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# Cutting Federal Farm Subsidies

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The federal government spends more than $30 billion a year on subsidies for farm businesses and agriculture.[1] Congress is scheduled to reauthorize farm programs in 2023, which provides an opportunity to reassess farm policies and reduce taxpayer costs.

The government supports nearly all aspects of farming. It protects farmers from fluctuations in prices and revenues and subsidizes their insurance, land improvements, loans, marketing, research, and export sales. The expansive subsidies are a peculiar policy because farms are no less able to manage risks and plan their finances than businesses in other industries.

Farm subsidies are costly to taxpayers and can distort planting decisions, induce overproduction, and inflate land values. The programs discourage farmers from innovating and cutting costs, and they steer resources to households with incomes much higher than average U.S. incomes.

The bipartisan debt-ceiling deal that passed in early 2023 reflected a new congressional focus on spending restraint. Legislators should extend that restraint with cuts to agricultural subsidies.

## TYPES OF FARM SUBSIDY

Large-scale federal support for agriculture began in the 1930s when Congress enacted commodity price supports, supply regulations, import barriers, and crop insurance. Over the decades, these programs have been modified and new programs added, but the misguided urge to coddle farm businesses remains the same.

Today, the U.S. Department of Agriculture (USDA) runs more than 150 programs that provide direct subsidies and indirect support to farm businesses.[2] Most direct subsidies are for large producers of corn, soybeans, wheat, cotton, and rice—not for livestock producers or fruit and vegetable growers. About one-third of the nation's two million farms receive regular subsidies, although that ratio is higher for larger farms.[3]

**Insurance.** Crop insurance is the largest farm subsidy program, costing about $10 billion a year.[4] The program displaces private methods of managing risk and gives large subsidies to high-income households. Federal crop insurance for revenue and yield shortfalls is available for about 130 crops, but corn, soybeans, wheat, and cotton are the main ones.

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The USDA subsidizes the insurance premiums of farmers, costing taxpayers about $8 billion a year. The subsidies cover an average of 62 percent of the premiums, which results in most farmers making money on this so-called insurance.[5] The Congressional Budget Office (CBO) found that farmers received $65 billion more in claims than they paid in premiums between 2000 and 2016.[6]

The USDA pays about $2 billion a year to 14 crop insurance companies to cover their administrative costs, and the companies also receive underwriting gains. With this aid and the inflated demand for policies, the companies appear to make above-normal profits.[7]

There are no income limits for the crop insurance program, and the subsidies are tilted to the largest farms. One study found that "farms in the top 10 percent of the crop sales distribution received approximately 68 percent of all crop insurance premium subsidies."[8] The Government Accountability Office reported that even billionaires receive crop insurance subsidies, but we do not know their identities because particular recipients of these subsidies are a government secret.[9]

**Agriculture risk coverage (ARC).** This program pays subsidies to farmers if their revenues, or alternately their county's revenues, fall below a benchmark or guaranteed level. The lower the revenues, the larger the subsidies. The program covers more than 20 crops, and annual payments fluctuate between about zero and $6 billion.[10] The largest payments go to farmers of corn, soybeans, and wheat.

**Price loss coverage (PLC).** This program pays subsidies to farmers based on the national average market price of a crop compared to the crop's reference price set by Congress. The larger the fall in a crop's national price below its reference price, the larger the payout to farmers. The program covers more than 20 crops, and annual payments fluctuate between about zero and $5 billion.[11] The largest payments go to farmers of corn, wheat, cotton, rice, soybeans, and peanuts.

Farmers can choose to participate in either ARC or PLC. At the same time, they can enroll in crop insurance, which has the same general purpose of ensuring high farm incomes. Thus, farmers can double-dip from at least two subsidy programs if their farming income falls short.

**Conservation programs.** The USDA spends more than $5 billion a year to improve the lands held by farmers. The Conservation Stewardship Program and Environmental Quality Incentives Program are working-lands programs that pay farmers to improve their farming and environmental practices on lands in production. Payments from these two programs are tilted upward—in 2015, half went to farm households with annual incomes of more than $157,000.[12] By contrast, the Conservation Reserve Program pays farmers to take marginal lands out of production, and these payments are tilted toward smaller farms.

**Ad hoc and disaster aid.** In addition to ongoing aid to boost farm incomes, the government provides ad hoc and disaster aid. Since 2018, Congress has provided farmers an extra $23 billion for losses related to trade disputes, $31 billion in response to the COVID-19 pandemic, $17 billion in extra conservation aid from the Inflation Reduction Act, and $15 billion in various disaster bills.[13]

**Marketing and export aid.** The Agricultural Marketing Service spends more than $2 billion a year on farm and food promotion activities. The Foreign Agricultural Service operates 100 foreign offices and spends more than $2 billion a year on marketing activities for U.S. farm and food products.

**Other support.** The USDA employs thousands of scientists and other experts to aid the agriculture industry. The department spends more than $4 billion a year on agriculture and food research at more than 90 USDA locations and at colleges across the nation, and it provides farmers an array of other services, such as statistical and economic analyses.

## REASONS TO REPEAL FARM SUBSIDIES

With today's large budget deficits, Congress should review every federal department for low-value spending to cut. Farm subsidies are a good target because they go mainly to higher-income households and can impose negative economic and environmental effects.

**Subsidies aid the wealthy.** Farm subsidies disproportionately benefit high-income households. In 2021, the average income of all farm households was $135,281, which was 32 percent higher than the $102,316 average of all U.S. households.[14] The median income of farm households was $92,239, which was 30 percent higher than the $70,784 median of all U.S. households. Only 2 percent of farm households have net wealth below the U.S. median household net wealth.[15]

These financial measures are for all farm households, but Congress delivers the bulk of subsidies to the largest and wealthiest farmers. One study found that 60 percent of subsidies from three large programs (crop insurance, ARC, and PLC) go to the largest 10 percent of farms.[16] The study also found that large farms were more intensely subsidized than small farms. For the crop insurance program, for example, the largest 10 percent of farms received an average subsidy of $29 per acre compared to an average of $12 per acre for all farms.

The USDA found that in 2015, half of crop payments, crop insurance subsidies, and working-lands conservation subsidies went to households with incomes of more than $140,000, an income level that compared to a median of $56,516 for all U.S. households that year.[17] The study found that "commodity [crop] program payments, some conservation program payments, and federal crop insurance indemnities have shifted to larger farms as U.S. agricultural production continues to consolidate."[18]

USDA data show that 23 percent of farms with yearly revenues of less than $100,000 receive federal subsidies, but 69 percent of farms above that income threshold do.[19] At the very top end, 50 people on the *Forbes* 400 list of the wealthiest Americans received farm subsidies between 1995 and 2014.[20]

A 2023 report by the Environmental Working Group found that "between 1995 and 2021, the top 10 percent of farm subsidy recipients that received the largest payments received over 78 percent of commodity program subsidies."[21]

**Subsidies distort the economy.** In most industries, markets steer investment, businesses balance risks and rewards, and entrepreneurs innovate to reduce costs. Federal farm programs blunt those market mechanisms, which can cause overproduction, inadequate cost control, and distorted decisions about land use and choice of crops. An American Enterprise Institute (AEI) study, for example, argued that the crop insurance program "provides farmers with incentives to waste resources through moral hazard behaviors and reallocating land between crops and pasture and among crops, often with adverse environmental impacts, especially in areas where lands are fragile and subject to soil erosion."[22]

Another problem is that farm subsidies inflate land prices because the expected future subsidies are partly capitalized. As a result, subsidies may benefit landowners more than farmers, and those are often different people because more than half (54 percent) of U.S. cropland is rented.[23] A United Nations report on farm subsidies noted that "many of the benefits of agricultural programmes get capitalized into fixed assets like land. . . . Thus, it is landowners who often benefit most from agricultural programmes. Tenants tend to reap few of the benefits, as these are offset by higher land rents."[24] Higher land prices make it harder for young farmers to break into the business.

**Subsidies are prone to scandal.** Like many subsidy programs, farm programs suffer from bureaucratic waste and recipient fraud and abuse. One problem is that farmers find ways to get around legal limits on subsidies. For example, USDA auditors found that more than 30 percent of sampled farmer contracts for a main conservation program involved inconsistencies, excess payments, or ineligible recipients.[25]

Another boondoggle is the "prevented planting" program, which covers farmers for losses if conditions prevent them from planting their fields. The claimed losses are difficult to verify, which has encouraged cheating. Billions of dollars may have been paid to farmers who may not normally have planted the areas they received subsidies for.[26] AEI scholars found that payments under the program "may significantly exceed the actual losses" experienced by farmers.[27]

Perhaps the biggest scandal is that Congress and its farm committees include many members who receive farm subsidies and thus have an obvious conflict of interest on farm votes. There are 25 current members of the House—including 8 members on the House Agriculture Committee—who have received federal farm subsidies.[28]

**Subsidies may harm the environment.** Farm subsidies may harm the environment in several ways. Some programs, such as crop insurance, may draw marginal lands into active production. Economists Vincent Smith and Barry Goodwin argued, "There is an extensive body of research overwhelmingly reporting that subsidized crop insurance has encouraged farmers to shift production onto more fragile lands, thereby increasing soil erosion and, by implication, agriculture's carbon footprint."[29]

The prevented planting program may induce farmers to farm wetlands and then claim subsidies for the frequent wet years. An Environmental Working Group study argued that the "prevented planting insurance poses a grave risk to wetlands in the critically important Prairie Pothole Region" of Iowa, Minnesota, Montana, North Dakota, and South Dakota.[30]

The Environmental Working Group also argues that the crop insurance program "doesn't encourage or require farmers to adapt to or mitigate climate change because it often pays farmers for the same type of loss year after year, like multiple years of payments due to drought."[31] Put another way, subsidies can undermine market adaptations to changing environmental conditions.

A review by the Organisation for Economic Co-operation and Development (OECD) found that "subsidized crop insurance generally has a negative impact on climate change adaptation" and that crop insurance "can have negative environmental impacts in the form of expanding crop production onto environmentally sensitive or high environmental-value land."[32]

Some farm programs may increase the use of fertilizers. Boosted by the federal sugar program, growth in Florida's sugar cane production has damaged the Everglades from fertilizer runoff, although the problem has been mitigated in recent years. Another problem is that a boom in corn production driven by the federal ethanol mandate has drawn more farmland into production and increased the use of fertilizers, which is increasing pollution in the Mississippi River and Gulf of Mexico.

A 2021 study by the United Nations Food and Agriculture Organization looked globally at the effects of agricultural subsidies on the environment.[33] It found that removing fiscal subsidies for farmers would modestly reduce land use, chemical use, and greenhouse gas emissions.

**Favorable taxation.** If farmers paid high income taxes, they might argue they were covering the costs of their subsidies. But federal income tax data show that most farm businesses are lightly taxed compared to other businesses.

About 86 percent of farms are sole proprietorships and file under the individual income tax.[34] These farms account for almost half of U.S. agricultural sales. Farms structured as partnerships and S corporations also pass through their farm income to their individual returns. Overall, farms taxed under the individual income tax account for 98 percent of farms and more than 85 percent of farm sales.[35] The rest of farms are structured as C corporations and pay the corporate income tax.

The favorable tax treatment of agriculture is reflected in the large share of farms that report losses on their tax returns. About two-thirds of sole-proprietorship farms report losses in a typical year, and aggregate farm losses are usually more than twice the size of aggregate farm income.[36] For farms structured as partnerships and small corporations, about half typically report tax losses.[37]

Losses on tax returns do not necessarily mean that farms are losing money but rather that tax rules for farms are very favorable. The tax code has more than a dozen provisions that provide particularly favorable treatment for farm businesses, such as allowing flexibility on the timing of income and deductions.[38] Farm households can use the net tax losses on their farm businesses to reduce taxes on their nonfarm incomes.

**Farmers can manage their own risks.** Farm incomes fluctuate as crop prices and yields change. Farmers can use market-based financial tools such as forward contracts to manage risk without government aid. Farmers can also build their savings to handle downturns—when prices are high, they can save profits, and when prices are low, they can withdraw. Farmers can also pay down debt in good years to make room for borrowing in leaner years. Today, banks regularly lend to unsubsidized farm businesses such as ranches.

Another strategy for managing risks is diversification. Farmers can diversify their crops to reduce risks from fluctuating yields and prices, and they can diversify their planting locations to reduce risks from adverse weather. Indeed, farmers have diversified their sources of income over time: more than three-quarters of farm household income is from off-farm sources today, up from about half in 1960.[39]

Farming is a risky business, but the risk does not seem to be any greater than for many other industries and therefore not a justification for farming's unique government security blanket. Consider that the bankruptcy rate in farming has been consistently lower than in other industries. In recent years, the annual rate has averaged 2 per 10,000 for farm businesses compared to between 4 and 7 per 10,000 for all U.S. businesses.[40] Also, relative debt levels in the farming sector have trended down over the past four decades.[41]

In markets, farm businesses can plan ahead to mitigate fluctuations in their earnings caused by adverse events. But the existence of subsidy programs has partly displaced or crowded out a greater use of market-based tools to manage risks. Businesses in other industries face swings in costs, prices, demands, consumer trends, and technologies, yet they succeed or fail based on their own management skills and without subsidies.

A few countries have robust agricultural industries without large government subsidies. The OECD calculates subsidies to farm producers as a percentage of gross farm receipts.[42] The data for 2021 show that U.S. producer subsidies were 10.6 percent of receipts, compared to 2.9 percent for Australia, 2.9 percent for Chile, and 0.6 percent for New Zealand.

New Zealand ended most of its farm subsidies in the 1980s, which was a bold reform given that the country is much more dependent on farming than the United States. Farm productivity, earnings, and environmental practices all improved after New Zealand's reforms, while farmers cut costs, diversified land use, sought nonfarm income, and developed new markets.[43] Today, agriculture is 6 percent of the New Zealand economy and 1 percent of the U.S. economy, so if the kiwis can make free-market farming work, then so can we.[44]

## CONCLUSION

The upcoming farm bill is an opportunity for Congress to rethink the extensive subsidies provided to agriculture. The subsidies distort the economy, can harm the environment, and flow mainly to the largest producers. If farm subsidies were cut, there would be shifts in the crops planted and the use of land. Farmers would adopt new risk management strategies, and there would be more focus on innovation and cost control.

Farmers should stand on their own two feet in markets, as do businesses in other industries. If Congress cut subsidies, farm businesses would adjust and a stronger industry would emerge, with greater resilience to economic fluctuations and climate change.

## NOTES

1. Support fluctuates from year to year, but the sum of crop payments, insurance subsidies, conservation aid, ad hoc and disaster aid, export aid, marketing aid, and research spending has been topping $30 billion a year in recent years.

2. This is an author count of the number of farm-related assistance programs listed for the Department of Agriculture on the System for Award Management website. "Assistance Listings," SAM.gov.

3. Department of Agriculture, "2017 Census of Agriculture: Volume 1," AC-17-A-51, April 2019, Table 3. See also Dipak Subedi, Anil K. Giri, and Monika Ghimire, "Commercial Farms Led in Government Payments in 2021," *Amber Waves*, Department of Agriculture, May 15, 2023. In a typical year, about one-third of farms receive subsidies from the agriculture risk coverage, price loss coverage, and conservation programs.

4. Congressional Budget Office, "Baseline Projections, USDA Farm Programs," May 2023.

5. Congressional Budget Office, "Options to Reduce the Budgetary Costs of the Federal Crop Insurance Program," December 2017, p. 5.

6. Congressional Budget Office, "Options to Reduce the Budgetary Costs of the Federal Crop Insurance Program," December 2017, p. 2.

7. Government Accountability Office, "Crop Insurance: Opportunities Exist to Improve Program Delivery and Reduce Costs," GAO-17-501, August 24, 2017; and Anne Schechinger, "One-Third of All Crop Insurance Subsidies Flow to Massive Insurance Companies and Agents, Not Farmers," Environmental Working Group, July 12, 2023.

8. Anton Bekkerman, Eric J. Belasco, and Vincent H. Smith, "Where the Money Goes: The Distribution of Crop Insurance and Other Farm Subsidy Payments," American Enterprise Institute, January 9, 2018, p. 1.

9. 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 18, 2015.

10. Congressional Budget Office, "Baseline Projections, USDA Farm Programs," May 2023; and "Government Payments by Program," Economic Research Service, Department of Agriculture, updated February 7, 2023.

11. Congressional Budget Office, "Baseline Projections, USDA Farm Programs," May 2023.

12. Jonathan R. McFadden and Robert A. Hoppe, *The Evolving Distribution of Payments from Commodity, Conservation, and Federal Crop Insurance Programs* (Washington: Department of Agriculture, November 2017), pp. 33, 48.

13. Congressional Research Service, “What Is the Farm Bill?,” RS22131, February 22, 2023.

14. “Farm Household Income and Characteristics,” Economic Research Service, Department of Agriculture, updated February 7, 2023. See “Mean and Median Farm Operator Household Income and Ratio of Farm Household to U.S. Household Income, 1960–2021” spreadsheet, updated December 1, 2022.

15. Christine Whitt, Noah Miller, and Ryan Olver, *America’s Farms and Ranches at a Glance: 2022 Edition* (Washington: Department of Agriculture, December 2022), pp. 13, 28.

16. Anton Bekkerman, Eric J. Belasco, and Vincent H. Smith, “Where the Money Goes: The Distribution of Crop Insurance and Other Farm Subsidy Payments,” American Enterprise Institute, January 2018, p. 3.

17. Jonathan R. McFadden and Robert A. Hoppe, *The Evolving Distribution of Payments from Commodity, Conservation, and Federal Crop Insurance Programs* (Washington: Department of Agriculture, November 2017), Figure 23.

18. Jonathan R. McFadden and Robert A. Hoppe, *The Evolving Distribution of Payments from Commodity, Conservation, and Federal Crop Insurance Programs* (Washington: Department of Agriculture, November 2017), p. 1.

19. Department of Agriculture, “2017 Census of Agriculture: Volume 1,” AC-17-A-51, April 2019, Table 3. This figure excludes crop insurance subsidies.

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

21. Anne Schechinger and Scott Faber, “Updated EWG Farm Subsidy Database Shows Largest Producers Reap Billions, Despite Climate Crisis,” Environmental Working Group, February 1, 2023.

22. Vincent H. Smith, Joseph W. Glauber, and Barry K. Goodwin, “Time to Reform the US Federal Agricultural Insurance Program,” American Enterprise Institute, October 2017, p. 22.

23. Department of Agriculture, “Farmland Ownership and Tenure,” May 16, 2022.

24. Food and Agriculture Organization, United Nations Development Programme, and United Nations Environment Programme, *A Multi-Billion-Dollar Opportunity: Repurposing Agricultural Support to Transform Food Systems* (Rome: United Nations, 2021), p. 75.

25. Cited in Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2019, Major Savings and Reforms* (Washington: Government Printing Office, 2018), p. 127.

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

27. Vincent H. Smith, Joseph W. Glauber, and Barry K. Goodwin, “Time to Reform the US Federal Agricultural Insurance Program,” American Enterprise Institute, October 2017, p. 15.

28. Jared Hayes and Eve Devens, “25 Current Members of the House Collected $14 Million in Federal Farm Subsidies,” Environmental Working Group, March 28, 2023.

29. Vincent H. Smith and Barry K. Goodwin, “What Harm Is Done by the Federal Crop Insurance Program Today?,” American Enterprise Institute, April 3, 2023.

30. Environmental Working Group, “Comments to the Federal Crop Insurance Corporation and Risk Management Agency, Department of Agriculture Docket ID FCIC-23-0001; Request for Information and Stakeholder Listening Sessions on Prevented Planting,” July 17, 2023.

31. Environmental Working Group, “Crop Insurance in the United States.”

32. Gwendolen DeBoe, *Impacts of Agricultural Policies on Productivity and Sustainability Performance in Agriculture: A Literature Review* (Paris: Organisation for Economic Cooperation and Development, 2020), pp. 34, 35.

33. Food and Agriculture Organization, United Nations Development Programme, and United Nations Environment Programme, *A Multi-Billion-Dollar Opportunity: Repurposing Agricultural Support to Transform Food Systems* (Rome: United Nations, 2021), pp. 56–64.

34. Department of Agriculture, “2017 Census of Agriculture: Volume 1,” AC-17-A-51, April 2019, Table 74.

35. James M. Williamson and Siraj G. Bawa, *Estimated Effects of the Tax Cuts and Jobs Act on Farms and Farm Households*

(Washington: Department of Agriculture, June 2018), p. iii.

36. Department of Agriculture, "Federal Tax Policy Issues," April 14, 2023. See also James M. Williamson, Ron Durst, and Tracey Farrigan, *The Potential Impact of Tax Reform on Farm Businesses and Rural Households* (Washington: Department of Agriculture, February 2013); and Ron Durst, *Federal Tax Policies and Farm Households* (Washington: Department of Agriculture, May 2009).

37. James M. Williamson, Ron Durst, and Tracey Farrigan, *The Potential Impact of Tax Reform on Farm Businesses and Rural Households* (Washington: Department of Agriculture, February 2013), p. 9.

38. Christopher W. Hesse, CliftonLarsonAllen LLP, Testimony to the House Committee on Agriculture, April 5, 2017.

39. "Farm Household Income and Characteristics," Economic Research Service, Department of Agriculture, updated February 7, 2023. See "Mean and Median Farm Operator Household Income and Ratio of Farm Household to U.S. Household Income, 1960–2021" spreadsheet, updated December 1, 2022.

40. For farm businesses, see Department of Agriculture, "Farm Sector Chapter 12 Bankruptcies in 2022 Lowest since 2004," May 3, 2023. For all U.S. businesses, I calculated the rate based on data in U.S. Courts, "Bankruptcy Filings Rise 10 Percent," press release, July 31, 2023.

41. Department of Agriculture, "Farm Sector Income & Finances: Assets, Debt, and Wealth," February 7, 2023.

42. Organisation for Economic Co-operation and Development, *Agricultural Policy Monitoring and Evaluation 2022* (Paris: Organisation for Economic Co-operation and Development, June 2022).

43. Mark Ross and Chris Edwards, "In New Zealand, Farmers Don't Want Subsidies," *Huffington Post*, July 17, 2012.

44. Organisation for Economic Co-operation and Development, *Agricultural Policy Monitoring and Evaluation 2022* (Paris: Organisation for Economic Co-operation and Development, June 2022).