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New York Times Attacks Farm Programs For All The Wrong Reasons

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The current concern over the US federal budget deficit will be a major factor in the formulation of the 2012 Farm Bill. An editorial in the Sunday, January 16, 2011 New York Times titled, "Here's an easy one," said "here is one big-ticket saving that all members of Congress should get behind: cutting the billions of dollars in farm subsidies that distort food prices, encourage overfarming and inflate the price of land."

It is tempting to view the position advocated in the editorial as an aberration, but we fear that it is merely a high profile example of the general media's lack of understanding when it comes to the unique nature of crop agriculture. At the same time, there are elements of the current farm program that are hard to defend.

And, the Times editorial board quickly hits the most vulnerable element: "$5 billion in direct payments that are delivered regardless of what or even whether farmers plant." What they don't say is that the direct payments were established under the 1996 Farm Bill, known by its supporters as "Freedom to Farm" and its detractors as "Freedom to Fail." As originally conceived, direct payments–which were originally called "Agricultural Market Transition Act (AMTA) Payments" in 1996 Farm Bill–were, as the name suggests, supposed to transition down to zero.

That didn't happen because the 1996 Farm Bill was based on faulty premises. Two of which were that 1) the high crop prices at the time would continue because of ever expanding export markets–remember the growing Chinese middle class–and 2) should crop prices falter, farmers would–as opposed to historical experience–adjust production downward as needed and do so quickly.

But exports did not "ever expand," they decreased. China's couple-year period of importing corn prior to the 1996 Farm Bill turned out to be, like a head-fake in basketball, a false predictor of the future direction of play. In the years that followed, instead of becoming the US's largest importer of corn, China became the US's largest export competitor of corn. The US took the head-fake largely because we ignored China's centuries-long policies of holding very large stocks of grain and the desire to be self-sufficient in grain.

So crop prices not only fell, they collapsed. But in addition to misreading China, framers of 1996 Farm Bill also misread other aspects of the grain markets. Basically, they offered up a fantasy world in which producers would react to lower crop prices by leaving fields idle and consumers would adjust to lower prices as they would to below-the-cost-of-production come-on sales on Black Friday following Thanksgiving.

Of course, neither is remotely realistic as evidenced by the severely depressed crop prices during the 1998 to 2001 crop years, but "new era" pronouncements can be very convincing. The framers of the 1996 Farm Bill were so convinced of this new way–that agricultural markets would react to low prices by reducing production–that they eliminated the very instruments designed to offset the fact that agricultural production and food consumption are different from producing and consuming about any other product you can mention.

Since there was no "buffer stock" program to absorb a portion of the "excess" production, nor a program to reduce production itself, there was a clamoring to do something for farmers when the price of all major-crop commodities fell well below the cost of production of even the most efficient farm operators.

Given the path it had chosen with the 1996 Farm Bill, Congress suspended the idea of phasing-out the "transitional" AMTA payments in favor sending out "emergency payments" as a means of backfilling the lost revenue from the collapse in grain prices. In fact rather than continuing on with the phase-out, the emergency payments were computed as multiples of the AMTA payments. And as specified in the original AMTA legislation the payments that were sent to farmers "regardless of what or even whether farmers plant." During the 1998 to 2001 crop years, the government sent out tens of billions of dollars to farmers to prevent the US farm economy from collapsing.

Because of erroneous perceptions of the future export market and the nature of crop agriculture, during the tenure of the 1996 Farm Bill crop, farmers were not "weaned off" of government payments as they "became more market oriented." Instead, the 2002 Farm Bill institutionalized the emergency-payment enhanced AMTA payments, renaming them "Direct Payments."

But direct payments have become the worst of all possible worlds of payments. They are given to farmers when prices are at record levels and well above production costs and they are not large enough under current cost conditions should prices plummet. And their major selling point, that they are "decoupled payments," is not as convincing as it once was. Direct payments are said to not distort production since they were decoupled from production–farmers receive them whether they planted a crop or not. In a real sense they do not distort the level of production, because farmers reduce their production very little when prices decline–that is one of the unaddressed problems with the current farm program.

But AMTA/direct payments have affected the cost of production. As a guaranteed flow of cash, they have been incorporated into land rental rates and ultimately in the price of land. As a result, farmers have seen an increase in the cost of production directly attributable to the payments. At this point the payments are so integrated into the asset base/production system, that their abrupt removal coupled with a sudden future decline in crop prices could plunge rural areas into a freefall of land prices not seen since the 1980s. As a result there is strong resistance in the farm sector to any talk of reducing/redirecting/eliminating direct payments.

In the space of this column we are not able to challenge all of the misunderstandings the NYT editorial board exhibit in their "Here's an easy one" editorial, but we cannot overlook their mischaracterization of the marketing loan program. They state that marketing loans "effectively set a floor on crop prices." Many farmers that we know wish that that were true, but it is not.

While mechanisms were in place for decades to keep major-crop prices from going devastatingly low, the current marketing loan program DOES NOT put a floor under crop prices. Instead it backfills farm receipts with payments when crop prices fall below threshold levels, threshold levels that are now well below today's variable costs of production, allowing the users of grain to purchase it at subsidized prices.

Without understanding why farm legislation was enacted in the first place and how it has morphed over time, it will be very difficult to design the 2012 Farm Bill in ways that will meet current budget constraints and still support a vibrant farm economy. We agree that relying on payments is the most expensive way to address price and income problems that beset crop agriculture, because it lacks the ability to quickly adjust production in line with the quantity demanded at reasonable prices. But that said, it is unrealistic to think that crop agriculture will do just fine without a safety net. ∆

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