



2008 Farm Bill: Wisconsin Focus Direct and Counter-Cyclical Payments¹



Key Features

The 2008 Farm Bill re-authorizes, with some minor changes, the direct payment and counter-cyclical payment programs that were established in the 2002 Farm Bill. In addition the new farm bill continues the non-recourse marketing loan program that has been a key component of recent farm bills.

Direct Payments: The direct payment program authorized in the 2008 Farm Bill is essentially a continuation of what was authorized in the previous farm bill. The per bushel payment rates are held constant at 2007 levels but there will be a slight decrease in the base acres qualifying for direct payments. The percent of acres eligible for direct payment will be scaled back from 85 percent to 83.3 percent in 2009 and stay at the level through 2011. This slight decrease in payment acres will reduce farmers' direct payments by 2 percent.

Counter-Cyclical Payments: The counter-cyclical payment program, which pays farmers subsidies when market prices fall below targeted levels, was modified slightly in the 2008 Farm Bill. The historic production bases eligible for payments (the product of historic base acres and yields) were not changed but the target prices for some commodities are slated for increases in 2010. The target price for wheat will increase from \$3.92 to \$4.17 per bushel and the soybean target price will increase from \$5.80 to \$6.00 per bushel. Increases in the target prices for grain sorghum, barley, and oats are also scheduled for 2010: 6 cents per bushel for grain sorghum (\$2.57 to \$2.68); 39 cents per bushel for barley (\$2.24 to \$2.63); and 35 cents per bushel for oats (\$1.44 to \$1.79).

The target prices for corn, upland cotton, and rice are constant over the 2008-2012 period. This was most likely a cost saving measure since the greatest budget exposure is with these three crops, which have historically received the highest levels of financial support from federal farm programs.

Marketing Assistance Loans: As with past farm bills, the 2008 Farm Bill has a non-recourse marketing assistance loan program. This program essentially establishes a price floor for program crops because it generally guarantees farmers can "sell" their program crops to the US government at specified loan rates any time market prices for the program crops are less than the loan rates. Under this program farmers can put their crops under loan or they can instead accept loan deficiency payments for the difference between the loan rate and the estimated market value, commonly known as the posted county price, for a program crop. Farmers have typically elected to collect loan

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deficiency payments because it is generally much simpler than putting crops under loan. This will probably continue to be the case.

The 2008 Farm Bill holds loan rates for corn, soybeans, and grain sorghum at the levels set by the last farm bill. So no additional price protection is given to these three crops by the new farm bill. But the new Bill does give some greater price protections to wheat, barley, and oats. Beginning in 2010, the loan rates for wheat, barley, and oats will increase as follows: 19 cents per bushel for wheat (\$2.75 to \$2.94); 10 cents per bushel for barley (\$1.85 to \$1.95); and 6 cents per bushel for oats (\$1.33 to \$1.39). These increases in the loan rates for wheat, barley, and oats essentially increase the price floors for these three commodities.

How is Wisconsin Affected?

The 2008 Farm Bill essentially maintains the direct payment program that allowed Wisconsin farms to collect, according to the Environmental Working Group web site, about \$110,000,000 per year during 2004-2006. At this payment rate, Wisconsin farms could receive over \$500,000,000 in direct payments over the life of the new farm bill.

The counter-cyclical payment program continued by the 2008 Farm Bill should give Wisconsin farmers the same level of revenue protection they have had since 2002. In 2005 and 2006, Wisconsin farmers received around \$110,000,000 in counter-cyclical payments each year, according to the Environmental Working Group. Now that the market prices of program crops are well above target prices, farmers will not be receiving any counter-cyclical payments. But if crop prices drop back to what they were in 2005 and 2006, payments would be close to what they were under the recently expired farm bill. This is because the current counter-cyclical program is essentially a continuation of the previous one.

The loan rates established by the 2008 Farm Bill give Wisconsin farmers the same price protection they received from the last farm bill. Fortunately market prices for most program crops have been well above loan rates and it looks as though they may stay above loan rates for the next couple of years. So the loan assistance program is not likely to be all that important to Wisconsin farmers in the near term.

Where can I get more information?

The section of the 2008 Farm Bill concerned with Crop Subsidy, Deficiency Payments and Loan Rates can be found by referring to the Direct Payments section. This material can be found in the 2008 Farm Bill section of the UW Understanding Dairy Markets website: http://future.aae.wisc.edu/publications/farm_bill/direct_payments.pdf .

UPDATED: June 4, 2008