APAC Agricultural Policy Analysis Center
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PolicyPennings by Dr. Daryll E. Ray

Farming the farm program, movin' on up from the sandlots to the big leagues

One of the accusations made against the farm program at the time the 1996 Farm Bill was being debated was that farmers were "farming the program"—making production decisions based on maximizing farm program benefits, rather than on agronomic and market factors. To overcome this problem, the program was redesigned to give producers the "freedom to farm" and make their decisions in the absence of payment considerations.

It was argued that the decoupling of payments from production decisions through the use of fixed declining transition payments (remember AMTA?) would go a long way toward eliminating any incentive farmers had to farm the program because the amount received was not dependent on planting decisions. If farmers took acreage out of production under 0-92, it seemed reasonable to believe that under what was in effect a "0-100 program," they would be responding to low prices by reducing production.

They didn't.

It was argued that by locking in a historical number for program acres and giving farmers planting flexibility they could change the number of acres planted to each crop, or to no crop, in response to price.

They did... and then again... they didn't!

They did.

Farmers use planting flexibility to rebalance crop acreages in response to changing prices and they love it.

And, they didn't!

Taking into account the point on the "0-100 program," leaving acres unplanted is unacceptable to farmers except in rare circumstances.

The next thing the 1996 Farm Bill did (and it was included in the 2002 legislation) was to make the non-recourse loan rate a dead letter by fully implementing the use of Loan Deficiency Payments (LDP) and its twin, the Marketing Loan Gain (MLG). As we have mentioned in recent columns, eliminating the price floor allowed prices to tumble when the tight supplies of the 1995 crop year began to ease.

What we have now are articles and editorials in national and local newspapers decrying farm subsidies as wasteful. As important as they may be to help overcome the inherent inability of aggregate crop agriculture markets to self-correct, it is difficult to appeal for public support of farm programs when a farmer who sells his corn for a price well above the loan rate still collects $75,000 in LDPs.

By disconnecting the LDP/MLG collection from the sale date, the program provided farmers, and the marketing services that advise them, with a speculative tool that they could use to obtain a price that is well above either the loan rate or the season average price paid to farmers.

Once more, we have farmers (and now an added layer of new "professional" advisors) "farming the program." Only, this time the stakes for the federal treasury are much greater than they were under the pre-1996 programs.

In looking at the $2.9 billion of LDPs and MLGs paid on the corn crop during the 2004 crop year even though the season average corn price was above its "safety net", one could easily argue that the policy provisions of the 1996 and 2002 Farm Bills have taken "farming the government" from the sandlots to the big leagues.

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