The current farm program, popularly known as “Freedom to Farm,” was designed to wean farmers and the agricultural sector from government support. It was established at a time when commodity prices and farm incomes were quite high by historic standards. Transition payments tied to the previous farm program base acreage for corn and wheat were intended to provide a path for farmers to become independent of government support. The transition payments were fixed in the 1996 legislation, gradually declining each year until 2002. They were not designed to be counter-cyclical, but to provide a steady, predictable support level.

Loan deficiency payments were established in the 1996 bill to be triggered at low levels that most analysts thought would make them generally irrelevant. However, commodity prices have plummeted since then, turning the loan rate into the driver of production decisions (instead of market prices). Meanwhile, in view of the low prices and farm incomes, Congress has increased the transition payments, turning the transition program into a type of counter-cyclical farm policy.

So what was intended to be steady support aimed at weaning farmers from government programs has turned into counter-cyclical support tied to land plus market-distorting loan deficiency payments tied to commodity production levels.

Where do we go from here? To answer that question, we must first ask and answer some questions regarding what is politically and economically feasible. In 1999, direct payments to farmers could amount to about $22 billion depending on where Congress ends up with the supplemental transition payments appropriation. At that level, we expect that about two-thirds of net farm income in Indiana would come from government payments. So the first question is, “Can something like that level of support for agriculture be maintained?” We seriously doubt that Congress would be willing to continue support near that level. It was agricultural support costs near this level in the mid-1980s that drove the United States and Europe to the bargaining table in the last GATT round. With tight budgets today and many competing demands for government support, we do not believe the status quo can be continued.

What about going cold turkey? That is, what about truly moving to a complete market orientation and letting the chips fall where they may? We doubt that is a viable option either. The chips are pretty heavy, and the dislocations would be massive. In its departures from “Freedom to Farm,” Congress has demonstrated that it is not willing to accept the political and economic consequences of a farm sector totally dependent on market forces.

What about moving back to a system of target prices, loan rates and set-asides as was recent history in agricultural policy? These systems have the advantage of controlling government costs by controlling supply through set-asides. However, they induce market distortions, leave other countries free to capture markets that we give up, are unpredictable in terms of budget exposure and are not popular with the farming community. While going back to this approach is possible, we believe it is unlikely.

If we cannot continue down the path we are on, cannot go cold turkey and are unlikely to go back to recent agricultural policy, where do we go in the future? We believe that future agricultural policy must have the following characteristics:

- Government support must be targeted to the individual producer and decoupled from the land to the maximum extent possible. This implies some form of revenue insurance for the farmer instead of payments tied to land or specific commodities.
- Incentives must be provided for farmers to handle part of the risk management themselves, instead of relying totally on government payments in bad years.
- Some form of acreage-reduction mechanism like the Conservation Reserve Program needs to be in place to reduce government costs. Hopefully, it would be a program that would provide environmental benefits as well.

It is imperative that Congress begin to move toward a new agricultural policy as quickly as possible to get us out of the ad hoc policy process that has been operative for the past two years.