PolicyPennings by Dr. Daryll E. Ray

USDA's farm bill proposal: Makes the best times better and worst times worse

The administration's farm bill proposal was not the "sea change" in farm programs some had feared—and others had hoped for. The proposal's commodity title is really a continuation of the 1996 and 2002 Farm Bills with some tinkering with the specifics.

The question farmers face is how will that tinkering affect their bottom line compared to the current legislation. The short answer is the USDA's proposal makes "the best times better and the worst times worse."

Let's look at the three government payment programs—Direct Payments, Loan Deficiency Payments (LDP), and Counter-Cyclical Payments (CCP)—one at time.

Direct Payments. During the best of times, say when (or if) the price of corn is at $4 per bushel and soybeans are at $8, farmers will receive a larger direct payment than under the 2002 Farm Bill (FB). During the worst of times, they receive that same payment.

In the case of corn, for example, farmers currently receive 28 cents per bushel times their direct payment yield times 85 percent of their base acreage. Under the administration's proposal from 2010 thru 2012, the 28 cents is replaced with 30 cents.

For soybeans the current rate of 44 cents increases to 47 cents for 2008-2009 and 50 cents from 2010-2012. The largest increase is for upland cotton which increases from its current level of 6.67 cents per pound to 11.08 cents beginning in 2008, apparently to offset a significant reduction in cotton's loan rate.

Loan Deficiency Payments. During the worst of times the proposal's LDP and marketing assistance payments would add less to crop producers' bottom line than the 2002 FB. As is currently the case, the best of times are unaffected. There are three proposed changes in the LDP program.

First, loan rates are reduced. Not a question there. Worst times would be made worse. With lower loan rates, the LDP rate, which is computed as the difference between the loan rate and the "low price," is reduced. Relative to current rates, loan rate reductions under the proposal would average 6 cents per bushel for corn, 17 cents for wheat, 8 cents for soybeans and 6.3 cents per lb. for cotton.

Second, farmers would no longer be able to select which day, that is which daily posted county price, they want their LDP payment to be based on. Under the USDA proposal, the posted county price would only change monthly. In a particular year and for a specific farmer, this may or may not result in a reduced LDP payment. In total, we suspect this would work against farmers thereby also making the worst times worse for crop agriculture as a whole. Certainly, the monthly price will not be the low price of the month which some farmers are able to capture under the current program.

Third, with the USDA proposal, farmers would no longer be able to take their LDP payment right after harvest, or whenever they think prices are at the lowest for the year, and then wait to sell their grain when prices have recovered—perhaps to levels well above the loan rate.

Under the proposal, the LDP and sell decisions become the same decision. Or to use the language in the proposal, the LDP rate is established on the date that the producer loses beneficial interest in the commodity. Our understanding is that under the current FB many-to-most farmers have benefited from being able to separately decide when they take LDP payments and when they sell the commodity.

Counter-Cyclical Payments. The USDA's proposed CCP program uses the difference between "target revenue" per acre and actual revenue per acre rather than the difference between a target price and actual price. There is not space in this column to discuss all the ins and outs of how it is computed.

But, if you as a farmer are under the impression that this revenue-based plan will protect you from poor yields on your farm, that is not necessarily, or perhaps even likely to be, true.

The key is whose actual revenue is being compared with whose target revenue. As you have probably guessed by now, neither one is yours. National average yields are used.

So whether the yields on your farm go up, down or stay flat, the applicable counter-cyclical payment rate for you and all other eligible producers would be based on average versus trend yield of all farmers taken together and the target versus actual market price.

Whether the proposed CCP would generate more or less payments than the current version is a question without a definite answer. A complicating factor is that a change in a national yield influences price; and in the opposite direction. So when yield and price are multiplied together to compute revenue, the two changes tend to offset one another.

Eligibility and Payment Limits. In addition to changes in the three payment programs, some producers would be affected by the proposed new cap on adjusted gross income (AGI), as in the dreaded IRS Form 1040. A farmer with an AGI of $200,000 or more would not be eligible for any commodity payments. The AGI includes net income from all sources, farm and non-farm alike.

Also, the $360,000 total payment cap becomes the one and only total commodity payment cap in the USDA proposal. No more working with others under the "three entity" rule to double the limit.

Taken together, the USDA's proposed changes in the commodity title would, when compared to current legislation, generate more payments to crop producers when prices are "high" and reduced payments when prices are extremely "low."

The extent to which the USDA proposal makes "the best times better and worst times worse" is an empirical question and may not be astoundingly large. But it is an interesting direction to take.

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