Our view: “Yes” to farm programs but recent ones make no sense

In recent columns we have challenged the positions and assertions of critics of the US farm program, in their quest to eliminate or at least greatly reduce the role of the US government in the agricultural sector. As we traced the history of recent farm programs in last week’s column, we in essence said, “Been there; Done that.” And, the consequences were disastrous.

But in saying that, it does not mean that we agree with farm programs as they are currently configured. Some of the criticisms were on target. In this column, we want to identify some of the things that we do not want to see in farm programs. Next week we will identify the policies we believe are needed to support a robust agricultural sector, though some of our critiques give a strong hint of the kind of programs we support.

While the money helped some farmers through hard times and low prices, we think a direct payment program is politically unsustainable and philosophically unjustifiable. Direct payments began with the transition payments that were given to producers of program crops as a part of the 1996 Farm Bill.

These transition payments were given to farmers based on their historic production but were decoupled from actual production. You could receive them whether or not you planted the same crops, other crops, or nothing at all as long as you did not plant fruits and vegetables or convert the land to non-farm usage. It was argued that these decoupled payments would not distort production decisions, thus they would be seen as not-trade-distorting and thus legal under the rules of the World Trade Organization and its predecessor.

That argument never made much sense to us, because any money that farmers receive, whether from off-farm employment or direct payments has an effect on production or at least rental rates for farmland. In addition, it does not make sense and it is politically unsustainable to provide direct payments to farmers during periods of high prices when farmers are making a profit.

While decoupled direct payments are no longer a part of farm policy, we do not want to see them return. If we are going to support farmers or farm production, there must be a reason. Giving money to farmers whether they need it or not, weakens the argument for farm programs and we believe there is a reason for well-designed farm programs.

Along that line, we do not think that the government has any business subsidizing crop revenue insurance that guarantee “prices” that are above the cost of production. If farmers want to do that, they should pay the full premium, though the premium would probably be unaffordable. The reason this kind of insurance would most likely be unaffordable is that while a hailstorm is a relatively random event, price is systemic.

Crop insurance companies can determine the risk of a hailstorm destroying a wheat field and set an appropriate rate because they know full well that hail does not affect all the fields in a state at the same time. Price, on the other hand, tends to be low for long periods of time and when it is low, it is that way for all farmers for the duration. Any company that attempted to insure price would sooner or later be out of business when every policyholder filed for a claim at the same time.

We don’t like programs like the marketing loan program, more commonly called the loan deficiency payment program (LDP). With LDPs we end up paying on every bushel of production, while the “price problem” is often a matter of 100 to 500 million excess bushels out of a crop that may be as large as 14 or 15 billion bushels. It would be less costly to target the amount of production that is in excess of current demand. Besides that, at the current levels the LDP rates are so far below any measures of cost of production as to provide farmers only minimal help.

No one wants programs that drive up the price of land and we agree. We would go further in arguing that revenue insurance has done more to drive up the price of land than any of the older programs revenue insurance replaced. These programs were replaced, in part, because it was argued that the payments were being capitalized into the price of fixed resources like land. As we look at the last decade, it seems to us that the cure (revenue insurance) was worse than the disease (price support programs).

Above all, we do not want programs that treat the symptoms of the chronic price and income problems in the agriculture while ignoring the causes (see our argument in our column that can be found at http://tinyurl.com/h3chwo2 and the following column). We believe that farm programs should be designed to minimize the chronic problems that farmers face.

In the coming weeks, we will talk about the farm policy instruments that we would like to see enacted into law.

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