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Five Reasons for the Senate to Reject Boosting Farm Subsidies

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Lawmakers are showing no sign of curtailing the spending spree that has pushed federal spending above \$23,000 per household. This week, the Senate is scheduled to vote on an amendment by Senator Byron Dorgan (D-ND) to add approximately \$4.5 billion in “emergency” agriculture aid—without any offsets—to the Senate’s agriculture appropriations bill. Responsible lawmakers should oppose emergency agriculture aid for the following five reasons:

1. Taxpayers Cannot Afford Another Bailout.

The Senate appropriations bills already exceed the discretionary spending cap set in the fiscal year 2007 budget resolution by \$32 billion. The excess is split across five categories:

- \$16.0 billion for defense (on top of the \$50 billion emergency fund in the budget resolution; already enacted);
- \$1.8 billion for border security (already enacted);
- \$9.0 billion for additional domestic programs;
- \$4.0 billion for the current farm subsidy bailout; and
- \$1.0 billion for NASA “emergencies.”¹

The Dorgan amendment would replace the \$4.0 billion farm bailout added earlier in the year with a \$4.5 billion bailout, adding another \$500 million to the budget-busting total. Given the 42 percent surge in federal spending since 2001, it is irresponsible to disregard the already-generous budget resolution passed by the House and Senate and use gimmicks such as the “emergency” designation to

add \$32 billion more. This additional spending digs the nation’s fiscal hole even deeper just when it needs a streamlined budget to absorb the coming avalanche of Social Security and Medicare costs.

2. “Emergency” Payments Would Go to Farmers With No Crop Losses.

Lawmakers claim that aid is needed for farmers suffering natural disasters. However, the current farm bailout language, likely to be retained in Senator Dorgan’s amendment, would give a 30 percent bonus payment to *all* farmers in America currently receiving fixed payments, regardless of whether they suffered any crop losses. The Dorgan amendment would also likely retain the provision granting additional crop disaster payments to farmers who refused to buy their own crop insurance. Governments that bail out farmers who refuse to purchase crop insurance should not be surprised when farmers respond by buying less crop insurance.

3. The Farm Economy is Booming, and So Are Farm Subsidies.

The farm economy is currently enjoying a record boom, as net farm income hit new highs in 2004 and 2005. Although net farm income is slightly lower this year, the final numbers will show about

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\$274 billion in net farm income between 2003 and 2006—the highest four-year total ever.

As the farm economy booms, Congress is actually accelerating farm subsidies. After averaging less than \$14 billion per year during the 1990s, annual farm subsidies have topped \$25 billion in the current decade, following the passage of the most expensive farm bill in American history in 2002. Its proponents asserted that the bill's enormous generosity and subsidy increases that trigger automatically when crop prices drop would end the need for annual emergency aid. Yet lawmakers passed "emergency" packages of \$3.1 billion in 2003 and \$3.5 billion in 2004, as well as Katrina-related emergency aid in 2005.² This year would mark the fourth consecutive year for "emergency" subsidies.

4. Farm Subsidies Are Tilted to Large Agribusinesses.

The way subsidies are targeted is arbitrary and irrational. Nearly 90 percent of all subsidies go to growers of just five crops (wheat, cotton, corn, soybeans, and rice), while the vast majority of farmers specializing in livestock, fruits, vegetables, and all other crops flourish in a free market without subsidies.

And it is not small family farms or cash-strapped farmers who get the bulk of subsidies, but big agribusinesses. Agriculture is increasingly moving away from family farmers and is being consolidated into the hands of large, profitable agribusinesses. Consequently, farm subsidies are no longer necessary to keep most farmers solvent. A Department of Agriculture report states that "on average, farm households have higher incomes, greater wealth, and lower consumption expenditures than all U.S. households."³ The average farm household now earns

\$79,961, 26 percent above the national average. Farmers' average net worth is double the national average. Farming is not a teetering industry; the farm failure rate is just one-sixth the rate for non-farm businesses. Yet taxpayers subsidize (mostly large) farms with approximately \$25 billion annually.

Furthermore, two-thirds of subsidies are distributed to the wealthiest 10 percent of farmers. In 1999, the 136,000 households with annual farm sales of more than over \$250,000—the group that also receives the largest farm subsidies—reported an average income of \$135,397, which was two-and-a-half times the national average.⁴ Lawmakers, Fortune 500 companies, and even celebrity hobby farmers such as Ted Turner, David Rockefeller, and Scottie Pippen collect subsidies that dwarf what the average family farmer receives.⁵ Subsidizing large agribusinesses that grow certain crops while excluding many family farmers who grow other crops has earned farm subsidies the title of "America's largest corporate welfare program."⁶

5. Farm Subsidies Lack Economic Sense.

Farm policy is based on the premise that crop surpluses have driven down crop prices, and so farmers need subsidies to recover lost income. However, the federal government's remedy is to offer subsidies that increase as a farmer plants more crops. But planting more crops creates greater crop surpluses, further driving prices down and spurring demands for even greater subsidies. Then, while paying some farmers to plant more crops, Washington turns around and pays other farmers *not* to farm 40 million acres of cropland each year. The economic incoherence of farm subsidies is stunning even by government standards.⁷

1. Brian M. Riedl, "Still Spending: Senate Set to Bust Budget Caps by \$32 Billion," Heritage Foundation *WebMemo* No. 1222, September 25, 2006 at www.heritage.org/Research/Budget/wm1222.cfm.
2. Ralph Chite, "Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY 1989–FY 2006," Congressional Research Service *Report* RL31095, July 3, 2006.
3. U.S. Department of Agriculture, "Income, Wealth, and Economic Well-Being of Farm Households," *Agricultural Economic Report* No. 812, July 2002, p. 42.
4. *Ibid.*, pp. 16 and 52.
5. Brian M. Riedl, "Another Year at the Federal Trough: Farm Subsidies for the Rich, Famous, and Elected Jumped Again in 2002," Heritage Foundation *Background* No. 1763, May 24, 2004, at www.heritage.org/Research/Budget/bg1763.cfm.
6. *Ibid.*

Farm subsidies are also implemented with complete disregard for taxpayers. A recent *Washington Post* investigation discovered suburban families receiving large farm subsidies for the grass in their backyards—subsidies that many of these families never requested and do not want.⁸

Finally, farm subsidies harm farmers and consumers by restricting international trade. Because 96 percent of the world's consumers live outside the United States, international trade is vital to American farmers. Yet, due to an average global agriculture tariff of 62 percent, just 25 percent of American agricultural products are exported. The United States cannot win access to global agriculture markets without paring back its own farm subsidies.

Conclusion

Lawmakers have spent much of 2006 trying to add expensive disaster payments to already-generous farm programs. Lawmakers attempted to attach

\$4 billion, which was not requested by the Department of Agriculture, to the Iraq supplemental bill earlier this year until Presidential Bush threatened to veto it. Senators subsequently added the same \$4 billion to the Senate agriculture appropriations bill, and Senator Dorgan seeks to push that total up to \$4.5 billion. For various reasons, organizations representing taxpayers, consumers, environmentalists, international trade, third-world countries, and even farmers themselves have united around the shared conclusion that the current farm subsidy system is failing. Rather than pile on more corporate welfare in “emergency” agricultural spending, lawmakers should prepare to overhaul these programs as part of their 2007 reauthorization.

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7. Brian M. Riedl, “Top 10 Reasons to Veto the Farm Bill,” Heritage Foundation *Backgrounder* No. 1763, April 17, 2002, at www.heritage.org/Research/Agriculture/bg1538.cfm.
8. Dan Morgan, Gilbert Gaul, and Sarah Cohen, “Farm Program Pays \$1.3 Billion to People Who Don’t Farm,” *Washington Post*, July 2, 2006.