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Lawmakers Should Reject Another Irresponsible Supplemental Farm Bailout

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Despite repeated claims of returning to an era of pay-as-you-go budgeting and fiscal responsibility, the Democratic Congress is preparing to enact a $7 billion emergency package (H.R. 2207), without any offsets, that includes:

- $3.5 billion in crop and livestock disaster assistance, despite record high farm incomes;
- $31 million to extend the Milk Income Loss Contract program for one month, which would alter the program's spending baseline to add $2.4 billion in spending over 10 years;
- $500 million for wildlife suppression;
- $425 million for the Secure Rural Schools and Community Self-Determination Act; and
- $60 million in fisheries aid.

With its massive new expenditures and lack of offsets, the House's emergency package violates the House leadership's pledge to enforce PAYGO budget discipline.

This paper focuses on the $3.5 billion in farm disaster assistance, which was not even requested by the Department of Agriculture. Such disaster aid raises legitimate questions about taxpayers' obligation to repeatedly bail out farmers who suffer any business instability, a luxury not afforded to any other industry.

Last November, voters sent a strong message in favor of spending restraint, a message that many conservative Republicans and "blue dog" Democrats pledged to enforce in the 110th Congress. Moreover, fiscal restraint and PAYGO budget discipline was a central tenet of the Democratic leadership's agenda. The decision on this unnecessary disaster aid will demonstrate whether lawmakers heard the voters or whether Congress has already returned to politics as usual.

President Bush has rightly threatened to veto this extraneous spending that would worsen America's perilous budget picture if it reaches his desk.[1] Responsible lawmakers should oppose emergency agriculture aid for five reasons.

1. Subsidized Crop Insurance Already Exists. Although farming is a mostly profitable business, the threat of extreme weather and pests does leave farmers susceptible to occasional crop losses. This instability is covered through the crop insurance program, which subsidizes 60 percent of all premiums for the 242 million acres that farmers have enrolled in the program.[2]

In 2000, Washington tripled crop insurance subsidies in an effort to eliminate the need for farm disaster payments. The budget-busting 2002 farm bill was also promoted as large enough to reduce the need for disaster payments. Yet even with generous farm programs and subsidized crop insurance, Congress has passed a disaster aid bill *every year* since

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2000, at a total taxpayer cost of $36.5 billion.[3] For Washington to both generously subsidize crop insurance and then offer additional disaster aid is duplicative and unnecessarily costly. Congress should not worsen this situation with more irresponsible aid.

2. The Farm Economy is Booming, and So Are Farm Subsidies. The farm economy is currently enjoying a record boom. Overall, net farm income totaled $279 billion between 2003 and 2006, the highest four-year total ever.[4] The farm industry's current 11.9 percent debt-to-asset ratio is the lowest ever measured and does much to explain why farms fail at only one-sixth the rate of non-farm businesses.[5]

Consequently, farm subsidies do not fill the role of keeping most farmers solvent as they did when they were created during the Great Depression. A Department of Agriculture (USDA) report states that "on average, farm households have higher incomes, greater wealth, and lower consumption expenditures than all U.S. households."[6] The average farm household earns $81,420 annually (29 percent above the national average) and has a net worth of $838,875 (eight times higher than the national average) and is located in a rural area, where the cost of living is low.[7]

Despite the booming farm economy and high farmer incomes, Congress is actually accelerating the rise in farm subsidies. After averaging less than $14 billion per year during the 1990s, annual farm subsidies have topped $25 billion per year in the current decade, following the passage of the most expensive farm bill in American history in 2002. Hardworking Americans should not have to subsidize this thriving and profitable industry.

3. The Livestock Compensation Program Is a Proven Boondoggle. This disaster legislation includes funding for the Livestock Compensation Program, a disaster assistance program for livestock farmers. A recent *Washington Post* investigation discovered that the program encourages disaster declarations for counties without disasters and distributes aid to farmers without requiring proof of any disaster.

When the Livestock Compensation program ran in 2002 and 2003 to compensate farmers for a drought, the majority of payments went to farmers in areas with moderate or no drought at all. Prodded by Congress, the USDA reportedly urged state and county officials to find anything that could be interpreted as a disaster, which would in turn make the county's farmers eligible for aid. In all, more than 2,000 of the nation's 3,141 counties were declared agriculture "disasters," including: [8]

- Whatcom County in Washington, for a distant earthquake that registered only a 3 magnitude on the local Richter scale, and caused no reported damage;

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1. White House Statement of Administration Policy on H.R. 2207 (May 10, 2007), at ***www.whitehouse.gov/omb/legislative/sap/110-1/hr2207sap-h.pdf***.
2. Gilbert Gaul, Dan Morgan, and Sarah Cohen, "Crop Insurers Pile Up Record Profits," *The Washington Post*, October 16, 2006.
3. Ralph Chite, "Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY 1989 - FY 2006," Congressional Research Service *Report* RL31095, July 3, 2006.
4. Council of Economic Advisors, "Economic Report of the President," (Government Printing Office) February 2007, Table B-97, located at ***www.gpoaccess.gov/eop/2007/B97.xls***.
5. Jerome M. Stam, Daniel L. Milkove, and George B. Wallace, "Indicators of Financial Stress in Agriculture Reported by Agricultural Banks, 1982–99," U.S. Department of Agriculture, Economic Research Service, *AIS–74*, February 2000, p. 48, and data provided by U.S. Department of Agriculture at ***http://www.ers.usda.gov/Briefing/FarmFinancialMgmt/brief99.htm***. Debt-to-asset ratios at "Agriculture Income and Finance Outlook," United States Department of Agriculture, *AIS-84*, November 2006, p. 38, at ***http://usda.mannlib.cornell.edu/usda/current/AIS/AIS-11-30-2006.pdf***.
6. U.S. Department of Agriculture, "Income, Wealth, and Economic Well-Being of Farm Households," *Agricultural Economic Report* No. 812, July 2002, p. 42.
7. "Agriculture Income and Finance Outlook," United States Department of Agriculture, *AIS-84,* November 2006, pp. 40 and 48, at ***http://usda.mannlib.cornell.edu/usda/current/AIS/AIS-11-30-2006.pdf***.
8. Gilbert Gaul, Dan Morgan, and Sarah Cohen, "No Drought Required For Federal Drought Aid," *Washington Post*, July 18, 2006.

- All 254 counties in Texas, for "farm disasters" such as a storm two years earlier and the Space Shuttle Columbia explosion, prompting a local farmer to tell reporters, "The livestock program is a joke, we had no losses, I don't know what Congress is thinking sometimes"; and
- Fifty-three of Wisconsin's 72 counties, many for a small storm that had occurred two years earlier, prompting even local farmers to call the disaster aid an unjustified "waste of money."

Nor did the individual farmers have to prove any actual losses. Washington simply sent them "disaster assistance" checks based on the number of livestock they owned. In short, this disaster aid has almost nothing to do with actual disasters. The Livestock Compensation Program has proven to be a classic subsidy masquerading as disaster aid.

4. Farm Subsidies Are Tilted to Large Agribusinesses. Farm subsidies are distributed in ways that make little sense. 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 fruits, vegetables, and all other crops survive 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. Farm subsidy formulas are designed to benefit large agribusinesses, not family farmers. Most farm subsidies are distributed to commercial farms, which have an average income of $191,000 and a net worth of just under $2 million.[9] Such large farms can better weather price fluctuations and pest infestations, making taxpayer-funded aid a healthy target for reform, not expansion. If farm subsidies were really about alleviating farm poverty, lawmakers could guarantee every full-time farmer an income of 185 percent of the federal poverty level ($38,203 for a family of four) for just over $4 billion annually, one-sixth the current cost of subsidies.[10]

Lawmakers, Fortune 500 companies, and even celebrity hobby farmers such as Ted Turner, David Rockefeller, and Scottie Pippen have collected subsides that dwarf what the average family farmer receives.[11] Subsidizing large agribusinesses that grow certain crops while excluding family farmers who grow other crops has earned farm subsidies the title of "America's largest corporate welfare program."

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 crop land each year. The economic incoherence of farm subsidies is stunning even by government standards.

Farm subsidies are also implemented with complete disregard for taxpayers. A recent *Washington Post* investigation discovered that some suburban families are receiving large farm subsidies for the grass in their backyards—subsidies that many of these families never requested and do not want.[12]

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9. Income data from the Council of Economic Advisors, "Economic Report of the President," (Government Printing Office) February 2006, page 177, at ***http://origin.www.gpoaccess.gov/eop/2006/2006_erp.pdf***. Net worth data from Agriculture Income and Finance Outlook," United States Department of Agriculture, *AIS-84*, November 2006, p. 63, and consisting of a weighted average of large and very large farms' net worths, at ***http://usda.mannlib.cornell.edu/usda/current/AIS/AIS-11-30-2006.pdf***.
10. "A Safety Net for Farm Households," U.S. Department of Agriculture, *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.
11. Brian M. Riedl, "Another Year at the Federal Trough: Farm Subsidies for the Rich, Famous, and Elected Jumped Again in 2002," Heritage Foundation Backgrounder No. 1763, May 24, 2004, at *www.heritage.org/Research/Budget/bg1763.cfm*.

Finally, farm subsidies harm farmers and consumers by restricting international trade. Because 96 percent of the world's population lives 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 U.S. agricultural products are exported. American farmers cannot win access to global markets without paring back their own farm subsidies.

Conclusion. Lawmakers have spent much of the past two years trying to add expensive disaster payments to already-generous farm programs. In 2006, the Republican congressional majority attempted to attach $4 billion to the Iraq supplemental bill until President Bush threatened to veto it. Senators subsequently added the same $4 billion to last year's Senate agriculture appropriations bill, which never passed.

Ignoring voters' calls for spending restraint, the Democratic congressional majority added $4.5 billion in farm spending to this year's Iraq supplemental bill, before splitting it off into its own bill. 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. No industry should be entitled to tens of billions in annual subsidies, subsidized insurance, and disaster aid. Rather than pile on more corporate welfare in "emergency" agricultural spending, lawmakers should follow President Bush's lead and reject this unnecessary, irresponsible proposal.

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

12. Dan Morgan, Gilbert Gaul, and Sarah Cohen, "Farm Program Pays $1.3 Billion to People Who Don't Farm," *The Washington Post*, July 2, 2006.