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FARM-SUPPORT REFORM OPTIONS IN THE LEAD-UP TO THE 2018 FARM BILL

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INTRODUCTION

With the Agricultural Act of 2014 ("farm bill") set to expire in 2018, Congress will soon begin to negotiate and draft the next iteration of the massive piece of legislation that authorizes federal funding for all farm support and food programs.

In this Congress, lawmakers are faced with a uniquely difficult environment. Last time the farm bill was drafted, net farm income was at a record-high level, whereas now it has been significantly reduced. There is widespread political sentiment that Washington insiders are not doing enough to help Americans who are struggling in rural communities across the country. And this sentiment is sometimes too easily conflated with the need for more farm subsidies

Meanwhile, there are very real spending concerns that lawmakers must address to put our farm support system on a path toward sustainability. Farm-bill spending has surpassed the Congressional Budget Office's projections at the time the 2014 bill was passed.[1] The two new commodity-support programs it created, the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) programs, are now projected to cost nearly 250 percent of the original estimates—$31 billion over five years, instead of $12.608 billion.[2] Recognizing this stark reality, President Donald Trump's Fiscal Year 2018 budget requested a $4.7 billion cut to the U.S. Agriculture Department.[3] This would slash the department's budget by 21 percent and take aim at crop insurance and commodity-support programs.[4]

Farm lobby groups and farm-state politicians did not take kindly to the president's calls for spending cuts. In an official statement, American Farm Bureau Federation President Zippy Duvall declared: "Clearly this budget fails agriculture and rural America [...] USDA cuts of this magnitude in the current economic cycle would be unwarranted and unwise."[5] Perhaps heeding such an admonition, House Agriculture Committee Chairman Mike Conaway, R-Texas, promised he would push back against the proposed spending cuts:

> As we in Congress get ready to write the budget, we will certainly pay close attention to the president's recommendations, many of which I suspect will be incorporated into the budget. But, we will also have ideas on what the budget should look like and our priorities will also be taken into account. The bottom line is this is the start of a longer, larger process. It is a proposal, not THE budget.[6]

In the lead-up to the 2018 Farm Bill, Conaway has asserted the next farm bill will only be a "fine-tuning" of existent programs—with the exception of the "cotton portion," or Stacked Income Protection Plan (STAX)—which Conaway insists will get a complete overhaul to give cotton farmers more support.[7]

While House and Senate Agriculture Committee chairmen may want to push through another bloated farm bill that pads the pockets of wealthy agribusinesses, they would be unwise not to consider reforms to our crop insurance and commodity-support programs that would rein in spending and make our farm-support system more accountable to taxpayers. Fortunately, there is already a menu of reform options that have been proposed in Congress and that could help the committee come closer to the president's budgetary goals without threatening the safety-net function of our federal farm programs and without putting small, struggling farms in risk of financial ruin.

To better understand what types of farm bill reforms might be feasible, it is worthwhile to examine reform legislation that has been considered in recent congressional sessions and other ideas that have been floated around Capitol Hill. While these proposals all have their strengths and weaknesses—and all are likely to be vigorously opposed by agriculture industry insiders and special-interest groups—from the taxpayer's perspective, to enact any one of these legislative options would be better than to maintain the status quo. For this reason, they should all be duly considered.

PROHIBITION OF SUBSIDIES FOR THE HARVEST PRICE OPTION

President Trump's budget proposes a number of reforms to our federal crop insurance program that have long been championed on Capitol Hill by reform-minded politicians. One, in particular, takes aim at the most extravagant federally subsidized crop insurance product: the "harvest price option" (HPO).

When farmers purchase government-subsidized crop insurance, they can opt in to one of three plan types: yield protection, in which a percentage of the operation's expected yield-per-acre is insured at a recent market price; revenue protection, in which a percentage of expected revenue-per-acre is insured, again with expectations tied to recent market prices; or revenue protection with a harvest price option, wherein a percentage of revenue-per-acre is insured, either at a recent market price or at the eventual harvest price, whichever is higher.

Critics have pointed out that to subsidize the harvest price option is particularly egregious because it goes far beyond the concept of a safety net. Rather than protect farmers from losses if their revenues are lower than expected, HPO policies often "recoup" profits that were not even anticipated at the time they purchased crop insurance. As the R Street Institute has written of the harvest price option: "It is the crop insurance equivalent of your auto insurer surprising you with a new Cadillac Escalade after you've totaled your Toyota Corolla."[8]

Most recently introduced in 2015 during the 114th Congress by Sen. Jeff Flake, R-Ariz., in the Senate and Rep. John Duncan, R-Tenn., in the House, the Harvest Price Subsidy Prohibition Act would prohibit subsidies for plans with the harvest price option. At the time it was introduced, the Congressional Budget Office (CBO) predicted that it could save taxpayers $18.9 billion over 10 years. Calculated in 2017, more recent CBO projections estimate that an end to subsidies for the harvest price option would save $19.2 billion over the next decade.

While such legislation has not yet been reintroduced during this session of Congress, the provisions remain popular among reform advocates and will certainly resurface during the next farm bill debate. This is for good reason. Among all of the proposals for federal crop insurance program reform, the end of HPO subsidies is perhaps the simplest and most politically feasible, and yet also delivers significant savings. In this way, it is an easy method to target some of the lowest-hanging fruit. While farm owners should certainly have the option to purchase crop insurance with the harvest price option at their own expense, there is simply no reason the government should have to subsidize such an extravagant product.

REFORMS REPRESENTED IN THE AFFIRM ACT

Although there is not a bill that singularly targets the HPO subsidy prohibition this Congress, such reform is included in a broader legislative package of reforms called the Assisting Family Farmers through Insurance Reform Measures (AFFIRM) Act. Introduced in the House as H.R. 3973 by Reps Ron Kind, D-Wis., and Jim Sensenbrenner, R-Wis., and in the Senate as S.1025 by Sens. Jeff Flake, R-Ariz., and Jeanne Shaheen, D-N.H., it is perhaps the longest-running and most comprehensive reform package directed at our federal crop insurance program.

To make crop insurance spending more equitable and accountable to taxpayers, the AFFIRM Act also proposes a number of additional reforms, all of which have their own strengths and weaknesses.

Transparency

Currently, crop insurance payments do not have basic transparency requirements, which means that taxpayers can never be certain who benefits from subsidies. In 2013, an Environmental Working Group (EWG) investigation using the Forbes list of richest Americans uncovered that the government paid out $11.3 million in subsidies to 50 billionaires between 1995 and 2012.[9] EWG also found that 36 members of Congress collected at least $9.5 million in subsidies—including 10 members of the House Agriculture Committee.[10] In light of this, the AFFIRM Act would require the USDA to disclose specified details about the recipients and amounts of federal crop insurance subsidies to the public on an annual basis.

If taxpayers had ready access to such information, it would be easier to identify and target rampant waste. Of course, in itself, transparency would not produce savings or lead to meaningful reforms, and it would still be up to Congress to use the information available to enact better policy outcomes. However, transparency would undeniably empower Americans to hold lawmakers accountable and at negligible cost to taxpayers.

Means testing

To qualify for virtually any social-assistance program in the United States—from Medicaid to food stamps—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 subsidizes farm owners' premiums at an average rate of 62 percent, whether the farm in question is a small family farm or a commercial-scale, multimillion-dollar agribusiness. To target this cronyism, the AFFIRM Act also prohibits subsidies for any person or legal entity that has an adjusted gross income (AGI) greater than $250,000. Means testing the crop insurance program has been proposed at varying levels, with President Trump's budget proposing a $500,000 AGI limit.[11]

In May 2017, Rep. Kind defended such means testing: "I've never been shy about means testing these farm programs [...] There are ways for us to tighten up these programs, make them more accountable to the taxpayer, yet still helpful to the producers that need help." House Agriculture Committee Chairman Conaway countered: "The risk associated with bigger farms is the same as the risk associated with smaller farms [...] And so having a means test on that is not appropriate."[12] While Conaway is right that farms of all sizes face risk, he misses the point that profitable farm operations still have myriad ways to manage risk in the absence of premium subsidies for crop insurance—including the ability and resources simply to purchase crop insurance on their own dime.

The bottom line is that means testing would be a simple way to rein in excessive and unnecessary spending and make the program more equitable. However, because farmers can easily manipulate their adjusted gross income with the purchase of new equipment or the division of income between spouses or corporate entities, it is unlikely that means testing will deliver significant savings on its own. Therefore, it is not a silver bullet solution, but rather one potential strategy among other, more comprehensive ones.

Payment Limits

Currently, there is no limit on how much crop insurance the government will subsidize for any one operation. This means that multimillionaire mega-farm operations are subsidized at the same rate as beginning farmers or owners of very small operations. For this reason, the AFFIRM Act also prohibits premium subsidies that exceed $40,000 per year for any single person or legal entity.

Farm-lobby advocates and farm-state politicians consistently claim that such payment limits would devastate U.S. agricultural production and put struggling farmers in danger, but no evidence is available to support this claim. On the contrary, a recent R Street policy study by Vincent H. Smith, which used a data-based simulation to determine how premium subsidy caps would affect farms across a dozen geographically diverse states, found that a modest cap on crop insurance premium supports would be very unlikely to harm the farm economy.[13]

According to Smith's analysis, only 9 percent of farms would experience a reduction in their crop-insurance premium subsidy payments if a $50,000 cap were enacted. When the size of the payment reductions is considered relative to the farms' annual revenues from market sales, the impact of the reduction is small or negligible. Most of the farms affected by a $50,000 cap have market sales of well over $750,000 a year and, in many cases, sales are in the multiple millions of dollars.[14]

Smith also analyzed the impact for a more stringent $30,000 or $10,000 cap. Under a $30,000 cap, 14 percent of farms would be affected. But again, the impact of the subsidy reductions would likely be small or negligible when considered relative to the farms' annual market sales. A $10,000 cap would affect 37 percent of farms, but even here the reductions would be relatively small and unlikely to cause significant financial hardship.[15]

Such analysis clearly shows that policymakers could enact an even more stringent payment limit than the $40,000 cap proposed in the AFFIRM Act without endangering the economic viability of individual farms. According to an EWG analysis, 80 percent of participating farms receive less than $10,000 annually, while 77 percent of farm subsidies flow to the largest 10 percent of recipients.[16]

Since the vast majority of farms come nowhere near the limit, like other policy proposals, these payment limits would not have a huge impact on their own. Yet they certainly are warranted to target some of the most egregious cases of crony capitalism and to bring a scope around the crop insurance program. All such efforts would make spending more predictable in the long term.

Reforms that target insurance providers

In addition to reforms that target the types and amounts of subsidies farmers receive, policymakers should also consider reforms that target providers of crop insurance. Currently, taxpayers cover a portion of participating insurance companies' administrative and operating costs—like, for example, agent commissions. However, they also cover the bulk of farmers' premium costs. Through the 2011 standard reinsurance agreement (SRA), the USDA set a target rate of return—or the average annual rate of return that participating insurance companies are expected to earn—at an astronomical 14.5 percent.

Such artificially high rates are the embodiment of crony capitalism and cost taxpayers significant sums each year. For these reasons, the AFFIRM Act proposes a cap on total reimbursements for administrative and operating costs of crop insurance providers that would start at $900 million and adjust for inflation in each subsequent year. It also proposes a corresponding cap to the overall rate of return for insurance providers at 8.9 percent. Other legislation this Congress—also introduced by Sens. Flake and Shaheen, S. 1773—lowers the SRA rate of return to 9.6 percent by statute and removes a provision from the 2014 Farm Bill that prohibits the USDA's Risk Management Agency from regularly negotiating the SRA. According to the CBO, this bill would save taxpayers $3.9 billion.

Such reforms are necessary to align the rate of return with market conditions and rein in unnecessary spending. Requested by Sen. Dianne Feinstein, D-Calif., a 2017 report issued by the nonpartisan Government Accountability Office (GAO) came to the same conclusion: "this expected rate of return [is] too high compared with market conditions. Reducing it could save the federal crop insurance program hundreds of millions of dollars a year."[17] The authors argued that to adopt a "reasonable rate of return," which was 9.6 percent for 2009-2015, would decrease companies' expected annual underwriting gains by $364 million and result in significant savings.[18]

Such reforms present commonsense solutions that would produce real savings without threatening the farm safety net. Their inclusion should thus take high priority during this farm bill cycle. The AFFIRM Act—or any other standalone bill that reforms our farm-support system—is unlikely to advance or see floor time on its own. However, policymakers should be prepared to see its elements offered as amendments to the next farm bill. Piecemeal adoption of these reforms is, alas, the most likely avenue for progress.

ADDITIONAL REFORM IDEAS

Outside of piecemeal bills that have already been introduced this Congress and the AFFIRM Act legislative package, there are several other popular reform proposals that are not currently represented in legislative text.

First, although the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) Title I commodity programs created during the 2014 farm bill have cost more than twice what they were projected to, there are currently no bills that target these programs. When commodity farmers' revenue falls below a set benchmark for either the county or the individual farmer, ARC provides support payments to make revenues whole. PLC, on the other hand, provides payments if the market-year price for a covered commodity falls below a target called the "reference price." Currently, farmers are able to collect both crop insurance payouts and ARC or PLC payments for the very same loss.

One reasonable reform would be to institute a "no-double-dipping" provision that would require farmers to choose between either subsidized crop insurance coverage or Title I programs. Another option would be to enact a total payment limit that applies to both crop insurance subsidies and Title I payments. This would place an overall cap on the subsidies a single farm operation could receive and would give farmers the freedom to select whichever option within the cap is best for them.

CONCLUSION

Agriculture committee leadership have likely been working behind the scenes to craft a ready-made, bloated farm bill that will please the agriculture special-interest groups but leave taxpayers hanging out to dry. With such a large menu of feasible reform options already on the table, policymakers have a responsibility to weigh reforms carefully and ensure that the farm bill status quo is not rushed through Congress without incorporating input from a broad range of stakeholders.

While committee leadership has made no apparent effort to solicit stakeholder input beyond the agriculture lobby, the farm bill is a crucial piece of legislation that affects us all—as consumers, taxpayers and as environmental stewards. A responsible farm bill will enact meaningful reforms that take all of these voices into account. Policymakers and legislators are in a unique position to craft legislation that finally does just that.

ABOUT THE AUTHOR

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