PolicyPennings by Dr. Daryll E. Ray

Washington Post: Farm program statutes and regs cause payment problems

The Washington Post's two recent articles, "Farm Program Pays $1.3 Billion to People Who Don't Farm" (July 2, 2006) and "Growers Reap Benefits Even in Good Years," (July 3, 2006) point out some examples of problems with the current farm program—non-farmers receiving "direct payments" on subdivided housing tracts that were once part of farm fields and farmers who receive substantial loan deficiency payments on a crop that sells for more than the loan rate.

It would be very easy for someone unacquainted with crop agriculture who reads these articles to jump on the "eliminate farm programs" bandwagon. After all, from the anecdotes in the articles it doesn't seem like the direct payments and the loan deficiency payments (LDP) make much sense.

On that point we agree.

Direct Payments, based on calculations using the crop grown and the historic acreage planted, are paid to farmers whether or not they plant a crop, have suffered a disaster, or met their costs of production. These payments are called "non-trade-distorting" under the rules of the World Trade Organization because they are believed to not affect production volume or crop choice.

When these direct payments were initiated farmers were expected to bank the payments and, in low price years, leave the planter in the shed for at least part of the crop, thus reducing the overproduction that results in low prices. Prices have fallen so far that farmers use the payments to cover part of their production costs but they must still plant all of their acreage to make a livable profit. As described in the article, some developers capture the right to receive the payments when they buy the land and then pass them on when the partially developed acreage is eventually sold.

LDPs were established to make US crops more competitive in world markets, by allowing the price to drop below the loan rate, the former floor price. Lower prices were supposed to encourage increased exports, reducing US crop stocks and raising prices for the next year. What actually happened is that LDPs have created a perverse pricing system in which farmers hope for extremely low prices at some time during the crop year and before they sell their crop so they can capture as large an LDP as possible.

For the non-farmer reading this the question has to be, "How did we get into this mess?" The short answer is that by the time this type of legislation replaced less expensive programs, corporate agribusiness had supplanted farmers as the major influence on farm legislation and the farm bill was designed to meet their objectives, not the needs of farmers.

Input suppliers like seed companies, fertilizer dealers, farm chemical companies and equipment dealers objected to traditional production control programs because they reduced demand for their products. Instead, they want as many acres as possible in production and they want farmers to have access to cash to pay their bills. The elimination of set-aside and the use of direct payments and LDPs accomplished this.

Grain buyers, processors, integrated livestock feeders, and transporters make their money on volume—low cost volume is even better—and the lack of acreage controls and presence of LDPs go a long way toward ensuring an abundant supply of low cost inputs.

In this high volume – high stakes atmosphere, farmers end up being the conduit for federal payments which corporate agribusinesses skim, leaving the farmer worse off than if she had received a reasonable price for her crop. Crop farmers are not the ultimate beneficiaries of current farm programs.

It doesn't have to be like this. We used to manage crop supplies in such a way that reasonable prices were maintained while ensuring that adequate supplies would be available in the case of a weather-shortened crop. Sure there were some problems—as long as people are involved there will be some problems—but the cost was (and would be) a fraction of the cost of the present program.

In addition traditional farm programs held up the prices of major commodities in the US and around the world—something that would work to the advantage of producers in developing countries whose prices are almost always set slightly below those of U.S. commodities. Current programs, by way of contrast, drive prices downward resulting in the US selling agricultural commodities on the world market at prices that are below production costs, opening us up to charges of dumping and causing enormous problems for farmers around the world.

Hopefully, articles like the ones in the Washington Post will open up the farm bill discussion and allow policy makers to tailor farm programs to the economic characteristics of crop agriculture by eliminating welfare-like payments in favor of modern-day inventory management tools that other industries take as a given.

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