 By Daryll E. Ray

Yes, Decoupled, but decoupled from what?

Once upon a time it was all very clear. Farm payments were coupled to production. The more farmers produced the more they received in payments—or in the case of acreage reduction programs, the more you agreed not to produce the more you received. In either case, payments were coupled to production decisions.

Under these conditions it did not take long for people to come to the conclusion that farmers were farming the program and not making production decisions based on market prices and conditions. As a result, it was argued that the payments led to distortions in the marketplace resulting in excessive production in some commodities while farmers ignored others. It was argued the without these coupled payments farmers would take their planting signals from the marketplace even to the extent of reducing overall production.

Decoupled payments were advanced as a mechanism that would provide the stability needed by farmers and their bankers without interfering with planting decisions. That is to say, direct payments based upon historical production would be decoupled so that farmers could respond to market signals in making their production decisions. Decoupled payments were a major component of the 1996 Farm Bill when it was adopted.

In the years since the adoption of Freedom to Farm, the answer to the question of whether the decoupled payments are really decoupled is not as clear as it once seemed. The question is not whether or not the payments are decoupled, but rather what are they decoupled from and what might they still be coupled to.

It does in fact appear that the decoupled payments (now fixed but once called transitional—remember AMTA) are decoupled from the decision of which crop to plant. In the years since 1996, there has been a considerable shift in the acres allocated to the various crops with soybeans and corn, the gainers and wheat the loser. Planting flexibility has been a real benefit of the 1996 legislation.

When it comes to total acreage allocated to crop production it quickly becomes clear that farmers plant all of their acreage every year. They have not responded to decoupled payments and the low price market signals by reducing total crop acreage. This outcome is quite different from the expectations of advocates of decoupled payments who expected the AMTA payments to serve as 0-100 allowing farmers to idle some acreage in the face of low prices. It appears that with respect to total acreage planted to crops there is little difference between coupled and decoupled payments.

In fact, I have suggested that, in the short and maybe even medium run, the elimination of all government payments would make little difference on the total area dedicated to crop production. Even under a no subsidy regimen, I believe that farmers would plant all of their acreage every year.

The difference comes not in how much acreage is planted, but rather who owns and farms the land. My conclusion is that, while payments are decoupled from how much acreage is planted, they are not decoupled from a) who farms the land, b) what the value of the land is and c) how much cash rent is charged. The payments do allow farmland to retain or even increase its value. Payments, whether coupled or decoupled, also allow more individual farmers to remain on the land. Without payments, as farmers went belly up, their neighbors would purchase the assets, possibly at a lower value, and keep the essential asset, land, in production. It is possible that the land values would drop until they matched agricultural land values in developing countries like Brazil.

The adoption of the 2002 Farm bill in some sense provided for a partial recoupling of the fixed-decoupled payments to production. This recoupling is an unintended consequence of the decision to allow producers to update the acreage and yields upon which payments are based. Now as farmers make their planting decisions they have an additional criteria in the back of their mind—future acreage and yield updates.

What can we learn from all this? Life is not as simple as we wished it were and the distinction between coupled payments and decoupled payments is not as clear as we once thought it was. As we modify farm policy in the future we need to look at how farmers behave and not at how economists and policy makers think they ought to behave.

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