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Fiscal Cliff Deal Extends Wasteful Farm Subsidies

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Congress recently passed the so-called American Taxpayer Relief Act to avert the fiscal cliff.[1] In classic Washington style, lawmakers managed to squeeze in several unrelated provisions, including a nine-month, partial extension of the 2008 farm bill.

A fiscally prudent farm bill would have reformed the $85.2 billion food stamps program and eliminated or at least reduced commodity and crop insurance subsidies. The current extension, however, is preferable to the two traditional five-year bills passed by the Senate and reported out of the House Agriculture Committee, which would lock in nearly $1 trillion in taxpayer spending over 10 years.

The extension continues many long-standing agriculture programs, including direct payments and dairy subsidies, which amount to a raw deal for taxpayers and consumers. Both waste money, distort crop prices, and increase food costs. In the coming months, Congress should focus on reforms essential to reining in spending and commodity price distortions while also decoupling food stamps and other nutrition programs from farm subsidies and returning food stamps to pre-recession levels.

Costly Subsidies Continue. Despite the twin fiscal crises of spending and debt, and contrary to the claims of members of the farm lobby, the profitable farm sector will continue to collect generous subsidies under this farm bill extension.

The extension reauthorizes the direct payments program, which gives subsidies to farmers of certain commodities depending on their historical acreage and yield rather than price or production. These taxpayer-funded subsidies tend to benefit large-scale, more profitable farms—not smaller, more financially vulnerable farms. They are particularly difficult to justify, given recent record levels of net farm income and high crop prices. Both the Senate and House omnibus farm bills would have eliminated these outdated subsidies, which the Congressional Budget Office (CBO) estimates will cost $5 billion in 2013.[2]

Disaster assistance programs that expired with the last farm bill were also reauthorized in the fiscal cliff deal. These programs cover farmers who do not receive federally subsidized crop insurance. Congress has to decide whether it wants to appropriate the funding, but for each of fiscal years 2012 and 2013, the act allows $80 million to be spent on the livestock indemnity program; $400 million on the livestock forage disaster program; $50 million for emergency livestock, honeybees, and farm-raised fish producers; and $20 million on the tree assistance program, for a total of $550 million per year. These programs vastly expand taxpayer-funded subsidies for farmers, who should be employing private insurance to help guard against the risks of their business without taxpayers footing any portion of the bill.

The claim that milk prices would double at the beginning of 2013 proved to be a powerful incentive to pass a farm bill extension.[3] The act extends the Dairy Product Price Support program, which requires the government to buy dairy products at statutory prices in order to limit supply and maintain higher prices.[4] It also reauthorizes income subsidies for dairy farmers under the Milk Income Loss Contract program. These subsidies skew market prices of dairy products by manipulating

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supply and padding farmers' income, and they unduly burden taxpayers.

Reform Agriculture Policy in the Next Bill. When crafting the next farm bill, lawmakers should seize the opportunity to enact crucial reforms to lower spending and improve agriculture policy. Congress should:

- Address food stamps and other non-farm programs separately from actual agriculture programs to narrow the scope of the farm bill and reduce the political pressures that obstruct agricultural reform efforts. Absent that, lawmakers should return funding to pre-recession levels and limit its growth thereafter to that of inflation and population growth.[5] It is the second largest and most quickly growing welfare program, having doubled since 2007. Transforming the program from one that gives unconditional aid to one with a work requirement for able-bodied adults would also reduce dependence.

- Cleanly eliminate the outdated and wasteful direct payments program. This means lawmakers should avoid the fatal flaw in the House and Senate omnibus farm bills of putting new, potentially *more* costly subsidies in its stead.[6]

- Eliminate all dairy subsidies in the next farm bill, making sure to avoid replacing old subsidies with new ones—however well-intentioned they may be. One big problem dairy farmers face is high feed costs, and Congress could actually help them by eliminating the ethanol mandate, which artificially inflates the prices of corn and other grains that go into feed.[7]

- End the conservation, energy, and research programs that are authorized—but not funded—by the bill, including organic agriculture and specialty crop research, the conservation reserve program, biofuels programs, farmer's markets promotion, and rural energy programs. Such special interest programs are not functions of the federal government and should be performed by the private sector—if in fact they are needed at all.

- Allow farmers to employ private solutions, such as private insurance, crop diversification, and futures contracts and hedging, to manage their risk. Taxpayer-funded programs such as the federal crop insurance program should not be the solution. Attempting to eliminate the risks of farming via subsidies, as current agriculture policy does, actually encourages farmers to take *more* risks or not manage their risk responsibly.[8]

A New Approach to Agriculture. Before the current extension ends, lawmakers should consider a new approach to agriculture policy—one that sheds taxpayer-funded subsidies and their perverse incentives and instead embraces market solutions. They can build on the reforms in the House and Senate bills, justifiably ending direct payments and other commodity subsidies; they can go further by eliminating crop insurance subsidies in favor of market-based ways to manage risk. These and other agriculture subsidies undermine the free market and hit citizens twice—first as taxpayers and then as consumers. Now is an opportune time to end them.

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