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Farm Reform Reversal

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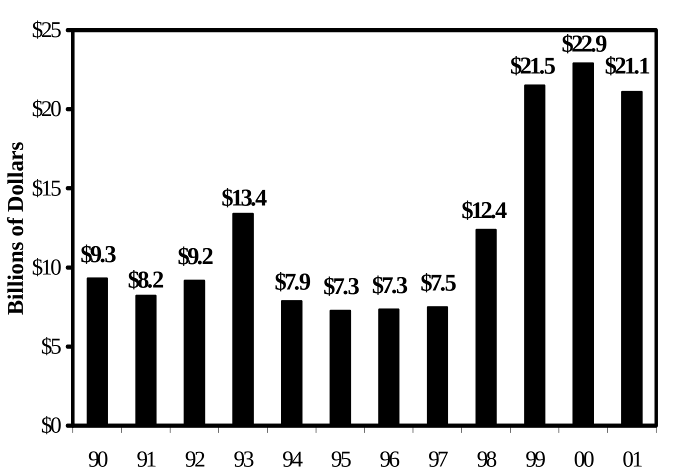
With support from the Bush Administration, Congress appears set to pass a huge farm bill that moves decisively away from agriculture policy reforms enacted in 1996. Farm subsidies will cost taxpayers at least $170 billion over the next decade with increases in this year's bill. The costs may end up being much higher. When the 1996 law was passed, subsidies were expected to cost $47 billion in total from 1996 to 2002.[1] Instead, farm subsidies since 1996 have cost $123 billion.[2]

The landmark 1996 Freedom to Farm law was designed to move away from the command and control regime that had marked six decades of federal farm policy. The law increased farmer planting flexibility and eliminated some price supports for major crops. The law was also supposed to phase down subsidy levels between 1996 and 2002. But after enactment, Congress ignored agreed upon subsidy limits and has passed huge farm supplemental spending bills every year since 1998. As a result, total farm subsidies have soared to more than $20 billion per year, up from an average of $9 billion per year in the early 1990s (see Chart 1).[3]

1. Direct Federal Farm Subsidies, 1990-2001



Politically-Favored Crops

Not all farmers are on the subsidy gravy train. In fact, commodities that get federal payments account for just 36 percent of U.S. farm production. Commodities, such as fruits and vegetables, that are not on the federal dole account for 64 percent of U.S. farm production.[4] More than 90 percent of direct federal subsidies go to farmers of just five crops—wheat, corn, soybeans, rice, and cotton.[5]

Subsidies are skewed not just by crop, but also by farm size. In 1999, the largest 7 percent of farms received 45 percent of all farm subsidy payments.[6] So while politicians love to discuss the plight of the small farmer, they actually dole out the bulk of the subsidies to the largest farms.

Welfare for the Well-to-Do

Figures from the U.S. Department of Agriculture (USDA) show that the average farm household income was $61,307 in 2000.[7] This is 7.5 percent higher than the average U.S. household income of $57,045 in 2000. Commercial farms, as defined by the USDA, get about half of all farm subsidies, had average household incomes of $118,450 in 2000, and received an average subsidy of $43,379. When large-scale federal farm subsidies began in the 1930s, farm incomes were just half of the national average.[8]

Much of the farm subsidy payout goes to individuals and companies that clearly do not need taxpayer help. A Washington D.C. think tank has posted individual farm subsidy recipients on its web page at www.ewg.org to illustrate the unfairness of farm welfare for the well-to-do. Farm subsidy recipients include Fortune 500 companies, members of Congress, and millionaires such as Ted Turner (see Chart 2).[9]

Even middle-class farm subsidy recipients are not in great need of taxpayer handouts. Many farm households earn the bulk of their income from non-farm sources, which stabilizes farm finances. USDA figures show that of the $61,307 in average farm household income in 2000,

$58,709 came from off-farm sources.[10] Only 38 percent of farm households consider farming to be their primary occupation, and most family farms have at least one spouse who works off the farm [11]

2. Example Farm Subsidy Recipients	
Top 5 Large Companies	1996-2000 Subsidies
Westvaco Corporation	$268,740
Chevron	$260,223
John Hancock Mutual Life Insur.	$211,368
DuPont	$188,732
Caterpillar	$171,698
Top 5 Congressional Recipients	1996-2000 Subsidies
Rep. Marion Berry (D-AK)	$750,449
Sen. Blanche Lincoln (D-AK)	$351,085
Rep. Cal Dooley (D-CA)	$306,902
Rep. Tom Latham (R-IA)	$286,862
Rep. Doug Ose (R-CA)	$149,000
Top 5 Celebrity Recipients	1996-2000 Subsidies
David Rockefeller	$352,187
Ted Turner	$176,077
Scottie Pippen	$131,575
Sam Donaldson	$29,106
Bob Dole	$18,550

Taxpayers to Take Bipartisan Beating

Congress is set to pass a farm bill that will increase farm program costs by about $74 billion over ten years. The ultimate taxpayer cost will be higher if farmers demand further supplemental spending.

And this year's farm bill will reverse progress toward reducing economic distortions by introducing a new price support program. The USDA noted in a major farm policy report last September that "government attempts to hold prices above those determined by commercial markets have simply made matters worse time after time" by encouraging unneeded output and inflating land prices.[12]

While the Bush Administration did signal some initial resistance to such backward farm policy last year, it has now capitulated to the farm lobby. The Administration had already shown a willingness to dish out farm subsidies when it signed a $5.5 billion farm supplemental bill last summer.

Senator Lugar had offered a more pro-market reform farm plan that would phase out subsidy programs and replace them with a voucher system promoting reliance on insurance and other financial instruments. But that was rejected in favor of old-fashioned subsidy approaches.

Farm subsidies are not good for either taxpayers or the agriculture industry itself in the long run. Subsidies induce over-production, which pushes down prices and creates demand for further subsidies. Besides, real prices of major farm commodities are expected to continue falling as they have for the past fifty years due to advances in technology and economies of scale.[13] Farms that cannot adjust to this reality should exit the industry.

With new national security demands on the federal budget, and spending on the elderly expected to soar in coming years, trade-offs must be made. Farm subsidies are a good place to start cutting spending given their harmful economic effects and the unfairness of transferring income from taxpayers to a small group with above average incomes.

For further details, see *Farm Subsidies at Record Levels as Congress Considers New Farm Bill*, Cato Briefing Paper 70, at www.cato.org.

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[1] Congressional Budget Office estimates cited in David Orden, Robert Paarlberg, and Terry Roe, *Policy Reform In American Agriculture: Analysis and Prognosis*, 1999, pp. 152, 164.
[2] *Budget of the U.S. Government, FY 2003*. This is the 1996-2002 figure for budget function 351 (2002 is estimated).
[3] Source for Figure 1 is USDA at www.ers.usda.gov/data. Data is calendar year, figure for 2001 is estimated.
[4] Congressional Research Service, "Farm Community Programs: A Short Primer," March 19, 2001. Data is for 1999.
[5] General Accounting Office (GAO), "Farm Programs: Information on Recipients of Federal Payments," June 2001.
[6] GAO, p. 2.
[7] USDA, "Agricultural Income and Finance Outlook," September 25, 2001, pp. 20, 29; and U.S. Census Bureau, http://www.census.gov/hhes/www/income.html.
[8] Orden, Paarlberg, and Roe, p. 33.
[9] Sources for Chart 2 data are Environmental Working Group farm subsidy database, www.ewg.org/farm/; Brian Riedl & John Frydenlund, "At the Federal Trough: Farm Subsidies for the Rich and Famous," Heritage Foundation, November 26, 2001, p. 5; John Lancaster, "Farm Aid Benefits Lawmakers," *Washington Post*, September 1, 2001, p. A1; John Kelly, "Mega-Farms, Government Agencies, and the Rich Get Bulk of Federal Farm Aid, AP Survey Shows," Associated Press, Sept. 9, 2001
[10] USDA, "Agricultural Income and Finance Outlook," September 25, 2001, p. 29.
[11] USDA, *Agricultural Outlook*, June-July 2001, p. 15, 17.
[12] USDA, "Food and Agriculture Policy: Taking Stock for the New Century," September 2001, p. 47.
[13] Orden, Paarlberg, and Roe, pp. 25 and 204.