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Farm Bill "Reform" Is in the Eye of the Beholder

by Sallie James

Introduction

Earlier this month, the House and Senate agriculture committees passed their respective versions of the legislation they hope will govern U.S. agricultural policy for the next five years. Although both chambers have attempted to promote their bills as a cheaper, more sensible policy than what would occur if the current programs were simply extended, neither proposal is a good deal for American consumers or taxpayers. Nor would the programs move the United States in a more market-friendly direction. What is more, the few "reforms" that the committees did make may leave America more vulnerable to international lawsuits.

For decades (most recently in 2008), Congress has set American farm policy by passing a series of acts, known commonly as the "farm bill," every five years or so. The scope of the farm bill has expanded over time, to the point where farm subsidies, as typically understood, now make up a relatively small share of the total spending on the farm bill. Nutrition programs, including what used to be known as "food stamps," make up the lion's share of the budget—about $80 billion per year—and the bill now includes energy and environmental programs, too.

The 2008 farm bill was supposed to expire in September 2012, but the looming 2012 presidential election meant that partisan and intercameral differences were too difficult to reconcile. Indeed, a farm bill didn't even get to the House floor. Instead of a new five-year bill, Congress passed a one-year extension of the 2008 farm bill in the hope of buying time until a more auspicious political atmosphere could be established.

The farm bill process resumed in earnest in late April and early May, as Senate and House agriculture committee leaders labored to get their bills passed before the summer recess. With the 2012 federal election behind them, they want to secure a full five-year farm bill and avoid another simple extension of a bill they see as insufficient for farming interests.

The mark-ups passed by the agriculture committees are largely similar to the bills that were passed by the same committees last year. The new bills eliminate many existing commodity programs, including the direct payments program, and replace them with target price programs and revenue insurance programs. Interestingly, the 2012 Senate farm bill draft did not include a target price program: including one in the latest draft, albeit with a different price-setting formula to the House version, pretty much guarantees that a target price program of some sort will be included in the final bill. While both bills ostensibly cut spending, and therefore represent a (very small) step in the right direction, the changes to the programs' structures represent a step backward from some of the reforms to farm programs made in the 1996 and 2002 farm bills.

Steps Backward

From the perspective of free-market proponents, what the farm bill proposals offer with one hand, they take with the other. They also contain provisions that should worry those who viewed farm subsidies—or rather the conditions they carried—as a way to improve the natural environment. And, on balance, they make little to no progress toward what should be the ultimate end goal: reducing the role of the federal government in farm and rural affairs.

First, the spending cuts contained in the bills are relatively modest, especially in light of the trillions of dollars of debt and deficits facing taxpayers. The Senate committee's farm bill (S.954) would cost $955 billion over 10 years (2014–2023), according to the Congressional Budget Office (CBO), which is a savings of $18 billion compared with the baseline (i.e., the cost of simply continuing current programs).[1] The House committee's farm bill (H.R.1947) would cost less ($940 billion) and save more ($33.3 billion) over the same time period.[2]

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Modest as even these cuts would be, recall that these "cuts" are compared with the spending that would occur if the current programs were extended, and are not necessarily cuts from actual current spending. They also rest on projections and assumptions that do not always hold up. In fact, a study by the American Enterprise Institute points out that CBO estimates are based on an assumption that current high commodity prices will continue, and the AEI study estimates that projected costs would "balloon" if commodity prices returned to their longer-run average.[3]

Much of the savings in both bills come from two places: eliminating the direct payments program, currently projected to cost $4–5 billion a year, and reducing spending on nutrition programs (by $4 billion over 10 years in the Senate bill, and about $20 billion in the House bill). Some of the savings are returned to farmers in the form of higher crop insurance subsides, which the CBO estimates will cost almost $9 billion per year for the next 10 years, and new farm risk management programs. They even introduce the concept of "target prices," which surely deserve no place in a free-market economy. Prices convey information, after all, and interfering with the process that tells farmers how much to grow, and consumers how much to consume, is incredibly misguided.

The decades-old protectionist sugar program that shovels billions of dollars a year to sugar growers (at consumers' expense) remains in the bills intact. The proposed changes to the federal dairy program are hardly better: they replace currently largely defunct price-support programs with margin protection and supply management programs that would tax milk producers who produce "too much" when prices are low. According to the CBO, the new Dairy Market Stabilization Program could also cost the private sector up to $100 million annually just to comply with its information and reporting requirements.[4] Both committee bills do reduce marketing payments to U.S. cotton producers, as a concession to a series of adverse rulings by the World Trade Organization (WTO) during the first decade of the 21st century that has induced the federal government to send almost $150 million per year to Brazilian cotton farmers in compensatory payments to stave off retaliation.[5]

In a worrying sign for environmental advocates, there is some indication that some of the conservation programs may lose their effect. In order to qualify for direct payments, farmers had to agree to enact various environmental practices on their land. With direct payments gone, those incentives would disappear.

Something of a possible solution was found earlier in May when farming and some conservation groups announced that they had come to a deal: farmers would accept conditions related to conservation compliance in order to qualify for crop insurance premium subsidies. In return, the conservation groups agreed not to push for payment limits or means testing on farm subsidies, something they had previously promoted as part of their agenda. The chance of that deal being reflected in the final bill, though, is far from certain, given the strong opposition from some farm-state congressmen who have suddenly seen religion on the importance of property rights and economic liberty.[6]

These steps backward (from an environmental advocate's perspective) come on top of the adverse environmental effects of high commodity prices that are already undermining some of the programs that were designed to improve the quality of agricultural land. When farmers receive a higher price for their product, they have an incentive to plant more, including on environmentally and economically marginal land (even encroaching onto golf courses).[7]

Essentially, then, the bills represent less than whole-scale reform, and more of a reorientation of farm programs. Broadly, both proposals suggest a move away from direct subsidies and toward programs that are more likely to distort markets because they are more closely tied to production.

Worryingly, the proposals suggest an even lower level of market-oriented reform than did the 2008 farm bill—itself no model of free-market doctrine. Back then the shadow of budget pressures, recent WTO rulings against some U.S. farm programs, high commodity prices, and new knowledge about the recipients of farm subsidies (thanks to transparency efforts by nonprofits such as the Environmental Working Group [EWG]) gave some impetus to making changes to the way American farm policy is structured.[8]

Why the recidivism now? The budget pressures are still there, to be sure, and so are high commodity prices. And the light shed by the EWG and others on the billions of dollars given to farmers regardless of how much they produce (or even if they still farm the land at all) has meant that even the most farmer-friendly members of Congress recognize that direct payments are politically untenable.

The international pressure, however, is no longer a significant factor. The deference given by Congress to World Trade Organization disciplines is far weaker that it was in the 1990s or early years of the 21st century, mainly owing to the lack of progress in the WTO's current round of multilateral trade liberalization negotiations. The combination of domestic budgetary pressure and a weaker perceived incentive to heed international trade rules leads quite naturally to less spending, but spending on more distorting programs.

That's because the WTO rules render the nature and structure of farm payments, and not just the budgetary outlay, relevant to considerations of compliance. The WTO classifies farm programs, via an esoteric nomenclature of colored "boxes," as more or less market- and trade-distorting.

WTO members are no strangers to the practice of "box shifting," whereby they tweak farm programs to avoid breaching limits in certain types of spending by moving subsidies from one classification, or "box," to another that has more generous allowances. But the bills recently passed by the agriculture committees represent a perverse development: reverse box shifting. As a recent specialist trade journal put it:

> Shifting funds from direct payments to insurance may raise the apparent level of U.S. farm subsidies by WTO accounts, even if the actual level of spending remains the same or even declines, because [WTO] subsidies are counted not just by how much is spent but how the money is allocated. . . . Previous farm bills have moved the United States away from more

> to less trade-distorting subsidies. The bills now under debate would do just the opposite, however, implicitly based on the belief that . . . it is more important to satisfy domestic than international critics.[9]

That is bad news for all who care about promoting free markets, freer trade, and the rule of law in the international sphere.

Must Try Harder

The bills passed by the House and Senate agriculture committees are nowhere near sufficient considering the changes needed to U.S. agricultural policy. They are still far too costly, and they make little or no acknowledgment (much less practical moves) toward shrinking the role of the federal government in agricultural affairs. Indeed, most intracommittee fights reflected regional and crop rivalries, and rural-urban divisions over which programs would bear the marginal cuts proposed, rather than a truly fundamental debate about reducing the government's footprint.

Congress needs to have that fundamental debate, and to give taxpayers and consumers agricultural reform worthy of the name.

Notes

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3. Vincent H. Smith, Bruce A. Babcock, and Barry K. Goodwin, *Field of Schemes: The Taxpayer and Economic Welfare Costs of Shallow-loss Farming Programs* (Washington: American Enterprise Institute, 2012), http://www.aei.org/files/2012/05/29/-field-of-schemes-the-taxpayer-and-economic-welfare-costs-of-shallow loss-farming-programs_173428924992.pdf.
4. Letter from Douglas W. Elmendorf, director of the Congressional Budget Office, to House Agriculture Committee Chairman Frank Lucas, May 23, 2103, http://www.cbo.gov/sites/default/files/cbofiles/attachments/hr1947_LucasLtr.pdf.
5. Kevin Walker, "Federal Bill May Eliminate Payment to Brazil Cotton," Farm World Online, May 9, 2013, http://www.farmworldonline.com/news/ArchiveArticle.asp?newsid=16796.
6. Sallie James, "Farmers Starting to Resent Strings Attached to Subsidies," *Cato@Liberty* (blog), May 9, 2013, http://www.cato.org/blog/farmers-starting-resent-strings-attached-subsidies.
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