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Scrap the Senate Farm Bill and Start Over

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Record farm incomes provide a welcome opportunity to reform the antiquated, Depression-era system of expensive farm subsidies. Regrettably, the Senate farm bill (H.R. 2419) fails to modernize these programs. If the bill is enacted, Americans will continue paying $25 billion in taxes and another $12 billion in higher food prices annually for a program that distributes most of its benefits to millionaires. Additionally, these subsidies would continue to damage the environment (by promoting overproduction), undermine trade (thereby raising consumer prices and restricting U.S. exports), and promote poor diets (by subsidizing the sources of sugars and fats 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. Lawmakers should scrap this bill and start over.

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 an average income of $200,000 and a 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, lowering prices even 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 those farmers 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.

The Senate farm bill does not address any of these shortcomings. If it is enacted, Washington will continue spending approximately $25 billion annually to subsidize a small, elite group of farmers through policies that do not help the farm economy.

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Farm Incomes Shatter Records. The Department of Agriculture estimates that the 2007 net farm income will reach a record $87.5 billion—a 48 percent increase over the 2006 level of $59 billion. The average household income for farmers is expected to reach $83,622, well above the national average.[2] Additionally, crop land values have soared another 14 percent this year, bringing them to *double* their 2000 levels.[3] Farmers are now wealthier than ever.

The main drivers of this surge in farm incomes have been the rise in exports and the steep increase in crop prices. Specifically, the ethanol mandate has pushed up the prices of not only corn but also crops such as soybeans that have been abandoned by many farmers during the corn gold rush.

Overall, between October 2005 and October 2007:[4]

- Corn prices leaped 81 percent, from $1.82 to $3.29 per bushel;
- Soybean prices jumped 51 percent, from $5.67 to $8.58 per bushel;
- Rice prices surged 54 percent, from $6.94 to $10.70 per hundredweight;
- Cotton prices increased 10 percent, from $0.48 to $0.53 per pound; and
- Wheat prices soared 141 percent, from $3.32 to $8.02 per bushel.

Despite the price increases, large subsides for these five crops would continue under the Senate farm bill. This would make as much sense as subsidizing Silicon Valley businesses during the peak of the dot-com boom.

A Step Backward. Given the record-setting farm incomes, the Senate's drive to *increase* farm subsidies is baffling. The Senate bill does the following:

1. **Raises farm subsidy payment rates.** The Senate farm bill raises 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. The Senate bill also adds four new crops (dry peas, lentils, small chickpeas, and large chickpeas) to the countercyclical program. These are stealth spending increases, because they do not show up in the Congressional Budget Office's (CBO's) cost estimate of the bill.[5] It could also bring a challenge from the World Trade Organization for distorting global trade, potentially leading to retaliation from U.S. trading partners that would deplete American exports.
2. **Continues direct payments that are paid regardless of crop price.** No matter how high corn prices soar, the Senate would force taxpayers to send $2.1 billion in direct payments to corn farmers every year. Wheat farmers would receive $1.1 billion in annual direct payments, and farmers of other crops would receive a combined $2 billion in annual direct payments. These payments are not based on farmer incomes, crop prices, or any standard of need. In fact, farmers are not even required to grow the listed crop to get a subsidy; the law would only require that they have grown it at some point in the past. There is simply no rationale for

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. USDA farm income data is located at *www.ers.usda.gov/briefing/farmincome/* and *www.ers.usda.gov/Features/FarmIncome/2007/November/*.
3. "Land Values and Cash Rents: 2007 Summary," National Agricultural Statistics Service, United States Department of Agriculture, August 2007, at *www.usda.gov/nass/PUBS/TODAYRPT/land0807.pdf*.
4. USDA crop price data is located in the Agricultural Outlook, Table 5, at *www.ers.usda.gov/publications/agoutlook/aotables/2005/12dec/*.
5. If CBO projects that crop prices are too high to trigger these subsidies, then the new payment rates will have no new taxpayer cost in 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.

these subsidies. Yet the Senate rejected an amendment by Senators Richard Lugar (R–IN) and Frank Lautenberg (D–NJ) that would have redirected these payments into conservation, nutrition, and deficit reduction.[6]

3. **Raises 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.[7] 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 losses 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. **Continues targeting subsidies to large agribusiness.** The Senate bill fails to impose *any* income limit on farm subsidy eligibility for full-time farmers.[8] Part-time farmers 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 wealthiest "hobby farmers," this woefully insufficient reform would not significantly reduce the share of farm subsidies going to large agribusinesses. Farm subsidies would remain America's largest corporate welfare program.

   President Bush has proposed limiting farm subsidies to those earning less than $200,000. Senator Amy Klobuchar's (D–MN) proposed income limits of $750,000 for full-time farmers and $250,000 for part-time farmers. While not as strong as the President's cap, Senator Klobuchar's proposal would be an improvement over the status quo.

   Finally, Senators 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.[9] As happened with a similar amendment to the 2002 farm bill, this amendment is expected to pass and then quickly be dropped when the Senate bill is merged with the House bill. Such symbolism is not enough; Senators should see this reform through to enactment.

5. **Retains a loophole to increase subsidies even 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.[10] President Bush has proposed closing this loophole, and the original Senate farm bill called for subsidies to be based on the actual prices that farmers are paid for their crops. Yet Senator John Thune (R–SD) successfully offered an amendment in committee to put this loophole back in the bill.[11] 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.

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6. The bipartisan Farm, Ranch, Equity, Stewardship and Health (FRESH) Act of 2007 (S. 2228) is summarized at *http://lugar.senate.gov/farmbill/*.
7. The Heartland, Habitat, Harvest, and Horticulture Act of 2007 (S. 2242) passed the Senate Finance Committee on October 4, 2007. See Congressional Budget Office, "Congressional Budget Office Cost Estimate: Heartland, Habitat, Harvest, and Horticulture Act of 2007," October 29, 2007, at *www.cbo.gov/ftpdocs/87xx/doc8760/Heartland.pdf*.
8. Full-time farmers would be defined as those who derive at least two-thirds of their income from farming.
9. Derrick Cain, "Senators Plan to Lower Income Cap for USDA Payment Eligibility," *BNA Daily Report for Executives*, October 23, 2007.
10. 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. **Adds $22 billion to the budget deficit.** Despite Congress's Pay-As-You-Go (PAYGO) rule requiring that entitlement and tax legislation remain deficit neutral over 10 years, the CBO has identified numerous gimmicks that would increase the budget deficit by $22 billion.[12] The bill shifts $10 billion in costs for crop insurance and a new average crop revenue (ACR) program just outside the 10-year window, where it does not count against PAYGO. Additionally, $12 billion in spending is hidden with fake sunset provisions, meaning that Congress requires scorekeepers to unrealistically assume that new nutrition and disaster aid provisions will suddenly be eliminated after five years. Only through blatant gimmicks does the Senate farm bill appear compliant with PAYGO; in reality, it will increase the budget deficit.

Back to the Drawing Board. 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.

Lawmakers should reject this bloated version of the status quo and adopt a farm policy that fits today's farm economy. Yearly income fluctuations—not poverty—is the chief financial challenge to farming. Rather than funding an expensive income-support program for wealthy farmers, Congress should focus on farmers' yearly income fluctuations that result from unpredictable weather and pests. 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.[13] The first step to modernizing farm policy is rejecting the Senate's status quo farm bill. Otherwise, President Bush should make good on his veto threat for this irresponsible legislation.

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11. Derrick Cain, "Senate Agriculture Committee Approves $280 Billion, Five-Year Farm Policy Bill," *BNA Daily Report for Executives*, October 26, 2007.
12. Congressional Budget Office, "Congressional Budget Office Cost Estimate: Food and Energy Security Act of 2007," November 1, 2007, at *www.cbo.gov/ftpdocs/87xx/doc8784/SenAgFarmBill.pdf*.
13. See Mark A. Edelman, James D. Monke, and Ron Durst, "Farmer Savings Accounts," 2002, at *www.farmfoundation.org/2002_farm_bill/edelman.pdf*.