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Don't Be Fooled: House Farm Bill Weakens Payment Limits

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Farm subsidies are a classic corporate welfare program, employing payment formulas that subsidize large agribusinesses rather than family farms. After President Bush called for an end to subsidies for farmers earning more than $200,000 annually, House Speaker Nancy Pelosi (D–CA) called on the House Agriculture Committee to better target subsidies toward family farmers in the new farm reauthorization bill (H.R. 2419). The committee's response is underwhelming: It would set an annual income limit of $1 million—or really $2 million for married farmers. Even worse, the bill would also eliminate many of the limits on how much eligible farmers may collect in subsidies. The net effect would be to *increase* farm subsidy payments for many millionaires. If Congress is serious about ending agricultural corporate welfare, it should lower the income cap to $200,000, as President Bush proposed, and retain the current payment limits.[1]

Farm Subsidies Biased Toward Agribusinesses. Many federal farm subsidies are designed to bypass family farmers. Subsidies are paid per-acre, so the largest (and most profitable) farms, usually large corporate entities, automatically receive the biggest checks. Consequently, commercial farmers, which have an average income of $200,000 and average net worth of nearly $2 million, now collect the majority of farm subsidies.[2] Fortune 500 companies, celebrity "hobby farmers," and even Members of Congress collect millions of dollars from taxpayers. This makes farm subsidies America's largest corporate welfare program.

Meanwhile, some family farmers continue to struggle. If farm subsidies were really about alleviating farmer poverty, then lawmakers could guarantee every full-time farmer an income of 185 percent of the federal poverty level ($38,203 for a family of four) for less than $5 billion annually—or one-fifth the current cost of farm subsidies.[3]

The Farm Bill's $2 Million Income Cap. Currently, farmers with incomes of $2.5 million or less are eligible for farm subsidies. (There is no limit at all for farmers who earn at least 75 percent of their income from agriculture.) President Bush has reasonably proposed lowering the income cap for subsidies to $200,000 per farmer.

The House Agriculture Committee, however, rejected that commonsense proposal and instead proposed an income cap of $1 million per farm. But the House bill's effective income cap would actually be closer to $2 million. A married couple, engaged in farming, that earns just under $2 million annually could simply file their income tax returns separately, splitting the income between the returns (each would report income just below $1 million). Both the husband and the wife would then be eligible for farm subsidies.

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An effective income cap of $2 million per farm is no true reform. Multimillionaires (by net worth) would still be eligible for permanent subsidies, and farm subsidies would remain America's largest corporate welfare program. Furthermore, the House's reforms would affect fewer than 10,000 farmers and save taxpayers just $10 million per year (and even that may be an overestimate) out of the $25 billion spent on subsidies per year. By contrast, the Department of Agriculture estimates that a $200,000 income cap would save $1.5 billion over a decade.[4]

The Farm Bill Eliminates Payment Limits. The $180,000 commodity payment limit per farmer ($360,000 for those who work on multiple farms) has created an industry of lawyers who exploit the payment limits' large loopholes. Rather than close the loopholes, H.R. 2419 would simply eliminate the payment limits. Specifically, the $75,000 limit in the marketing loan program (which had been subject to the most abuse) would be repealed. Additionally, the $40,000 limit on direct payments, which are paid even to farmers who do not actually grow the subsidized crops, would be increased by 50 percent to $60,000.

One seemingly positive portion of the bill would eliminate the commodity certificates that have traditionally been used to circumvent marketing loan payment limits. But with those limits now gone, farmers would no longer need to use commodity certificates. The bill would also eliminate the "three-entity rule" that allows farmers to collect up to $360,000 each if they work on three or more farms. But, again, with no limit on marketing loan payments and a higher direct payment limit, farmers would be able to collect larger subsidies than ever.

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Commodity Subsidy Limits Per Farm

Program	Current Law*	H.R. 2419
Direct Payments	$40,000	$60,000
Countercyclical Payments	$65,000	$65,000
Marketing Loan Payments**	$75,000	No Limit
Total	**$180,000**	**No Limit**

* Farmers can double these limits if they work on multiple farms.
** Includes Loan Deficiency Payments
Source: H.R. 2419

Stealth Spending Increases. The Congressional Budget Office's (CBO) analysis of H.R. 2419 assumes that commodity programs would not see major spending increases over the next decade. However, the bill includes stealth provisions that could trigger very large budget increases above the baseline.

The costs of the countercyclical and marketing loan programs depend on crop prices. If prices fall below a certain level, these subsidies are triggered. H.R. 2419 would increase the crop prices at which subsidies are triggered. For example, wheat's trigger price for the marketing loan program would rise 19 cents per bushel to $2.94 per bushel, and the trigger price for countercyclical payments would rise 23 cents per bushel to $4.15 per bushel. So any drop in wheat prices would trigger subsidies faster and cost taxpayers far more than under current law.

1. For more on farm subsidies, see Brian M. Riedl, "How Farm Subsidies Harm Taxpayers, Consumers, and Farmers, Too," Heritage Foundation *Backgrounder* No. 2043, June 20, 2007 at *www.heritage.org/Research/Agriculture/bg2043.cfm*.
2. Ted Covey et al., "Agriculture Income and Finance Outlook," AIS–84, U.S. Department of Agriculture, Economic Research Service, November 2006, pp. 40, 48, and 63, at *http://usda.mannlib.cornell.edu/usda/current/AIS/AIS-11-30-2006.pdf*. Net worth data consist of weighted averages of large and very large farms' net worths.
3. U.S. Department of Agriculture, "A Safety Net for Farm Households," *Agriculture Outlook*, January–February 2000, pp. 19–24. The authors estimated a cost of $7.8 billion when including everyone who reports any farm income, including "hobby farmers" who have other full-time jobs. Restricting their data to full-time farmers, defined as those working on lower-sales, higher-sales, and large family farms and the fraction of limited-resource farms that are also full-time, the total cost is approximately $5 billion. The eligibility threshold for several federal income-assistance programs, such as the Women, Infants and Children (WIC) program, is 185 percent of the federal poverty level.
4. Derrick Cain, "House Agriculture Committee Debates Farm Bill With Tighter Payment Limits," *BNA Daily Report For Executives*, July 18, 2007.

Many crops would be affected. Countercyclical payment rates would also rise for soybeans, barley, oats, upland cotton, and various oilseeds. Marketing loan payment rates would rise for barley, oats, dry peas, lentils, graded wool, small chickpeas, and various oilseeds. If crop prices drop any time over the next five years (short-term fluctuations are not unusual), taxpayers would be forced to fund even larger subsidy increases than under current law.

What Congress Should Do. Farm subsidies generally bypass family farms and subsidize millionaires. If Congress is serious about scaling back farm corporate welfare, it should set the income cap at $200,000 and retain all current payment limits.

At minimum, Congress should consider policies such as those embodied in the bipartisan Fairness in Farm and Food Policy amendment authored by Representatives Jeff Flake (R–AZ) and Ron Kind (D–WI). This legislation would cap subsidy eligibility at $500,000 in annual income and limit total annual subsidy payments to $250,000 per person. Even better, it would begin the transition to a rational farm policy that helps farmers balance yearly weather and crop risks in ways that do not cost taxpayers $25 billion annually.

Already, Agriculture Secretary Mike Johanns has criticized the House's weak farm bill. If Congress fails to incorporate into its farm bill commonsense reforms that limit corporate welfare and payments to millionaires, the President should veto it.

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