The Heritage Foundation
Executive Memorandum

No. 786 October 22, 2001

THE HOUSE FARM BILL: A STEP BACKWARD IN AGRICULTURE POLICY

JOHN E. FRYDENLUND

On October 5, the U.S. House of Representatives passed the Farm Security Act of 2001 (H.R. 2646), which over 10 years would add $73 billion in commodity program subsidies to the existing funding of $95 billion. This proposal is not only costly; it represents a wholesale retreat from important farm program reforms that began under the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104–127), commonly called "the Farm Bill."

The Farm Bill, which is set to expire on September 30, 2002, will require reauthorization for its programs to continue. Regrettably, the bill being pushed by the House takes a very different approach. Now the Senate is moving to act. Its Agriculture, Nutrition and Forestry Committee will likely report a farm bill to the full Senate within the next few weeks. Instead of rushing to pass unsound and expensive farm legislation, the Senate would be wise to delay consideration of a farm bill until 2002, when it can be addressed more carefully. Then it should ensure that any legislation it considers promotes the long-term best interests of Americans, rather than merely increasing the taxpayer dollars going to already heavily subsidized agriculture constituencies.

The Politics of Agriculture Subsidies. Congress in 1996 wisely enacted in the Farm Bill a series of "Freedom to Farm" reforms to the nation's Depression-era agriculture programs. The act had been in effect only a short time when worldwide economic problems and weather-related disasters in the United States forced a downturn in the farm economy, and provided opponents of the legislation an opportunity to unfairly blame the decline on the Freedom to Farm measures.

Produced by the
Thomas A. Roe Institute for
Economic Policy Studies

Published by
The Heritage Foundation
214 Massachusetts Ave., NE
Washington, D.C.
20002–4999
(202) 546-4400
http://www.heritage.org

This paper, in its entirety, can be found at: *www.heritage.org/library/execmemo/em786.html*

Congress reacted to the downturn in 1998 by authorizing enormous emergency relief packages for U.S. farmers. This year, the leadership of the House Agriculture Committee is arguing that the additional subsidies for farmers in H.R. 2646 are needed to ensure that such emergency relief packages are no longer necessary. Since the terrorist attacks of September 11, the bill's supporters have argued that it must be passed quickly to assure food security for the American people and the U.S. military effort.

Rather than actual national security concerns, it appears that political opportunism in the wake of the terrorist attacks and fears that the budget surplus may disappear are the real reasons for rushing legislation to increase farm subsidies one year before the 1996 Farm Bill expires. But H.R. 2646 takes a dramatic step backward in farm policy. It institutionalizes the transition payments created by the 1996 Farm Bill that were to phase out after seven years. And it wastefully adds unnecessary "countercyclical" payments, ostensibly as a safety net to protect farmers from low prices and low yields. In reality, these subsidies will merely perpetuate inefficient farming practices.

These counterproductive "countercyclical" payments are similar to the costly target price/deficiency payments that were eliminated in 1996. Reauthorizing such payments resurrects old agriculture policies that in effect had established a minimum export price for U.S. agricultural commodities—signaling to foreign producers and sellers the prices they could charge to undersell U.S. producers.

In addition to providing double subsidies for traditional program crops, H.R. 2646 would restore subsidies for all products for which a subsidy program had been eliminated in the past. And it would create new subsidy programs for products that have never been subsidized before.

The Administration's Approach. Prior to House passage of H.R. 2646, the Bush Administration issued a statement urging the House to defer action on the bill. It argued that "it is possible to craft a policy that is better for rural America, better for the environment, and better for expanding markets for our producers than H.R. 2646." The Administration also pointed out that action on the bill now would boost federal spending at a time of economic uncertainty, and that the bill's policies would last too long, encourage overproduction, jeopardize foreign markets, and fail to help the farmers most in need.

The Administration argued, for example, that this unprecedented 10-year farm bill would limit "flexibility to address the rapidly changing agriculture sector over the next decade." By returning to the pre-1996 approach, H.R. 2646 does not reflect changes in the farm sector due to new production and information technologies, globalization, industry consolidation, and environmental concerns. Consequently, its measures would contribute to overproduction by increasing production-based payments to farmers, and direct the greatest share of resources to those least in need of government assistance. Moreover, nearly half of all recent government payments have gone to the largest 8 percent of farms, usually very large producers, while more than half of all farmers shared in only 13 percent of the payments. The provisions in H.R. 2646 will merely increase this disparity.

Ironically, even as Congress is attempting to rush consideration of farm legislation, the U.S. Department of Agriculture's Economic Research Service recently projected that farm income for 2001 should set a new record—$3 billion higher than last year and slightly above the previous record set in 1993. Throughout the 1990s the sector's balance sheet steadily strengthened, with farm assets increasing more rapidly than liabilities. The average net worth or equity of U.S. farmers increased steadily, and today is nearly three times that of the average American.

Conclusion. Rather than follow the House's lead by prematurely passing farm legislation that returns to failed policies of the past, the Senate should carefully examine U.S. farm policy and ensure that any farm bill it considers is forward-looking. The long-term interests of the U.S. agriculture industry and the entire nation are still best served by eliminating federal subsidization. Until the industry's dependence on the American taxpayer ends, farmers will never be able to take full advantage of the opportunities provided by the global marketplace.

—John E. Frydenlund is Director of the Center for International Food and Agriculture Policy at Citizens Against Government Waste in Washington, D.C.