

Backgrounder

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Another Year at the Federal Trough: Farm Subsidies for the Rich, Famous, and Elected Jumped Again in 2002

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Taxpayers funding Washington's \$20,000-per-household budget have long known they are not getting their money's worth. Farm subsidies are among the most wasteful uses of taxpayer dollars. The budget-busting \$180 billion farm bill enacted before the 2002 elections not only encourages the crop overproduction that depresses crop prices and farm incomes, but also undermines trade and encourages other nations to refuse American exports.

Perhaps worst of all, farm subsidies are not distributed to the small, struggling family farmers whom lawmakers typically mention when defending these policies. Rather, most farm subsidies are distributed to large farms, agribusinesses, politicians, and celebrity "hobby farmers." This paper analyzes how Washington distributed farm subsidies in 2002 and illustrates that farm subsidies continue to represent America's largest corporate welfare program.

Farmers Are Not Poor

Farming may be the most federally subsidized profession in America. The persistence of farm subsidy programs results from the popular misconception that they stabilize the incomes of poor family farmers who are at the mercy of unpredictable weather and crop prices. Yet a recent U.S. Department of Agriculture report concluded that, "On average, farm households have higher incomes, greater wealth, and lower consumption expenditures than all U.S. households."¹ This statement can be broken down into three parts:

Talking Points

- Farmers enjoy substantially higher incomes, greater wealth, and lower consumption spending than most Americans.
- Farm subsidies are America's largest corporate welfare program. Two-thirds of all farm subsidies go to just 10 percent of farmers and agribusinesses.
- In 2002, millions of dollars in farm subsidies were distributed to *Fortune* 500 companies, Members of Congress, and celebrity "hobby farmers."
- Targeting farm subsidies to poor family farmers would save up to \$98 billion over 10 years.

This paper, in its entirety, can be found at:
www.heritage.org/research/budget/bg1763.cfm

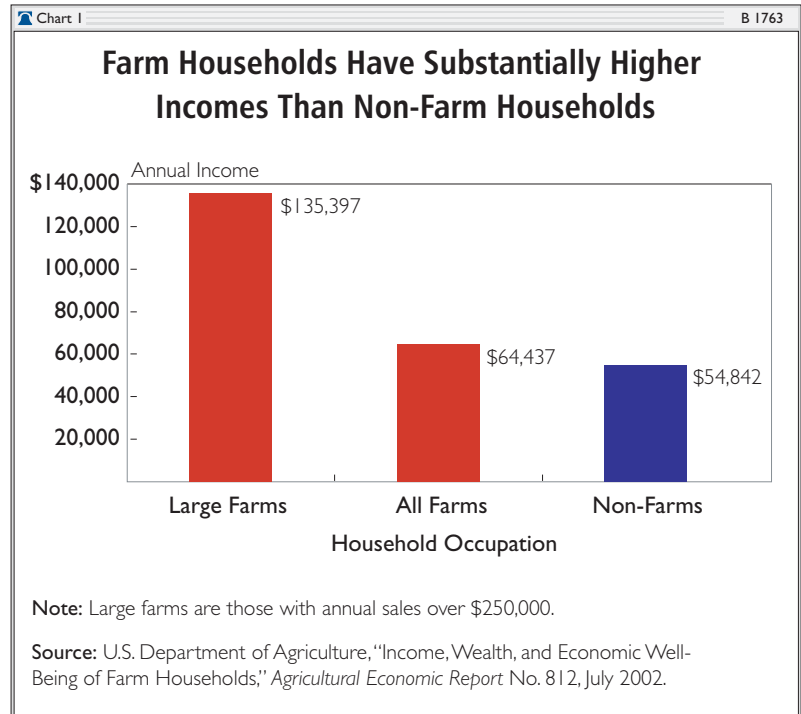
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- **Higher incomes.** In 1999, the average farm household earned \$64,437—17 percent more than the \$54,842 average for non-farmers. Incomes were even higher among the 136,000 households with annual farm sales over \$250,000—and who also receive the largest subsidies. Their 1999 average income of \$135,397 was two-and-a-half times the national average.² (See Chart 1.) Farmer incomes are not only high, but also quite stable from year to year, despite agricultural market fluctuations.
- **Greater wealth.** The average farm household had a net worth of \$563,563 in 1999—well above the \$88,000 national average.³
- **Lower consumption expenditures.** Farm households have fewer costs than other households because (1) the cost of living is lower in rural America; (2) farm households need to purchase less food from outside sources; and (3) mortgage and utility bills are often classified as business expenses. Consequently, the average farm household spent only \$25,073 on goods and services in 1999, which is \$11,000 less than the average non-farm family.⁴

Because farmers are relatively wealthy, alleviating farm poverty would not be very expensive. Just \$4 billion per year would guarantee every full-time farmer in America a minimum income of 185 per-



cent of the federal poverty level (\$34,873 for a family of four in 2004).⁵ However, farm subsidies are more corporate welfare than poverty relief, so Washington instead spends \$12 billion to \$30 billion annually subsidizing large farms and agribusinesses that are much wealthier than the taxpayers footing the bill.

How Farm Subsidies Target Large Farms

Eligibility for farm subsidies is determined by crop, not by income or poverty standards. Growers of corn, wheat, cotton, soybeans, and rice receive more than 90 percent of all farm subsidies: Growers of nearly all of the 400 other domestic

1. U.S. Department of Agriculture, "Income, Wealth, and Economic Well-Being of Farm Households," *Agricultural Economic Report* No. 812, July 2002, p. 42.
2. *Ibid.*, pp. 16 and 52.
3. *Ibid.*, p. 17.
4. *Ibid.*, p. 12.
5. U.S. Department of Agriculture, "A Safety Net for Farm Households," *Agriculture Outlook*, January–February 2000, pp. 19–24. The authors estimated a cost of \$7.8 billion when including everyone who reports any farm income, including "hobby farmers" who have other full-time jobs. Restricting their data to full-time farmers—defined as lower sales, higher sales, and large family farms, as well as a fraction of limited-resource farms that are also full-time—the total cost adds up to approximately \$4 billion. The eligibility threshold for several federal income-assistance programs, like Women, Infants, and Children (WIC), is 185 percent of the federal poverty level.

crops are completely shut out of farm subsidy programs. Further skewing these awards, the amounts of subsidies increase as a farmer plants more crops.

Thus, large farms and agribusinesses—which not only have the most land, but also are the nation’s most profitable farms because of their economies of scale—receive the largest subsidies. Meanwhile, family farmers with few acres receive little or nothing in subsidies. Farm subsidies have evolved from a safety net for poor farmers to America’s largest corporate welfare program.

With agricultural programs designed to target large and profitable farms rather than family farmers, it should come as no surprise that farm subsidies in 2002 were distributed overwhelmingly to large growers and agribusinesses—including a number of *Fortune* 500 companies. Chart 2 shows that the top 10 percent of recipients received 65 percent of all farm subsidies in 2002.⁶ At the other end, the bottom 80 percent of recipients (including most family farmers) received just 19 percent of all farm subsidies.

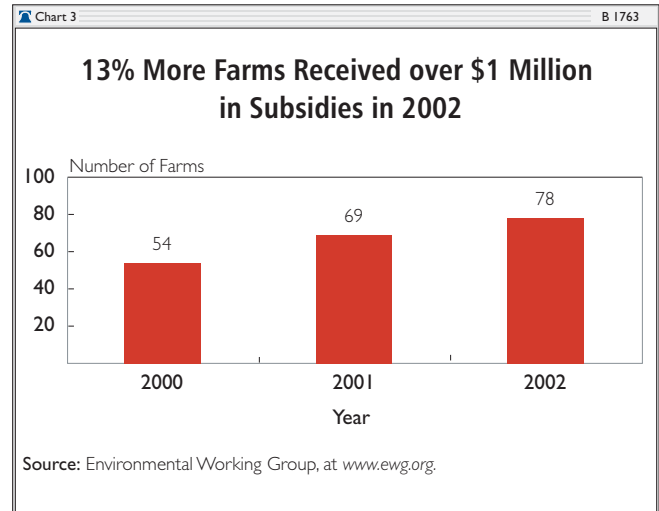
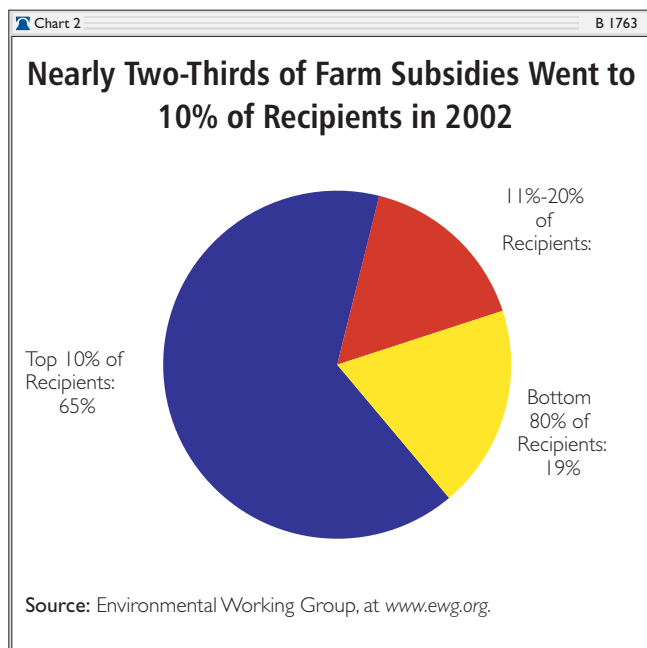


Chart 3 also shows that the number of farms receiving over \$1 million in farm subsidies in one year increased by 13 percent to a record 78 farms in 2002. Riceland Foods, an Arkansas co-op, topped the list by amassing a staggering \$110 million in farm subsidies for its members—more than subsidies to every farmer in Nevada, West Virginia, Vermont, Maine, Delaware, New Jersey, Massachusetts, Connecticut, New Hampshire, Alaska, Hawaii, and Rhode Island combined. (See Chart 4.) Table 1 shows the 13 members of the “\$2 million club.”

Why Farm Subsidies Will Continue to Target Large Farms

Although farm subsidies have targeted large farms for decades, the evolution of farm subsidies into a corporate welfare program has accelerated in recent years for two reasons:

- Congress has siphoned record amounts of money into farm subsidies since 1998.
- Farm subsidies have helped large corporate farms buy out small farms and further consolidate the industry.

Despite an attempt to phase out farm programs in 1996, Congress reacted to slight crop price decreases in 1998 by initiating the first of four annual “emergency” payments to farmers. Subsidies increased from \$6 billion in 1996 to nearly \$30 bil-

6. Unless otherwise noted, all farm subsidy recipient statistics in this paper are provided by the Environmental Working Group at www.ewg.org.

lion in 2000, even though farmers have incomes and net worths substantially higher than the national average. Predictably, as subsidies increased, the amounts of subsidies for large farms and agribusinesses also increased. A growing farm economy has subsequently caused a decrease in farm subsidy spending—yet spending remains much higher than in the 1990s.

Although increased subsidies help to explain why large farms are receiving more money, they do not explain why they are receiving a larger *portion* of the overall farm subsidy pie. Since 1991, subsidies for large farms have nearly tripled, while subsidies for small farms have not increased.⁷ Large farms are

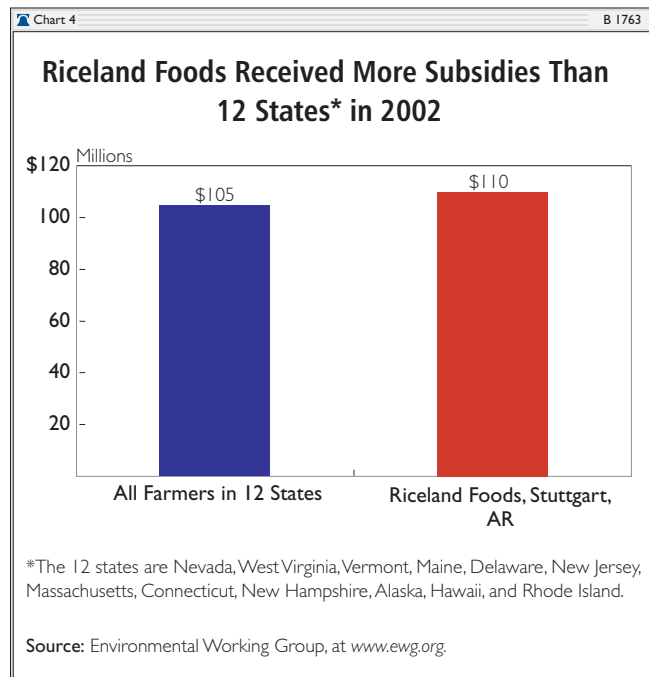
Rank	Recipient	Location	2002 Subsidies
1	Riceland Foods Inc.	Stuttgart, AR	\$110,021,272
2	Producers Rice Mill Inc.	Stuttgart, AR	\$83,860,861
3	Farmers Rice Coop	Sacramento, CA	\$27,873,235
4	Pilgrim's Pride Corporation	Broadway, VA	\$15,027,968
5	Cargill Inc.	Minneapolis, MN	\$10,865,421
6	Ducks Unlimited Inc.	Jackson, MS	\$5,976,379
7	Cecil Everton	Gorman, TX	\$4,420,093
8	T. H. Birdsong III	Gorman, TX	\$3,112,061
9	Montana Department of Natural Resources and Conservation	Helena, MT	\$2,721,599
10	Bureau Of Indian Affairs	Agency Village, SD	\$2,320,434
11	John Hancock Mutual Life Insurance	Champaign, IL	\$2,289,364
12	Maxwell Farms	Benoit, MS	\$2,129,665
13	Dublin Farms	Corcoran, CA	\$2,102,196

Source: Environmental Working Group, at www.ewg.org.

grabbing all of the new subsidy dollars because the federal government is helping them to buy out small farms. Specifically, large farms are using their massive federal subsidies to purchase small farms and consolidate the agriculture industry. As they buy up smaller farms, not only are these large farms able to become more profitable by capitalizing further on economies of scale, but they also become eligible for even more federal subsidies—which they can then use to buy even more small farms.

The result is a “plantation effect” that has already affected America’s rice farms, three-quarters of which have been bought out and converted into tenant farms.⁸ Other farms growing wheat, corn, cotton, and soybeans are tending in the same direction. Consolidation is the main reason that the number of farms has decreased from 7 million to 2 million (just 400,000 of which are full-time farms) since 1935, while the average farm size has increased from 150 acres to more than 500 acres over the same period.⁹

This farm industry consolidation is not necessarily harmful. Many larger farms and agribusinesses are more efficient, use better technology, and can



7. U.S. General Accounting Office, *Farm Programs: Information on Recipients of Federal Payments*, GAO-01-606, June 2001, p. 14.

8. Elizabeth Becker, “Land Rich in Subsidies, and Poor in Much Else,” *The New York Times*, January 22, 2002.

9. Robert A. Hoppe, “Structural and Financial Characteristics of U.S. Farms: 2001 Family Farm Report,” U.S. Department of Agriculture, Economic Research Service, *Agriculture Information Bulletin* No. 768, May 2001, p. 6.

Table 2

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Subsidies to Fortune 500 Companies

Fortune 500 Company	1995-2001 Subsidies	2002 Subsidy	Total Subsidies, 1995-2002	Subsidy as a percentage of the national median, 1995-2002
John Hancock Mutual Life Insurance	\$364,013	\$2,289,364	\$2,653,378	51085%
Westvaco Corporation	\$447,553	\$39,396	\$486,949	9375%
Chevron	\$358,816	\$68,904	\$427,719	8235%
Caterpillar	\$306,268	\$14,034	\$320,302	6167%
Mead Corporation	\$134,448	\$15,808	\$150,256	2893%
Georgia Pacific	\$126,414	\$7,071	\$133,485	2570%
International Paper	\$100,390	\$7,499	\$107,889	2077%
Archer Daniels Midland	\$73,741	\$10,442	\$84,183	1621%
Boise Cascade Corporation	\$43,071	\$4,488	\$47,559	916%
Eli Lilly Co.	\$1,416	\$17,331	\$18,747	361%
Kimberly-Clark	\$11,007	\$179	\$11,186	215%
Navistar	\$2,337	\$163	\$2,500	48%
TOTAL	\$1,969,474	\$2,474,679	\$4,444,153	7130%

Note: The median farm subsidy recipient received \$5,194 from 1995 through 2002.

Source: Environmental Working Group, at www.ewg.org.

produce crops at a lower cost than traditional farms. Additionally, not all family farmers who sell their property to corporate farms do so reluctantly.

The concern is not consolidation *per se*, but whether the federal government should continue to subsidize these purchases through farm subsidies and whether multimillion-dollar agricultural corporations should continue to receive welfare payments. When President Franklin D. Roosevelt first crafted farm subsidies to aid family farmers struggling through the Great Depression, he clearly did not envision a situation in which these subsidies would be shifted to large *Fortune* 500 companies operating with 21st century technology in a booming economy.

Millions for Millionaires, the Elected, and Connected

A glance at those who received farm subsidies in 2002 shows that many of them do not need federal dollars. Table 2 shows the 12 *Fortune* 500

companies that received farm subsidies in 2002. John Hancock Mutual Life Insurance's \$2.3 million farm subsidy payment was by far the largest among these companies. The farm subsidies granted to these *Fortune* 500 companies since 1995 are—on average—70 times larger than those granted to the median farmer.

Table 3 lists the nine Members of Congress who received farm subsidies in 2002. Since 1995, these lawmakers have received subsidies averaging 46 times those received by the median farmer. Five of the nine lawmakers also sit on the House or Senate agriculture committees overseeing these programs.

Table 4 details other notable farm subsidy recipients, including:

- David Rockefeller, the former chairman of Chase Manhattan and grandson of oil tycoon John D. Rockefeller, who received 99 times more subsidies than the median farmer;

Table 3

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Farm Subsidies Granted to Lawmakers

Lawmaker	1995-2001 Subsidies	2002 Subsidy	Total Subsidies, 1995-2002	Subsidies as a percentage of the national median, 1995-2002	Member of Agriculture Committee?
Rep. Cal Dooley (D-CA)	\$520,593	\$105,102	\$625,695	12046%	Yes
Rep. Doug Ose (R-CA)	\$534,367	\$69,790	\$604,157	11632%	Yes
Rep. Tom Latham (R-IA)	\$410,537	\$27,277	\$437,814	8429%	No
Sen. Mike DeWine (R-OH)	\$168,992	\$7,554	\$176,546	3399%	No
Sen. Charles Grassley (R-IA)	\$151,264	\$10,853	\$162,117	3121%	Yes
Sen. Richard Lugar (R-IN)	\$70,701	\$15,699	\$86,400	1663%	Yes
Rep. Charles Stenholm (D-TX)	\$43,584	\$3,349	\$46,933	904%	Yes
Sen. Sam Brownback (R-KS)	\$25,371	\$3,595	\$28,966	558%	No
Rep. Phil Crane (R-IL)	\$8,477	\$386	\$8,863	171%	No
TOTAL	\$1,933,886	\$243,605	\$2,177,491	4658%	

Note: Amounts include properties in which the individual is only a partial owner. The median farm subsidy recipient received \$5,194 from 1995 through 2002.

Source: Environmental Working Group, at www.ewg.org.

- Scottie Pippen, professional basketball star, who received 39 times more subsidies than the median farmer;
- Ted Turner, the 25th wealthiest man in America, who received 38 times more subsidies than the median farmer; and
- Kenneth Lay, the ousted Enron CEO and multi-millionaire, who received 3 times more subsidies than the median farmer.
- Replacing farm subsidies with a subsidized crop insurance program that is designed to protect family farmers from the short-term risks of farming (such as bad weather); and
- Pressuring other nations to follow America's lead and repeal their own trade-distorting farm policies, thereby opening up new markets for American farm exports.

Reform Options

Several options exist to shift farm subsidies away from large agribusinesses. The best option would be for Congress to recognize that farm subsidies are unnecessary, outdated, and counterproductive by:

- Completing the phase-out of farm subsidies that was scheduled to begin following the 1996 "Freedom to Farm" law (and was abandoned in the 2002 farm bill);

Table 4

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Other Notables Receiving Large Farm Subsidies

Person	1995-2001 Subsidies	2002 Subsidy	Total Subsidies, 1995-2002	Subsidies as a percentage of the national median, 1995-2002
David Rockefeller	\$494,451	\$23,671	\$518,122	9975%
Scottie Pippen	\$184,205	\$26,315	\$210,520	4053%
Ted Turner	\$203,748	\$3,200	\$206,948	3984%
Sam Donaldson	\$81,592	\$3,150	\$84,742	1632%
Ken Lay	\$12,038	\$6,019	\$18,057	348%
Birch Bayh	\$16,751	\$810	\$17,562	338%
Kevin Appier (major league pitcher)	\$3,403	\$799	\$4,202	81%
TOTAL	\$996,188	\$63,964	\$1,060,153	2916%

Note: Amounts include properties in which the individual is only a partial owner. The median farm subsidy recipient received \$5,194 from 1995 through 2002.

Source: Environmental Working Group, at www.ewg.org.

Instead of taxing Americans to support a centrally planned agriculture policy, these reforms would leave farmers free to compete and prosper in the global free market.

Alternatively, lawmakers who are hesitant to repeal farm subsidies could save billions by limiting the subsidies that each farm may receive. Farm policy was never intended to provide millions for millionaires, and policymakers can refocus farm policy by enacting the reforms listed in Table 5.

Conclusion

Lawmakers who are serious about fiscal restraint should consider farm subsidies one of the most justifiable places to find savings. These corporate welfare programs enrich agribusinesses and other non-farmers at the expense of family farmers, the farm economy, and taxpayers. With federal

spending spiraling out of control and the budget deficit approaching \$500 billion, taxpayers can no longer afford to pay farm subsidies to the rich and famous.

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Table 5			B 1763	
Capping Farm Subsidies Would Save Taxpayers Billions				
Subsidy Cap	Savings (\$billions)			
	Year 1	Over 10 Years		
Guarantee income of 185% of federal poverty level*	\$8.2	\$97.9		
The recipient at the current 90th percentile**	\$5.0	\$60.4		
\$50,000 per farm	\$2.5	\$29.8		
\$100,000 per farm	\$1.4	\$16.9		

* \$34,873 for a family of four in 2004.
 ** Currently \$16,722 per farm, which is the cut off for the top 10%.

Source: Heritage Foundation calculations based on data from the Environment Working Group and the U.S. Department of Agriculture.