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A Farm Bill Primer: 10 Things You Should Know About the Farm Bill

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Abstract

Congress is once again preparing to take up the "farm bill," a multi-billion-dollar tangle of agriculture subsidies, welfare payments, and environmental patronage. The time is particularly ripe to create meaningful reform and reduce the excessive burden imposed on taxpayers and consumers. Farmers are pulling in record levels of income and carrying record-low levels of debt. Agriculture policy must be freed from the politics of welfare and the blight of farm subsidies, price controls, and tariffs that do more harm than good.

Congress is preparing once again to take up the "farm bill," a multi-billion-dollar tangle of agriculture subsidies, welfare payments, and environmental patronage. There is tremendous need for reform. Current subsidy programs are rooted in the 1930s, when prices for crops and livestock bottomed out and farm families were desperate for income. Agriculture today could not be more different. Farmers are pulling in record-high levels of income and carrying record-low levels of debt. Technology has eliminated many of the risks that once plagued farming, and the profitability of unsubsidized crops demonstrates that independent agriculture is viable. So there is no way to justify continuing to give tens of billions of dollars to the farm industry.

The previous farm bill—the Food, Conservation, and Energy Act of 2008—expired on September 30, 2012. Last year, the Senate approved a proposed bill renewal, but the House did not take a floor vote on its own legislation. Instead, lawmakers extended most programs through 2013.

Key Points

- The "farm bill" is a misleading title for this recurring legislation. About 80 percent of spending in the 2008 bill is dedicated to food stamps and other nutrition programs.
- There is a wide range of market-distorting subsidies affecting farm policy that include income support, price controls, operating and land ownership loans, insurance, and disaster relief.
- This is a particularly vital time for reform. Federal spending must be reined in, and the condition of agriculture is extremely strong. Net farm income (what farmers earn after expenses) is at its highest levels in 40 years.
- Meaningful reform includes considering food stamps and agriculture programs in separate bills, creating much stricter eligibility requirements for subsidies, and imposing caps on crop insurance premiums.
- Congress should eliminate flawed programs such as direct payments. However, it should not then replace those programs with something as bad or worse. Congress should consider the farm bill in terms of net reform.

This paper, in its entirety, can be found at **http://report.heritage.org/bg2797**

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Now Congress is preparing another farm bill. The right reforms would end the perverse subsidies to profitable agricultural enterprises paid by middle-class taxpayers. It would eliminate the tariffs and quotas and price "supports" that artificially inflate food prices—and the family grocery bill. And a new approach to agriculture policy would liberate farmers whose decisions are routinely dictated by government. The benefits of reform are as abundant as America's food supply.

1. What Is the Farm Bill?

The "farm bill" is a misleading title for this recurring legislation. It is really a food stamp bill that also includes agriculture subsidies. The vast majority of spending—about 80 percent in the 2008 bill—is dedicated to food stamps[1] and other nutrition programs.

Congress has expanded the farm bill over time into a costly compilation of disparate programs. Along with agriculture and food stamps, the legislation includes dozens of forestry, conservation, energy, and rural development programs. This amalgam of special interests resists meaningful reform.

The first farm bill, the Agricultural Adjustment Act of 1933, was a New Deal response to severely depressed commodity prices. In the depths of the Great Depression, farm products were not selling, of course, and the excess supply undercut their value. The goal of the act was to raise prices by restricting production of corn, wheat, cotton, rice, peanuts, tobacco, and milk. Farmers were paid to keep fields fallow with funds generated by a tax on food processors (a levy later deemed unconstitutional by the U.S. Supreme Court[2]). Taxpayers have been on the hook ever since.

2. What Is the Status of the Farm Bill?

The most recent farm bill, the Food, Conservation, and Energy Act of 2008, was 1,770 pages of agriculture subsidies, expanded food stamp eligibility, and massive spending on forestry, telecommunications, energy, and rural development.

The 2008 act expired on September 30, 2012. The Senate, on June 21, 2012, approved a new five-year bill (S. 3240) with proposed outlays of $970 billion over 10 years.[3] The bill repealed a set of wasteful and antiquated subsidies, but also established an expanded insurance program to cover relatively minor losses that would have likely cost more than the savings from ending direct payments.

On July 11, 2012, the House Committee on Agriculture reported out its version (H.R. 6083), with proposed outlays of $958 billion over 10 years; the legislation, however, failed to advance to a floor vote. The House legislation would have eliminated direct payments, but created a new subsidy to cover potential declines in commodity prices. Similar to the Senate measure, the proposed new subsidy in the House bill would have likely negated all the savings from eliminating the direct payments.

Subsequently, Congress extended the 2008 farm bill for the 2013 fiscal year and 2013 crop year.[4] Both chambers are now crafting new bills in advance of the September 30, 2013, expiration.[5]

3. Why Is the Food Stamp Program a Part of the Farm Bill?

In plain terms, merging food stamps with farm subsidies produces more support for expanding both than either bloc could possibly muster on its own. The food stamp portion creates a reason for urban representatives to support farm subsidies, and for farm-state lawmakers to support food stamps.

Talk of de-politicizing agriculture programs and welfare policy is met with stiff resistance. For example, Senator Thad Cochran (R–MS), ranking Republican on the Senate Agriculture Committee, recently told the North American Agricultural Journalists group that food stamps should continue

1. The food stamp program is now referred to as the Supplemental Nutrition Assistance Program (SNAP).
2. *United States v. Butler,* 297 U.S. 1 (1936).
3. Ralph M. Chite, "The 2012 Farm Bill: A Comparison of Senate-Passed S. 3240 and the House Agriculture Committee's H.R. 6083 with Current Law," Congressional Research Service *Report for Congress*, July 23, 2012, http://www.apsnet.org/members/outreach/ppb/Documents/FarmBillIntroResearchCRS07-12.pdf (accessed May 10, 2013).
4. All 2008 farm bill provisions in effect on September 30, 2012, were extended for one year under the American Taxpayer Relief Act of 2012. Crop insurance is permanently authorized.
5. In the absence of an extension or renewal, farm subsidies would revert to "permanent law" under the Agriculture Adjustment Acts of 1938 and 1949. For more information, see Jim Monke, Megan Stubbs, and Randy Alison Aussenberg, "Expiration and Extension of the 2008 Farm Bill," Congressional Research Service *Report for Congress*, January 15, 2013, http://nationalaglawcenter.org/assets/crs/R42442.pdf (accessed May 10, 2013).

to be included in the farm bill "purely from a political perspective. It helps get the farm bill passed."[6]

4. What Is the Condition of U.S. Agriculture?

American agriculture has changed dramatically since most farm programs were conceived. Advances in agronomy, biotechnology, pest control, and disease management have profoundly reduced risk and improved productivity. Yields per acre of staples, such as corn, soy, wheat, and cotton, have doubled, tripled, or quadrupled in a matter of decades.[7]

Net farm income (what farmers earn after expenses) is expected to reach a remarkable $128.2 billion this year—the highest level since 1973. Commodity prices are riding high on global food demand, a relatively weak dollar, and demand for "bio-fuels."[8]

Farmers also are carrying far less debt compared to their burgeoning assets. Overall, current farm debt is only about one-tenth of total assets—the strongest position in about 40 years.[9] And the number of farms assuming debt financing declined by half (from 60 percent to 31 percent) between 1986 and 2007.

The number of farms also has dramatically changed, decreasing from a peak of 6.8 million in 1935 to 2.2 million in 2010.[10] During that same period, the amount of land in farms declined by less than 13 percent. Taken together, the two trends reflect fewer, but larger, farms. Indeed, the number of farms with more than 1,000 acres increased by 14 percent between 1982 and 2002.[11] In the same period, farms with 50 acres to 1,000 acres declined by about 17 percent.

Large farms account for the bulk of production. Farms with annual sales exceeding $250,000 constitute just 12 percent of American farms, yet account for 84 percent of production value. Farms with annual sales of less than $250,000 comprise 88 percent of American farms while producing 16 percent of agricultural output.

Large farms are generally stronger. They can afford more sophisticated machinery and can take advantage of the latest scientific advances—both of which allow operators to manage more acreage and increase yields.

5. What Are the Various Types of Agriculture Subsidies?

Farm subsidies include income support, price controls, operating and land ownership loans, insurance, and disaster relief. Eligibility and benefits vary by program and market conditions. But the underlying result is largely the same: shifting the cost of agricultural risk to taxpayers, either by augmenting farmers' income or artificially inflating commodity prices.

The text box below contains descriptions of key commodity programs.

6. Jerry Hagstrom, "Food Stamps Are Key Component to Getting Farm Bill Passed," *National Journal,* April 10, 2013, http://www.nationaljournal.com/daily/food-stamps-are-key-component-to-getting-farm-bill-passed-20130410 (accessed May 10, 2013).
7. News release, "Agriculture Secretary Vilsack on Priorities for the 2012 Farm Bill," U.S. Department of Agriculture, October 24, 2011, http://www.usda.gov/wps/ portal/usda/usdahome?contentidonly=true&contentid=2011/10/0458.xml (accessed May 4, 2012).
8. Interagency Agricultural Projections Committee, USDA Agricultural Projections to 2022, February 2013, http://www.ers.usda.gov/media/1013570/oce131a.pdf (accessed May 10, 2013).
9. Brian Briggeman, "Farm Balance Sheets: The Hidden Risk of Non-Real Estate Debt," *The Main Street Economist*, No. 2 (2011), http://www.kc.frb.org/publicat/mse/mse_0211.pdf (accessed May 30, 2012).
10. USDA Economic Research Service, "Data Sets—Farm Income: Data Files—Number of Farms, Land in Farms, and Value of Farm Real Estate, 1850–2010," March 14, 2012, http://www.ers.usda.gov/data/farmincome/finfidmu.htm#numfarms (accessed May 29, 2012).
11. Nigel Key and Michael J. Roberts, "Measures of Trends in Farm Size Tell Differing Stories," USDA Amber Waves, November 2007, http://www.ers.usda.gov/AmberWaves/November07/DataFeature/ (accessed May 30, 2012).
12. U.S. Government Accountability Office, "2013 Annual Report: Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits," GAO-13-279SP, April 2013, http://www.gao.gov/assets/660/653604.pdf (accessed May 3, 2013).

Key Commodity Programs

Program	Purpose	Result
Direct Payments	Payments to producers of grains, wheat, cotton, rice, oilseeds, and peanuts based on past production and a payment formula in statute. Farmers collect the payments even when prices are high and/or their land is fallow. Farmers can collect direct payments if their average annual farm income does not exceed $750,000. The annual payments per farmer can reach (but not exceed) $40,000.	High-income commercial farms collect millions of dollars in subsidies—even if they do not plant a single seed. The subsidies also promote overproduction—thereby lowering the prices the subsidies are intended to remedy.
Counter-Cyclical Payments	Payments to producers of grains, wheat, cotton, rice, oilseeds, and peanuts. Triggered when a commodity price falls below a season-average "target price" set in statute. Rate of payment based on the difference between target price and average market price (or national commodity loan rate).	Individual farmers may collect subsidies even if their crops bring higher than average prices. And because counter-cyclical payments are linked to target prices, farmers may base production decisions on the subsidy level rather than the market price.
Average Crop Revenue Election (ACRE)	An alternative to counter-cyclical payments. Triggered when state-level crop revenue falls below a guaranteed minimum and the producer experiences a revenue loss. ACRE payments per person are limited to $65,000 annually.	Effects similar to counter-cyclical payments.
Crop Insurance	Taxpayers pay 38 percent to 80 percent of premiums to insure more than 100 commodities, and subsidize insurers for administering the coverage. Coverage is available against impaired yields or price declines. The cost for federal crop insurance has expanded dramatically, from an average of $3.1 billion in 2000–2006, to $7.6 billion in 2007–2012. The average cost for 2013–2022 is expected to grow to $8.9 billion annually.[12]	Farmers do not incur the full costs of their risk taking, thus they are more likely to take greater risks with their planting and cultivation of crops. The subsidies also prompt farmers to purchase excess insurance, with the added costs falling upon taxpayers.
Loans	Direct loans and loan guarantees to farmers unable to secure commercial credit. Direct loans available for up to $300,000, as well as loan guarantees (by which the government pledges to repay a private lender up to 95 percent of a loan loss if a farmer fails to repay). Repayment term is a maximum of 40 years.	Loans and loan guarantees put tax dollars at risk, and prop up inefficient or poorly run farm operations.
Disaster Assistance	The Supplemental Revenue Assistance Payments Program (SURE) assists farmers in primary and contiguous disaster counties designated by the Secretary of Agriculture, or whose farms' production is less than 50 percent of normal due to weather-related losses. Maximum annual payment is $100,000 per person or legal entity.	Invites Congress to declare "emergencies" routinely to release funds. It further subsidizes farmers who (unwisely) forgo crop insurance.

6. How Much Money Is Spent on Farm Bill Programs?

Spending for the 2002 farm bill (2003–2007) totaled a whopping $241 billion.[13] At the time of enactment, the 2008 farm bill was estimated to cost $284 billion over five years (and $604 billion over 10 years).[14] However, significantly higher spending on crop insurance and food stamps increased actual outlays.

The most recent 10-year cost projections for last year's Senate and House legislation are $963 billion and $950 billion, respectively, according to the Congressional Budget Office.[15]

7. Who Are the Winners and Losers Under the Farm Bill?

Many people assume that farm assistance largely benefits small "family farms." While some smaller operations do receive major subsidies, the big winners actually are large agriculture enterprises.[16] Indeed, the vast majority of larger farms—about 75 percent—collect subsidies compared to only 24 percent of the (relatively) little guys.

According to government data, farms with gross sales of $1 million or more received 23 percent of all commodity-related payments in 2009—up from just 8 percent in 1991.[17] In contrast, the share of commodity-related payments received by farms in the $100,000 to $249,999 sales class shrank from 34 percent in 1991 to 15 percent in 2009.[18]

The subsidies collected by large enterprises make it more difficult for small farms to stay in business. The flow of free dollars to big farms increases demand for farmland, which, in turn, raises the price of property. Smaller players and newcomers are priced out and left to compete in niche markets.

It is also notable that Members of Congress and their immediate families are eligible for farm subsidies. Many of the lawmakers assigned to the House and Senate Agriculture Committees are farmers, but taxpayers are prevented from learning who receives crop insurance subsidies and in what amounts.[19]

8. Why Are Reforms Necessary?

Subsidies are often referred to as a "safety net." But subsidies produce a perverse double-whammy: taxpayers are hit with underwriting the costs and consumers are slammed with higher prices on groceries.

Meanwhile, rather than stabilize crop prices as proponents claim, subsidies promote overproduction and downward pressure on prices—thereby increasing subsidy payouts. And billions of dollars lavished on farmland conservation encourages overplanting on marginal lands that require more chemical management.

By lowering the cost of insurance, some farmers are over-insuring, that is, opting for coverage that exceeds their actual degree of risk. Furthermore, people tend to take greater risks—with crop management, in this case—when relieved of the full cost of their actions.

Farmers understandably avail themselves of price and income supports available to them, just as any other business does. But these lavish subsidies inflate Americans' grocery bills. For example, Americans pay two to four times higher prices for sugar than consumers in other countries, on account of government-imposed tariffs on imports and quotas on domestic production. And consumers pay hundreds of millions of dollars more for milk, butter, cheese, and a variety of other dairy products because of government manipulation of supplies and prices.

Perhaps most importantly, although separate from agriculture policy, increases in food stamp spending are unsustainable. Outlays for nutrition

13. Jim Monke and Renee Johnson, "Actual Farm Bill Spending and Cost Estimates," Congressional Research Service *Report for Congress,* December 13, 2010, http://www. nationalaglawcenter.org/assets/crs/R41195.pdf (accessed May 20, 2012).

14. Ibid.

15. Congressional Budget Office, Letter to Senator Debbie Stabenow, March 1, 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/s3240_hr6083_Stabenow_Ltr.pdf (accessed May 13, 2013).

16. Robert A. Hoppe and David E. Banker, "Structure and Finances of U.S. Farms," USDA Family Farm Report, July 2010, http://www.ers.usda.gov/Publications/ EIB66/EIB66.pdf (accessed May 30, 2012).

17. T. Kirk White and Robert A. Hoppe, "Changing Farm Structure and the Distribution of Farm Payments and Federal Crop Insurance," USDA Economic Research Service, February 2012, http://www.ers.usda.gov/Publications/EIB91/EIB91.pdf (accessed May 30, 2012).

18. Ibid.

19. Romina Boccia, "Farm Bill Should End Secrecy in Crop Insurance Subsidies," Heritage Foundation *Issue Brief* No. 3674, July 23, 2012, http://thf_media.s3.amazonaws.com/2012/pdf/ib3674.pdf.

programs swelled from $37.6 billion in 2008 to an estimated $82 billion this year.

9. Do Farmers Need Government Assistance to Manage Risk?

Modern farming is both extremely sophisticated and a source of innovation. Those who work in the agricultural sector are as adept at managing risk as any other business leaders. While farming is risky, so, too, are many other entrepreneurial endeavors.

There are several time-tested ways for farmers to manage risk without taxpayer subsidies, including futures contracts and hedging, crop diversification, credit reserves, and private insurance. There could be even more options if Washington loosened its grip on agriculture and allowed entrepreneurs to create new products and services for managing risk.

10. What Should Congress Do?

Today's system of subsidies and artificial price supports for commodities must go. First and foremost, however, a meaningful reform effort requires lawmakers to focus solely on agriculture. All the superfluous programs that clutter the farm bill—food stamps, energy, broadband deployment—ought to be jettisoned to congressional committees that specialize in such issues.

It is unlikely, however, that all non-agricultural programs will be removed from the current farm bill—although that should be the goal. Congress can take important incremental steps by eliminating the most costly and indefensible subsidies. Specifically, legislators should target programs that use taxpayer dollars to cover nominal risks. They should also target farm programs that subsidize farmers regardless of whether they grow crops or earn a high income.

Specifically, Congress should improve agriculture policy in the following ways:

- **Separate food stamps from agriculture programs.** This reform is a matter of open and transparent government. Food stamps and farm policy are distinct issues. Each warrants thoughtful consideration from legislators in congressional committees with appropriate jurisdiction. Combining both into one massive bill undermines chances for accountability and meaningful reform.

- **Limit farm subsidies to farmers with adjusted gross incomes below $250,000.** Until subsidies are eliminated, there should at least be a means test to restrict eligibility. Eligibility should be restricted across the board, and the income levels should be significantly reduced to less than the current thresholds. The existing loophole that allows multiple people working one farm to receive subsidies should be eliminated.

- **Eliminate the direct payments program.** There is no justification for subsidizing farmers who do not grow crops, or to subsidize farmers regardless of their income. Both the House and Senate bills last year would have eliminated direct payments—evidence of broad recognition that these programs should be eliminated.

- **Cap the crop insurance program on insurance premium subsidies and reduce the percentage of total premiums that taxpayers must subsidize.** Crop insurance subsidies have skyrocketed, and are expected to average $8.9 billion a year from 2013–2022, according to the Congressional Budget Office.

  The Government Accountability Office analyzed the impact of placing a $40,000 cap on premium subsidies received by farmers, if applied in 2011: a savings to taxpayers of $1 billion. This type of cap would only have affected 3.9 percent of participating farmers.[20] By lowering the cap, even greater savings could be achieved.

  Taxpayers should bear a much smaller burden when it comes to subsidizing premiums. In 2011, taxpayers paid 62 percent of the premium subsidies for the crop insurance program. In 2000, taxpayers covered 37 percent. Simply reducing the 62 percent premium subsidy by 10 percentage points to 52 percent in 2011 would have saved $1.2 billion.[21]

- **Do not replace one bad policy with another: Avoiding the "shallow loss" and "price loss coverage" problem.** In 2012, the Senate approved repeal of direct payments and

20. U.S. Government Accountability Office, *Crop Insurance: Savings Would Result from Program Changes and Greater Use of Data Mining*, GAO-12-256, March 2012, http://www.gao.gov/assets/590/589305.pdf (accessed May 2, 2012).

counter-cyclical payments. The House bill also would have done the same. But lawmakers negated that progress by replacing direct subsidies with programs that would likely cost taxpayers even more. This is unacceptable.

The Way Forward

Congress must consider the farm bill in terms of net reform—do the reforms significantly reduce costs to taxpayers and minimize subsidies in total? If not, regardless of what problematic programs have been eliminated, there has not been adequate reform.

It is time to free agriculture policy from the politics of welfare and the blight of farm subsidies, price controls, and tariffs that do more harm than good. There are a host of nongovernmental methods with which farmers can manage risk, including futures contracts and hedging, crop diversification, credit reserves, and private insurance.

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21. Ibid.