

The Farm Act of 2002

Continues the freedom to plant and direct payment features of 1996 farm law, but incorporates an automatic system of emergency payments.

The law is a significant retreat from the free market approach of the 1996 law, and provides 3 forms of commodity subsidies.

1. Direct Payments – cash payments fixed for each crop, based on a farmer's past production, and are unaffected by current crop prices or production. Farmers can plant whatever they want in whatever quantity and they still get direct payments. They don't decline over time like the transition payments in the 1996 law.
2. Countercyclical Payments (CCP) – a subsidy equal to the difference between market prices of specified farm products and a target price for each crop. Payments based on previous crops grown and are received regardless of current crop planted. If target price of corn is \$2.63/bushel and market price is > 2.63 , no CCP payment. But if $p < 2.63$, farmer gets a subsidy. This is a price support, geared to past crops grown, not current crop planted.
3. Marketing Loans – Farmers can receive a loan (on a per bushel basis) from the Federal government. If crop price at harvest is higher than price specified in loan (loan price), farmers pay off loan and sell the crop. If price at harvest is less than loan price farmers forfeit the crop to the government. In this case, the farmer gets a subsidy because the money from the loan exceeds the revenue the farmer would get from sale of the crop in the market.