2008 Farm Bill gets additional shiny policy but it was ethanol that came to the rescue

In the last two columns, we talked about shiny new agricultural commodity policies that various individuals and groups develop with the goal of supporting farmers during periods of low prices or a one-year decline in the season average price paid to farmers. The problem with this approach is that these shiny new policies are designed to treat the symptoms of farm price and income problems instead of the causes.

The reason they chase after policies that treat the symptoms is that they do not like the policy implications of treating the causes of these historic and chronic price and income problems.

This problem becomes even more serious when farm bills are adopted in years when crop prices are relatively high. That was true of the 1996 Farm Bill and it is true of the 2008 Farm Bill we will be discussing in this column.

One of the items of contention, especially between Congress and the White House, was the issue of limits on the amount of income one could have and still receive farm program support payments. With a vote overriding a White House veto, the Congress kept a high-income cutoff.

The problem with both payment limits and income limitations comes from the failure of the underlying programs to adequately manage the causes of long periods of low prices. If the commodity program adopted by Congress were to treat the low-price causes, there would be no reason to set limits on income and payments; farmers would derive their income from the marketplace not from shiny policies that don’t work as advertised.

Turning to the commodity programs implemented in the 2008 Farm Bill, the direct payments that were instituted in the 2002 Farm Bill were continued, with a 2 percent discount for crop years 2009-2011 (to be restored to the original level in 2012 to protect the baseline and thus the money that would be available to write the next farm bill), despite the high prices that farmers were enjoying at the time. Even though farmers expected $4.00 corn far into the future, they did not want to give up the direct payments.

There were those who argued that receiving direct payments when farm prices and incomes were at record levels, would create a credibility problem with the taxpaying public. Receiving payments, when they are gravy on top of high prices, could erode long-term support for farm programs. The proponents of direct payments were unconvinced.

The 2008 Farm Bill continued the Counter-Cyclical Payment (CCP) program from the 2002 Farm Bill with changes in the target price for some of the crops. While the counter-cyclical payment would be better than nothing during a period of low prices, it would still leave at large number of farmers in a financially difficult situation.

The 2008 legislation also included the ACRE (Average Crop Revenue Election) program that was pushed by corn producers in the major corn producing states. Reflecting the idea that prices were on a new plateau, ACRE was designed to protect farmers from year-to-year declines in revenue for the covered crop(s). To participate in ACRE, farmers had to give up 20 percent of their direct payments, all potential CCPs, and the marketing loan rate was reduced by 30 percent. In the end, few farmers participated in ACRE. A revised version of ACRE ended up in the 2014 Farm Bill.

In the end it was ethanol, not the shiny programs (Direct Payments, CCPs, and ACRE) that sustained farm prices for the duration of the 2008 Farm Bill, and that was a program sold by farmers promoting ethanol as reducing crude oil imports from a politically unstable area of the world. But the success of ethanol in supporting farm commodity prices depended on a yearly 500 million bushel increase in the use of corn by ethanol plants. Those large annual increases in ethanol-based corn demand came through for many of the years during the tenure of the 2008 Farm Bill, which drove up corn prices to unprecedented levels at times and generated unrealistic expectations for corn prices in the long run.

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Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.
Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.