WebMemo
Published by The Heritage Foundation

No. 1690
November 5, 2007

The Senate Farm Bill: A Missed Opportunity

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The Senate will soon take up the Food and Energy Security Act, which would reauthorize farm subsidies for five years. This presents a golden opportunity for reform. Farm subsidies cost Americans $25 billion in taxes and another $12 billion in higher food prices annually and lead to environmental damage when farmers over-plant crops in order to maximize subsidies. By undermining America's trade negotiations, subsidies raise consumer prices and restrict U.S. exports. Cotton subsidies undercut African farmers, keeping them in desperate poverty. And as Michael Pollan, author of *The Omnivore's Dilemma*, has explained, farm subsidies contribute to obesity, rising health care costs, and early death by subsidizing corn and soy (from which sugars and fats are derived) rather than healthier fruits and vegetables.

Organizations representing taxpayers, consumers, environmentalists, international trade, global antipoverty advocates, and even farmers agree that the current farm subsidy system is failing and in dire need of reform. Nonetheless, the current Senate bill retains this expensive and broken system. Congress should instead look toward the policies embodied in real reform bills by Senators Richard Lugar (R–IN) and Frank Lautenberg (D–NJ) and by Senator Jeff Sessions (R–AL).

Retaining a Broken System. The case against the current farm subsidy system is strong:[1]

- Farm subsidies are intended to alleviate farmer poverty, but the majority of subsidies go to large commercial farms, which report average income of $200,000 and net worth of nearly $2 million.
- Farm subsidies are supposedly needed to keep farmers afloat. Yet 90 percent of all subsidies go to growers of just five crops (wheat, cotton, corn, soybeans, and rice). Farms producing the majority of farm products (including fruits, vegetables, beef, and poultry) reliably survive without farm subsidies.
- Farm subsidies are intended to raise farmer incomes by remedying low crop prices. Instead, they promote overproduction and therefore lower prices further. Expensive programs to restrict plantings are then implemented to raise prices back up.
- Farm subsidies are intended to help struggling family farmers. Instead, they harm them by excluding them from most subsidies, financing the consolidation of family farms, and raising land values to levels that prevent young people from entering farming.
- Farm subsidies are intended to be consumer-friendly and taxpayer-friendly, but they cost Americans billions of dollars each year in higher taxes and higher food costs.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Agriculture/wm1690.cfm

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
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- Buoyed by high crop prices, net farm income is expected to once again shatter records in 2007, and yet farmers will still receive billions in taxpayer subsidies.

Despite reports of a significant overhaul, the Senate farm bill does not address any of these shortcomings. Though some of its tweaks would increase the system's efficiency, others would raise taxpayer costs by billions of dollars. If enacted, Washington would continue spending approximately $25 billion annually subsidizing a small, elite group of farmers, based on policies that do not help the farm economy. In particular, the Senate farm bill would:

1. ***Create a voluntary Average Crop Revenue (ACR) program.*** Current formulas base farm subsidies on crop prices only and ignore yields, even though strong yields can compensate for the pain of low crop prices and weak yields can undermine the impact of high crop prices (especially since price and yield typically move in opposite directions). The ACR program would give farmers the option of tying their per-acre farm subsidy payments to a statewide revenue target that includes yields as well as prices. While the details of ACR are still being negotiated, its approach of tying subsidies to overall per-acre revenues rather than just crop prices makes sense. This tweak would begin to make the farm subsidy system slightly less irrational.
2. ***Raise farm subsidy payment rates.*** Many farmers who choose to bypass ACR and continue to receive traditional farm subsidies would be rewarded with higher subsidy rates for the countercyclical and marketing loan programs. These programs disburse subsidies whenever crop prices dip below the target prices set in the law. Raising those target prices means that any drop in crop prices would trigger subsidies faster and cost taxpayers far more than under current law. This is a stealth spending increase, because it likely will not show up in the Congressional Budget Office's cost estimate of the bill.[2] It could also bring a challenge from the World Trade Organization for further distorting global trade.
3. ***Raise taxes to create a new permanent disaster aid program.*** The Senate Finance Committee has approved legislation to spend an additional $5 billion on a permanent farm disaster aid program.[3] Farmers already receive approximately $20 billion in annual commodity and conservation subsidies, plus an additional $3 billion in crop insurance subsidies. Under this proposal, many farmers who suffer crop loses would automatically collect crop insurance payments *and* disaster payments, essentially double dipping. This new pot of money—funded through new taxes on businesses—would encourage Congress to declare "emergencies" regularly in order to release these funds.
4. ***Continue targeting subsidies to large agribusiness.*** The Senate bill fails to impose *any* income limit on farm subsidy eligibility for those who derive at least two-thirds of their income from farming. Those who derive less than two-thirds of their income from farming would see an income limit of $750,000 by 2010 (likely $1.5 million for a married couple filing income taxes separately). By limiting subsidies only for the very wealthiest "hobby farmers," this woefully insufficient reform would not significantly reduce the share of farm subsidies going to large agribusinesses. Farm subsidies would remain American's largest corporate welfare program.

President Bush has proposed limiting farm subsidies to those earning less than $200,000. Sen-

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. If the CBO projects that crop prices are too high to trigger these subsidies, then the new payment rates will have no new taxpayer cost in the CBO's projections. But if crop prices drop below projected levels, the taxpayer cost will be greater as a result of these higher payment rates.
3. The Heartland, Habitat, Harvest, and Horticulture Act of 2007 passed the Senate Finance Committee on October 4, 2007. See Congressional Budget Office, "CBO Cost Estimate: Heartland, Habitat, Harvest, and Horticulture Act of 2007," October 29, 2007, at *www.cbo.gov/ftpdocs/87xx/doc8760/Heartland.pdf*.

ators Byron Dorgan (D–ND) and Charles Grassley (R–IA) reportedly plan to offer an amendment limiting farm subsidies to $250,000 per farm and requiring that recipients be "actively engaged" in farming.[4]

5. *Retain a loophole to increase subsidies further.* The marketing loan program (which includes loan deficiency payments) compensates farmers for low crop prices. Amazingly, farmers are not compensated for the actual price at which they sell their crops. Instead, farmers can select the market price on any day of the year and, even if they do not sell their crops that day at that market price, receive a subsidy based on it. So farmers can sell their crops at high prices and still be subsidized as if they had sold them at low prices.[5]

   President Bush has proposed closing this loophole, and the original Senate farm bill called for subsidies to be based on the actual price farmers receive for their crops. Yet Senator John Thune (R–SD) successfully offered an amendment in committee to put this loophole back in the bill.[6] Thus, farmers would continue to be "compensated" for low market prices that bear no relation to the actual price at which they sell their crops.

How to Improve the Senate Bill. The Senate farm bill could be improved with amendments that:

- Strike the expensive and unnecessary permanent disaster aid program;
- Reduce the countercyclical target prices and marketing loan program rates to current levels or lower;
- Eliminate the $2.1 billion in direct payments that will be paid to corn producers each year despite record high prices;
- Limit farm subsidies to those with adjusted gross incomes below $250,000, regardless of whether farming is their principal occupation or not;
- Limit total farm subsidies to $250,000 per farm and eliminate the three-entity rule that currently allows farmers to collect multiple subsidies;
- Require that loan deficiency payments be based on the actual price of the crops at the time the producer surrenders a financial interest in them;
- End farm subsidy eligibility for Members of Congress and their immediate families;[7]
- Permanently bar eligible farmers who refuse to purchase crop insurance from federal farm disaster payments; and
- Reduce administrative reimbursement rates for crop insurance companies, which are already compensated heavily by Washington.

Comprehensive Reform. The best approach for farmers, taxpayers, and consumers would be to fundamentally reform farm policy based on two realities of farming:

1. *Yearly income fluctuations—not poverty—is the problem.* Farm subsidy formulas are designed to address persistent farmer poverty, but that's not farmers' real problem. The average farm household earns $81,420 annually (29 percent above the national average), has a net worth of $838,875 (eight times higher than the national average), and is located in a rural area with a low cost of living.[8] The real challenge for farmers is dealing with year-to-year income

4. Derrick Cain, "Senators Plan to Lower Income Cap for USDA Payment Eligibility," *BNA Daily Report for Executives*, October 23, 2007.
5. For more on the abuses of this loophole, see Dan Morgan, Sarah Cohen, and Gilbert Gaul, "Growers Reap Benefits Even in Good Years," *The Washington Post*, July 3, 2006.
6. Derrick Cain, "Senate Agriculture Committee Approves $280 Billion, Five-Year Farm Policy Bill," *BNA Daily Report for Executives*, October 26, 2007.
7. Subsidies for lawmakers are described in detail in Ronald D. Utt, Ph.D., "Federal Farm Subsidy Programs: How to Discourage Congressional Conflicts of Interest," Heritage Foundation *Backgrounder* No.2045, June 27, 2007, at *www.heritage.org/Research/Agriculture/bg2045.cfm*.
8. Ted Covey, *et al.*, "Agriculture Income and Finance Outlook," AIS–84, U.S. Department of Agriculture, Economic Research Service, November 2006, pp. 40 and 48, at *http://usda.mannlib.cornell.edu/usda/current/AIS/AIS-11-30-2006.pdf*.

fluctuations due to weather- and pest-induced crop unpredictability.

The proper response to yearly income fluctuations is not a permanent, massive subsidy program that pays farmers even in good years. Crop insurance and farmer savings accounts can better smooth out the boom and bust years in ways that keep farmers closer to their healthy annual average incomes, at minimal taxpayer cost. Canada and Australia have already implemented these types of programs.[9]

2. ***Commodity subsidies distort the farm economy.*** Farm subsidies induce farmers to grow whatever government will subsidize, not what consumers really want. Stephen Houston Jr., a Georgia cotton farmer, recently told *The Atlanta Journal–Constitution*, "We're just playing a game. [Market] prices don't have anything to do with what we're doing. We're just looking at the government payments."[10] Farm policies also distort prices, violate trade agreements, and cost taxpayers and consumers billions of dollars.

Fortunately, two alternative Senate bills build on these principles. The bipartisan Farm, Ranch, Equity, Stewardship and Health (FRESH) Act of 2007 (S. 2228), authored by Senators Richard Lugar (R–IN) and Frank Lautenberg (D–NJ), would phase out most commodity subsidy programs. In their place, farmers could fund new Risk Management Accounts during boom years and then withdraw from them during leaner years.[11] Taxpayers would provide emergency funding only for large losses. For producers of currently subsidized commodity crops, government payments would be triggered only when per-acre revenues in their county drops below 85 percent of the five-year average. For non-commodity producers, government-funded insurance would be triggered only when a farmer's revenue falls 20 percent or more below the farmer's five-year average.

These reforms would save $16 billion over five years. Unfortunately, the FRESH Act would redirect $13 billion of these savings into new agriculture and food spending and apply only $3 billion toward deficit reduction. Nonetheless, these reforms would still reduce many of the distortions caused by current farm policies.

The Farm Savings Account Act (S. 2167), authored by Senator Jeff Sessions (R–AL), would improve the crop insurance system. Currently, Washington spends billions of dollars subsidizing private crop insurers. As a replacement for those subsidies, this bill would allow producers to deposit money into tax-deferred farmer savings accounts, and the federal government would match those deposits up to a certain amount. Farmers could withdraw these funds whenever their revenues fall by more than 20 percent. These accounts, which would cover all farm revenues rather than just specific commodities, could also serve as collateral for farming-related loans.

Senators looking to modernize U.S. farm policy should seriously examine both bills.

Conclusion. With crop prices soaring, farm incomes setting records, and Congress pledging to reduce the budget deficit, now is an opportune time to reform the bloated and outmoded farm subsidy programs. The Senate farm bill fails to seize this opportunity. It would continue to spend $25 billion annually on many farmers who do not need subsidies. Senators Lugar, Lautenberg, and Sessions have offered blueprints for reform. For the sake of taxpayers, consumers, and small farmers, other reform-minded senators should follow their lead and work to modernize America's farm programs.

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9. See Mark Edelman, James Monke, and Ron Durst, "Farmer Savings Accounts," 2002, at *www.farmfoundation.org/2002_farm_bill/edelman.pdf*.
10. Dan Chapman, Ken Foskett, and Megan Clarke, "How Your Tax Dollars Prop Up Big Growers and Squeeze the Little Guy," *The Atlanta Journal–Constitution*, October 1, 2006.
11. For a summary of the FRESH Act, see Office of Senator Richard Lugar, "Lugar Amendment Challenges Priorities," November 1, 2007, at *http://lugar.senate.gov/farmbill/*.