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# RURAL POVERTY, FARM SUBSIDIES AND THE WAY FORWARD

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## INTRODUCTION

Rural voters formed a core constituency in President Donald Trump's surprising win in the 2016 presidential election. In part by tapping into economic anxieties in rural areas, candidate Trump was able to mobilize a winning coalition in a way that recent Republican nominees could not. While many of the perceived causes of economic anxiety are overstated or misleading, some are legitimate.

Rural poverty is a serious issue. In 2014, the poverty rate in what the U.S. Census Bureau defines as "nonmetro areas," which this policy short uses as a definition of rural areas, was 16.6 percent. This is higher than the overall U.S. poverty rate of 14.9 percent, but lower than the poverty rate in inner cities.[1] Poverty obviously is a complicated issue with numerous causes, including but not limited to underperforming educational systems, declining economic and geographic mobility, falling labor-force participation, stagnating wages, rising public health concerns, misaligned government incentives and even changing cultural norms. All of these factors have contributed to dampened labor-market dynamism and economic opportunities in rural and urban settings alike.

But rather than put forward thoughtful ideas to address the root causes of rural poverty, certain politicians have reverted to the stale idea that more generous farm subsidies can serve as a panacea. This is a mistake that obfuscates more serious problems.

There are some legitimate causes for concern among struggling rural farmers. Agricultural prices have dropped in recent years. While the United States remains the largest exporter of agricultural products in the world, it is true that U.S. farmers and ranchers lack preferential or tariff-free market access in certain major countries into which they could sell their products.

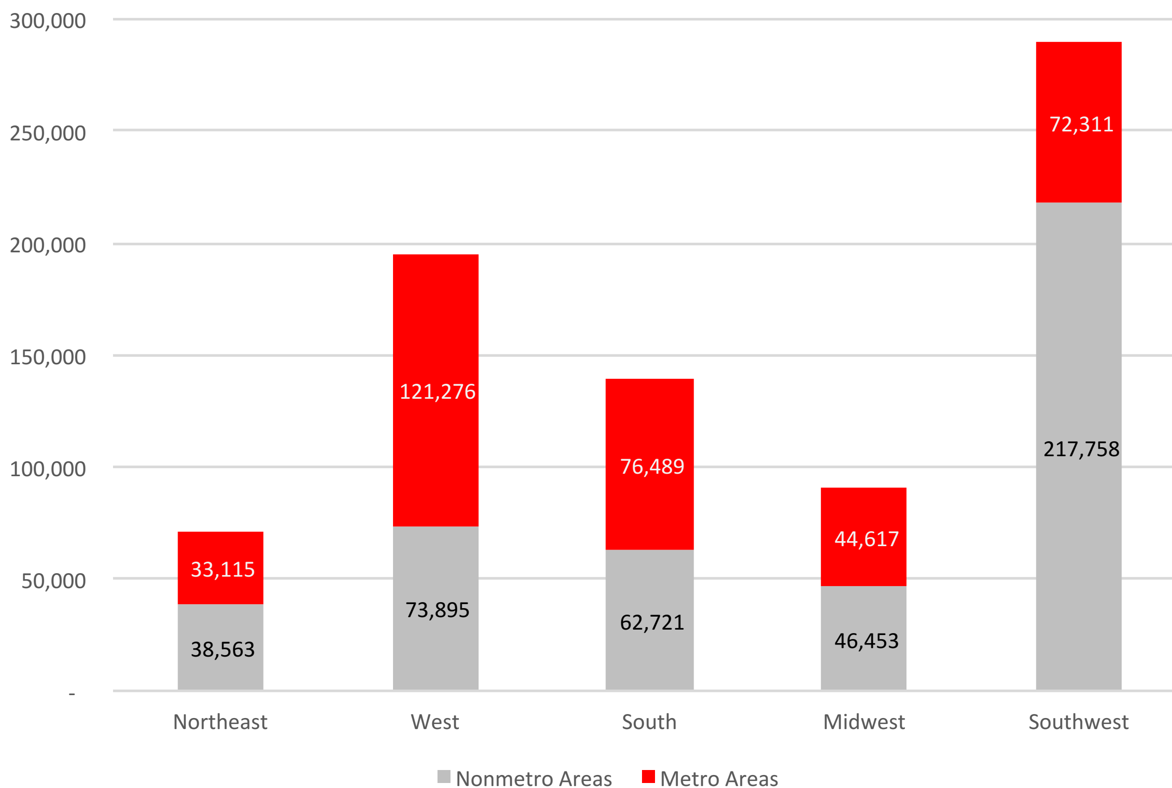
The Trans-Pacific Partnership, which was jettisoned by the Trump administration as one of its first official actions, would have opened notoriously closed agricultural markets in Japan and other Pacific Rim nations to American exports. Likewise, the World Trade Organization's (WTO) Doha Development Round, which would have dramatically reduced tariffs across the globe for agricultural products, has been stalled, in large part due to the United States and Europe Union's unwillingness to curb domestic farm subsidies.[2] President Trump's recent saber rattling about withdrawing from the North American Free Trade Agreement (NAFTA) marks a further cause for concern and source of economic uncertainty for the agricultural community. The effects of NAFTA withdrawal would fall particularly hard on U.S. farmers and ranchers.

As Congress begins to piece together the 2018 farm bill, it is of utmost importance to disabuse policymakers of the notion that farm subsidies are a silver bullet in the fight against rural poverty. In fact, farm subsidies do not meaningfully help most rural farmers. It's time the United States gets serious about reforming a broken system.

## SNAPSHOT OF FARM EMPLOYMENT

The first problem with the notion that more generous agricultural subsidies will reduce rural poverty is that, in fact, very few Americans are employed in agriculture, even in rural areas. Between 1912 and 2012, during which time the population of the United States more than tripled to 314 million people, the number of hired farmworkers declined significantly—from 3.4 million to slightly more than 1 million.[3] Factoring in growth of the U.S. labor market over time helps to underscore just how dramatic the relative decline in the number of farmworkers has been.[4] According to a recent study for the Mercatus Center at George Mason University, economist Jayson Lusk found that while 40 percent of

FIGURE 1: HIRED FARMWORKERS BY REGION AND METROPOLITAN STATUS, 2012




NOTE: The Southwest region, created with states from the U.S. Census Bureau's South and West regions, consists of Arizona, California, Colorado, New Mexico and Texas.

SOURCE: USDA Economic Research Service using data from the U.S. Census Bureau, 2010 Current Population Surveys.

Americans worked on farms in 1900, only about 1 percent do today.[5]

It is also worth noting that, more than any other sector, agricultural employment swings considerably by season. According to the U.S. Agriculture Department (USDA), there were 808,000 farmworkers in January 2011, while in July of that year, the figure stood at 1,184,000.[6] Thus, farm work is not a particularly reliable source of full-time, year-round employment. On the other hand, while fewer Americans now work on farms, for those who do, their income is more immune to economic shocks than the broader labor market. During the so-called "Great Recession" of 2007 to 2009, nonfarm wages and salaries fell by 4.7 percent, while farm wages and salaries decreased by a mere 1.5 percent.[7]

In terms of the ability of the agricultural sector to help alleviate rural poverty, it is first important to note that most U.S. farmworkers actually are employed in metropolitan areas. As Figure 1 demonstrates, only about 45 percent of the total number of farmworkers are employed in rural counties, while the other 55 percent work in urban or suburban counties.[8]

Just as most farmworkers do not work in rural areas, the overwhelming majority of those who do work in rural areas do not work on farms. In fact, only about 6 percent of workers in nonmetro areas are employed on farms.[9] While this represents a higher rate of agricultural employment than is found in metro areas, where about 1 percent of workers work on farms, nonmetro employment is considerably higher in such sectors as trade, government, transportation and utilities.[10] This is consistent with overall labor-market trends — away from manufacturing and farming and toward a service-based economy.

Accordingly, only a very small segment of those employed in rural areas would benefit from even a perfectly designed agricultural safety net. Regrettably, at a projected cost of about $15 billion a year—which includes the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) programs, as well as the cost[11] of federal crop insurance subsidies—the U.S. agricultural safety net is not only far from perfect, but is increasingly unaffordable for taxpayers.

## WINNERS OF THE STATUS QUO

Since the New Deal, the federal government's crop insurance and commodity payment programs have grown increasingly complex and expensive. These programs distort agricultural markets and provide overly generous benefits to a handful of large, wealthy farms at the expense of less wealthy taxpayers. In large part, this is because the Agricultural Act of 2014 (colloquially referred to as the "farm bill") eliminated direct payments to farmers. As a result, the crop insurance program has become an increasingly important component of the farm safety net and its costs have grown enormously. According to the USDA, taxpayers pick up 62 percent of the cost of an average farmer's crop insurance premiums.[12] The program also makes payments to sellers of crop insurance to compensate them for essentially all of their administrative and operating costs and it provides reinsurance under contracts with the USDA's Risk Management Agency that guarantee the insurers a generous rate of return.

Not only are crop insurance premiums heavily subsidized, but the support isn't either capped or means tested. In practice, this means the subsidies flow primarily to the largest corporate farms that are able to purchase the most generous insurance policies. A 2011 Government Accountability Office (GAO) study found that less than 4 percent of farmers who participate in the crop insurance program received approximately one-third of the nearly $7.5 billion in premium support subsidies.[13] Between 1995 and 2014, the top 1 percent of subsidy recipients received 26 percent of all payments.[14] Likewise, while a small group of farms each receive more than $1 million in annual premium support, it is estimated that 80 percent of farms receive less than $10,000.[15]

As part of the 2014 farm bill, two new commodity payment programs were enacted. PLC provides payments to farmers when the price of their commodity falls below a reference price that is adjusted annually. These payments serve as a hedge against low crop prices. On the other hand, ARC payments are triggered when farmers' actual revenues drop about 15 percent below those projected. This type of coverage protects against low commodity prices or falling yields. Both PLC and ARC payments are capped at $125,000 for each individual actively farming and the programs are only available to farmers with less than $900,000 in annual adjusted gross income.

Like the crop insurance program, PLC and ARC are busting the bank for taxpayers. When these programs were included in the 2014 farm bill, proponents claimed that, compared to the direct payments program they were meant to replace, PLC and ARC would produce significant taxpayer savings. Yet their actual combined cost is about 80 percent more than initially projected.[16] This is a significant concern for taxpayers.

Not only do these top-skewed programs cost taxpayers way too much and hinder free trade, they are also applied unevenly, as PLC and ARC are available only for commodity crops. So, for example, soybean farmers can qualify for essentially all of the various agricultural safety net programs, while hog farmers cannot. Given that the Doha Development Round at the WTO—which would have provided American farmers and ranchers with more market access abroad—broke down over the United States and European Union's unwillingness to cut domestic farm subsidies,[17] farmers who already do not qualify for generous subsidies paid an extreme price.

It is clear that the current farm safety net is tilted toward wealthier corporate farms and it prioritizes certain agricultural products over others, all with few benefits that actually flow toward the rural poor. Accordingly, to reform these programs would provide substantial benefits to taxpayers, farmers and ranchers alike.

## REAL HELP FOR FARMERS

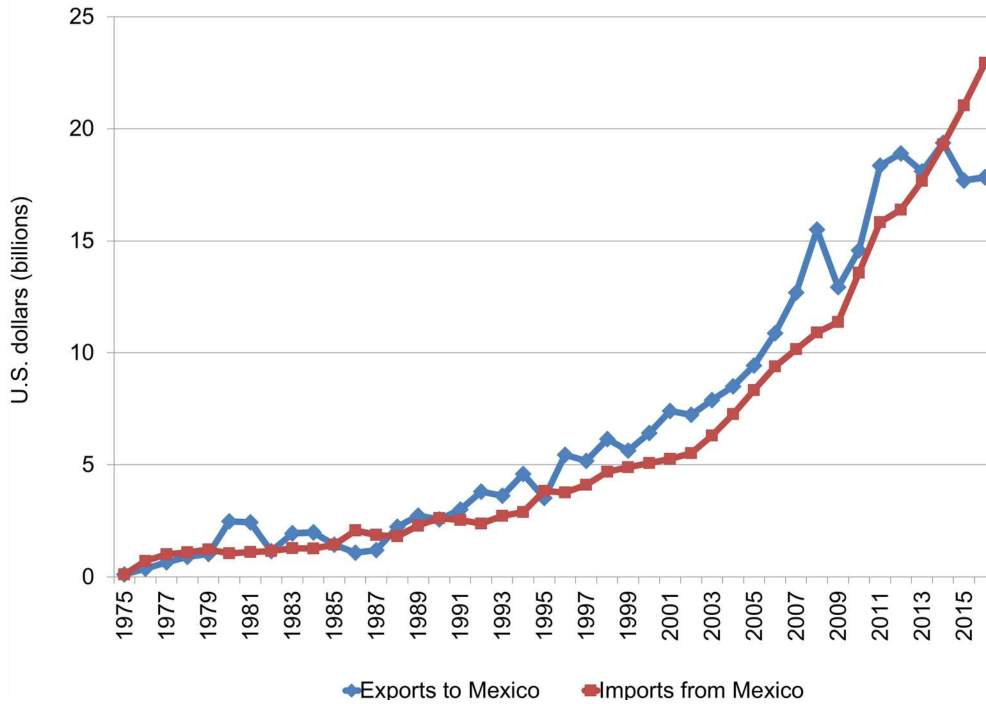
While reforming the farm safety net may be challenging, given the intense corporate lobby in favor of the status quo, there are myriad thoughtful ideas available to policymakers who want to better target farmworkers who are truly struggling.

For example, a 2016 R Street study by agricultural economist Vincent Smith found that capping crop insurance premium support at $50,000 would affect less than 10 percent of farms, virtually all of which have market sales of more than $750,000 annually.[18] More recently, Smith has completed another study for R Street that found reducing the rate of premium subsidy from the current 62 percent to 40 percent—roughly where it was in the 1990s—would save $3.4 billion annually.[19]

In Congress, Reps. Ron Kind, D-Wis., and Jim Sensenbrenner, R-Wis., and Sens. Jeff Flake, R-Ariz., and Jeanne Shaheen, D-N.H., have introduced the Assisting Family Farmers through Insurance Reform Measures (AFFIRM) Act. The legislation would institute a premium subsidy cap of $40,000 annually, as well as a means test that would cut off premium support for farms with an adjusted gross income of more than $250,000. This bipartisan effort would go a long way toward improving our farm subsidy programs.

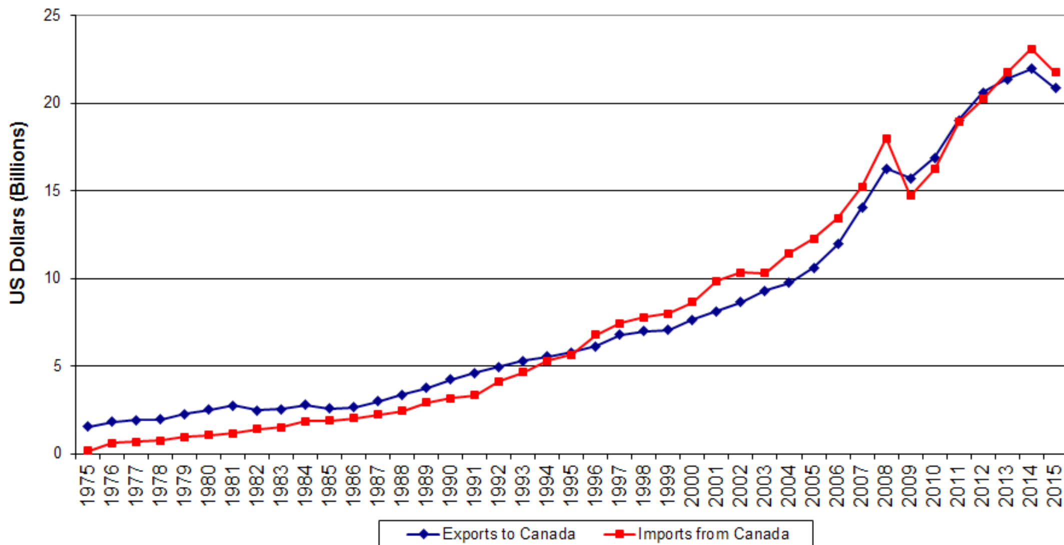
On top of these commonsense ideas, cutting our domestic agricultural subsidies would give the Office of the U.S. Trade Representative the leverage it needs to jump-start the Doha Development Round in order to expand market access across the globe. With 95 percent of the world's population living outside of the United States, U.S. farmers would experience outsized gains from the wider trade liberalization promised

**FIGURE 2: U.S.-MEXICO AGRICULTURAL TRADE, 1975-2016**




SOURCE: USDA Economic Research Service

**FIGURE 3: U.S.-CANADA AGRICULTURAL TRADE, 1975-2015**




SOURCE: USDA Economic Research Service

by the Doha Round. However, this is only possible if we trim our own subsidies.

Additionally, the United States should re-enter the TPP and Congress should ratify the agreement, which would be an enormous boon to the American agricultural industry. By way of example, Canada's dairy market is heavily protected from foreign competition. The same can be said of Japan's beef market. Yet in the TPP framework, Canada cut tariffs and nontariff barriers to its dairy market in order to access Japan's beef market and vice versa. American dairy farmers and cattle ranchers could also gain from these moves to liberalize trade.

Further, the United States should rule out withdrawing from NAFTA, given that Mexico and Canada are our two largest agricultural trading partners. According to the USDA, U.S. agricultural exports to Mexico have grown at a compound annual rate of 7.2 percent from 1993, the year before NAFTA's implementation, to 2016.[20] In 1994, the United States exported about $5 billion worth of agricultural goods to Mexico. By 2015, that figure was approximately $18 billion, as Figure 2 demonstrates.[21]

Likewise, our agricultural trading relationship with Canada pays enormous dividends for American farmers and ranchers. According to the USDA, U.S. agricultural exports to Canada grew at a compound annual rate of 7.0 percent between 1988—the last year before NAFTA's precursor, the Canadian-U.S. Trade Agreement, was implemented—and 2015.[22] As is demonstrated in Figure 3, we exported less than $5 billion worth of agricultural products in 1988 and more than $20 billion in 2015.[23]

Given these realities, it is clear that one way to truly benefit American farmers and ranchers is to expand their ability to sell products abroad.

## CONCLUSION

The causes and potential solutions for rural poverty are complicated. A truly holistic view of those concerns is beyond the scope of this paper. What is certain is that farm subsidies are not a silver bullet, given that so few Americans work in farming and the overwhelming majority of those who do farm, do not benefit from the overly generous safety net. Likewise, many farmers are harmed by the very domestic subsidies politicians claim will solve their problems, because such subsidies stand in the way of further trade liberalization abroad.


### ABOUT THE AUTHOR

**Clark Packard** is an outreach manager and policy analyst for the R Street Institute, where he works with the rest of the outreach team to advance R Street's policy agenda with relevant federal policymakers in Congress and the executive branch.

Clark joined R Street in May 2017 from the National Taxpayers Union, where he was counsel and government affairs manager, serving as the organization's point person on trade and financial services policy and providing legal counsel to the organization's senior officers.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