The Heritage Foundation
LEADERSHIP FOR AMERICA

ISSUE BRIEF

No. 3687 | AUGUST 1, 2012

Farm Bill Tango: No Sidestepping Agriculture Reform

Diane Katz and Emily J. Goff

Despite considerable pressure to adopt a subsidy-laden farm bill as drought conditions wither crops, the House on Tuesday scrapped plans to extend massive agriculture subsidies for yet another year. The extension had been considered a lesser evil than the five-year reauthorization of costly farm programs, but evidently House Speaker John Boehner (R–OH) has realized (at last) what even *The Washington Post* and *The New York Times* grasp: Reform in agriculture policy is long overdue.

The lavish legislation approved by the Committee on Agriculture (H.R. 6083[1]) and its Senate-approved counterpart (S. 3240[2]) would continue to allow agribusiness to feed off taxpayers by hundreds of millions of dollars each year. A third alternative—H.R. 6228, proposed this week by Representative Frank Lucas (R–OK)—would have extended current programs for one year.

But sticking with bad policy—even for the short term—is not the solution. Nor is ad hoc disaster aid. Congress should instead end the Depression-era programs in favor of a modern market-based agriculture policy.

Taxpayer-financed crop insurance will compensate the vast majority of farmers, most of whom have realized record income in recent years. The greater risk is continuing the massive farm subsidies that distort planting decisions, skew commodity supplies, and enrich profitable agribusinesses at the expense of smaller farms.

Farm Policy Antiquated, Costly, and Wasteful. The underlying purpose of current farm policy is to shift the costs of agriculture risk to taxpayers, by either augmenting farmers' income or artificially inflating commodity prices.

But dramatic changes in the agricultural landscape have made agriculture far more resilient while also providing farmers with a variety of private-sector options to break free of dependence on government. The spectacle of drought-stricken ranchers clamoring for a taxpayer rescue underscores the reform imperative.

The current farm bill expires on September 30, but Boehner delayed a floor vote on the $957 billion H.R. 6083, which was approved July 12 by the Agriculture Committee. With the chamber deeply divided over H.R. 6083, Boehner initially considered a vote on a one-year extension rather than taking up the flawed legislation. That option, too, has rightfully been rejected.

Reform, Not Delay. The proposed extension was an attempt to sidestep acrimony as the election looms while addressing farm lobby entreaties for drought assistance and the demands of the welfare chorus for reauthorization of food stamp spending.

The livestock disaster provisions in the current farm bill already expired in September 2011. The proposed one-year extension would have largely maintained these expired spending levels for most programs. Livestock disaster payments would have received $500 million for 2013 and 2014, to be offset by a minuscule 0.5 percent cut in the "base acres" on which direct payments are calculated (for a $29 million savings), as well as a paltry $250 million from shaving conservation programs. Adding a $100,000 cap on individual disaster payments per crop year brought the

This paper, in its entirety, can be found at **http://report.heritage.org/ib3687**

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

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

purported savings to $399 million from 2013 to 2022 (relative to the current baseline), according to the Congressional Budget Office estimate.[3]

However, the savings were illusory: The cuts would have been extended over 10 years, while the spending was applied only to 2013–2014.

By comparison, the 2012 farm bills passed by the Senate and approved by the House Agriculture Committee would repeal direct and countercyclical payments. But both measures also create new "protections" by expanding already generous insurance subsidies despite dramatic increases in the past two decades. Between 2000 and 2009, for example, the crop insurance subsidy averaged $3.7 billion per year, up from $1.1 billion in the 1990s and $500 million in the 1980s.

All three bills would leave wasteful and economically harmful policies intact, including restrictions on trade, marketing quotas that inflate commodity prices, and a multitude of unwarranted conservation programs. Moreover, the bills fail to return food stamp spending to pre-recession levels despite a doubling of spending during the Obama Administration.

Demand Reform. With the extension option off the table, Congress should now turn to ending decades of market distortions and artificially inflated food prices by abolishing the tangle of corporate welfare, price controls, and import restrictions that comprise current agriculture policy and burden family budgets.

Just as important, lawmakers should jettison all the extraneous programs that clutter the farm bill—welfare, energy, broadband deployment—and consider agriculture policy on its merits. Reform has been stymied for years by the sprawling scope of previous farm bills and the concentration of special interests that constitutes a powerful force for the status quo.

Drought Damage Is Contained. Drought is tough on farmers, to be sure. But the lack of rainfall and searing temperatures will not ruin the agriculture sector. The U.S. Department of Agriculture (USDA) estimates that taxpayer-subsidized insurance covers more than 80 percent of the farmland in major field crops. Meanwhile, the farm sector in general is robust from years of record revenues and debt reduction. Net farm income hit a record $98.1 billion last year and is forecast by the USDA to reach $91.7 billion in 2012—the second highest level on record. Additionally, the top five earnings years during the past three decades have all occurred since 2004.

Concern about the drought is largely focused on corn—a staple of processed foods, livestock feed, and "biofuel." Supplies were tight before the drought, and ranchers fear unsustainable feed costs. Some have begun culling herds, which will likely lower meat prices in the short term but reduce supplies and prompt price spikes a year or so from now.

Of course, more corn would be available for feed if not for the federal quotas for "renewable" fuels—primarily corn-based ethanol—in the nation's gasoline supply. This artificial demand has sent feed costs soaring.[4] And then there is the USDA's new "Meatless Monday" crusade, which will not help ranchers at all.

The USDA has taken some steps to ease the effects of the drought. For example, the agency has "streamlined" its processing of disaster designations and lowered the interest rates on emergency loans from 3.75 percent to 2.25 percent—the first change since 1993. The USDA is also opening more federal land to livestock and lowering the payment rate.

Real Change Needed. Farming is risky, but so are all other entrepreneurial endeavors. There are also rewards to balance the hardships. As it is, farm subsidies, commodity quotas, and tariffs largely enrich upper-income producers of grains, oilseeds, cotton, milk, and sugar and ignore most other commodities. It is time for farmers to assume responsibility for their business, just as business owners do in every other sector of

1. See Tray Smith, "Conservative Opposition Puts Future of Farm Bill in Doubt," The Heritage Foundation, The Foundry, July 17, 2012, http://blog.heritage.org/2012/07/17/conservative-opposition-puts-future-of-farm-bill-in-doubt/; and Emily Moore, "Farm Bill Misses Crucial Food Stamp Reform," The Heritage Foundation, *The Foundry*, July 25, 2012, http://blog.heritage.org/2012/07/25/farm-bill-misses-crucial-food-stamp-reform/.
2. See Diane Katz, "Farm Bill 2012: Agriculture Policy Ripe for Reform," Heritage Foundation *Backgrounder* No. 2697, June 7, 2012, http://www.heritage.org/research/reports/2012/06/farm-bill-2012-agriculture-policy-ripe-for-reform; and Emily Goff, "Shallow Loss: The 2012 Farm Bill's New Subsidy Program," Heritage Foundation *Issue Brief* No. 3662, July 10, 2012, http://www.heritage.org/research/reports/2012/07/shallow-loss-the-2012-farm-bill-s-new-subsidy-program.
3. Douglas W. Elmendorf, Director, Congressional Budget Office, letter to the Honorable Frank J. Lucas, chairman, Committee on Agriculture, U.S. House of Representatives, July 30, 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/FarmBillExtension-House.pdf (accessed July 31, 2012).
4. Nicolas D. Loris, "Two Cheers for Ethanol Subsidies Expiring—but Costly Mandate Remains," Heritage Foundation *WebMemo* No. 3460, January 17, 2012, http://www.heritage.org/research/reports/2012/01/ethanol-subsidies-expiring-but-the-costly-mandate-remains.

the economy. A variety of options exist, including diversifying product lines, buying insurance at market rates, leveraging assets, and maintaining cash reserves.

With federal public debt exceeding $11 trillion, shifting even more of the costs of agriculture risk to taxpayers is simply unsustainable. Moreover, it is fundamentally bad policy. Congress should act now to eliminate unwarranted farm subsidies across the board. Real reform will require entirely new legislation—without piecemeal handouts to ranchers—and more of the backbone glimpsed in the House this week.

*—**Diane Katz** is Research Fellow in Regulatory Policy and **Emily J. Goff** is a Research Associate in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*