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How "Emergency" Farm Spending Squanders the Surplus

Peter Sperry

Prior to leaving for its August 1999 recess, the Senate approved a $7.6 billion "emergency" agricultural spending package that will consume about half of the Congressional Budget Office (CBO) projected on-budget surplus for fiscal year (FY) 1999. Although emergency appropriations do not count against budget caps, increased spending, regardless of how its classified, eliminates the possibility of Congress keeping its other commitments, like protecting Social Security and passing tax cuts.

During the floor debate, Senator Richard Lugar (R–IN), chairman of the Agriculture, Nutrition and Forestry Committee, noted that federal assistance payments for crop year 1999 will total $16.6 billion, excluding the "emergency" spending package. According to the 1997 Census of Agriculture, there are 1,911,824 farms, of which 685,029 receive federal monies, yielding an average subsidy of $24,233 per farm. Nevertheless, the Senate voted to increase the agricultural assistance payments for this crop year by almost $8 billion, which will increase total payments to $24.2 billion, or $35,327 per farm.

The Senate's generous allocation of taxpayer funds was prompted by concern that the East Coast drought and falling commodity prices would lead to unacceptably low net farm incomes. Confirmation came from the United States Department of Agriculture (USDA), which reported that unless emergency measures were enacted, net farm income in 1999 would be $300 million lower than in 1998. If correct, it would mean that over half a million farms subsidized by the federal government might earn an average of $438 less in 1999 than they had in 1998. Apparently, this "emergency" justifies rescinding recent commitments to dedicate the first federal surplus in 30 years to saving Social Security, reducing taxes, and paying down the national debt.

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Safety Net or Farm Pork? Although a few Senators suggested that only farmers who can demonstrate a real loss of income should receive emergency assistance, 89 voted to provide a 100 percent increase in Agriculture Market Transition Act (AMTA) subsidies to all farmers with an AMTA contract (effectively doubling their payment) without regard to income level, crop loss, revenue fluctuation, or the effect farming has on their incomes. Many middle-income taxpayers may suggest that farmers with six-figure incomes should be cut off completely. Limiting emergency assistance to farmers with net taxable incomes below $50,000 who derive a minimum of 25 percent of their income from farming would at least target the taxpayers' resources, rather than simply giving away their tax dollars to wealthy corporate or hobby-farmers.

What is a "Family" Farm? The 20th Annual Family Farm Report released in December 1998 by the USDA's Economic Research Service illustrates how the definition of "family farm" is being tested at both ends of the economic spectrum. "Large Family Farms" produce an average household income of about $118,450 per year and have a net worth of $925,782—only family-owned farms with gross sales greater than $500,000 qualify for this category.

These family agribusinesses operate less than 5.5 percent of all farms but account for 46 percent of U.S. agricultural production. The average household income of these farms is 2.5 times greater than the average for the rest of the country, yet they receive about $14,826 each in federal subsidies. AMTA payments, the primary subsidy under the 1996 Freedom to Farm Act, are limited to $40,000 *per person*. Unfortunately, each family member can be counted as a separate person; in other words, a family of four could receive AMTA payments totaling $160,000. A 1996 Environmental Working Group report, based on USDA data obtained under the Freedom of Information Act, reveals that the top 100 recipients of federal farm subsidies were eligible at that time for payments of $200,000 to $600,000 per year. These agribusinesses are hardly what most Americans would call "family farms."

At the other end of the spectrum, "Retirement and Residential/Lifestyle Farms" are little more than large gardens or open pastures dedicated to the Conservation Reserve Program (CRP), which pays farmers not to work their land. Residential/lifestyle farmers (with average annual incomes of $57,242) are individuals or families who derive the bulk of their income from non-farm sources and operate farms as part of a rural lifestyle. Less than 30 percent of these farmers turn a profit. They typically subsidize their farm hobby with income from off-farm sources, including about $984 per year from federal taxpayers. Retirement Farms and Residential/Lifestyle Farms account for 54.2 percent of all farms enrolled in the CRP. Because the drought and low commodity prices disrupted their "lifestyle," many lifestyle farmers could receive a 100 percent increase in their AMTA payments for 1999, even if their land was not in production. The Environmental Working Group study reported that over 18,000 of these lifestyle farmers were full- or part-time officials of the USDA or its local affiliates receiving an average of $7,000 per year in taxpayer subsidies.

Conclusion. The level of "emergency" spending approved by the Senate makes a mockery of its recent passage of tax cuts for working Americans and threatens to do the same to congressional commitments to protect 100 percent of the surplus for Social Security. Although the CBO projected a $14 billion on-budget surplus available for allocation for FY 2000, many Members of Congress have already indicated that all or most of an on-budget surplus will be used to fund the 13 regular appropriations bills. Consequently, any "emergency" spending will exhaust the on-budget surplus and eat into the Social Security surplus.

Americans are a generous people willing to assist their neighbors when necessary. Nonetheless, Congress should not abuse taxpayers' generosity by extending "emergency" assistance to those who do not need it. Farm households with an unsubsidized net taxable income of more that $50,000 per year do not need tax subsidies. Likewise, Americans who derive less than 25 percent of their household income from agriculture do not need federal subsidies to sustain their hobbies. Congress should restrict emergency agricultural assistance to only those farmers who demonstrate a loss of income that threatens the survival of their family or business. Middle-income taxpayers should not be forced to subsidize someone else's "lifestyle" choices or six-figure incomes.

—Peter Sperry is the Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.