

Bloomberg

Farm-Subsidy Plan May Keep Support for Major Crops, Groups Say

By Alan Bjerga - Oct 18, 2011

A plan to shift some [farm subsidies](#) into a revenue-protection measure may cost more than expected and won't make necessary changes to agricultural programs, according to advocates for lower payments.

A bill backed by Democratic senators [Richard Durbin](#) of Illinois and Sherrod Brown of Ohio and Republicans [Richard Lugar](#) of Indiana and [John Thune](#) of [South Dakota](#) would consolidate several subsidy programs into a plan to aid farmers when revenue declines. The proposal would save \$19.8 billion over 10 years, according to the [Congressional Budget Office](#). The agriculture committees of both houses have pledged to come up with \$23 billion in cuts by Nov. 1.

Subsidies are an inviting target for congressional budget cutters, after the Department of Agriculture forecast record farm profits of \$103.6 billion this year as livestock sales expand and exports set records. Still, the bill proposed by the four senators may not save as much as projected, as moving to programs that guarantee revenues could tempt lawmakers to boost farm aid further should prices plunge.

"It's a way to lock in high prices," said Sallie James, a farm-policy analyst with the [Cato Institute](#), a policy center in [Washington](#) that advocates for reduced [government spending](#). "If you think commodity prices will stay high until kingdom come, this saves money. Color me skeptical."

\$23 Billion in Cuts

Spending on agriculture, rural development and nutrition should be cut by no more than \$23 billion, leaders of the U.S. House and Senate farm panels last week told the supercommittee charged with reducing the federal deficit yesterday. Higher crop prices, which result in lower subsidies, already will drive down payments to an estimated \$10.2 billion this year, less than half the record \$24.4 billion in 2005, according to government data.

The 12-member bipartisan supercommittee has until Nov. 23 to come up with a plan to reduce the federal [budget deficit](#) by at least \$1.2 trillion. The law that created the panel requires automatic, across-the-board spending cuts if Congress doesn't approve its recommendations.

Several plans for saving money while protecting farmers have been proposed by groups and lawmakers, including the American Soybean Association and Senator [Kent Conrad](#), a North Dakota Democrat. The recommendations the agriculture committees will adopt will probably incorporate elements of the major proposals, said Chandler Goule, the chief lobbyist for the National Farmers Union, the second-biggest U.S. farmer group.

‘Shallow Losses’

The bill backed by [Durbin](#), [Brown](#), Thune and Lugar would create a program to protect farmers of major crops including corn, wheat, rice, soybeans and cotton from “shallow losses,” providing income during periods of long-term price declines or extended weather disasters. The measure would guarantee income within an average of prices in previous years, smoothing out some of the recent volatility in futures trading: Wheat traded in [Chicago](#), for example, has seen annual gains of 77 percent and 47 percent since 2007 and a loss of 31 percent.

“These programs will protect from long-term declines from drought or precipitous declines in prices,” said Sam Willett, a senior policy director for the St. Louis-based National Corn Growers Association, a lobbying group for the biggest U.S. crop.

Unlike a \$5 billion annual “direct payment” program of subsidies that go to farmers regardless of price -- an initiative the new plan may replace -- “this is designed to assist producers only when they need it,” Willett said.

The plan may have some support among lawmakers trying to maintain a safety net for farmers while spending is being reduced, James said. Still, it may not go far enough in reforming farm policy that critics say distorts trade and fails to promote the most nutritious food supply possible, said Jim French, a farmer outside Hutchinson, [Kansas](#), and a paid advocate for Oxfam America, the U.S. arm of the global humanitarian group.

‘End-Run Maneuver’

“It looks like an end-run maneuver against programs that would serve an equitable food system,” said French, who grows wheat and sorghum. With the demand for cuts creating a chance to re-examine agriculture subsidies in general, the new proposed payment is a missed opportunity, he said. “It benefits the same crops when we should be broadening what we support,” he said.

Willett said the new program may help ensure a consistent safety net is applied to the crops U.S. consumers depend upon most. “If you look at prices, the market tells us we need more corn,” he said. In the current budget environment, “you have to be innovative and accepting of reforms,” he said.

Corn futures traded in Chicago rose 14 percent in the past year through yesterday.

Federal subsidies encourage greater production and reduce raw-materials costs for grain traders such as Cargill Inc., [Bunge Ltd. \(BG\)](#) and Archer Daniels Midland Co. Meatpackers that rely on corn-fed livestock, including [Tyson Foods Inc. \(TSN\)](#), and food processors such as [Kraft Foods Inc. \(KFT\)](#) also benefit.