The two-decade-long road to the current set of farm programs

In discussing the current farm program and the criticism of it by groups like the Heritage Foundation, we think it is important to look at how we have ended up with the current constellation of policies.

The current set of programs includes revenue insurance, which its advocates defended as a counter-cyclical program. In addition, farmers had to choose between the Agricultural Risk Coverage (ARC) program, which provides a year-to-year shallow loss protection, and the Price Loss Coverage (PLC) program, which protects farmers against longer periods of low prices.

In relying on these programs to provide stability to the crop sector, the 2014 Farm Bill left in place what most refer to as the Loan Deficiency Payment (LDP) program. It provides protection in the case of extremely low crop prices. The LDP program was left in the legislation because it added nothing to the cost projections for the 2014 bill. The authors of the farm bill never thought that prices would get low enough for anyone to be able to claim LDPs.

Let’s look at the back story of how we ended up with these policy instruments. While agricultural policies have changed over time, few will disagree that the adoption of the 1996 Farm Bill was a watershed moment—some of its proponents called it the farm bill to end all farm bills.

Like the current farm bill, the 1996 legislation was designed and enacted in a period of high prices and unbridled optimism about the future profitability of crop agriculture. The optimism was so strong and the cost projections for the legislation so low, that Congress sweetened the deal to entice farmers to support it.

They included what was called Agricultural Market Transition Act (AMTA) payments to farmers of program crops based on their participation in the previous program. It was the expectation that the payments would transition to zero, thus the farm bill to end all farm bills.

In designing this radical program change, members of Congress and advocates of farm program change believed that the AMTA payments would eliminate any hesitancy on the part of farmers to respond to low prices by reducing planted acreage. Farmers were to receive these payments based on historic acreage and whether or not they planted the crop. The major restriction was that the acres need to remain in agriculture and could not be used for fruit or vegetable production.

That theory about the AMTA payments was soon put to the test as prices began to decline during the latter months of 1996. The price decline continued through 1997 and by the 1998 crop year farmers were facing a disaster as prices were well below the cost of production. There is no evidence that farmers reduced their acreage because they had the AMTA payments. The loan rate was so low that LDPs along with the AMTA payments were not sufficient to bring about stability.

In response to a loud cry from the farming community and most farm organizations, Congress responded with massive emergency payments. High farm program costs for AMTA payments, emergency payments, and LDPs continued through the 2001 crop year. Farmers responded to the low prices by looking for ways that they could add value to the crops they were producing.

Of all of the options, the one that made the most difference was using corn to produce ethanol which could be used as a fuel oxygenate that reduced smog produced by tailpipe emissions. Ethanol was also sold as a way for the US to reduce its dependence on foreign oil. In the late 1990s farmers began to invest in cooperative ethanol refineries as a way of increasing their income and reducing the "oversupply" of corn. They also lobbied their state legislatures.

While farmers were establishing ethanol cooperatives and pushing for mandates to blend ethanol into motor fuel, farm program costs continued to be high and Congress decided to end the 1996 farm bill a year early, adopting new legislation in 2002.

The 2002 Farm Bill established direct payments, which were paid to farmers without regard to crop prices or measures of farm profitability. During this period, farmers were required to participate in the federal multi-peril crop insurance program as a condition for being eligible to receiving any ad hoc disaster payments that Congress might approve. Over time, the crop insurance program shifted its focus from insuring losses due to reduced yields to protecting in-season declines in expected revenue whether due to a decline in yield, price or both.

As the result of significant lobbying by farmers, the determination that the competing fuel oxygenate was carcinogenic, the desire to reduce dependence on oil imports and a steep increase in gasoline prices due to interruptions in crude oil supplies resulting from hurricanes in the Gulf of Mexico, Congress mandated blending levels for ethanol in the US motor fuel supply.

Suddenly, ethanol refineries became very profitable and, with ethanol blend mandate, the number of non-farmer investors in ethanol plants increased rapidly. The growth in corn demand by these plants resulted in dramatic increases in the price of corn, the acreage planted to corn, and the prices of other crops that compete with it for planted acreage. There was the talk of new much higher price plateaus for major crops.

The combination of high crop prices—they were well above costs of production—and subsidized revenue insurance premiums resulted in large insurance costs, drawing the ire of critics of farm programs like the Heritage Foundation.

The 2014 Farm Bill, adopted in a high price year, added two new programs. Southern crops were not benefitting from strong prices like those experienced by more northern crops—corn and soybeans—so farmers and their farm organizations lobbied for the PLC program to protect them against extended periods of low prices. Corn and soybean farmers, for the most part, did not believe that prices would drop to levels covered by PLC and instead lobbied for the ARC program that they believed would protect them from year-to-year declines in revenue from the 5-year Olympic average.

Because prices were projected to remain high for the duration of the 2014 Farm Bill, the cost of the ARC and PLC programs were expected to be low.

With the demand for corn by ethanol refineries peaking out, crop prices began to drop, increasing the cost of the ARC and PLC programs. Today those increased costs are also drawing the ire of farm program critics.

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