork were primary contributors to the county offices' increased work load. The following figures illustrate the payment and loan activity increases.

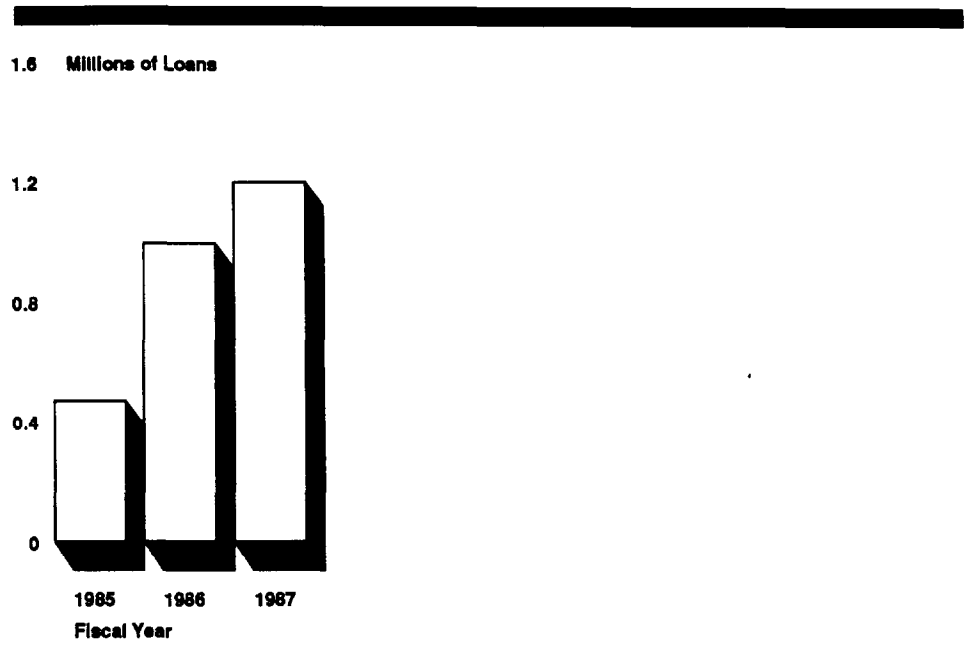
[3]USDA had previously authorized a temporary commodity certificate program for part of fiscal year 1983 for wheat, corn, grain sorghum, cotton, and rice, and for wheat only in fiscal year 1984. According to ASCS officials, the reduced scope of this payment-in-kind program did not create a work load burden like that authorized under the 1985 farm bill.

Figure 5.3: ASCS County Office Work Load—Number of Payments Made



Note: Numbers are for deficiency and diversion payments only.
Source: ASCS.

Figure 5.4: ASCS County Office Work Load—Number of Commodity Loans Made

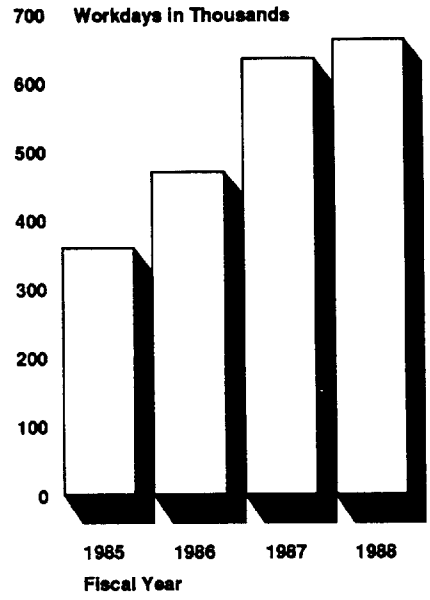


Source: ASCS.

For fiscal year 1986, the time that the ASCS staff needed to complete payments increased 31 percent over that for fiscal year 1985. During fiscal year 1987, the first full year under the 1985 farm bill provisions, the staff devoted 77 percent more time to complete the payments than in fiscal year 1985.[4] The payments are estimated to require 85 percent more time in fiscal year 1988 than in fiscal year 1985. Also, the time devoted to loan-making increased about 70 percent from fiscal years 1985 to 1986 and more than 110 percent from fiscal year 1985 to fiscal year 1987. Loan-making activities for fiscal year 1988 are estimated to remain at the 1987 level. The following graphs illustrate staff time spent on the loan and payment activities.

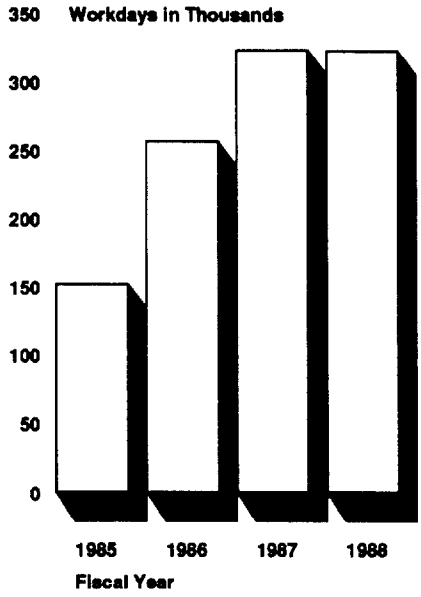
[4]The 1985 farm bill was signed by the President on December 23, 1985. Implementation of the legislation began in early 1986, halfway through fiscal year 1986. Therefore, the ASCS offices experienced the full effect of the 1985 farm bill's provisions beginning with fiscal year 1987.

Figure 5.5: ASCS County Office Workdays Used for Commodity Program Payments



Note: 1988 data are estimates that were made before impacts of drought were known.
Source: ASCS.

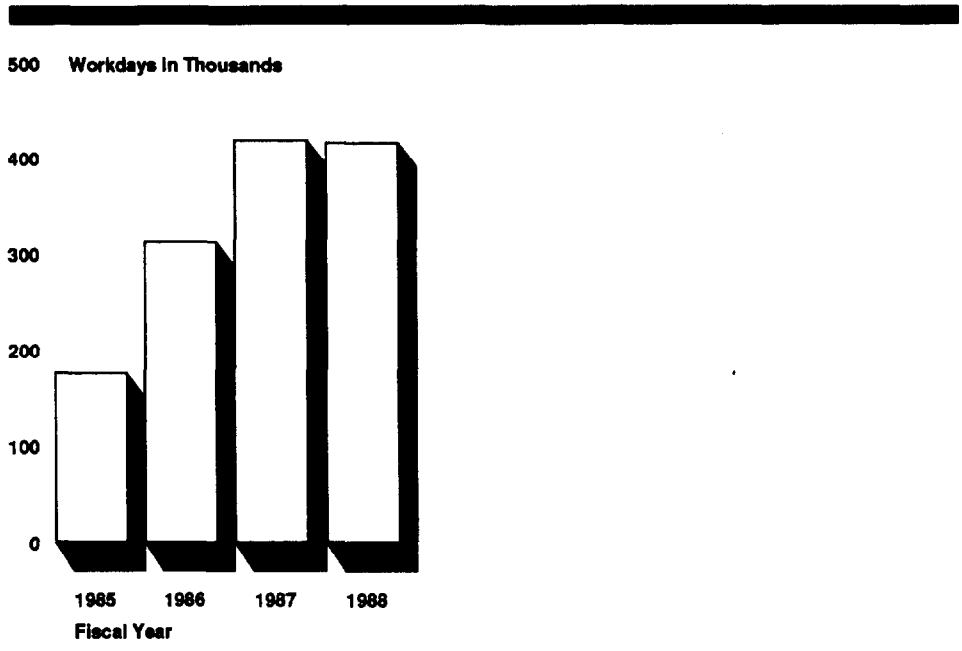
Figure 5.6: ASCS County Office Workdays Used for Loan-Making



Note: 1988 data are estimates that were made before impacts of drought were known.
Source: ASCS.

In addition to making the loans, ASCS staff spend time servicing the loans—completing paperwork and transactions for farmers who are forfeiting their commodities to ASCS (as repayment of the loan) or paying off the loan and redeeming the commodities to sell on the market. ASCS staff used about 80 percent more time during fiscal year 1986 for loan servicing and about 140 percent more time in fiscal year 1987 than in fiscal year 1985. The time required for servicing loans during fiscal year 1988 is estimated to remain at the 1987 level, as figure 5.7 indicates.

Figure 5.7: ASCS County Office Workdays Used for Servicing Loans



Note: 1988 data are estimates that were made before impacts of the drought were known.
Source: ASCS.

As part of the loan and payment procedures, ASCS must establish yields for each eligible commodity that farmers produce and for each program they participate in. Therefore, in addition to the larger volume of payments and loans, the 1985 farm bill made ASCS responsible for completing an increased number of yield determinations. The number of yields established increased from about 2.4 million in fiscal year 1985 to about 4.2 million in fiscal year 1986, or 75 percent. The number of yields established increased again in fiscal year 1987 to about 4.6 million, more than 91 percent higher than the fiscal year 1985 level.

As highlighted in various GAO and USDA Office of Inspector General (OIG) reports, ASCS has had some difficulties in administering the heavier payment and loan-making work load under the 1985 farm bill. The OIG found that ASCS county office employees had not complied with procedural requirements for processing rice loans. According to county office staff, some of the loan requirements were overlooked because of their heavy work load.[5] As part of the program procedures, ASCS officials are required to inspect a percentage of the commodities under loan for

[5]Agricultural Stabilization and Conservation Service Administration of 1986 Cotton and Rice Loan Programs, (USDA/OIG audit report no. 03641-1-Te, Mar. 11, 1988).

quantity and quality. The OIG found that an insufficient number of spot checks had been performed in a sample of state and county office operations.[6] In addition, the OIG found that ASCS offices had not followed procedures regarding custody, control, and accountability for certificates. For example, county offices did not lock up certificates or mark redeemed certificates as paid, which leaves them fully negotiable. Such lapses were attributed to the severe time constraints that ASCS was placed under by the passage of the 1985 farm bill.[7] We have also addressed and questioned ASCS' accounting for certificates and found discrepancies between issuance and redemption records. For example, we found that some certificates were reported as redeemed when there was no record of their issuance, and some certificates were reported as having been redeemed twice. Many discrepancies may be the result of processing errors, but a potential for fraud also exists.[8] Furthermore, the OIG reviewed crop acreage base and yield determinations in 78 counties in 22 states and found that more than 20 percent of these calculations were done in error.[9]

Payment Limitation and Record-Keeping Requirements Increased County Work Load

ASCS officials also highlighted the extensive amount of records, information, and time required to administer and monitor the $50,000 payment limitation provision. With certain exceptions, total direct (income-support) payments are limited by law to $50,000 per person per year. All producers must provide information and documentation to identify themselves as eligible for direct payments up to the $50,000 limit. According to ASCS officials, the paperwork that producers must complete is so complex that producers often seek the assistance of the county office staff to complete the forms, imposing an additional work load demand on ASCS. They described this provision as too complicated to fully understand and said that all of the instructions and revisions were a "nightmare" to keep track of. Another official said that the payment limitation provision required a tremendous amount of time to administer because the definitions and guidelines for determining persons had become increasingly complex to combat the abuse of the system.

[6]Evaluation of Security and Repayment of Commodity Loans, (USDA/OIG audit report no. 03640-03-Ch, Mar. 11, 1988).

[7]Accountability for and Custody Over Commodity Certificates, (USDA/OIG audit report no. 03530-27-FM, Dec. 14, 1987).

[8]Commodity Certificates: 200,000 Unreconciled Certificates Affect Financial Reporting (GAO/RCED-89-14, Oct. 25, 1988).

[9]Audit of the 1986 Production Adjustment and Conservation Reserve Programs, (USDA/OIG audit report no. 03634-1-KC, Sept. 3, 1987).

In separate reviews, we and USDA's OIG found that ASCS county offices had often incorrectly applied the rules or had failed to obtain information necessary to correctly apply payment limitation regulations. These incorrect determinations occurred primarily because of inadequate guidance and training on how the regulations should be implemented and ineffective internal control procedures to ensure correct implementation of the regulations. At the time of those reviews, ASCS took some actions that should have improved the person determinations made by county office officials for 1987 and later program years.[10]

ASCS is currently providing additional guidance and training since subsequent legislation has revised ASCS' regulations and responsibilities, as discussed below. Up through fiscal year 1988, only those individuals or entities that received at least $40,000 in direct payments were required to submit a form documenting that they should be classified as a separate person eligible for up to $50,000 in payments. However, a December 1987 amendment to the 1985 farm bill revised the provisions so that all individuals or entities actively engaged in farming would be required to complete and provide similar documentation justifying their eligibility for program benefits, regardless of the amount. Therefore, the county office work load will increase substantially with the implementation of this requirement.

Compliance Activities Work Load Also Increased

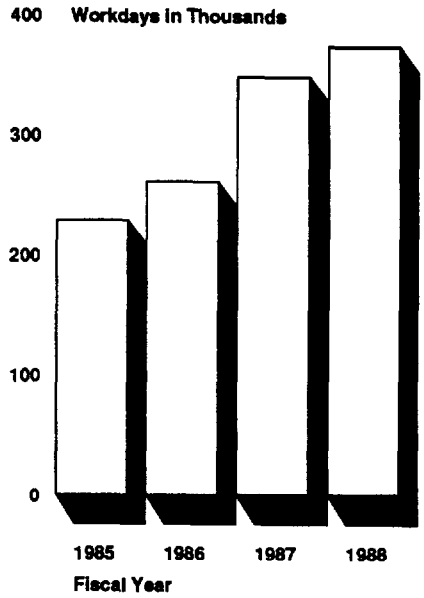
Under the 1985 farm bill, new program provisions and greater participation by farmers led to increased county office work load for compliance activities related to supply controls. Farmers sought the benefits of the acreage reduction and land diversion programs that continued under the 1985 legislation and also participated in the farm bill's new programs, such as the Conservation Reserve Program and Dairy Termination Program (DTP). The ASCS county offices must obtain a large volume of information and documentation to administer these programs and devote an extensive amount of time to monitor farmers' compliance with program provisions.

As the number of program participants and enrolled acreage in the supply control programs increases, the ASCS work load increases as well. For fiscal year 1985, about 31 million acres were enrolled in such programs; more than 54 million acres were enrolled for fiscal year 1988, an

[10]Farm Payments: Basic Changes Needed to Avoid Abuse of the $50,000 Payment Limit (GAO/RCED-87-176, July 20, 1987).

increase of about 76 percent. In addition, 14,000 dairy farmers participated in the DTP and received payments totaling $1.8 billion.[11] An ASCS official said these increases in enrolled acreage and dairy program participation have created corresponding increases in compliance activities. Their work load has increased significantly, as illustrated in the following figures.

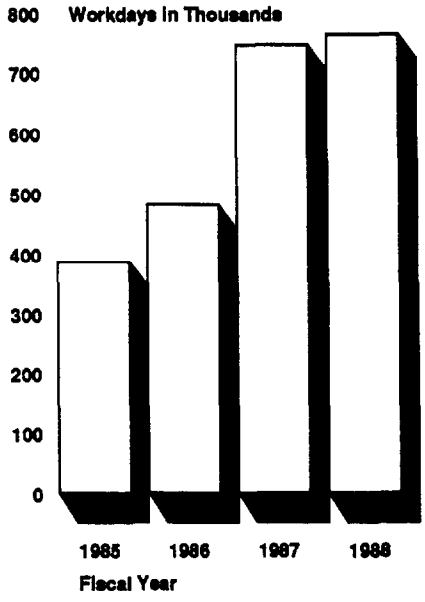
Figure 5.8: ASCS County Office Workdays Used for Conservation and Related Programs



Note: 1988 data are estimated.
Source: ASCS.

[11] Dairy Termination Program: A Perspective on Its Participants and Milk Production (GAO/RCED-88-157, May 31, 1988).

Figure 5.9: ASCS County Office Workdays Used for Compliance Activities



Note: 1988 data are estimated.
Source: ASCS.

Despite the increased number of staff-days devoted to the compliance activities and the conservation and related programs, OIG reports have indicated that more should be done. In two reviews, the OIG found that ASCS offices had not fulfilled procedural requirements and compliance activities in administering commodity loans.[12] Another OIG review found that county offices were not administering the DTP in accordance with applicable laws, regulations, and agency policies, primarily because the county office personnel were not aware of or did not understand the need for fully complying with the instructions or because they overlooked the requirements.[13]

Some ASCS officials acknowledged to us that compliance activities were not always getting done. They said that with the heavy work load, making payments and loans to farmers has taken precedence over other tasks.

[12]Evaluation of Security and Repayment of Commodity Loans, (USDA/OIG audit report no. 03640-03-Ch, Mar. 3, 1988) and Agricultural Stabilization and Conservation Service Administration of 1986 Cotton and Rice Loan Programs, (USDA/OIG audit report no. 03641-1-Te, Mar. 11, 1988).

[13]Audit of the Dairy Termination Program - Compliance Phase, (USDA/OIG audit report no. 03632-2-KC, May 6, 1987).

Computer System and Automation Have Been Inadequate

The ASCS officials generally agreed that the installation of computers and the ability to maintain automated records has helped the ASCS offices maintain better records and be more efficient in carrying out the programs. However, most also agreed that the computer system, which was designed before passage of the 1985 farm bill, had insufficient capacity and has been inadequate for the demands of the 1985 farm bill programs. ASCS officials also cited problems with the computer software.

Because of the computers' limited capacity, several ASCS officials said that they operated the computers before and after scheduled office hours—nights and weekends—to print the deficiency payments (checks and certificates). This schedule was necessary to ensure that the payments were issued on time and to free up the computers during the day for use in assisting farmers with their participation decisions. In addition, the officials noted that "bringing up" the computer system each morning required at least an hour. The current system needs someone to manually load the individual software programs and update the information needed to operate the programs (more advanced systems have these tasks done automatically). Therefore, certain ASCS staff needed to arrive before the scheduled office hours to ensure that the computers would be operational by the time the office was open to the public. This tedious and time-consuming process would occur at the close of business each day in reverse, to unload the system and shut down the computer. The ASCS officials said that some overtime pay was authorized for office operations, but most often the extra hours were not compensated.

The computer system's limitations will continue to be a problem for several more years. ASCS officials told us that a new system is scheduled for installation in local offices in 1992.

The officials' primary complaint regarding the computer software was that the software would not be available in time for program implementation or in time to allow the staff to be trained on its use. Furthermore, the software was often poorly developed and required revisions before it worked properly. According to ASCS officials, late-to-arrive and/or poorly developed software is due, in part, to the short time frames between congressional approval and effective dates of the programs.

Objective, Scope, and Methodology

Senators Boschwitz and Bradley asked us to provide observations on results of the 1985 farm bill. Their inquiry centered on provisions of the law that were designed to help (1) stabilize the financially stressed farm economy, (2) enhance the U.S. competitive position as a supplier in world agricultural markets, and (3) prevent the buildup of large surplus stocks. These provisions include price- and income-support and export programs for such major program crops as wheat, corn and other feed grains, rice, cotton, and soybeans. In response to their request, we gathered and analyzed information on trends in the farm economy, exports, and surplus stock levels before and after the 1985 farm bill's passage. We also analyzed changes in farm program costs and ASCS administrative costs and difficulties. We did not focus on other provisions of the 1985 farm bill, such as the Dairy Termination Program, the Conservation Reserve Program, and conservation compliance and sod/swampbuster provisions, except as they expanded ASCS' work load.[1]

This report builds upon our recent work that has monitored annually the financial condition of American agriculture. Our four financial condition reports (see the bibliography) provide information on the year-to-year changes in the farm sector's economic environment and farmers' and lending institutions' financial positions.

Our primary information sources were reports and financial data from USDA's ERS and ASCS. ERS maintains current and historical data on farm finance, production, demand, and trade. ASCS files contained budgetary and employee work load information for fiscal years 1985 through 1988. We used numerous USDA OIG reports that have reported on implementation of farm programs since passage of the 1985 farm bill. We did not verify the accuracy of USDA's data or reports.

We also interviewed agricultural economists and other specialists with expertise in farm policy to obtain their views on the results of the 1985 farm bill and their assessment of the current farm economy. In addition, we reviewed past GAO reports that analyzed farm financial conditions, farm programs, export programs, and world market trends.

We interviewed federal, state, and county ASCS officials to obtain information on the implementation and administration of the 1985 farm bill programs. ASCS officials compared their agencies' responsibilities under the 1985 farm bill with those under previous legislation and identified

[1] A brief description of major farm program provisions of the 1985 farm bill is provided in the glossary.

actions they have taken to implement the farm bill. We interviewed the ASCS state officials in California, Illinois, Iowa, Kansas, Louisiana, and North Carolina, as well as county officials in 11 counties in these states.

We chose five states as being representative of office operations for states that produce the major commodities supported by the 1985 farm bill. Each of these states was one of the top producers of wheat, corn and other feedgrains, soybeans, cotton, or rice. The sixth state was chosen because state ASCS officials were particularly knowledgeable about farm programs. In all six states, the ASCS officials we interviewed were knowledgeable of past as well as current farm bill programs and could compare the differences between them and the effects on office operations. Our selection of ASCS state and county offices was not designed to provide a statistically representative sample of all jurisdictions that administer the farm programs. However, our analysis of work load changes following passage of the 1985 farm bill indicated that the average work load increases in the selected counties were similar to those of all ASCS county offices.

We discussed the results of our work with USDA officials, who reviewed parts of the draft report for technical accuracy. However, at the request of the offices of Senators Boschwitz and Bradley, we did not obtain formal agency comments on this report.

We conducted our review in accordance with generally accepted government auditing standards, from February 1988 through November 1988.

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Glossary

Acreage Reduction Program (ARP)	Acreage reduction programs require that participating farmers idle a percentage of their crop base acres to be eligible for other program benefits. The objective is to reduce the quantity produced and thus the supply of a given commodity. To the extent that acreage reduction programs decrease production, they reduce supply and stocks and raise prices domestically. Acreage reduction programs tend to restrict farmers' ability to shift acreage in response to changes in relative crop prices.
Commodity Certificates (Generic)	In-kind payments are made to producers for participating in numerous government programs. Generic certificates have a fixed dollar value and an 8-month life beginning at the end of the month of issuance. They are a claim on CCC assets and backed by commodities owned by the CCC. They are generic in that they can be exchanged for a variety of commodities under loan and in CCC inventory. The certificates are also negotiable in that ownership and the right to exchange can be transferred.
Commercial Export Credit Programs (GSM-102 And GSM-103)	The General Sales Manager of Agriculture's Foreign Agricultural Service administers CCC's two export credit guarantee programs. Under the first, the Export Credit Guarantee Program, referred to as GSM-102, CCC enters into guarantee agreements with U.S. exporters for the sale of agricultural commodities with credit terms up to 3 years. Under its Intermediate Export Credit Guarantee Program, referred to as GSM-103, guarantee agreements can be extended by U.S. lenders up to 10 years. It also guarantees the interest on covered principle at the eligible rate indicated in the payment guarantee or the payment interest due from the foreign borrower, whichever is lower.
Conservation Reserve Program	A long-range program under which farmers voluntarily contract to take cropland out of production for 10 to 15 years and devote it to conserving uses. In return, farmers may receive an annual rental payment for the contract period and assistance either in cash or in-kind payments for carrying out approved conservation practices on the conservation acreage.
Dairy Termination Program (DTP)	The Dairy Termination Program was established to remove 12 billion pounds of milk, or about 8.7 percent, from annual production, using 1985 marketings as a base. USDA invited dairy farmers to submit bids for participation in the program. Essentially, a bid stated the amount of federal payment dairy farmers were willing to accept in return for their

	participation in the program. Participation required farmers to slaughter or export their entire dairy herds from April 1, 1986, to September 30, 1987. Under the program participating farmers had to agree to quit dairying for at least 5 years.
Deficiency Payments	Income support payments are made to farmers who participate in feed grain, wheat, rice, or cotton programs. The payment rate is per bushel, pound, or hundredweight, based on the difference between a target price and the market price or the loan rate, whichever is higher. The payment rate is multiplied by the farm payment yield times the individual farm program acreage. Payments are made in cash and commodity certificates.
Export Enhancement Program (EEP)	This program permits USDA to use CCC-owned commodities as export bonuses to make U.S. commodities more competitive in the world marketplace and to offset the adverse effects of unfair trade practices and subsidies.
Farmer Owned Reserve	The Farmer Owned Reserve is designed to provide protection against wheat and feed grain production shortfalls and provide a buffer against unusually sharp price movements. Farmers may extend their nonrecourse loans for 3 years or more in this program. Farmers cannot take their grain out of storage without penalty unless the market price reaches a specified "release" price.
Marketing Loans	Marketing loans are a variation of CCC's regular nonrecourse commodity loans (see definition). They have the same conditions as the regular loan except that, under certain conditions, farmers can reclaim their crops at a repayment rate that is less than the loan rate. The difference between the repayment rate and the loan rate is essentially an income support payment. Cotton, rice, and honey are currently the eligible commodities, although the Secretary of Agriculture has the discretionary authority to implement a marketing loan for feed grains, wheat, and soybeans.
Nonrecourse Commodity Loans	Farmers can place certain crops under a CCC nonrecourse commodity loan. They receive a loan based on a per-unit support price or "loan rate" established by law for the commodity. The Secretary of Agriculture has limited discretion to adjust the rates. Farmers can reclaim their

	crops by paying back the loans with interest or they can forfeit the crops to CCC and keep the proceeds (and interest is forgiven). Feed grains, wheat, soybeans, cotton, and rice currently are eligible commodities. Also, producers of feed grains, wheat, cotton, and rice must agree to set aside, or idle, a percentage of their acreage in order to receive a nonrecourse commodity loan if an acreage adjustment program is in effect.
Paid Land Diversion (PLD)	Paid land diversion programs pay farmers a given amount per acre to idle a percentage of their base acres. The purpose of this program is to reduce the quantity produced of a given commodity and thus the supply as well.
Producer Storage Payments	Farmers receive payments for storing certain commodities they own that are pledged as collateral on nonrecourse commodity loans and are stored in Farmer Owned Reserve. Under the Farmer Owned Reserve program, the nonrecourse loan due date is extended for 3 years. Advance storage payments are made to participating farmers. Feed grains and wheat are eligible commodities.
Public Law 480	Public Law 480 is a program through which the United States distributes food aid to developing countries. Public Law 480 goals are to expand international trade, develop and expand export markets for U.S. agricultural products, combat hunger and malnutrition in developing countries, encourage economic development, and promote U.S. foreign policy.
Section 416 Program	A program that authorizes the donation of surplus CCC-owned commodities as food aid to developing countries. The 1985 farm bill amended the program to include all edible commodities held by CCC.
Sodbuster/Swampbuster Provisions	Any producer who brings into production a field that is predominantly highly erodible land or who converts wetlands to the production of any agricultural commodity is ineligible for any farm program benefit or payment.

Targeted Export Assistance Program (TEA)	This program provides export assistance to U.S. agricultural commodities in countering the effects of unfair trade practices on the part of foreign competitors or importers. Support may be in the form of either cash or commodities.

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