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Congress's Rush to Undo Farm Reform and Increase Subsidies Deserves a Veto

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Authorization for the current farm bill will not expire until September 2002, yet Senate Majority Leader Tom Daschle (D–SD) is pressuring Agriculture, Nutrition, and Forestry Committee Chairman Tom Harkin (D–IA) to report out costly market-distorting legislation that the Senate could vote on this year. The House already has passed an enormously expensive and hurried bill that, by increasing farmers' dependence on taxpayers, represents a wholesale retreat from pro-market agricultural reforms enacted in 1996. Rather than following that lead, the Senate should take this time before the current bill expires to consider new and innovative ways to help farmers break their counterproductive reliance on federal subsidies.

Such a plan has been put forth by Senator Richard Lugar (R–IN) in the Farm and Ranch Equity Act (S. 1571). This bill proposes phasing out the market-distorting crop subsidy programs that primarily benefit large agribusiness and replacing them with programs that offer farmers an opportunity to manage their own risks in ways that would be fair to all agricultural producers.

It is likely that the Senate committee will reject the Lugar approach and report legislation mirroring the House bill. If that happens, any compromise legislation that reaches the President's desk will be sure to take agriculture policy back to the past, to harmful policies that distort the market, undermine international trade opportunities, and gouge the taxpayers. President George W. Bush should let Congress know now that he will veto any farm legislation that is *not* rooted in pro-market principles. In effect, he should tell Congress to start over and take its time to craft good farm policy that will help farmers wean themselves from dependence on the taxpayers.

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The Need for Reform. Past farm policies that were largely based on crop subsidies proved to be ineffective. They encouraged overproduction, provided benefits to big farm operations that were the least in need of assistance, and jeopardized foreign markets for U.S. goods. Congress took a step in the right reform direction when it passed the 1996 Farm Bill (P.L. 104–127), which sought to eliminate programs that interfere with the market by controlling the supply of goods. Although the current system sets a top farm income limit of $150,000 for subsidies, the nation's largest farmers can circumvent that limit by dividing their farms into smaller entities to receive multiple payments. Taxpayers and consumers bear the burden of this "trickle-up economics."

If the U.S. agricultural industry is ever to be weaned from dependence on the taxpayer, Congress must establish strict guidelines for phasing out market-distorting subsidies. The House's Farm Security Act (H.R. 2646) does not include such guidelines; worse, it allows double subsidy payments to farmers, continuing the "transition payments" that began under the 1996 Farm Bill's Agricultural Marketing Transition Act (AMTA), while adding a program to provide "countercyclical" payments that fluctuate with the market.

A Market-Building Approach. S. 1571 takes a vastly different approach to ensure that farmers can weather crop and market fluctuations through market-based policies. Indeed, the Lugar bill represents a paradigm shift in agriculture policy. Specifically, it would:

- **Phase out subsidy programs.** S. 1571 would phase out most commodity programs over three years (2003 to 2005) and not extend AMTA payments after they expire for the 2002 crop year. Marketing assistance loans and other price support programs would be reduced incrementally during those three years and terminated in 2006. In their place would be a new system of vouchers that farmers could redeem each year in connection with the purchase or use of a choice of financial protection strategies. Based on a five-year average for gross farm revenue and limited to a maximum of $75,000, the vouchers would equal 6 percent of revenue up to $250,000; 4 percent between $250,000 and $500,000; and 1 percent between $500,000 and $1 million. Such a plan would help eliminate disparities in current programs that send the vast majority of payments to a relatively small number of wealthy farmers.

- **Provide sensible and economical risk-management options.** S. 1571 does not abandon the safety net concept, but it requires farmers to take an active role in deciding how their net will be created. While past programs guaranteed farmers certain payments or prices, S. 1571 offers farmers options for using vouchers to decide how to manage their own risks—a critical step in weaning them from federal subsidies. Farmers could choose a "whole farm revenue" insurance option that allows them to use the vouchers to offset premiums on income insurance purchased from the USDA's Risk Management Agency to cover 80 percent of their crop value (with eligible losses payable at 100 percent).

  Farmers could choose instead to deposit funds into a "whole farm stabilization account" and use the vouchers to match their deposits. In later years, if his net farm income fell below a computed five-year average, a farmer could withdraw funds from this account to cover all or part of the shortfall. Upon retirement, he would receive the balance in the account up to 150 percent of his average gross farm revenue. This option also increases risk management by allowing farmers to decide when and whether to draw on their account.

  A third option in S. 1571 is to redeem the safety net voucher for a cash payment in exchange for using one of a number of other approaches that would self-guarantee at least 80 percent of average farm revenue. For example, a farmer could purchase revenue insurance to provide that guarantee. Alternatively, he could combine the purchase of crop insurance with forward contracting, or use such practices as forward pricing, futures, and options trading to do so.

Though S. 1571 would not completely eliminate farm subsidy programs, it would move agriculture policy forward, minimize market distortion, and reduce the payment disparity between large and small farmers.

Conclusion. Congress should not rush to pass farm legislation that undermines or reverses the reforms enacted in 1996. Because the current farm bill does not expire until next fall, Congress should take this time to examine innovative and forward-looking policies, such as those in Senator Lugar's bill, that would better serve the long-term interests of the agricultural industry and the taxpayer.

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