PolicyPennings by Dr. Daryll E. Ray

Budget cuts released, agriculture targeted

The administration has released its 2006 fiscal year budget and, as expected, agriculture has not been spared. Not surprisingly, the budget recommendations have been criticized by farm state legislators and farm organization leaders alike.

The total budget for the coming fiscal year is $2.57 trillion and includes everything from Social Security to the Defense Department to Homeland Security. Despite the budget cuts, which have been apportioned among a number of discretionary programs, the red ink is projected to amount to $417 billion. That number, however, is not firm, as the administration confirmed this week and asked for $85 billion in supplemental appropriations, mostly to cover the cost of the war in Iraq and Afghanistan.

USDA agricultural commodity programs that were funded at the $22 billion level this year have been cut by 12% to $19.4 billion. To achieve savings of this magnitude, a number of cuts have been proposed including the imposition of a $250,000 payment limitation and the elimination of the triple entity rule. Under current legislation, the farm payment limitation is set at $360,000 and could be easily evaded through the use of generic certificates which were not subject to payment limitations. In the past, the triple entity rule allowed a farmer to be listed as having full participation in one farm and half participation in two additional farms.

The issue of payment limitations was a hard fought battle during the adoption of the 2002 Farm Bill. The Senate included an amendment setting the limit at $275,000, while the House version of the bill had a higher limit. It was in the conference committee that the limit, including the triple entity rule, was set at $360,000. It is unclear whether or not the imposition of the proposed payment limitations will require reopening the 2002 legislation.

The changes that will affect most farmers who plant program crops are changes in direct payments, loan deficiency payments (LDP), marketing loan gains (MLG), and counter-cyclical payments (CCP). If prices for the coming year were to be at last spring's levels, the proposed changes would attract little attention. However, with prices in the tank and moving sideways to downward, anything that affects LDPs, MLGs, and CCPs will have a direct impact on producers' household income.

Rather than making changes in the loan rate, savings in the LDP and MLG programs will be achieved by reducing the amount of production that is eligible for these programs. Presently, marketing loan benefits (LDPs and MLGs) are paid on the total production of program crops, subject to the payment limit. In the proposed budget, the amount of crops eligible for these benefits will be limited to the direct payment yield times 85% of the reported acreage. For some producers this will represent a double cut because of the 85% and because their actual yield is higher than the direct payment yield.

Coupled with lower direct payments, reductions in marketing loan benefits could be significant during a year of low prices. Senator Harkin (D-IA) gives an example of what these cuts would mean to an Iowa farm with 250 acres of corn and 150 acres of soybeans. He says that "if President Bush's proposal had been in place for the 2004 crop year, this Iowan would have lost $7,700 in farm income in one year alone. This may not seem like a lot, but to a farmer earning $40,000 annually, it represents a nearly 20 percent drop in income." You may want to provide your legislator with a comparison of the payments you received under the current program with those you would have received as a result of the proposed budget changes.

The decision to call for cuts in agricultural programs comes as no surprise to us and probably none to you as well. As we have been saying for some time now, the current $20 billion a year in spending is not politically sustainable. Depending on government payments rather than market prices for a significant share of net income is always risky business, but it is especially risky during times of budget crunches.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of the UT's Agricultural Policy Analysis Center. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; http://agpolicy.org. *Daryll Ray's column is written with the research and assistance of Harwood D. Schaffer, Research Associate with APAC.*

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