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Farm subsidy reform could backfire

Forecast savings rely on crop prices remaining historically high

By Sean Lengell
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A Senate proposal to end direct federal payments to farmers and replace it with a new subsidy program gambles that crop prices will remain at historically high levels, a tactic that could backfire and double its cost, some experts say.

The proposed "shallow loss" program would pay farmers when decreasing yields or declining crop prices result in a farmer's revenue falling below historic averages. The program would save about $2 billion annually compared with the current $5 billion direct payment system — but only if crop prices remain near their current levels. If prices dip, the saving could disappear and the cost could exceed the direct payment price tag, experts say.

"On balance, the policy shift is ill considered from a broader public policy perspective," said Vincent Smith, an economics professor at Montana State University and a visiting scholar at the American Enterprise Institute, a conservative-leaning Washington think tank.

The plan "may even considerably increase further taxpayer spending on farm programs if commodity prices moderate from their recent record high levels."

A decrease in grain prices "is well within the realm of possibility," Mr. Smith said.

"This bill reflects a step backward," added Scott Faber, a spokesman with the Environmental Working Group, a Washington nonprofit that advocates for health, environmental and government subsidy reforms.

"The bill replaces one subsidy for an equally troubling new entitlement program."

The shallow-loss proposal is included in the Senate's five-year farm and food bill, which cleared the chamber's Agriculture Committee last week by a bipartisan 16-5 vote. The "farm bill" now moves to the full Senate for consideration. The House is expected to take up its version later this year.

Chris Edwards, director of tax policy studies at the libertarian-leaning Cato Institute, said the direct-payment program for farmers should expire without a replacement because farmers already have access to several other federal subsidy and insurance programs.

“The idea here is to reduce the deficit and safe taxpayers money, so the idea should be to eliminate the program completely and not replace it with anything,” he said.

Southern farmers, particularly those growing rice and peanuts, also have complained that a shallow loss system would put them at a competitive disadvantage because their crops aren’t grown and marketed as are others.

House Agriculture Committee Chairman Frank D. Lucas, Oklahoma Republican, said he was “disappointed” with the Senate’s push for the program, saying it discriminates against some farmers.

“A shallow loss program is not a safety net,” he said. “It does not provide protection against price declines over multiple years and it does not work for all commodities.”

Senate Agriculture, Nutrition and Forestry Committee Chairwoman Debbie Stabenow, Michigan Democrat, and the panel’s top Republican, Sen. Pat Roberts of Kansas, defended the legislation, saying the Senate is committed to cutting costs.

“By eliminating duplication, and streamlining and consolidating programs, we were able to continue investing in initiatives that help farmers and small businesses create jobs,” Mrs. Stabenow said.

The half-trillion-dollar farm bill is designed to cut the federal deficit overall by $23 billion when compared with spending projections under the current measure. Some of the savings would come from cuts to environmental and nutrition programs.

“The bill needlessly cuts programs to feed the hungry and protect the environment to help fund a new entitlement program to guarantee the income of some very profitable businesses,” Mr. Faber said.