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 pursuing liberalization in global markets.

The U.S. Department of Agriculture (USDA) spends roughly $30 billion a year on support 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. About 1.2 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 large supplemental farm subsidy bills.

In 2002 Congress enacted a farm bill that further reversed the 1996 reforms. The law increased the level of subsidy payments, added new crops to the subsidy rolls, and created a new price guarantee scheme called the countercyclical program.

In 2008 Congress overrode a presidential veto to enact farm legislation that added more 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 another huge farm bill. This changed the structure of subsidies but did not cut the 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 overall subsidies actually increased.

Congress most recently reauthorized farm programs in the Agriculture Improvement Act of 2018, which continued all the major subsidy programs and expanded some of them. The law did make one important reform, which was legalizing industrial hemp. Hemp comes from the cannabis plant but contains minimal amounts of tetrahydrocannabinol (THC). Hemp can be used for making clothing, fabrics, shoes, rope, paper, fuel, animal feed, and building materials.

Large farm subsidies ensure that farmer incomes are higher than the incomes of most other Americans. Farm programs are welfare for the well-to-do. They also 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.

Seven Types of Farm Subsidy

1. Insurance. Crop insurance run by the USDA's Risk Management Agency is the largest farm program, with annual outlays of about $9 billion. Subsidized insurance protects against adverse weather, low yields, and low revenues. It covers about 120 crops, but corn, cotton, soybeans, and wheat are the main ones. It subsidizes both insurance premiums and the administrative costs of the private insurance companies that offer policies to farmers. The companies receive the subsidies, and they earn excess profits from the high premiums they charge, but farmers also benefit because the USDA pays about 60 percent of their premium costs. Congress now channels the largest portion of farm subsidies through the insurance program because the program has no income limits and the structure of the program obscures the identities of the wealthy recipients.

2. Agricultural Risk Coverage. This program pays subsidies to farmers if their revenue per acre, or alternately, their county's revenue per acre, falls below a benchmark or guaranteed amount. Generally, the lower prices and revenues are, the larger the subsidies that are paid. More than 20 crops are covered, from wheat and corn to chickpeas and mustard. ARC subsidies have fluctuated between about $1 billion and $6 billion annually in recent years.

3. Price Loss Coverage. 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 cover more than 20 crops and have fluctuated between about $1 billion and $5 billion annually in recent years.

4. Conservation programs. The Conservation Reserve Program pays farmers about $2 billion a year to keep millions of acres of land out of production. The Environmental Quality Incentives Program provides farmers with subsidies for making environmental improvements to their land and it also costs about $2 billion a year.

5. Disaster aid. The government operates numerous ongoing disaster aid programs for many types of farmers, including wheat growers, livestock producers, and tree fruit producers. In addition to these programs, Congress distributes additional aid after adverse events. Disaster aid typically costs about $1 to $2 billion a year, but the government recently handed out huge temporary payments. It distributed $23 billion in Market Facilitation Program payments to farmers in 2018 and 2019 to offset the negative effects of international trade disruptions. And the government distributed more than $50 billion to farmers in 2020 and 2021 in response to the pandemic. Economist Eric Belasco found that—like regular farm subsidies—the Market Facilitation Program (MFP) payments were heavily tilted toward larger farms.

6. Marketing and export promotion. The Agriculture Marketing Service spends more than $2 billion a year on farm and food promotion activities. The Foreign Agricultural Service spends more than $2 billion a year on a range of activities, including marketing U.S. farm and food products abroad through dozens of foreign offices.

7. Research 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 more than $3 billion a year on agriculture and food research at more than 100 locations. The USDA also produces an array of statistical and economic data and studies of benefit to the agriculture industry.

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 risen far above average U.S. incomes. In 2020 the average income of farm households was $122,291, which was 26 percent higher than the $97,026 average of all U.S. households. The same year, the median income of farm households was $80,060, which was 19 percent higher than the U.S. median of $67,521.

While members of Congress often say they want to help small farmers, most farm subsidies go to the largest farms. Economist Vincent Smith found that the largest 15 percent of farm businesses receive more than 85 percent of farm subsidies. Many well-known billionaires have received farm subsidies because they own farmland. In the past, the Environmental Working Group found that 50 people on the Forbes 400 list of the wealthiest Americans received farm subsidies. Recent farm bills have channeled the largest share of subsidies through insurance companies, making it hard to determine recipient identities. But a 2015 analysis by the Government Accountability Office (GAO) found that at least four recipients of crop insurance subsidies had 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 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.

One important effect of farm subsidies is that they inflate land prices and land rental costs because—to an extent—the expected future stream of subsidies is capitalized. As a result, subsidies probably benefit landowners more than farmers, and those are often different people because about half of U.S. cropland is rented, according to the U.S. Department of Agriculture. As subsidies have pushed up sales prices and rental costs for land it has become harder for young farmers to break into the business.

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 because 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. Yet another problem is the "prevented planting" program, which covers farmers for losses if conditions during a season prevent them from planting some areas. The Environmental Working Group found that the program is a boondoggle as it has paid billions of dollars to farmers who would not normally have planted the areas they claimed losses for.

4. Subsidies undermine 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. Subsidies cause overproduction, which draws lower quality lands 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. Sugarcane 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 that had 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 far more dependent on farming than is the United States. The changes were initially met with resistance, but New Zealand farm productivity, profitability, and output soared after the reforms. New Zealand farmers cut costs, diversified land use, sought nonfarm income, and developed new markets. 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

Bakst, Daren, and Gabriella Beaumont-Smith. "The Truth about the Current Farm Economy." Heritage Foundation, January 24, 2020.

Belasco, Eric J. "Lessons from Recent Ad Hoc Agricultural Disaster Programs." American Enterprise Institute, December 7, 2021.

Coleman, Robert. "The Rich Get Richer: 50 Billionaires Got Federal Farm Subsidies." Environmental Working Group, April 18, 2016.

Cox, Craig, Soren Rundquist, and Anne Weir. "Boondoggle: 'Prevented Planting' Insurance Plows Up Wetlands, Wastes $Billions." Environmental Working Group, April 28, 2015.

Edwards, Chris. "Agricultural Subsidies." DownsizingGovernment.org, Cato Institute, April 16, 2018.

Government Accountability Office. "Crop Insurance: Reducing Subsidies for Highest Income Participants Could Save Federal Dollars with Minimal Effect on the Program." GAO-15-356, March 2015.

Lambie, Thomas. "Miracle Down Under: How New Zealand Farmers Prosper without Subsidies or Protection." Cato Institute Free Trade Bulletin no. 16, February 7, 2005.

Lincicome, Scott. "Examining America's Farm Subsidy Problem." *The Dispatch*, December 15, 2020.

Schechinger, Anne. "Under Trump, Farm Subsidies Soared and the Rich Got Richer." Environmental Working Group, February 24, 2021.

Smith, Vincent H. "Crony Farmers." American Enterprise Institute, January 14, 2016.

U.S. Department of Agriculture, Economic Research Service. "Farm Household Income and Characteristics" and "Farm Income and Wealth Statistics: Government Payment by Program." Various data on farm incomes and subsidy payments.

—Prepared by Chris Edwards