Congress Moves To Create Multi-Billion Farm Subsidy

Manufacturing.net

WASHINGTON (AP) -- Farm-state lawmakers are moving to create a whole new subsidy that would protect farmers when their revenue drops -- an unprecedented program that critics say could pay billions of dollars to farmers now enjoying record-high crop prices.

The subsidy, free insurance that would cover farmers' "shallow crop losses" before their paid insurance kicks in, has been pushed by corn and soybean farmers who could benefit the most from the program. It would replace for the most part several other subsidy programs, including direct payments preferred by Southern rice and cotton farmers. Growers get the direct payments regardless of crop yields or prices. They don't even have to farm.

The income insurance plan has a diverse group of opponents -- environmental groups that have long argued against farm subsidies, conservatives who say the plan won't save the government much and even one of the nation's largest farm groups. The American Farm Bureau Federation says the beefed-up insurance could encourage farmers to make riskier decisions and drive up the price of land.

Top Republicans and Democrats on the House and Senate Agriculture Committees are looking at folding the new subsidy into a farm bill proposal they are quietly crafting as part of their charge by the deficit-cutting congressional supercommittee to cut farm spending.

The four lawmakers -- Senate Agriculture Chairwoman Debbie Stabenow, D-Mich.; Sen. Pat Roberts, R-Kansas; House Agriculture Chairman Frank Lucas, R-Okla. and Rep. Collin Peterson, D-Minn. -- have said they will shave $23 billion from farm and food aid programs over the next decade. The new revenue insurance program would be considered part of their effort to achieve that goal.

The committee leaders have not yet released the proposal. It is unclear just how the revenue insurance will be crafted and what effort will be made to control its costs. Critics fear a worst-case scenario that would use current, record-high crop prices as a baseline for average revenue. Farmers who suffer minor revenue losses in future years could get major payouts, which could eat up some of the $23 billion in promised savings.

Federally subsidized crop insurance programs are now costing taxpayers $7 billion to $8 billion despite the biggest farm profits in nearly four decades. The Agriculture Department predicts net farm income by the end of this year till total $103.6 billion, a rise of 31 percent from 2010. The department says this is the highest value since 1974, adjusted for inflation.

Replacing the direct payments seems inevitable. Critics have singled them out and even farm groups now say they are politically indefensible. But critics of the new income insurance subsidy say it could create newproblems for taxpayers and farmers alike.

"The only rationale for a new federal revenue guarantee program on top of existing revenue insurance programs is that it seems politically easier to defend than direct payments," said Bruce Babcock, an agricultural economist at Iowa State University. Babcock released a report last week calling revenue insurance a "boondoggle." The report was commissioned by the Environmental Working Group, an advocacy group that has long opposed federal farm subsidies.

Agriculture committee leaders argue that the revenue insurance plan makes sense because farmers would receive payments when prices fall or their crops are destroyed, unlike direct payments which are paid in good times and bad.

"We've got to move away from paying people when they don't need it," Peterson said amidst negotiations last week. "In this fiscal climate you can't justify it."

He said negotiators are still working on some of the problems raised by critics, including the potential that the revenue insurance could overpay farmers in good times. He said the lawmakers may end up proposing different programs for different crops.

Peterson maintains that subsidies are still needed to manage risks.

"We are hoping to keep stability in agriculture so their food prices don't double," he said. "We're trying to make sure the United States produces the cheapest food."

The "shallow loss" insurance programs could begin paying out once a farmer's revenue falls by as little as 5 or 10 percent. Federally subsidized crop insurance, for which farmers pay premiums, would kick in with deeper losses.

Agricultural economist Babcock and the Farm Bureau both say insurance should only kick in when a farmer has major losses.

Wisconsin Rep. Ron Kind, a Democrat who unsuccessfully led efforts to reduce farm subsidies during debate over the last farm bill four years ago, said he is concerned that those who want to see subsidies scaled back will be shut out of the process.

SOURCE [1]

Links:
[1] http://www.manufacturing.net//News/2011/11/Food-Beverage-Congress-Moves-To-Create-Multi-Billion-Farm-Subsidy/