

Amendment To End the Outdated Direct Payment Program and to Begin Restoring the Farm Safety Net as a True Risk Management Tool

Direct Payments are fixed annual payments based on a farm's historical plantings, historical yields, and a national payment rate. They do NOT depend on market prices.

Ten crops are eligible—wheat, corn, sorghum, barley, oats, cotton, rice, soybeans, minor oilseeds, and peanuts.

Direct Payments do not provide assistance when farmers actually need it, have been the subject of extensive abuse, and are not indexed to appropriate market factors.

The current subsidy patchwork that Congress has created ensures farmers are covered by taxpayers at nearly every angle risk. Unlike other industries, farmers are made nearly whole through a variety of formula-based programs, loosely referred to as “the farm safety net.”

These safety net programs broadly include crop insurance for most crops, payments to noninsured farmers, disaster assistance, direct payments for commodities, counter-cyclical payments (or ACRE), and marketing assistance loans.

Direct payments were created in 1996 Freedom to Farm Act as a *temporary* measure to help farmers transition off the federal support programs of old.

While Direct Payments were intended to be temporary in Nature, Congress has continued these subsidies without regard to their original intent.

In the meantime, farm income has skyrocketed. Net farm income is projected to reach \$115 billion in 2011, which is 24 percent higher than last year. Adjusted for inflation, profits are expected to be at their highest level since 1974.¹

¹ <http://www.ers.usda.gov/briefing/farmincome/nationalestimates.htm>

The income of an average farm household (\$201,465) has been higher than general household income (\$87,780) every year since 1996²

Crop prices alone are expected to rise 14 percent in 2011.

Some would argue that farm income is cyclical and, in fact, too volatile to claim that any one year's analysis of farm wealth could actually merit the elimination of Direct Payments.

That argument is irrelevant to the merits of Direct Payments, which are based on historical planting data—NOT market prices.

In fact, there is already an existing program for downturns in the market (Counter-Cyclical Payments). Ending a program that was intended to be a temporary transitional payment to expire a decade ago cannot be construed as unfair.

Even the Iowa Farm Bureau recently recommended ending Direct Payments altogether,³ as most see this program as subsidizing large agriculture entities and wealthy individuals.

Farmers should be protected against the unpredictable, and often volatile, nature of farming by a mature risk management tool like crop insurance.

Congress' goal should be to ensure farmers have sufficient access to capital, which can be done through the existing crop insurance program. But bureaucrats have no business subsidizing (or directing) the planting practices of American farmers.

Eliminating Direct Payments should be the first step in reforming the farm safety net to reflect a true risk management tool intended to promote the capitalization of farmers.

Experts have pointed out that a majority of direct payments are received by those without imminent risk to crop or price.⁴ According to the Obama

² <http://www.ers.usda.gov/Briefing/WellBeing/farmhouseincome.htm>

³ http://www.nytimes.com/2011/06/23/us/23crop.html?_r=1&pagewanted=all

⁴ <http://www.agrinews.com/economists/offer/budget/driven/farm/bill/proposals/story-3138.html>

Administration, direct payments distort production and artificially increase the value of farm land.⁵

⁵ <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/trs.pdf>