Payment caps stir interest in farm bill

Last week we looked at the commodity portions of the House and Senate versions of a farm bill. From my perspective, each bill basically takes the commodity sections of Freedom-to-Farm and attaches a method to automatically dispense "emergency payments." Thus, the commodity-program part of each bill becomes a Super Freedom to Farm, you might say. Production will be large and prices will be low, except come high water or a drought.

The House and Senate bills do use different methods to divvy up the payment pie and some ferociously favor one approach other the other. For example, the administration and House-bill proponents are convinced the Senate bill's higher loan rates will bring land into production that farmers would otherwise idle. Since the House bill puts more emphasis on fixed decoupled payments, the argument goes, many farmers would freely idle land in response to the House's relatively larger fixed payment. (Yes, and I am free to swim across the Atlantic Ocean but that does not mean I am going to {try to} do it. But I digress.) And yes, there must be a farmer out there somewhere who, after letting it be known that he is going to idle land and simply collect a fixed payment, would successfully resist the financial inducements offered by the parade of potential renters who would come-a-knock'n on his screen door.

However important or unimportant the difference in the bill's loan rate/fixed payment mix might be, there are differences between the House and the Senate bills that are definitely important. One of the most controversial differences is the Senate's inclusion of lower farm program payment limitations.

PAYMENT CAP

Downward adjustments in payment caps have been hailed by some as a great idea while cotton and rice producers are suggesting that the effect on their operations could be devastating. The intensity of interest in the payments cap issue has accelerated since last fall when the Environmental Working Group (EWG) posted a listing identifying government farm payments made to individual farmers and farm entities on its website. The Senate farm bill includes a payment limitation to a producer and spouse of $275,000 while the House bill contains a $550,000 limit. During the debate in the Senate, the lower limit was strongly opposed by Senators who represented states with significant cotton and rice producing areas where the payment limitations would most often be hit.

Those who are pushing for stricter payment limitations and/or are expressing shock over the EWG payment list seem to be doing so for one of four reasons. One of the groups of people favoring payment limitations think "large" payments to farmers with large operations provide those farmers with the capital to become ever larger by buying up smaller operations or by leasing more land by offering increased lease rates. Thus, for this group of folks, it is a structural issue and the hope is that payment limitations will help protect the existence of moderate-size family farms.

A second group consists of environmentalists/conservationists who would like to see money currently spent on commodity programs spent on…, yep, conservation and environmental programs. Their hope is that when people—and their elected officials—see how large payments are, especially to outfits that do not sound much like farmer McDonald, there will be a groundswell of support for redirecting commodity payments toward farm-related environmental issues.

The next group includes livestock, fruit, vegetable, and specialty crop producers who would like a share of the billions of dollars they see flowing out of Washington DC to major crop farmers. This group's ideal outcome would be a significant lowering of the payment limitation with the resulting savings allocated back to farmers using criteria that would benefit a broader range of producers and serve a broader range of purposes.

Another group, which includes many newspaper editorial writers, uses the EWP payment list as springboard for a tirade about monies spent on agriculture. Most of this group, and even some of those in the first three groups, show no understanding of why commodity programs were first instituted and make no attempt to judge the appropriateness of continuing them against those original reasons. Along that line, the EWG website does not provide information on the cash receipts foregone due to the drop in prices because Freedom to Farm leaves farmers no real choice but to plant fence-row-to-fence-row. Information of that sort, including changes in net farm income, is needed to put the payment numbers in perspective. Even though such information is needed, EWG cannot provide it because the USDA dataset upon which the EWG list is based does not contain corresponding cash receipt, production expense or net income information.

And now another pro-payment-cap group is forming. Its motivation can be characterized as: "Hey, if payment caps will help ensure the passage of a farm bill and if it doesn't affect me, let's do it." This new group includes some politicians and a portion of the farmers outside the South.

I personally have mixed feelings about payment limitations. If it is true that unconstrained government payment levels materially accelerate farm consolidation compared to regular market forces that, in my opinion, is the best reason to be for payment limitations. I see no justification for subsidizing increased farm consolidation via unconstrained government payments unless farm consolidation is a specific policy goal, which I doubt that it is. On the other hand (as we economists are so fond of saying), it is important to recognize that previous attempts

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at payment limitations have been notoriously ineffective. While increasing transaction costs and the average square footage of lawyers' houses, I suspect that many, if not most, of the actual farm operations that currently exceed a suggested payment limit will farm under a different organizational structure in the future and will suffer limited financial consequences. Even so, would payment limits discourage further expansion by affected farmers? Maybe, maybe not. Would several billion dollars of annual savings be released for other purposes by imposing the Senate's version of payment limitations? No.

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