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43. Agricultural Policy

Congress should

- phase out farm subsidy programs because they are harmful to taxpayers, the economy, and the environment; and
- eliminate trade protections on agricultural goods while working to pursue liberalization in global markets.

The U.S. Department of Agriculture (USDA) spends $25 billion or more a year on subsidies for farm businesses. The particular amount each year depends on the market prices of crops, the level of disaster payments, and other factors. Most agricultural subsidies go to farmers of a handful of major crops, including wheat, corn, soybeans, and cotton. Roughly a million farmers and landowners receive federal subsidies, but the payments are heavily tilted toward the largest producers.

Some farm subsidy programs counter adverse fluctuations in prices, revenues, and production. Other programs subsidize farmers' conservation activities, insurance coverage, product marketing, export sales, research and development, and other activities. Agriculture is no riskier than many other industries, yet the government has created a uniquely large welfare system for farmers.

In 1996, Congress enacted some pro-market reforms under the "Freedom to Farm" law. The law allowed farmers greater flexibility in planting and moved toward reliance on market supply and demand. But Congress reversed course in the late 1990s and passed a series of supplemental farm subsidy bills. As a result, subsidies that were expected to cost $47 billion over the seven years of the 1996 law ended up costing $121 billion. In 2002, Congress enacted a farm bill that further reversed the 1996 reforms. The law increased projected subsidy payments, added new crops to the subsidy rolls, and created a new price guarantee scheme called the "counter-

cyclical" program. In 2008, Congress overrode a presidential veto to enact farm legislation that added further subsidies. The law created a permanent disaster program and added a revenue protection program for farmers to lock in profits from high commodity prices. It added a sugar-to-ethanol program to help keep sugar prices artificially high, and it added new subsidies for "specialty crops" such as fruits and vegetables.

In 2014, Congress passed yet another huge farm bill. The bill changed the structure of subsidies but did not cut the overall level of benefits. The law ended the direct payment program, the countercyclical program, and the Average Crop Revenue Election program. However, it expanded the largest farm subsidy program—crop insurance—and added two new subsidy programs, the Agricultural Risk Coverage (ARC) program and the Price Loss Coverage (PLC) program. When the 2014 farm bill was passed, supporters claimed that it would save taxpayer money, but the opposite has happened. The Congressional Budget Office now estimates that the ARC and PLC programs will cost billions of dollars a year more than originally promised. The cost of crop insurance is also rising.

All of these subsidies ensure that farm incomes are much higher than the incomes of most other Americans. Farm programs are welfare for the well-to-do, and they induce overproduction, inflate land prices, and harm the environment. They should be ended, and American farmers should stand on their own two feet in the marketplace.

Eight Types of Farm Subsidy

1. Insurance. Crop insurance run by the USDA's Risk Management Agency has become the largest farm program, with annual outlays of about $8 billion. Subsidized insurance protects against various business risks, such as adverse weather, low production, and low revenues. It covers more than 100 crops, but corn, cotton, soybeans, and wheat are the main ones. It subsidizes both insurance premiums and the administrative costs of the 19 private insurance companies that offer policies to farmers. The companies receive the subsidies and earn excess profits from the high premiums they charge; but farmers also benefit because the USDA pays about 60 percent of their premium costs, according to the Government Accountability Office (GAO). Indeed, economist Bruce Babcock finds that most farmers make money on insurance over time, receiving more in claims payouts than they pay in premiums. Congress channels the largest portion of farm subsidies through the insurance program to obscure the identities of the wealthy recipients. Under prior farm programs, news stories often

identified the millionaires receiving farm subsidies, which was embarrassing to Congress. Insurance subsidies are less transparent and have no income limits, and so Congress has expanded the program over the years.

2. Agricultural Risk Coverage (ARC). This program pays subsidies to farmers if their revenue per acre, or alternatively their county's revenue per acre, falls below a benchmark or guaranteed amount. Generally, the lower the prices and revenues are, then the larger the subsidies paid out are. More than 20 crops are covered, from wheat and corn to chickpeas and mustard. ARC subsidies fluctuate, but they were about $7 billion in 2016.

3. Price Loss Coverage (PLC). This program pays subsidies to farmers based on the average national price of each particular crop compared with the crop's reference price. The larger the fall in a crop's price below its reference price, the larger the payout to farmers. PLC subsidies also cover more than 20 crops. PLC subsidies fluctuate, but they were about $2 billion in 2016.

4. Conservation programs. The USDA runs many farm conservation programs, which cost taxpayers more than $5 billion a year. The largest is the Conservation Reserve Program, which pays farmers about $1.7 billion a year to keep millions of acres of their land out of production.

5. Marketing loans. This program was created during the New Deal. The original idea was to give farmers a loan at harvest time so that they could hold their crops to sell at a higher price later on. But the program has evolved into just another subsidy program that delivers higher payments to farmers when market prices are low. These subsidies cost about $400 million in 2016.

6. Disaster aid. The government operates various disaster aid programs for many types of farmers, from wheat growers, to livestock producers, to tree fruit producers. In addition to permanent disaster programs, Congress sometimes distributes additional aid after adverse events. Disaster and supplemental aid costs about $1 billion to $2 billion a year.

7. Marketing and export promotion. The Agriculture Marketing Service spends about $1.2 billion a year on farm and food promotion

activities. The Foreign Agricultural Service spends about $1.4 billion a year on a range of activities, including marketing U.S. farm and food products abroad through 93 foreign offices.

8. Research and other support. Most American industries fund their own research and development, but the government employs thousands of scientists and other experts to aid the agriculture industry. The USDA spends about $3 billion a year on agriculture and food research at more than 100 locations. The department also provides many other services, such as loan programs for farmers, statistical services, and economic studies.

Six Reasons to Repeal Farm Subsidies

1. Subsidies redistribute wealth upward. Farm subsidies transfer the earnings of taxpayers to well-off farm businesses and landowners. USDA data show that farm incomes have soared far above average U.S. incomes. In 2014, the average income of farm households was $134,164, which was 77 percent higher than the $75,738 average of all U.S. households. The same year, the median income of farm households was $81,637, which was 52 percent higher than the U.S. median of $53,657.

Although farm programs are advertised as support for small farmers, most subsidies go to the largest farms. Economist Vincent Smith found that the largest 15 percent of farm businesses receive more than 85 percent of all farm subsidies. Over the years, many well-known billionaires have received farm subsidies because they are the owners of farmland. Prior to the 2014 farm bill, the Environmental Working Group (EWG) found that 50 people on the Forbes 400 list of the wealthiest Americans received farm subsidies. The new farm bill channels the largest share of subsidies through insurance companies, making it hard to determine the identities of recipients. But in 2015, the GAO found that at least four recipients of crop insurance subsidies have a net worth of more than $1.5 billion.

2. Subsidies damage the economy. The extent of federal coddling and micromanagement of the agriculture industry is unique. In most industries, market prices balance supply and demand, profits steer investment, businesses take risks, and entrepreneurs innovate to improve quality and reduce costs. Those market mechanisms are blunted and undermined in U.S. agriculture, causing a range of economic harms, including overproduction, distorted land use, distorted choice of crops, inflated land prices, and inadequate cost control.

3. Subsidies are prone to scandal. Like all government subsidy programs, farm programs are subject to both bureaucratic waste and recipient fraud. One problem is that some farm subsidies are paid improperly as farmers create business structures to get around legal subsidy limits. Another problem is that Congress and the USDA distribute disaster payments in a careless manner, with payments going to farmers who do not need them. The EWG found another boondoggle: the "prevented planting" program covers losses if conditions during a season prevent farmers from planting some areas. EWG found that billions of dollars over the years have been paid to farmers who would not normally have planted the areas included in their USDA claims.

4. Subsidies undermine U.S. trade relations. Global stability and U.S. security are enhanced when less developed countries achieve economic growth. America can help by encouraging poor nations to adopt free markets and expand their international trade. However, U.S. and European farm subsidies and agricultural import barriers undermine progress on achieving open trading relationships. Federal sugar protections block freer trade within the Americas, for example, while enriching sugar growers and harming U.S. consumers and U.S. food companies that use sugar.

5. Subsidies harm the environment. Federal farm policies damage the natural environment in numerous ways. For example, subsidies cause overproduction, which draws lower-quality farmlands into active production. As a result, areas that might otherwise have been used for parks, forests, grasslands, and wetlands get locked into less efficient agricultural use. Subsidies are also thought to induce excessive use of fertilizers and pesticides. Producers on marginal lands that have poorer soils and climates tend to use more fertilizers and pesticides, which can cause water contamination problems. Sugar cane production has expanded in Florida because of the federal sugar program, for example, and the phosphorous in fertilizers used by the growers causes damage to the Everglades.

6. Agriculture would thrive without subsidies. If U.S. farm subsidies were ended and agricultural markets deregulated, farming would change. Different crops would be planted, land usage would change, and some farm businesses would contract while others would expand. But a stronger and more innovative industry would emerge with greater resilience to market fluctuations. Private insurance, other financial tools, and diversification would help cover risks, as they do in other industries.

An interesting example of farmers prospering without subsidies is New Zealand. In 1984, New Zealand ended its farm subsidies, which was a bold stroke because the country is four times more dependent on farming than is the United States. The changes were initially met with resistance, but New Zealand farm productivity, profitability, and output have soared since the reforms. New Zealand farmers cut costs, diversified land use, sought nonfarm income, and developed niche markets such as kiwi fruit. The Federated Farmers of New Zealand argues that that nation's experience "thoroughly debunked the myth that the farming sector cannot prosper without government subsidies." That myth needs to be debunked in the United States as well.

Suggested Readings

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