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Farm Subsidies

Hey Guys,

Below is the big picture on how farm subsidies work. I’m sure some of you guys know more about this than I do and can correct/elaborate on this summary. I got most of my information from the USDA website; they have good summary information about all the different subsidy programs. Here is the link to most of the information I found:

<http://www.ers.usda.gov/topics/farm-economy/farm-commodity-policy/program-provisions/>

Basically there are three main types of subsidies:

1. **Direct payments.** A farmer gets paid a lump sum every year regardless of crop prices and current production. A simple formula calculates the payment based on farmer’s historical yield, farm size, and a payment rate for the crops planted.
2. **Counter Cyclical Payments.** This policy seems to work like a price floor. If crop prices fall below a target price set by Congress, payments to the farmer increase to make up the difference. The payouts are pretty variable since they fluctuate based on market prices and the set target price.
3. **Subsidized Loans.** If a farmer is growing certain commodities, like corn or soybeans, they get low interest rate loans that can be paid back via direct repayment or by forfeiting a crop that was put up as collateral for the loan. It seems like the loan interest rate depend on the crop that’s backing the loan.

From looking at these programs, I don’t think we really have enough information about Thompson or his neighbor to reliability estimate the subsidies each of these guys received. There are a lot of variables that go into calculating the payments. Also, a new farm bill is passed about every five years, and some of the policy changes dramatically affect the way payments are calculated and administered.

I almost see now why Thompson just decided to strip out all government assistance money—especially since he probably didn’t know how much assistance his neighbor received. That being said, it does make it difficult to really compare profit between Thompson and Boone.

My thought is maybe we could just compare the two farms based on actual production of corn/soybeans? In other words: does crop rotation compared to conventional planting result in higher yields? That only downside is that according to the Thompson Report, so much of Thompson’s advantage came not just from crop rotation but though lower expenses—a variable we would be ignoring if we just looked at yield by itself.