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THE SHRINKING MARKET OF MIDSIZED FARMS

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INTRODUCTION

Americans enjoy a sense of collective national pride about the agricultural economy. The notion evokes mental images of proud farmers who provide our "amber waves of grain" and who weathered the Dust Bowl to provide food for their countrymen. Farmers hold a special place in American history and the American psyche, captured eloquently in the folksy "So God Made a Farmer" speech that Paul Harvey made famous again in the 2013 Dodge Ram Super Bowl commercial.

Nostalgia and sentimentality help to explain the generally broad public support for federal agriculture subsidies. That same support presents a tough uphill climb for those who would like to rein in the ballooning costs of these programs and end their market-distorting effects.

Calls for reform inevitably bring passionate debate. Subsidy supporters claim that any reduction in the size and scope of agriculture subsidies would destroy small and midsized farms and create barriers to entry for young farmers. These hyperbolic claims lead to an ever-expanding safety net. Whenever a fiscally responsible reform actually makes it through Congress, another support program inevitably springs up in its place.

In truth, the landscape of American agriculture has dramatically changed over the last 100 years. Farm employment is continually shrinking due to technological advancements and increased efficiency. In 1900, 45 percent of the U.S. labor force was employed in farming; by 2000, this had dropped to 1.9 percent.[1] Farms also are growing in size, with the industry polarized between large farms on one end and small farms on the other.

If farm supports are needed to keep midsize farms in operation, the decline of such farms over the same period that subsidies have grown raises questions about whether farm supports actually serve America's more vulnerable farms or whether they simply serve as a boon for large agribusinesses. This policy short contends that it is possible to make cuts to support programs in ways that still protect the farms most Americans assume our programs help, but without lending excess support to those with the resources to help themselves.

WHO GETS FARM SUPPORTS?

The federal farm bill – which lays out our system of farm supports, agriculture conservation programs and food aid – contains two titles that deal primarily with crop subsidies. The commodity title encompasses a large number of supports for staple commodity crops, such as corn, soybeans, wheat and barley, and also contains supports for dairy and sugar. This title contains the Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC) programs, into which farmers of eligible crops may opt until the next farm bill is authorized. PLC payments kick in when a crop price falls below a certain annually adjusted reference price, helping to smooth farm income in years of unexpectedly low prices. ARC payments are made when revenue falls below a predicted amount, also smoothing income and protecting against unexpectedly low prices or low yields that lead to significant revenue decreases.

Commodity payments are limited, giving the programs some balance and equity. Payments to any specific producer cannot be more than $125,000 for each individual actively engaged in farming, a definition with which the U.S. Department of Agriculture has struggled over the years; high payouts are sometimes made to farms where numerous individuals are registered as "actively engaged." Commodity payments also are means-tested, as individuals with incomes of more than $900,000 are ineligible for commodity supports. The way this means test is calculated changes periodically and was revised again in the 2014 farm bill. The new calculation affects significantly fewer farms than the 2008 version.[2]

Over the life of the current farm bill, ARC and PLC payments are anticipated to be 70 percent higher than originally projected in 2014.[3] The programs both came into existence as part of the last farm bill, which wound down USDA's previous "direct payments" program, which had similar restrictions. Unlike the direct payments programs, farms must be actively producing crops to receive ARC and PLC payments, a significant improvement over the old system. According to analysis from the nonpartisan Congressional Budget Office, direct payments flowed primarily to the largest farms, with the top 25 percent of recipients receiving 73 percent of the payments.[4] The distribution of ARC and PLC payments between large and small farms will be something to watch as those programs progress.

However, the largest farm support program is the federal crop insurance program. Under the program, the federal government approves participating insurance providers; subsidizes, on average, 62 percent of a farmer's premium costs; contributes toward the administrative and overhead costs of insurance companies that offer the policies; and provides reinsurance when losses are high. Originally designed to insure staple commodity crops, the list of crops covered by the federal program has expanded dramatically. There are now more than 130 crops eligible for insurance, with almost 300 million planted acres covered.

Unlike commodity payments, crop-insurance payments are essentially unlimited. No matter how high an actively engaged farmer's income, and no matter how many acres are insured, the federal government will subsidize a significant portion of his or her premiums. Additionally, where commodity programs are transparent, allowing taxpayers to see where the dollars flow, federal crop insurance spending isn't made public.

In 2011, the Environmental Working Group received detailed information on crop-insurance recipients through a Freedom of Information Act request.[5] Through that data, it became apparent that 26 farms received more $1 million in premium support, with one farm situated across five counties in Florida receiving $1.9 million in premium support.[6] The top 20 percent of farms received 73 percent of the premium-support payments, receiving $55,224 on average. However, the bottom 80 percent of farms received an average of only around $5,000 each.

REINING IN SPENDING WITHOUT HURTING FARMERS

Arguments against limiting the crop-insurance program focus on the supposed importance of keeping larger farms in the program. However, a recent paper from USDA's own research arm disproves the value of crop insurance at high levels of wealth. It shows instead that, at higher levels of wealth and liquidity, farmers already begin to wean themselves from crop insurance as a primary risk-management tool, instead choosing to hedge against their risks with savings:

> At very low levels of wealth, insurance subsidies would induce full insurance coverage, which could offer the lowest income households the means to accumulate wealth and eventually attain a level of savings that would move them out of a targeted subsidy population. At higher levels of wealth, households that cannot access premium subsidies have the means to self-insure through savings.[7]

But USDA researchers found a slight uptake in insurance for the very richest farms. The paper's authors theorized this increased participation may actually be a form of financial speculation; wealthy farms that can afford small losses on crop insurance also could reap large benefits from the program when revenues are unexpectedly low:

> One explanation for the decline and then small increase in crop insurance expenditures in the highest net worth categories is that, with extreme wealth, farmers have more money to purchase insurance not for risk management, but instead for risky investment in crop insurance; given the high returns to Federal crop insurance, these high-wealth farmers (farm net worth is over $900,000 and $2 million for Category 6 and 7 farmers, respectively) may be willing to invest in insurance for the high expected returns—despite the "risk" of a good season, where premium payments would exceed indemnities.

Reform proposals for crop insurance frequently center on constructing a payment limit or a means test, similar to the one in commodity programs. In a 2016 update to a 2007 USDA research paper, authors Ron Durst and Robert Williams apply the commodity program payment limit to crop insurance and find that less than 0.5 percent of farms and less than 1 percent of premiums would be affected by imposing the same cap on crop-insurance premium subsidies. The potentially affected farms, the authors found, "have significantly higher levels of farm, nonfarm and total household income and also report out-of-pocket crop insurance premium payments nearly 3 times the amount reported by other farms participating in the Federal crop insurance program."[8] It's important to note that the high-wealth farms potentially using crop insurance for speculation are the same group the current commodity income limit would restrict from accessing subsidies.

The most common payment limit threshold proposed for crop-insurance premium support is $50,000. Such proposals would apply only to premium support received by farmers, while keeping intact the federal government's role in supporting insurance companies' administrative and operating expenses and providing a reinsurance backstop. In a recent paper for the R Street Institute, agricultural economist Vince Smith modeled the number of farms that would be affected by caps of $50,000, $30,000 and $10,000. Smith used models based on USDA data, as the information itself is not transparent; the one data set available from 2011 does imply the number of farms affected would be small. Smith found that, for staple crops, a $50,000 cap would affect 9 percent of farms; a $30,000 cap would affect 14 percent; and a $10,000 cap would potentially affect 37 percent.[9]

It's worth noting that, over the period in which subsidies for the farm economy have expanded, so has the size of farms. According to USDA's Economic Research Service in 2013:

- The midpoint acreage for U.S. cropland nearly doubled between 1982 and 2007, from 589 acres to 1,105. Midpoint acreages increased in 45 of 50 States and more than doubled in 16.
- The largest increases occurred in a contiguous group of 12 Corn Belt and Northern Plains States.
- Midpoint acreages more than doubled in each of 5 major field crops (corn, cotton, rice, soybeans and wheat) and increased in 35 of 39 fruit and vegetable crops, where the average increase was 107 percent.[10]

The thinning out of midsized farms is a well-documented phenomenon, attributable to numerous factors, including various sorts of technological change. Several studies have attempted, with mixed results, to glean the extent to which government policy itself is responsible for the decline in midsize farms.

The most direct link between subsidies and increased farm size can be found in the ways subsidized crop insurance and USDA commodity programs remove a great deal of risk from farm income, making it easier for farm owners to invest in equipment upgrades. Additionally, crop specialization, which is in part driven by government largesse directed at commodity crops, has been a driver of farm consolidation.[11] Finally, rising land prices present a significant barrier to expansion for smaller farms, and government subsidies have been estimated to represent anywhere from 14 to 25 percent of each dollar of land value. While consolidation and rising prices aren't in and of themselves a bad thing, the extent to which they are driven by government policy is.[12]

CONCLUSION

In short, federal crop subsidies distort the market by reducing risk, increasing crop specialization and driving up land prices. Subsidies flow to the largest, richest farms and, to at least some extent, are helping to drive an ongoing process of consolidation. Meanwhile, the costs to taxpayers continue to grow. It's time to shake the view that farm supports, as currently structured, exist mainly to support small and midsized farms and to place more reasonable restrictions on farm-support programs.

ABOUT THE AUTHOR

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ENDNOTES

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