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MAKING FARM SUPPORTS A SAFETY NET AGAIN

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INTRODUCTION

As part of his Fiscal Year 2018 budget blueprint, President Donald Trump requested a $4.7 billion cut in the U.S. Department of Agriculture, slashing the department's budget by 21 percent.[1] For its part, Congress soon will begin considering the legislative contours of the next major farm bill, as the Agricultural Act of 2014 is set to expire in 2018.

Reauthorized roughly every five years, the farm bill is a massive piece of legislation that authorizes funding for all agricultural and food programs and sets federal policy for farm-support programs. At the time of its passage, the 2014 bill was estimated to cost taxpayers $489 billion over five years, but actual costs have greatly surpassed those projected by the Congressional Budget Office.

While the White House is asking for cuts, many farm-lobby groups and farm-state politicians argue the U.S. agriculture economy is in crisis and that it needs even more support. In a March 15 letter to the House Agriculture Committee, a coalition of a dozen national farm organizations—including groups like the American Farm Bureau Organization and National Corn Growers Association—urged Congress to bolster low commodity prices and declining farm incomes as part of the next farm bill. The groups contend the 2018 farm bill should acknowledge "the clear need for a stronger farm safety net and more resources for key priorities."[2]

The Agriculture Committee likely does not need much convincing on this point. In the official annual budget views and estimates report the committee's chairman and ranking member submitted jointly to the House Budget Committee, they pleaded for no further budget reductions and "the budget flexibility necessary to develop and enact an effective new farm bill before current law expires." According to the Agriculture Committee leadership, farmers are in a "severe economic slump" and the existing farm safety net "has proved inadequate under current conditions."[3]

Those lobbying for more extensive farm-support programs long have been quick to invoke the image of struggling farmers who work hard to put food on all of our tables and are just one bad harvest away from financial ruin. While feeding the hungry is always an admirable goal, the reality is that our current farm-support system already goes well beyond anything that could be described as a "safety net."

The good news for taxpayers—and for the White House's budget goals—is that reduced farm-bill spending does not have to mean threatening our farm safety net or endangering farmers who struggle to stay afloat. Lawmakers must

1' Office of Management and Budget, "America First: A Budget Blueprint to Make America Great Again," White House, March 16, 2017. https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/2018_blueprint.pdf

2' Oklahoma Farm Report, "Farmers, Ranchers Ask Congress to Strengthen Safety Net Programs in Letter to Committee Chairmen," March 15, 2016. http://www.oklahomafarmreport.com/wire/news/2017/03/01032_CongressStrongerSafetyNets03152017_170634.php#.WOvDn3TyvFQ

3' K. Michael Conaway and Collin C. Peterson, "Budget Views and Estimates Letter for FY 2018," U.S. House Committee on Agriculture, March 1, 2017. https://agriculture.house.gov/uploadedfiles/fy2018_bve_signed.pdf look past this false dichotomy to craft sensible farm-support policy and ensure that taxpayer dollars are used to help only those who truly need assistance. There are meaningful reforms Congress could pass today to make our farm-support system work more like a safety net and less like corporate welfare.

CROP INSURANCE

While a social safety net generally is understood to help citizens struggling with financial hardship or on the brink of poverty, the existing farm-support system funnels taxpayer dollars to farm operations of all sizes, including highly profitable agribusinesses. Faced with competitors who enjoy huge economies of scale, not to mention rising prices for agricultural land, many smaller family-run farm operations often find they have no choice but to sell.

Under the 2014 farm bill, the primary source of income support for most U.S. farmers is the Federal Crop Insurance Program. The program subsidizes farmers to purchase multiperil crop insurance from private insurers approved by the Federal Crop Insurance Corp. In addition to paying the bulk of farmers' premium costs—picking up 62 percent of the tab, on average—taxpayers also cover a portion of participating insurance companies' administrative and operating costs, such as agent commissions. The federal government also steps in to cover insurers' losses when claims are too high through a standard reinsurance agreement with the USDA's Risk Management Agency. All of these subsidies flow to farm operations, whether they are rich or poor and whether their business is on the verge of failing or raking in millions.

Farmers can opt into one of three plan types: yield protection, in which a percentage of the operation's expected yield-per-acre is insured at a recent average market price; revenue protection, in which a percentage of expected revenue-per-acre is insured, again with those expectations tied to recent market prices; and revenue protection with a harvest price option, in which a percentage of revenue-per-acre is insured, either at a recent market price or at the eventual harvest price, whichever is higher. Because of these lavish coverage options, farms participating in the harvest price option can, at times, receive payouts that are even larger than their estimated losses.

Because the insurance program protects both farmers' yields and their revenues, taxpayers are on the hook both in years of drought and natural disasters *and* in years of bountiful har-vests, which have the effect of depressing market prices and reducing farm revenue. In 2012, U.S. farmers experienced the worst drought in half a century, with crop production devastated nationwide and nearly 1,700 counties across 36 states declared natural disaster zones. According to a study by agricultural economist Bruce Babcock of Iowa State University, crop insurance payouts for 2012 exceeded $16 billion, an almost 50 percent jump from the year before, and taxpayers bore 75 percent of the cost.[4] However, thanks both to those insurance claims and record-high crop prices, U.S. farmers enjoyed their most profitable year *in history*. While support programs are intended to help farmers cope with calamities like natural disasters, a program that pays out more than twice the estimated losses and results in record high incomes cannot reasonably be called a "safety net."

Moreover, the so-called farm "safety net" also kicks in for farmers in times of bumper crops and bountiful harvests. Production has been so high in 2017 that U.S. corn, soybean and wheat crops all are headed for record yields. Wheat production is so high and prices so low that U.S. Sen. Jerry Moran, R-Kan., has asked the USDA and the U.S. Agency for International Development to ship excess wheat to countries in need, in order to help prop up prices in the United States. As revenue falls due to low market prices, taxpayers are again on the hook for massive insurance payouts. Nonetheless, farm groups are asking for even more government support.

It bears noting that U.S. agricultural policy's shift toward increased reliance on crop insurance actually replaced a farm-support system that was even less responsive to market forces. From the mid-1990s until the 2014 farm bill, farmers received direct payments to boost their income, which were not tied to market prices or actual production. Direct payments were a far more egregious misuse of taxpayer funds, since farmers could receive payments even when they did not actually suffer losses.

The 2014 farm bill abolished the direct payments program, while expanding crop insurance supports and creating new insurance-like "shallow loss" programs—Agriculture Risk Coverage and Price Loss Coverage—that are covered more extensively in the next section. Though this was intended to shift policy toward a more market-driven risk management approach, in practice, the crop insurance program works more like an income support program than a risk management tool or safety net.

A recent Environmental Working Group report found the average rate of return on crop insurance premiums for all farmers in all states between 2000 and 2014 was 120 percent per year. In other words, farmers received $2.20 back in claims for every dollar they paid in premium. EWG also found that farmers have enjoyed positive rates of return every single year, ranging from 29 percent ($1.29 for every dollar of premium) in 2007 to 324 percent ($4.24 for every dollar of premium) in the 2012 drought year.

4' Bruce A. Babcock, "Taxpayers, Crop Insurance, and the Drought of 2012," Environmental Working Group, April 2013. http://static.ewg.org/pdf/2013babcock_cropInsurance_drought.pdf

Since premiums are so highly subsidized, most farmers can expect to make money simply by purchasing crop insurance. This led the EWG researchers to conclude that farmers treat crop insurance like buying subsidized lottery tickets. In the authors' words:

> Making more in payouts than they pay in premiums is not a sure thing, but the odds are in the growers' favor… It amounts to placing a bet in a casino where the size of your bet is doubled with the house's money.[5]

ADDITIONAL COMMODITY PROGRAMS

For a significant subset of farms, taxpayer-subsidized crop insurance isn't the only or even the most remunerative federal income support program available. In addition to ramping up government support for crop insurance, the last farm bill also created two new programs designed to further insulate commodity farmers from risk: Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC).

The ARC program provides support payments to commodity farmers when their revenue falls below a set benchmark for either the county or the individual farmer. When actual revenue falls below 86 percent of the expected revenue, taxpayers step in to make up the difference. Under the PLC program, farmers are able to receive payments if the market-year price for a covered commodity falls below a target called the reference price. Farmers can decide on a crop-by-crop basis to opt into either ARC or PLC.

Like the crop insurance program, ARC and PLC go far beyond anything that could be called a "safety net," in that they protect farmers from even minor dips in expected revenue. Coping with market forces and dealing with minor losses is a normal part of risk in any business. Farm owners should not be insulated from normal business risk and should have to compete in the marketplace like all other business owners. The Heritage Foundation's "Blueprint for Balance: A Federal Budget for Fiscal Year 2018" recommends repealing ARC and PLC entirely, which would save taxpayers $9.62 billion in FY 2018.[6] Exercising this option alone would amount to a spending cut more than twice as large as the White House's proposed budget savings.

5' Bruce A. Babcock, "Crop Insurance: A Lottery That's a Sure Bet," Environmental Working Group, February 2016. http://static.ewg.org/pdf/2013babcock_cropInsurance_drought.pdf

6' The Heritage Foundation, "Blueprint for Balance: A Federal Budget for Fiscal Year 2018," March 28, 2017. http://www.heritage.org/budget-and-spending/report/blueprint-balance-federal-budget-fiscal-year-2018

A CHANGING AGRICULTURAL ECONOMY

No one would deny that maintaining a plentiful and affordable food supply is crucial to our national security and economic well-being. The agriculture industry enjoys a lavish system of supports, in part, because farmers are viewed as uniquely vulnerable to natural disasters and also because they play a crucial role of feeding our citizenry. However, the nature of the agriculture economy has evolved greatly since the USDA's inception in 1862. As small family farms become increasingly obsolete and as we depend more on major agribusiness for our food supply, we must be willing to re-examine our farm-support system and ask who really benefits from subsidies.

In a recent study for the Mercatus Center at George Mason University, economist Jayson Lusk found that, while 40 percent of Americans worked on farms in 1900, a mere 1 percent do today. Meanwhile, agricultural output (corn, wheat and cotton) has grown dramatically (600 percent, 350 percent and 430 percent, respectively) as agriculture has become a less important part of the overall economy. Agriculture accounted for 7.7 percent of gross domestic product in 1930 but only 0.7 percent in 2000.[7]

As we have shifted to fewer and larger farms, those that remain are more profitable than ever. While average farm household incomes were lower than other Americans until the 1970s, farm owners have consistently out-earned other U.S. households for more than two decades. Today, the average farm household earns over $20,000 more than the average U.S. household. They also tend to be wealthier. While the mean net worth of all U.S. households in 2012 was $338,950, farm households enjoyed a mean net worth of $914,210—nearly three times the national average.

It's not even true that farming is an especially risky business. While business failure is a risk in any market-based economy, the annual failure rate for all businesses is nearly 14 times greater than the rate at which farm operations fail. All industries must cope with economic downturns, but these facts should seriously call into question the narrative that the agriculture industry is uniquely vulnerable and in need of such far-reaching government support.

Even when the agriculture economy does struggle, most U.S. farm owners rely on other sources of income to keep themselves out of poverty. In 2014, more than 71 percent of farm households derived less than a quarter of their total income from their farm operations. More than half of all U.S. farms are owned by retirees or hobbyists, and are not intended to provide a livable income for their owners. If our farm-support programs indeed served as a safety net in times of

7' Jayson L. Lusk, "The Evolving Role of the USDA in the Food and Agricultural Economy," Mercatus Research, Mercatus Center at George Mason University, June 2016. https://www.mercatus.org/system/files/Lusk-USDA-v1.pdf hardship, they would be targeted toward those who depend on farm income for their livelihood. While our modern farm-support programs may have worked as a safety net during their origins in the Great Depression, the changing landscape of American agriculture means that our farm-support programs no longer serve this purpose for the vast majority of Americans who benefit from the system.

CORPORATE WELFARE

At best, our crop insurance and commodity programs protect against minor dips in revenue and prop up farm owners whose economic viability may not actually be threatened. At worst, they serve as a form of corporate welfare to funnel taxpayer dollars to multimillion dollar commercial-scale agricultural corporations at the expense of the small family farms they purport to serve. While there are many reasons our farm-support system goes beyond the concept of a safety net, the fact that it disproportionately benefits the wealthiest farm operations is perhaps the most concerning.

To qualify for virtually any social-assistance program in the United States—Temporary Assistance for Needy Families, public housing, Medicaid, even the USDA's own Supplemental Nutrition Assistance Program—one must pass a government-imposed means test designed to ensure the programs only provide benefits to poor and lower-income individuals and families. By contrast, the Federal Crop Insurance Program is not means-tested. All farm operations, regardless of size and profitability, are able to receive premium support. Because large-scale farm operations have larger incomes and assets to protect, it should come as no surprise that most premium support goes to the wealthiest farms.

According to the Environmental Working Group's farm subsidy database, 77 percent of farm subsidies paid between 1995 and 2014 flowed to the largest 10 percent of subsidy recipients. The top 1 percent of subsidy recipients received 26 percent of all payments. While the majority of farms receive very little in premium support (80 percent of participating farms collect less than $10,000 annually), there are 26 large-scale farm operations that each collect more than $1 million in subsidies each year, including one farm that spans five counties in Florida and receives $1.9 million in premium support.

Billionaires who have benefited from farm subsidies include the recently deceased David Rockefeller Sr.; former Commerce Secretary Penny Pritzker; and the owners of three different professional sports team. In all, 50 members of the *Forbes 400* list of richest Americans received at least $6.3 million in farm subsidies between 1995 and 2014, according to EWG.[8] These billionaires likely received even more in crop insurance payouts. We can't know for sure, because the crop insurance program, unlike the now-defunct direct payments system, lacks basic transparency measures.

Not only does our crop insurance program disproportionately benefit the largest farms, it also disproportionately benefits growers of certain kinds of crops—that is, producers of bulk commodities like corn, soybeans and wheat. This is not because these farmers are more vulnerable than others or because these crops are essential to our food supply. In fact, 40 percent of our country's corn supply, for example, is used to produce ethanol. Another one-third goes to animal feed. Rather, it's that these crops are powerfully represented by special interests and the big agribusiness lobby. By contrast, growers of fruits and vegetables or specialty crops receive very little in farm support.

As large-scale, industrial commodity growers rake in subsidies from taxpayers, more and more small and medium-sized farm operations are cashing out and selling their operations. While there are many factors contributing to farm consolidation, it is likely that inequitable farm-support policy plays some role. As R Street's Lori Sanders notes in a policy short, government subsidies have been estimated to represent somewhere between 14 and 25 percent of every $1 of agricultural land value. As land prices rise, smaller farms face barriers to expansion. Some degree of consolidation may be inevitable, due to technological advancements. Consolidation also is not, in itself, not necessarily a bad thing. But policymakers should ensure that federal farm policy is not driving this consolidation.[9]

CONCLUSION

By protecting farms against all manner of dips in revenue and funneling taxpayer dollars to the wealthiest operations, today's farm-support system goes well beyond the concept of a safety net. Fortunately, there are some modest reforms that could be made that would simultaneously rein in spending and direct taxpayer dollars toward farms that most need assistance.

If the farm-support system were truly a "safety net," it would protect only against the types of losses that endanger farms' economic viability. This would mean eliminating ARC and PLC, and reimagining our crop insurance system so that farmers are not insulated by the government from shallow losses or minor dips in revenue. However, given the political climate and the fact that farmers already depend on existing farm-support programs, it may not be feasible to move to a system that protects only against deep-yield losses in the next farm bill.

8' Environmental Working Group, "Farm Subsidy Database." https://farm.ewg.org/index.php?_ga=1.121608008.1770471653.1487189669

9' Lori Sanders, "The Shrinking Market of Midsized Farms," R Street Institute, September 2016. https://www.rstreet.org/wp-content/uploads/2016/09/RSTREETSHORT34.pdf

Within our existing system, policymakers could go a long way toward eliminating cronyism by enacting payment limits and means tests. These would put reasonable restrictions around the crop insurance program and ensure that the wealthiest and largest farms do not qualify for federal subsidies. Despite the farm lobby's claims to the contrary, it is in fact possible to limit crop insurance premium subsidies without harming those farms struggling to stay afloat.

A recent R Street policy study by economist Vincent H. Smith found that a $50,000 cap on premium-subsidy support would affect only 9 percent of farms, almost all of whom have market sales of significantly more than $750,000 per year. In other words, these are farms that should have the financial resources to manage risk on their own, without taxpayer-subsidized crop insurance. Smith also analyzed the expected impact of $30,000 and $10,000 premium-subsidy caps. While more farms would be affected under these more stringent caps, Smith found the impact of the subsidy reductions would be small or negligible and unlikely to cause serious financial hardship for farm owners.[10] While a premium-subsidy cap alone would not fix our bloated farm-support system, it would address some of the most egregious instances of corporate welfare and help make crop insurance more equitable.

The Assisting Family Farmers through Insurance Reform Measures (AFFIRM) Act—introduced in 2015 by Reps. Ron Kind, D-Wis., and Jim Sensenbrenner, R-Wis., and in the Senate by Sens. Jeff Flake, R-Ariz., and Jeanne Shaheen, D-.N.H.—would institute a payment limit of $40,000 annually. The bill also proposes a means test that ends premium support at an adjusted gross income of $250,000, in addition to making crop insurance payments transparent to the public. The legislation failed by a narrow margin when it was introduced as an amendment during the 2014 farm-bill negotiations. It remains perhaps the most politically feasible reform option currently on the table.

Beyond that, other reform ideas that could be explored include a "no double-dipping" provision that would require farm operations to choose between either receiving crop insurance premium support *or* receiving protection under the Title I commodity programs (ARC and PLC); a reduction of crop insurance premium subsidy rates across the board, as was proposed in a bill in the 113th Congress by Sen. Flake, R-Ariz.; or prohibiting premium subsidies on harvest price option policies, the most lavish crop insurance policies available. This last idea has been introduced in the Senate by Flake and Shaheen and in the House by Rep. John Duncan, R-Tenn., in the form of the Harvest Price Subsidy Prohibition Act. According to the Congressional Budget Office, the Flake-Duncan bill would save $18.9 billion over 10 years.

As with the AFFIRM Act, none of these reform measures alone would fix our broken farm-support system, but they would target some of the "lowest-hanging fruit" and most egregious misuses of taxpayer funds. These legislative options all come with trade-offs, and all are likely to generate significant pushback from entrenched agriculture interests. Still, they are all feasible ideas that would reduce waste and cronyism in our farm-support system without endangering the safety net function it is supposed to play for farmers on the brink of poverty. As policymakers—including those in the White House—look ahead to the 2018 farm bill, it's crucial that they consider meaningful reforms to make our farm supports a safety net again.

10' Vincent H. Smith, "Limiting Premium Subsidies for Crop Insurance," R Street Institute, April 2016. http://www.rstreet.org/wp-content/uploads/2016/04/61.pdf

ABOUT THE AUTHOR

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