Direct payments are likely target for farm bill funding

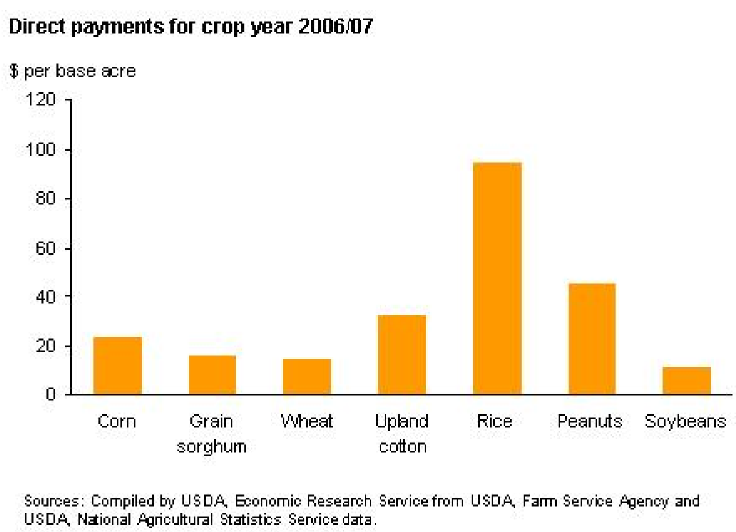
Sara Wyant, Editor, Agri-Pulse

There's an old story about bank robber Willie Sutton. When asked why he robbed banks, he reportedly said, "because that's where the money is." That same logic could easily be applied to direct payments in this year's farm bill debate. Any interest group charged with finding more money to fund their favorite new farm bill initiative can take a look at where the Commodity Credit Corporation (CCC) dollars have flowed in recent years. One of the biggest "chunks of change" is sitting in the direct payment category. And because direct payments are fixed, they are projected by the Congressional Budget Office (CBO) to continue over the life of the next farm bill. Not so with counter-cyclical and loan deficiency payments, which are projected to decline dramatically as farm prices stay high.

"When it became obvious that we would see less money for the farm bill, we wanted to see what we could do to preserve the safety net," explained National Farmers Union President Tom Buis about his group's interest in tapping direct payments. **"The direct payments score dollar for dollar, good times or bad times."**

Direct payments by commodity (Dollars in thousands)

Commodity	FY 2005
Corn	2,100,530
Grain Sorghum	197,285
Barley	81,188
Oats	2,987
Wheat	1,135,788
Upland Cotton	608,119
Rice	423,993
Peanuts	69,134
Soybeans	595,701
Minor Oilseeds	19,874



Source: USDA/FSA and Chart: USDA/ERS

The CBO's March projections are key to how much money will be available as the 2007 Farm Bill is written. Currently, CBO projects that there will be about $60 billion fewer dollars in the commodity title than for the previous bill. However, the House and Senate budget committees could provide additional dollars that could be added to the CBO levels. Thus far, those committees have allowed for between $15-20 billion in “reserve” funds that could be tapped. (A final number is expected as they go to conference this week.) But under the “pay as you go” provisions adopted by the new Democratic leadership, new dollars will only become available if there are offsets from somewhere else. Thus far, none have emerged.

That type of “reality check” brings the Chairmen of the House and Senate Agriculture back to Willie Sutton’s vantage point: **trying to find dollars in obvious places.**

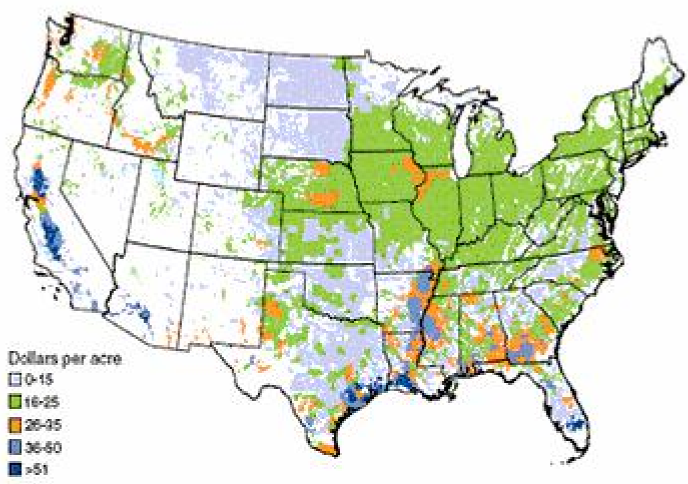
Senate Agriculture Committee Chairman Tom Harkin says there is "no secret" to his long opposition to direct payments, which go to the most successful ag producers during even their best years. **Direct payments "make no sense" and are increasingly harder to justify**, he adds. The Iowa Democrat would rather shift those payments into things like conservation, rural economic development, energy production--- to provide more of a safety net for farmers.

He’s got considerable support within his own state for such a shift. The Iowa Soybean Association wants to see “direct payments replaced with risk management vouchers for farmers that could be used only for crop insurance purchases or farm retirement accounts," explains soybean grower Ron Heck from Perry, Iowa.

House Agriculture Committee Chairman Collin Peterson recently said he is also looking at redirecting direct payments----which he says are increasingly harder to defend--- to fund a permanent disaster program. “We keep hearing questions about why we are sending a check to farmers when we’ve got good prices and good crops.” Direct payments replaced PFC payments in the 2002 Farm Act and are paid on a fixed-acreage base with fixed payment yields—regardless of what’s planted on those acres. At that time, coverage was expanded to include soybeans, minor oilseeds, and peanuts.

Both chairmen are likely to face stiff opposition from lawmakers who represent wheat, cotton, rice and peanuts---crops which receive the highest value of direct payment per acre. (See map, which shows dollars per base acre below.) The value of direct payments varies broadly by commodity and location. According to USDA’s Economic Research Service, direct payments for oats average about $1 per base acre, while payments for rice average close to $100 per base acre—regardless of what’s planted on that acre. Payments are concentrated in major producing areas. They are highest in California, where rice and cotton are important, in the Southeastern Coastal Plain, where cotton and peanuts are produced, and along the lower Mississippi River, where cotton and rice are produced. Payments per acre are also high in some parts of the Corn Belt, where corn and soybeans are the predominant crops.

Per acre value of direct payments for crop year 2005/06



Source: Compiled by USDA, Economic Research Service from USDA, Farm Service Agency data.

Both Kansas Senator Pat Roberts (R) and Kansas 1st District Representative Jerry Moran have already indicated they'd oppose the 2007 farm bill if it eliminated or dramatically reduced direct payments. They've pointed out that, with the existing structure of the counter-cyclical and loan deficiency payment program, it's the only type of farm program payment many wheat growers receive.

"Kansas produces more wheat and sorghum than any other state. Both of these crops have indicated that their number one priority in this farm bill is protecting Direct Payments," emphasized Roberts in a recent press statement. **"That being said, you know my position."**