Chapter 20

Subsidies and Government Programs

In they eyes of the average American agriculture subsidies are probably one of the most high profile and least understood issues related to farming. Some segments of the media and some special interest and environmental groups promote the perception of subsidies as being "farmer welfare" or unnecessary payments only paid the rich "corporate farmers".

In reality subsidies are not paid to simply shore up the farmer or even the vast agricultural industry that not only employees millions but also to help assure a safe and plentiful food supply for the entire country. All countries want to support their farmers, as was shown in chapter 2 the U.S. actually pays much less in subsidies than most other developed countries. As nice as supporting the farmer sounds there are other reasons countries do this as well. In the event of a multiyear weather disaster or extended period of poor crops no country wants to become too dependent upon other countries for their food supply.

The Minnesota Corn Growers association published the following set of myths and facts as they relate to current farm policy and subsidies:

Myth #1: U.S. farm policy costs a lot.
FACT: U.S. farm policy accounts for little more than one-half of 1% of the U.S. budget. In fact, the 2002 Farm Bill costs less than the 1996 Farm Bill.

Myth #2: The 2002 Farm Bill keeps farm prices artificially low and increases food prices.
FACT: As Americans, we enjoy the safest, most abundant and most affordable food supply in the world. Only 10.9% of our income is spent on food-

that's lower than every other country in the world.

Myth #3: U.S. farm policy helps big corporate agribusiness, not family farms.
FACT: In many cases, big corporate agribusiness opposes U.S. farm policy. Current policies aim to help all American farm families, because a world market that is neither free nor fair hurts all farm families.

Myth #4: U.S. farm policy is just a form of corporate welfare that only benefits a small number of people.
FACT: Our nation's food and fiber industry has created 25 million jobs and produced $3.5 trillion in output, accounting for 15% of U.S. GDP. Ensuring a safe, abundant and affordable food supply creates strong rural and urban economies that benefit us all.

Myth #5: U.S. farm policy interferes with free markets and free trade.
FACT: U.S. farm policy complies with all U.S. trade agreements. But remember that average foreign tariffs on agricultural goods are more than five times higher than U.S. tariffs. U.S. farm policy helps level the playing field so our farmers can compete in this unfair market.

Myth #6: The 2002 Farm Bill doesn't help conservation.
FACT: The 2002 Farm Bill provides over $39 billion for conservation-the highest level in history. This money will be used to fund programs that prevent soil erosion, preserve and restore wetlands, clean the air and water and enhance wildlife.

The farm bills passed by congress and signed by the president every few years determine the subsidies. Not surprisingly the new farm bills are typically created around election years. Though farmers only make up about 2% of the population the agricultural industry still carries a lot of political weight and is important in election years. The current farm bill passed in 2002 (The Farm Security and Rural Investment Act) replaces the 1996-2001 farm bill (The Freedom to Farm Act).

To understand why we have farm subsidies and how they developed you have to look at the history of global agriculture and the economics of food and agricultural products.

Economics of Food

In simple economic terms food markets behave differently on the supply and demand curve than most products. The economic description used to describe food products can be called one of “an inelastic product in a perfect market”. That is an economists way of saying that for the most part people are going to buy a certain amount of food no matter what the price. To compare another industry if the price of an automobile were to double overnight we would see a massive decline in demand, however if milk or wheat (bread) prices were to double overnight you would see a much smaller decrease in demand.

Because of the economic anomaly of food, the agricultural industry does not always react to government economic controls the way that many other industries would. For these reasons the U.S. and all other world markets have established subsidy programs.

History of Subsidies

Though farm subsidies as we know them today didn’t start until FDR’s New Deal programs in the 1930s the wheels were set in motion during World War I. American farmers were told to expand as quickly as possible. The motto was that a war is won on the stomach of its soldiers. American farmers were asked not only to feed the U.S. Army and our home population but also to feed the allied armies and to take up the slack for Europe’s decimated agricultural industry as well. To accomplish this monumental task millions of acres that were marginal for farming were brought into production.

When World War I ended the land that was brought into production was never taken out of production and the American farmers began to grow surpluses that would ultimately make them victims of their own productivity. To make matters worse the European agricultural industry came back quicker and stronger than expected. As surpluses continue to grow prices began to drop and millions of farmers were forced to abandon their farms, more than a million in the 1920s alone.

Subsidies and Government Programs

In the 1920 dairy farmers began experiencing problems as well. Milk consumption was expanding but prices the farmers were getting were decreasing. The problem was although there were many farmers and many consumers, the few middlemen, the milk dealers in this case, were keeping prices paid to the farmers down. The final straw was when the spread between retail and farm milk prices in Sioux City, Iowa reached 75% of retail milk prices. Dairy farmers received just two cents per quart from local processors, while consumers paid eight cents per quart in Sioux City. This resulted in the largest milk strike, called the Sioux City Milk War of 1932. The strike became very violent and was settled only after violence including shootings and mass arrests. At one point three thousand farmers marched on the jail at Council Bluffs, Iowa, forcing the local sheriff to release their fellow strikers. In the end the event was nothing but an example of how “perfect” of a market agricultural products are as the milk producers simply went outside the strike area to find all the supply they needed.

In an attempt to correct such failed policies, President Hoover signed the Agricultural Marketing Act in 1929, this established the Federal Farm Board with a fund of $500 million to set up stabilization boards. Stabilization boards were supposed to make purchases on the open market in order to stabilize the prices of commodities. Such purchases, however, only encouraged farmers to raise still larger crops in expectation of greater profits resulting in even more oversupply and a worse situation when the board collapsed.

During the depression when farmers began to lose their land there was a threat of a national food shortage. To help counteract this President Roosevelt introduced direct farm subsidy programs. The Agricultural Adjustment Act (AAA) of 1933 was one of the first pieces of legislation passed under the New Deal and thus were born the first subsidy programs as we know them today. The Commodity Credit Corporation (CCC) was also created in 1933 and began making loans to farmers. In an attempt to control supplies, loans were granted only to farmers who agreed to sign production-control agreements. Farm prices steadily improved and by 1937 the prices for major commodities had increased by an average of 85%. However, the Supreme Court declared the production control requirements of the AAA unconstitutional and the overproduction began again.

During this timeframe most developed countries had instituted price-support policies to reduce the volatility of prices for farm products and to stabilize farm income. The major agricultural exporting countries such as the United States and France developed programs to either raise the long-term level of prices above free-market levels or providing direct payments to farmers.

As the developed countries attempted to help the underdeveloped countries by selling them agricultural products at below market prices they inadvertently crippled the ability of farmers in those nations to prosper.

Mounting surpluses and increased costs of government programs led to the enactment of a flexible price support program and of the Soil Bank program in the 50s which provided direct payments to farmers in return for reducing their acreage. The desired effect of control programs was for the most part ineffective because improved farming techniques greatly increased the productivity on the land that was still in production.

In 1996 President Clinton signed the "Freedom to Farm" act into law which eliminated agricultural subsidies in favor of fixed payments to farmers. Some farmers referred to the Freedom to Farm act as the "Freedom to go broke Act". Despite the rhetoric, the legislation failed to decrease payments to farmers, and by 2000 aid to farmers had reached more than $22 billion, three times the 1996 level.

Once introduced, subsidies used maintain prices have proved extremely difficult to end. Agricultural subsidies in the United States, Japan, and the EU were issues of contentious debate in the General Agreement on Tariffs and Trade (GATT) and remain so in the World Trade Organization. The 2003 Cancun meetings were another disaster with so many groups of countries grouping together to take various positions that nothing was resolved.

The Farm Security and Rural Investment Act of 2002 abandoned the 1996 goal of reducing farm payments and replaced the Freedom to Farm act as the current farm bill. Since the

1996 farm bill is no longer is effect I will not discuss it further and will instead focus on the current farm bill for the remainder of this chapter.

The Current Farm Bill - The Farm Security and Rural Investment act of 2002.

Anyone farming today should have a clear understanding of the current farm bill and subsidy programs. The detail of the bill can be found at the USDA website at http://www.ers.usda.gov/Features/farmbill/. The current farm bill is quite large and complex, since this book is about grain farms I will only cover on those areas related to corn, soybean, and wheat farmers.

There are a couple of different subsidy programs for grain farmers.

1) Direct Payments - Direct payments are available for eligible producers of corn, soybeans, wheat, oats and several other grains. Direct payments will be made every year regardless of commodity prices or yield results. To receive direct payments you must enter into an annual agreement. Payments are based on base bushels for a farm. Base bushels are determined by taking 85% of the farms base acreage times the farms direct payment yield. Payments are currently listed at 28 cents a bushel for corn, 44 cents a bushel for soybeans, and 52 cents a bushel for wheat.

If you do not have four years of production history on the farm your direct payment yield will be base on 90% of the county average.

Example:

You are growing 50 acres of corn and 50 acres of beans.
You have never farmed before.
Average yields for corn and beans in your county are 150 for corn and 45 for beans.

	Yield Acres
Soybean Direct Payments	= (45 x 90%) x (50 x 85%)
	= 40.5 x 42.5
	= 1,721 bushels X 44 cents
	= $757.24 would be your direct payment for beans

Corn Direct Payments	= (150 x 90%) x (50 x 85%)
	= 135 x 42.5
	= 5,737 bushels X 28 cents
	= $1,606 will be your direct payment for corn

2) **Counter Cyclical Payments** - Counter-cyclical payments are basically a set of minimum price per bushel guarantees. They are available only when the effective price is less than the target price. Target prices for 2004 through 2007 are $2.63 a bushel for corn, $5.80 a bushel for soybeans, and $3.92 per bushel for wheat.

   The effective price is equal to the sum of the higher of the national average farm price or the marketing year, or the national loan rate for the commodity and the direct payment rate for the commodity. The payment amount to the grower equals the payment rate multiplied by the payment acres multiplied by the payment yield.

   Payments acres are based on 85 % of “base acres”. The complicated part of the counter cyclical portion of the farm bill his how they determine base acres. There are basically two methods used to determine base acres. The first one is based on the acres that would have been eligible under the previous farm bill. The second approach is based on a four year average of past crop production acres. For more detail you should read the counter cyclical portions of the bill or contact your local FSA office for the details as they relate to how your farm is currently enrolled.

   Oilseed payment yields will be determined based on the farm's 1998-2001 average yield multiplied by the national average yield for 1981-85, divided by national average yield for 1998-2001

   Once the bases are defined you can plant any of your acreage in any crop, with a few exceptions regarding fruits and vegetables-which should not affect most grain farmers.

   There are also maximum counter cyclical payment rates. For example the maximum for corn is 40 cents a bushel. With the target price of $2.63 a bushel that means below $2.23 a bushel there is a minimum effective rate of $2.23 a bushel ($2.63-.40). For soybeans the maximum counter cyclical payment rate is 36 cents a bushel ($5.44 minimum effective price) and 65 cents a bushel for wheat ($3.27 minimum effective price).

3) **Marketing Assistance Loans and Loan Deficiency Payments (LDPs) –** Basically LDPs are a way for farmers to pledge crops as collateral to borrow money without the risk that the crop will fall below a value at which would be required to replay

> the loan. LDPs provide commodity-secured loans to farmers for a specified period of time (typically 9 months), after which producers may either A) repay the loan and accrued interest or B) transfer ownership of the commodity pledged as collateral to the Commodity Credit Corporation (CCC) as full settlement of the loan.. These loans are available on a crop year basis. LDPs were created to minimize potential loan forfeitures and subsequent government accumulation of stocks.
>
> Loan rates for 2004 through 2007 are set at $1.95 a bushel for corn, $5 a bushel for soybeans, and $2.75 a bushel for wheat.
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> An LDP, or Loan Deficiency Payment, is a one time amount per crop marketing year an eligible producer can collect on grain or soybeans that is <u>not</u> put under a 9-month Farm Service Agency (FSA) non-recourse marketing loan. In other words you do not have to take out a loan to be eligible for LDP payments. You may take out a 9-month loan or apply for a direct LDP payment, but not both.
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> You may request your LDP payment at any time of your choosing. You are NOT required to deliver your crop at that time but you can not reapply for a larger payment should the price fall below the point at which you requested your LDP. However, should the price rise above the point at which you requested your LDP you will not be required to pay back any loan incremental values.

The counter cyclical and direct payment programs are often combined together and referred to as the "DCP" programs.

To be eligible for any government payments there may be certain requirements that you as a producer must meet. For example, if you are farming land that is classified as "Highly Erodible" some farm program benefits may be denied if you are not using an approved conservation method. Soils with an erodibility index (EI) equal to or greater than eight are classified as Highly Erodible (HEL), fields with more than fifty acres of HEL or which have more than 1/3 of the acres in the field classified as HEL must be farmed using erosion prevention techniques for those acres and crops grown on those acres to be eligible for subsidies. To remain eligible you will also be required to protect your acreage from noxious weeds.

Though they will probably not apply to any small farmers there are limits to which the programs will payout. Direct payments are capped at $40,000, or roughly 142,000 bushels of corn. Counter Cyclical payments are capped at $65,000, and LDP payments are capped at

$75,000.

You should note that you are required to maintain accurate production records for at least six years. These records are subject to spot-check and you should NOT rely on the county office to calculate your yields nor will they photocopy and maintain records for you. If selected for spot check you will be required to provide sufficient evidence such as scale tickets, settlement sheets, seed, fertilizer, or other receipts so the County Committee can make a determination that the farming operation is actually being performed as stated on the application.

Conservation Reserve Program (CRP)

Small Farms (defined by the US Department of Agriculture as those with sales less than $250,000) occupy 66 percent of United States farmland. Even though large farms (farms with sales over $250,000) account for only 8.2% of farm by number they account for 72% of all US agricultural sales and 75% of all subsidy payments. The reason for this is that the majority of the payments are based on production rather than some other criteria. The Conservation Security Act, which bases payments not on price or production targets but on conservation methods actually implemented is one way in which small farmers can access subsidies relative to their contributions.

One of the ways you as a small farmer can access the programs is by utilizing CRP. With you can put acres of land into this program and the government will pay you not to grow production crops on it. You may have to plant some type of specific grasses and also maintain the fields. You can't just let it grow up into weeds. The way it works is that you bid your land in and the government picks the lowest bidders for various CRP program acres. So if you are certain that you want your land to make the cut, bid low. If you want a little more money, you can bid higher but there is no guarantee that you won't be underbid and your land not be selected.

Signing up for USDA Programs

In order to receive subsidy payments you must sign up for the programs. There are separate sign up processes for LDP, Direct and Counter Cyclical (DCP), and CRP programs. You can get all the signup form from your local FSA office or in Adobe PDF format from the USDA/FSA website at: http://www.fsa.usda.gov/dafp/psd/forms.htm.

Completed applications should be returned to your local FSA office. You can fax completed forms but if fax is your method of choice you must first complete the form FSA-237, Facsimile Signature Authorization and Certification before submitting any faxed forms.

Signup for the DCP program usually begins in October. To sign up for the DCP you will need to complete the CCC-509 form. DCP signup requires that you include the base acres, payment acres, and producer payment shares, and direct and counter-cyclical payment selections. The form must be submitted by the spring of the crop year for which you are applying, the FDA will announce the starting and ending dates for all program signups on their website or you can contact your local FSA office. In order to receive payments you must reapply for DCP every year.

Before the county committee can approve your DCP payment as requested on the CCC-509 you must also complete several other forms. First, a CCC-502 (farm operating plan) and applicable related forms must be completed. Second, a CCC-526 (Certification of Adjusted Gross Income), note that you will be ineligible for any subsidies if your AGI exceeds 2.5 million dollars per year. Next, a AD-1026 (certification of compliance with highly erodible land) must be completed. Finally an FSA-578 (certification of acreage) must be completed before final payments will be approved. Note that this signup for the direct payments also completes your signup for the counter cyclical programs.

To sign up for the LDP program you will need to complete the CCC-633 LDP form. The CCC-633 LDP form will contain information such as your name and ID number, the crop for which the LDP is requested and the size of the crop, the county in which the grain is stored, etc.

You need to be careful with one intricacy of the LDP program. In order to collect an LDP you must have "beneficial interest" of the grain at the time you apply for the LDP. If you have already sold the grain on a future contract or sold to the local elevator out of the field you are NOT eligible for LDP payments. This would also apply if you are keeping grain to feed to livestock on your farm.

For those in the scenario above there are options. For grain sold direct from the field you need to complete a CCC-709 form BEFORE harvest. Settlement sheets from your grain buyer will then serve as a record of your number of bushels and delivery date. For those livestock producers keeping grain you need to contact your local FSA office BEFORE beginning harvest and they can work with you to determine measurements for computing LDP payment eligibility.

Be aware that these forms may change from year to year so you should always be sure and obtain new forms from the Internet or the FSA office for each crop year. The USDA also has an e-file website which you can see at http://forms.sc.egov.usda.gov/eforms/. Though anyone can download and print the forms signing up for e-file will allow you to electronically submit forms to the USDA.

As would be expected the CRP signup works differently from the other programs above. CRP signup usually ends in June and a notification of accepted lands is usually completed in October. The one exception is the land devoted to special conservation practices may be enrolled at any time, check with your local NRCS office for details on the various CRP programs.

Local Soil and Water conservation districts may also offer cost-share funds for completion of waterways, terraces, border strips, or various other soil conserving practices. Check with you local soil and water conservation district office to determine if any of them may be applicable to you. My first year of farming I had decided that strip till was a practice that I wanted to try. I read in a local Agriculture journal that the county office was paying $20 an acre to try strip-till on land that had not previously utilized the practice. Because of this program I was able to collect $800 for a practice that I was going to complete anyway.

In addition to all the programs above there will often be new limited time programs announced. For example in 2003 there was a program to expand grain storage capacities in the United States. The program provided very low rate seven year fixed loans for those farmers who would build on farm grain storage facilities. In August of 2003 the rate was 3.125%! You should stay current with your periodicals and watch for presentations from your local FSA office and Farm Bureau offices to learn of any new programs.

One final note is that you are delinquent on any federal non-tax debt you may be ineligible for many programs and commodity loans or LDP payments.