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1987 Budget Acts

Description of Changes in Agricultural Policies and Programs

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ABSTRACT

On December 22, the President signed into law two major budget bills: the Budget Reconciliation Act (HR 3545, PL-100-203) and the Continuing Appropriation Resolution (HJ RES 395, PL 100-202). The new laws cut the anticipated budget deficit by $33.4 billion in FY 1988 and $42.7 billion in FY 1989 and set FY 1988 appropriations at $603.9 billion. These two bills replaced $23 billion in Gramm-Rudman-Hollings spending cuts that had been in effect since November 20. This report describes the portions of these laws that directly affect agriculture, rural development, and related programs, focusing on commodities and implications for overall policy. Agency budgets per se are not discussed.

Keywords: Budget, agricultural policy, reconciliation, continuing resolution, legislation, commodity programs, payment limitations.

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INTRODUCTION

Agriculture-related deficit reduction decisions approved by Congress in the 1987 budget acts amounted to $969 million in FY 1988 and $1.497 billion in FY 1989. While staying within the framework of the Food Security Act of 1985, the changes mandated by the budget acts have program and commodity implications which are significant. These include changes in target prices, loan rates, and acreage diversion programs. Additionally, the stage has been set for more debate on significant policy issues such as marketing loans for soybeans and the decoupling of farm payments from production decisions.

BUDGET RECONCILIATION ACT: TITLE I - AGRICULTURE AND RELATED PROGRAMS

Adjustments to Agricultural Commodity Programs (Title I, Subtitle A)

Section 1101. Target Price Reductions

Reduces minimum target prices for the 1988 and 1989 crops by 1.4 percent from the levels of the Food Security Act of 1985:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>1988 Target Price</th>
<th>1989 Target Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>$4.29 - 4.23</td>
<td>$4.16 - 4.10</td>
</tr>
<tr>
<td>Feed grains</td>
<td>$2.97 - 2.93</td>
<td>$2.88 - 2.84</td>
</tr>
<tr>
<td>Upland cotton</td>
<td>$0.77 - 0.759</td>
<td>$0.745 - 0.734</td>
</tr>
<tr>
<td>Rice</td>
<td>$11.30 - 11.15</td>
<td>$10.95 - 10.80</td>
</tr>
<tr>
<td>ELS cotton</td>
<td>Target price reduced 1.4 percent by formula.</td>
<td></td>
</tr>
</tbody>
</table>
Section 1102. Loan Rates

The basic loan rates for the 1988 crops of wheat, feed grains, upland cotton, and rice may not be reduced by more than 3 percent from 1987 levels.

For 1989 crops, the current law applies, limiting reductions in the basic loan rate to 5 percent. However, the Secretary may reduce the basic loan rate by an additional 2 percent (snap-back provision) to maintain market competitiveness. The loan rates are as follows for 1988:

<table>
<thead>
<tr>
<th></th>
<th>Loan Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>$2.21 per bushel</td>
</tr>
<tr>
<td>Corn</td>
<td>$1.77 per bushel</td>
</tr>
<tr>
<td>Sorghum</td>
<td>$1.68 per bushel</td>
</tr>
<tr>
<td>Barley</td>
<td>$1.44 per bushel</td>
</tr>
<tr>
<td>Oats</td>
<td>$.90 per bushel</td>
</tr>
<tr>
<td>Rye</td>
<td>$1.50 per bushel</td>
</tr>
<tr>
<td>Upland Cotton</td>
<td>$.5180 per pound</td>
</tr>
<tr>
<td>ELS Cotton</td>
<td>$.8092 per pound</td>
</tr>
</tbody>
</table>

Section 1103. Feed Grain Diversion Program

The Secretary shall implement a voluntary paid land diversion program for the 1988 and 1989 crops of corn, grain sorghum, and barley. The amount of the diversion shall be 10 percent. The payment rate is $1.75 per bushel for corn, with the payment rates for grain sorghum and barley established in relation to that for corn. For 1989 crops, the Secretary may elect not to implement the paid land diversion program for any or all of these commodities if necessary to maintain an adequate supply of one or all of these commodities.

Section 1104. Price Support Reductions for Non-Target Price Commodities

The loan rates for peanuts, sugarcane, and sugar beets are not affected. The loan level per pound for honey is reduced by 2 cents for 1987, 3/4 cent for 1988, 1/2 cent for 1989, and 1/4 cent for 1990. The price support level for wool and mohair is reduced by 1.4 percent for the 1988 and 1989 marketing years. A reduction in outlays under the milk price support program will be achieved through an assessment equal to 2.5 cents per hundredweight on all milk produced in the United States and marketed by producers for commercial use during 1988. The Secretary is authorized to achieve a 1.4-percent savings in the 1988 and 1989 tobacco program by lowering price support levels or by levying assessments on producers and purchasers.

Section 1105. Loan Rate Differentials

The State, region, or county loan rates for the 1988-90 crops of wheat and feed grains may not be adjusted to reflect transportation and other differentials by more than the percentage change in the national average loan rate plus or minus 2 percent.
Section 1106. Storage Cost Adjustment

The expenditures of the Commodity Credit Corporation (CCC) for storage, transportation, and handling of CCC-owned commodities (excluding payments made under the farmer-owned reserve) are required to be reduced by a total of $230 million over the 1988 and 1989 fiscal years from the amount of funds otherwise projected to be expended under the August 1987 Gramm-Rudman-Hollings baseline. To achieve these savings, the Secretary shall adjust storage, handling, or transportation expenditures paid by the CCC or take other appropriate actions.

Section 1107. Acreage Limitation Program for Oats

For the 1988, 1989, and 1990 crops of oats, the acreage reduction program shall not exceed 5 percent. The requirement may be waived for the 1990 crop if the supply of oats is determined to be excessive.

Section 1108. Producer Reserve Program

The minimum quantity of wheat and feed grains that must be stored in accordance with the producer reserve program (farmer-owned reserve, section 110 of the 1949 Act) is 300 million bushels for wheat and 450 million bushels for feed grains.

Section 1109. Yield Adjustments

If the farm program payment yield for the 1988-90 crops of wheat, feed grains, upland cotton, and rice for a farm is more than 10 percent below the 1985-crop payment yield, the producer is entitled to a compensatory payment for the difference. Any such payment is to be made at the time of official deficiency payments.

Section 1110. Advance Payments

For the 1988-90 crops of wheat, feed grains, upland cotton, and rice, the law mandates advance deficiency payments for wheat and feed grain producers and 30 percent for cotton and rice producers. These payments are to equal a minimum of 40 percent of the producers' projected payments.

Section 1111. Advanced Emergency Compensation Payments for Wheat

For 1987-90 crops of wheat, the emergency compensation payments, also known as the "Findley payments," are to be based on a projected June-May (12-month) average price, and not less than 75 percent of the projected total is to be paid by December 15.
Section 1112. Tobacco

The act allows, under limited circumstances, for the lease and transfer of a flue-cured tobacco quota assigned to a farm after June 30 of any crop year. A second provision eliminates the adjustment that is required every year for the national average yield goal for flue-cured tobacco notwithstanding a 5-year moving average yield. A third provision expresses the sense of Congress that the Secretary review current compliance procedures for acreage-poundage quotas with respect to cigar, dark-air, and fire-cured tobaccos.

Section 1113. Haying and Grazing

Haying and grazing of land normally planted to wheat, feed grains, upland cotton, and rice, but idled under acreage reduction, paid diversion, or other programs are permitted except during a 5-month period determined by the State Agricultural Stabilization and Conservation Committee. If the Secretary determines, however, that there will be an adverse economic impact from the additional haying or grazing, haying and grazing will not be permitted. Also, in case of a natural disaster, unlimited haying and grazing may be permitted by the Secretary.

Optional Acreage Diversion (Title I, Subtitle B)

Section 1201. Wheat Optional Acreage Diversion Program, and
Section 1202. Feed Grains Optional Acreage Diversion Program

These sections authorize an optional diversion program for wheat and feed grains for 1988, 1989, and 1990, which provides for a 0/92 option whereby a producer can receive 92 percent of his/her deficiency payments even if the producer places all of the wheat and feed grains base acreage in conservation uses. This holds as long as not more than 50 percent of the base acreage of an individual county is retired in the implementation of all acreage reduction programs.

Farm Program Payments (Title I, Subtitle C)

Section 1301. Prevention of the Creation of Entities to Qualify as Separate Persons

Beginning with the 1989 crop year, a person receiving farm program payments or honey program loans subject to limitation under the Food Security Act of 1985 will not be permitted to also hold, directly or indirectly, substantial beneficial interests in more than two entities engaged in farm operations that also receive such payments or loans as separate persons, for the purposes of the application of the payment limitation.
A beneficial interest of less than 10 percent will not be considered to be substantial unless the Secretary of Agriculture determines, on a case-by-case basis, that such interest is substantial.

Each entity receiving payments or loans as a separate person must notify each individual or other entity that acquires or holds a substantial beneficial interest in it of the requirements and limitations under this bill. Persons must notify the Secretary of any interests in excess of the number of permitted entities, and payments to such persons and entities will be reduced accordingly. The Secretary is required to notify individuals or entities affected by the new legislation and to permit them to adjust their interests in the entity or entities affected.

Section 1302. Payments Limited to Active Farmers

The law provides that, to be eligible to receive farm program payments, a "person" must be "actively engaged" in farming. To be actively engaged: (a) an individual must make a significant contribution of (1) capital, equipment, or land, and (2) personal labor or active personal management; (b) the individual's share of the proceeds from the operation must be commensurate with the individual's contributions to the operation; and (c) the individual's contributions are at risk. The spouse of a family member will be eligible for farm payments under the same terms and conditions as a family member in lieu of a family member who does not make a significant contribution. Similar requirements are provided for corporations and similar entities. If a general partnership, joint venture, or similar entity separately makes a significant contribution of capital, equipment, or land and the commensurate share and at-risk standards are met by the entity, the partners or members making a significant contribution of personal labor or active personal management will be considered to be actively engaged in farming with respect to the farming operation involved. The bill contains certain limited exemptions from the above requirements with respect to landowners, sharecroppers who contribute labor to the farming operation, adult family members, and persons receiving custom farming services. A landlord contributing land to the farming operation who receives cash rent or a crop share in lieu of cash rents for use of the land is not defined as an active farmer.

Section 1303. Definition of Person; Eligible Individuals; and Entities; Restrictions Applicable to Cash-Rent

The term "person" is defined for the purpose of applying the payment limitation to include individuals, corporations, joint stock companies, associations, limited partnerships, charitable organizations, or other similar entity (as determined by the Secretary). The law provides that the Secretary of Agriculture is to give fair and equitable treatment to trusts and estates and the beneficiaries thereof, and provides that spouses may be separate persons if their farming operations were separate prior to their marriage and continue to be operated separately.
Changes in farming operations that increase the number of separate persons must be substantive and bona fide. A tenant who rents the land for cash and provides personal labor must contribute capital, land, or equipment.

A tenant who rents the land for cash and who contributes active personal management must contribute equipment in order to be separately eligible to receive payments. It is the intent of the legislation that States, political subdivisions, and agencies are eligible to be treated as landowners.

Section 1304. More Effective and Uniform Payment Limitations

The law requires an education program on payment provisions for appropriate personnel of the Department of Agriculture. Also a person adopting a scheme or device to evade, or that has the purpose of evading, the payment limitation, will become ineligible to receive farm program payments subject to the payment limitations, or honey program loans, applicable to the crop year for which the scheme or device was adopted and the succeeding crop year.

Section 1305. Regulations; Transition Rules; Equitable Adjustments

This section contains several provisions relating to implementing the payment limitation provisions contained in the bill. The Secretary is authorized to waive the changes in the law for the 1989 crop year or for any class of individuals in the interest of "fairness" and may waive the "substantive change" rule to allow farm operations that face a payment reduction to reorganize. The term "person" is also redefined with respect to the Conservation Reserve Program to conform with the new legislation. The deadline for the issuance of final USDA regulations is August 1, 1988. The Secretary is required to establish time limits for the notice, hearing, decision, and appeals procedures in order to ensure expeditious handling and settlement of payment limitations disputes.

Section 1306. Foreign Persons Made Ineligible for Program Benefits

Beginning with the 1989 crop year, foreign persons may not receive payments unless they are admitted to the United States as permanent residents and provide land, capital, and a substantial amount of personal labor. Any corporation or other entity with more than 10 percent foreign holdings is ineligible for payment unless its members qualify for payment by virtue of being permanent residents and being actively engaged in the operation.

Section 1307. Honey Loan Limitation

The $250,000 limitation on the amount of honey loans that may be outstanding at any one time is removed from the Food Security Act of 1985.
Rural Electrification Administration Programs (Title I, Subtitle D)

Section 1401. Prepayment of Loans

Rural Electrification Administration (REA) borrowers are allowed to prepay loan advances to the Federal Financing Bank if private capital is used to replace the loan and the borrower certifies that any savings from payment will be passed on to its customers, used to improve the financial strength of the borrower, or used to avoid future rate increases.

Section 1402. Use of Funds

The borrower of an insured or guaranteed electric loan may invest its own funds or make loans or guarantees not in excess of 15 percent of its total utility plant, without restriction or prior approval by the Administrator of REA.

Section 1403. Cushion of Credit Payments Program

REA electric and telephone borrowers may make voluntary advance payments to "cushion of credit" accounts within the Rural Electrification and Telephone Revolving Fund. A borrower may reduce the balance of its cushion of credit account only to make scheduled payments on loans made or guaranteed under the Act. Amounts in these accounts will earn 5 percent for the REA borrower from REA; meanwhile, all cash balances held by the Fund will bear interest to the Fund at the average rate on certificates of beneficial ownership issued by the Fund. Income from this interest differential will flow into a special Rural Economic Development Subaccount within the Fund. The Administrator is authorized to make grants or zero-interest loans to borrowers to promote rural economic development and job creation projects. Such loans and grants shall be made during each fiscal year to the full extent of the amounts held by the subaccount.

Sections 1411-14. Rural Telephone Bank Interest Rates and Loan Prepayments

This section provides a formula for determining the interest rates on Rural Telephone Bank (RTB) loans. The formula is structured so the RTB would be able to generate necessary margins to build equity currently held by the Government. A Government Accounting Office study is mandated to look at funding levels for the reserve for losses due to interest rate fluctuations. REA is also mandated to publish rural telephone bank policies and regulations related to public property loans, grants, benefits, and contracts.
Section 1501. Marketing Order Penalties

Any handler or the handler's officer, director, agent, or employee under the marketing order who violates an order is subject to a civil penalty of not more than $1,000 for each violation of the order. Each day the violation continues is deemed a separate violation. The penalty can be issued only after proper notification and an opportunity for an agency hearing are given to the violator. The penalty cannot be assessed between the date the handler filed a petition with the Secretary and the date on which notice of the Secretary's ruling was given to the handler.

Section 1502. Study of Use of Agricultural Commodity Futures and Options Marketings

This section postpones for one year, to December 31, 1989, the due date for the mandated study by USDA and the Commodity Futures Trading Commission on the use of futures and options by producers.

Section 1503. Appropriations for Philippine Food Aid Assistance

This section authorizes, under Section 416 of the Agricultural Act of 1949, $1 million to be appropriated for technical assistance for the sale or barter of commodities to strengthen nonprofit private organizations and cooperatives in the Philippines.

Section 1504. Rural Industrialization Assistance

Eligibility for FmHA business and industrial grants is extended to private and nonprofit entities, but such assistance is limited to the development of small and emerging private rural businesses. Currently, only public bodies are eligible.

Section 1505. Plant Variety Protection Fees

The Secretary is authorized to charge and collect fees for services performed under the Plant Variety Protection Act. A late penalty payment will be assessed on overdue fee payments (which are subject to accrued interest). All fees, payment penalties, and interest accrued will be credited to the account that incurred the cost and will be available without fiscal year limitation to pay expenses incurred by the Secretary in carrying out the act. The Attorney General can bring an action to recover the charges against anyone obligated to pay the fee.
Section 1506. Annual Appropriation to Reimburse the Commodity Credit Corporation for Net Realized Losses

Current, indefinite appropriation is authorized to reimburse CCC for realized losses designed to avoid the need for a mid-year supplemental appropriation. However, USDA has determined that this section cannot take effect until FY 1989 because of language in the Continuing Appropriation Resolution.

Section 1507. Federal Crop Insurance

It is the sense of Congress that the Federal Crop Insurance Corporation should not be required to assume 100 percent of all loss adjustments in the Federal Crop Insurance program. The section further states that the Corporation should assume and perform the loss adjustment obligations of a re-insured company, if such company's loss adjustment performance is not carried out in accordance with the applicable re-insurance agreement.

Section 1508. Ethanol Usage

A congressional finding states that more ethanol should be used as motor fuel. Therefore, it is the sense of Congress that the Administrator of the Environmental Protection Agency should use authority provided under the Clean Air Act to require greater use of ethanol as motor fuel.

Section 1509. Demonstration of Family Independence Program

Upon application by the State of Washington and approval by the Secretary, the State may conduct a demonstration project titled the Family Independence Program. The Secretary is required to pay the State the actual cost of food assistance provided in lieu of Food Stamps through the Food Stamp Program.

CONTINUING APPROPRIATION RESOLUTION

Rural Development, Agriculture, and Related Agencies

This law appropriated almost $55 billion for agriculture in FY 1988. These appropriations cover the normal operations of the agencies and programs. Special consideration in the form of additional funds or mandates has been given to export promotion, human nutrition, food safety, biotechnology, low-input agriculture, and water quality.

The following are specific program- and commodity-related actions:
Commodity Credit Corporation Operating Expenses--CCC funding is at the $21 billion level for 17 specific commodity programs. The CCC will be given authority to transfer some funds between accounts to avoid potential funding shortfalls next year. Also the total borrowing authority was increased from $25 billion to $30 billion.

Foreign Agricultural Service--USDA shall use Section 32 funds to buy $10 million of sunflower seed oil as an export bonus to facilitate additional overseas sales.

Food Assistance to Lebanon--USDA is directed to provide 150,000 metric tons of wheat under PL-480, Title II, for Lebanon.

Bilateral Economic Assistance

Two commodity-related items are found within the Bilateral Economic Assistance Provision of the Act.

Elimination of Sugar Quota for Panama -- The law imposes sanctions on Panama until political reform occurs in that country. The sanctions include eliminating the 1988 sugar quota import allocation of 20,300 tons, as well as eliminating military and economic aid.

Import Assistance for Caribbean Basin Initiative (CBI) Beneficiary Countries and the Philippines -- The law creates a 400,000-short-ton sugar export enhancement program for FY 1988, in addition to the sugar quota level. Under the program, the United States would import 290,000 tons of raw sugar from the CBI nations and 110,000 tons from the Philippines in FY 1988. Generic certificates would be used to subsidize the cost of transporting and refining the sugar when re-exporting the refined sugar at the world selling price. Refiners must export a like amount of sugar for every ton they import. USDA must consider freight differentials when considering export bonus bids from refiners.