Research

The 2014 Farm Bill Subsidy Reforms Don’t Go Far Enough

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President Obama signed the 2014 farm bill today, a massive piece of legislation covering twelve titles, including provisions on food stamps, conservation, and rural development that dates back to the Great Depression. This paper will focus solely on the agriculture subsidy provisions—commodity programs and crop insurance.

These programs traditionally have been protectionist. The recently passed reauthorization makes major reforms to the commodity programs by eliminating many subsidies and shifting to a more insurance-based system. But even with these reforms, the federal government maintains much control over the industry, artificially inflating prices and heavily subsidizing crop insurance premiums.

COMMODITY PROGRAMS

Commodity programs support farmers of a certain traditional class of crops. The farmers who produce these crops—corn, wheat, soybeans, cotton, rice, peanuts, and other covered crops—have received significant government support for many years. The 2014 farm bill reforms this extensive system through three key changes to commodity programs—elimination of direct payments to farmers, and replacement of the current Counter-Cyclical Price program and the Average Crop Revenue Election program.

Direct Payments

Eliminating direct payments is a major improvement in U.S. agriculture policy. Direct payments are subsidies paid to farmers and their spouses each year based on historical production of covered crops.[1] To qualify, a farmer must meet only two requirements: produce a covered crop, and have less gross income than the statutory threshold.[2] Lower prices, decreased margins, lost production due to natural disasters, etc.—none of these things need to happen to qualify for a direct payment. American taxpayers, in essence, pay farmers for simply performing their chosen occupation, even in years favorable to farming. Repealing this subsidy is a positive step to reforming commodity programs.

Counter-Cyclical Programs and Revenue-Based Programs

The Counter-Cyclical Price program is replaced with Price Loss Coverage (PLC). PLC's only real difference from the counter-cyclical program is the increased reference prices. The programs are virtually identical in all other ways. Counter-cyclical programs pay farmers when crop prices drop below a statutorily set reference price.[3] Payments can be made for up to 85 percent of historical acreage.[4]

Average Crop Revenue Election is replaced in the 2014 farm bill with Agriculture Risk Coverage (ARC). ARC guarantees farm revenue will be 86 percent of benchmark revenue, which is determined using average yields and average market prices for covered crops for the past 5 years.[5] ARC also allows farmers to choose between county and individual coverage options, a shift from previous state-based coverage.[6]

A farmer must choose either PLC or ARC. This choice applies through 2018 and cannot be changed.

Programs like PLC and ARC are undesirable. They pick winners and losers and discourage economic efficiency. These subsidies only apply to favored crops like wheat, corn, and soybeans while other crops, such as fruits and vegetables, do not have a comparable program. This guarantees profits for the favored crop categories and encourages farmers to plant the covered crops, regardless of whether the market demands those crops or they are suitable for the land to be farmed. Farmers shoulder little risk while American taxpayers guarantee profitability.

Dairy

Dairy subsidies receive substantial overhauls in the 2014 farm bill, but the changes do not take a significant step towards making dairy policy more economically efficient. Federal milk marketing orders, the rules governing sales of fresh milk from farmers to dairy processors,[7] remain permanent law and unchanged.

The federal government supports dairy prices and dairy farmer income through direct price support under the Dairy Product Price Support Program (DPPSP) and the Milk Income Loss Contract (MILC) program.[8] The farm bill repeals these two programs and dairy export subsidies, replacing them with the Dairy Producer Margin Protection Program (DPMPP), an insurance program that pays dairy farmers when the national margin on milk sales falls to below a set threshold.[9] The margin is the income over feed cost to produce milk.[10] Farmers may purchase additional coverage for higher margins.[11] This new margin insurance is highly subsidized—the premiums are fixed—and ripe for abuse from farmers seeking the maximum payout.[12]

The 2014 farm bill also directs the Secretary of Agriculture to establish a dairy product donation program.[13] In the event of low margins for two consecutive months, the Secretary is authorized to purchase excess dairy products at market prices for distribution to low income groups.[14] This section is the conference committee's compromise program instead of the controversial supply management program in the Senate's version of the farm bill. The supply management program was intended to be a counterbalance to the new margin insurance program, which could encourage overproduction and drive down prices.[15]

Current federal dairy programs are the antithesis of free market. Despite the massive overhaul this farm bill proposes, pricing will continue to be set by the federal government rather than the market. The new margin insurance program proposes to shift more risk to farmers, but the heavy subsidies and fixed premiums keep the burden on taxpayers. The dairy product donation program is flawed as well. While donations to low income groups are laudable, buying up excess supply in order to further manipulate the dairy market is absurd. The dairy market is so tightly controlled that it is completely unresponsive to consumer demand.

Sugar

The sugar subsidy program was reauthorized through 2018 without any substantive changes.[16] Both controversial and protectionist, it hinders free trade, inflates domestic sugar prices, and costs taxpayers millions of dollars. Congress's failure to take steps to improve our flawed sugar policy is disappointing.

CROP INSURANCE

The farm bill enhances the subsidized federal crop insurance program through increased funding and new insurance products. In combination with the elimination of commodity programs, enhancing crop insurance is a good step to a more economically efficient agriculture policy. Premiums are still heavily subsidized, however, keeping the risk on taxpayers rather than shifting it to farmers.

Supplemental Coverage Option

The bill adds the Supplemental Coverage Option (SCO), which is additional coverage designed to cover part of the deductible for the main crop insurance policy, reducing the farmer's out of pocket loss.[17] SCO is triggered only if losses at the county level are greater than 14 percent of normal levels.[18] Premiums are subsidized at 65 percent.[19]

Stacked Income Protection Plan (STAX)

STAX is a new crop insurance program for upland cotton.[20] It is designed to resolve Brazil's World Trade Organization case against the U.S. regarding its cotton program.[21] STAX is a revenue guarantee based on expected county revenues, and it can be used stand-alone or in combination with an individual crop insurance policy.[22] STAX premiums are subsidized at 80 percent.[23]

THE FARM BILL HAS ROOM FOR IMPROVEMENT

The 2014 farm bill passed with bipartisan support. Many improvements were made from initial language—costly subsidies were eliminated and more crop insurance options were created. But the federal government still maintains tight control over the agriculture market, especially the dairy and sugar industries. Taxpayers still are burdened with the risks that farmers should bear themselves. Subsidies and tight import restrictions irritate our trading partners, limiting international access for our crops.

In a few years, Congress will debate another farm bill. In that bill, Congress should reduce if not eliminate our commodity programs, reduce crop insurance premium subsidies, and ease import restrictions. In the meantime, Congress should work to facilitate free trade agreements that will open international markets for crops. These changes will help create a more economically efficient market, reduce the taxpayer burden, and ultimately benefit consumers.

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[1] USDA.gov, Direct Payments, http://ers.usda.gov/topics/farm-economy/farm-commodity-policy/program-provisions/direct-payments.aspx#.Uul1IhBdVfE.

[2] Ibid.

[3] USDA.gov, Counter-Cyclical Payments, http://ers.usda.gov/topics/farm-economy/farm-commodity-policy/program-provisions/counter

-cyclical-payments.aspx#.Uul1WxBdVfE.

[4] H. Rept. No. 113-333 (2014) (Conf. Rep.)

[5] Ibid.

[6] Ibid.

[7] Agricultural Marketing Agreement Act of 1937

[8] Martin Bozic, John Newton, and Cameron S. Thraen, “Dairy Subtitle to the 2013 Farm Bill: Critical Issues and Options,” Food Policy Research Center Issue Brief, October 2013.

[9] Ralph M. Chite, “The 2013 Farm Bill: A Comparison of the Senate-Passed (S. 954) and House-Passed (H.R. 2642, H.R. 3102) Bills with Current Law,” Congressional Research Service, October 18, 2013, available at http://www.fas.org/sgp/crs/misc/R43076.pdf.

[10] Martin Bozic, John Newton, and Cameron S. Thraen, “Dairy Subtitle to the 2013 Farm Bill: Critical Issues and Options,” Food Policy Research Center Issue Brief, October 2013.

[11] Ralph M. Chite, “The 2013 Farm Bill: A Comparison of the Senate-Passed (S. 954) and House-Passed (H.R. 2642, H.R. 3102) Bills with Current Law,” Congressional Research Service, October 18, 2013, available at http://www.fas.org/sgp/crs/misc/R43076.pdf.

[12] Martin Bozic, John Newton, and Cameron S. Thraen, “Dairy Subtitle to the 2013 Farm Bill: Critical Issues and Options,” Food Policy Research Center Issue Brief, October 2013.

[13] H. Rept. No. 113-333 (2014) (Conf. Rep.)

[14] Ibid.

[15] Martin Bozic, John Newton, and Cameron S. Thraen, “Dairy Subtitle to the 2013 Farm Bill: Critical Issues and Options,” Food Policy Research Center Issue Brief, October 2013.

[16] H. Rept. No. 113-333 (2014) (Conf. Rep.)

[17] Ibid.

[18] Ibid.

[19] Ibid.

[20] Ibid.

[21] Dennis A. Shields and Randy Schnepf, "Farm Safety Net Provisions in a 2013 Farm Bill: S. 954 and H.R. 2642," Congressional Research Service, July 24, 2013, available at https://www.fas.org/sgp/crs/misc/R42759.pdf.

[22] H. Rept. No. 113-333 (2014) (Conf. Rep.)

[23] Ibid.