

BACKGROUND

No. 2697 | JUNE 7, 2012

Farm Bill 2012: Agriculture Policy Ripe for Reform

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Abstract

Every five years, Congress grapples with agriculture policy in the form of a multibillion dollar “farm bill” that is bloated with a costly array of extraneous programs. Many of the major provisions in the existing law—the Food, Conservation, and Energy Act of 2008—expire on September 30, 2012. This expiration offers lawmakers an opportunity to rescue agriculture from its statutory morass and craft meaningful reforms. Major reforms are sorely needed to end decades of market distortions and taxpayer subsidies to wealthy farmers, and to alleviate the artificially inflated food prices that burden family budgets. Farm subsidies, which add tens of billions of dollars to the federal budget, undermine trade, and violate fundamental free-market principles, should be eliminated.

This paper, in its entirety, can be found at <http://report.heritage.org/bg2697>

Produced by the Thomas A. Roe Institute for Economic Policy Studies

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Hostage to Special Interests

Dramatic changes in the agricultural landscape have rendered Depression-era farm policies and their progeny wholly obsolete. The tangle of corporate welfare, price controls, and import restrictions are downright perverse in an era of record-high farm income and a record-low ratio of farm debt. But even in lean years, the outsized “safety net” shrouds fundamental free-market principles and free trade.

Farming is risky, to be sure, but so are many entrepreneurial endeavors. There also are rewards to balance the hardships. Government policies that cushion farmers invite risk-taking by shifting the costs of failure to taxpayers.

At the time of enactment, the Food, Conservation, and Energy Act of 2008, the most recent “farm bill,” was estimated to cost \$284 billion over five years (and \$604 billion over ten years).¹ Notwithstanding the largesse, some 61 percent of farms—those that produce the majority of farm products—receive no government payments and manage to survive.² Farm subsidies, commodity quotas, and tariffs largely enrich upper-income producers of grains, oilseeds, cotton, milk, and sugar, and ignore most other commodities.

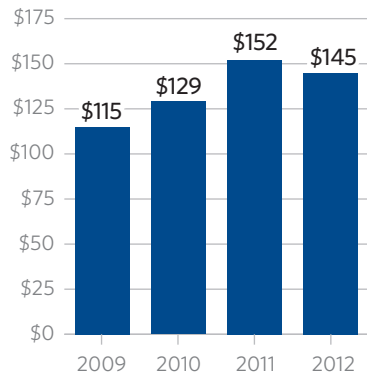
TALKING POINTS

- Farm subsidies constitute the nation’s largest corporate welfare program. They come in various forms, but the underlying purpose is largely the same: to shift the costs of agricultural risk to taxpayers, either by augmenting farmers’ income or artificially inflating food prices.
- Farm subsidies, commodity quotas, and tariffs largely enrich upper-income producers of grains, oilseeds, cotton, milk, and sugar.
- There are a host of nongovernmental methods with which farmers can manage risk, including crop diversification, credit reserves, and private insurance.
- Meaningful reform requires lawmakers to focus solely on agriculture. All extraneous programs that clutter the farm bill—welfare, energy, broadband deployment—ought to be jettisoned to relevant congressional committees.
- Congress should begin the process of fully eliminating farm subsidies by restricting eligibility and imposing income limits and subsidy caps.

CHART 1

USDA Outlays

IN BILLIONS OF DOLLARS



Source: U.S. Department of Agriculture, "Budget Summary and Annual Performance Plan: FY 2012," <http://www.obpa.usda.gov/budsum/FY12budsum.pdf> (accessed May 30, 2012).

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Nearly 80 percent of farms with gross cash farm income of \$250,000 to \$999,999 receive government payments, compared to 24 percent of farms with gross cash farm income of \$10,000 to \$249,999.

Opportunities for reform are hindered by the sprawling scope of previous farm bills, which have encompassed food stamps, child nutrition, forestry, telecommunications, energy, and rural-development.

This concentration of special interests constitutes a powerful force for the status quo. As noted by Agriculture Secretary Tom Vilsack, "For decades this bill has been about a whole lot more than just farming. It's been about energy, it's been about nutrition, it's been about jobs. ... If we want this legislation to have the support of the other 98 percent of Americans who don't farm, we've got to remind those Americans why this legislation matters to them and to their families."³

The legislation does matter a great deal but principally because agriculture subsidies yield far more costs than benefits for the vast majority of Americans. Rather than stabilizing crop prices, subsidies promote over-production and downward pressure on prices. Billions of dollars lavished on farmland conservation encourages over-planting that degrades the environment. Payments designed to save small family farms are largely pocketed by profitable agribusinesses. None of which should be all that surprising considering that agriculture policy is largely intended to produce votes, not a reliable and affordable food supply.

It is time to end this charade by freeing agriculture policy from the politics of welfare, "bio-energy," and

foreign aid, and by ending the blight of farm subsidies, price controls, and tariffs that do far 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.

Depression-Era Subsidies for Today's Millionaires

America's agricultural landscape has changed dramatically since the time most farm programs were conceived. Advances in agronomy, biotechnology, pest control, and disease management have profoundly improved productivity. Yields per acre of staples, such as corn, soy, wheat, and cotton, have doubled, tripled, or quadrupled in a matter of decades.⁴

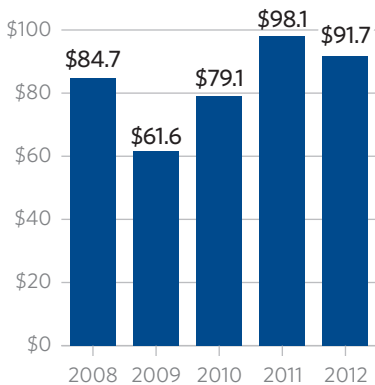
The number of farms also has dramatically changed, decreasing from a peak of 6.8 million in 1935 to 2.2 million in 2010.⁵ During that same period, however, the amount of land in farms declined by less than 13 percent. Taken together, the two trends reflect fewer, but larger, farms. Indeed, the number of farms with more than 1,000 acres increased by 14 percent between 1982 and 2002.⁶ In the same period, farms with 50

1. Jim Monke and Renee Johnson, "Actual Farm Bill Spending and Cost Estimates," Congressional Research Service, December 13, 2010, at <http://www.nationalaglawcenter.org/assets/crs/R41195.pdf> (accessed May 20, 2012).
2. Economic Research Service, "Structure and Finances of U.S. Farms," US Department of Agriculture, July 2010, <http://www.ers.usda.gov/Publications/EIB666/EIB666.pdf> (accessed April 9, 2012).
3. 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).
4. Ibid.
5. 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).
6. 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).

CHART 2

Net Farm Income

IN BILLIONS OF DOLLARS



Source: USDA Economic Research Service, "Income Statement for U.S. Farm Sector, 2008-2012F," http://www.ers.usda.gov/Briefing/FarmIncome/Data/nf_t2-rto.pdf (accessed May 30, 2012).

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to 1,000 acres declined by about 17 percent.

Not surprisingly, large farms account for the bulk of farm production.⁷ Large-scale farms—those with annual sales exceeding \$250,000—constitute just 12 percent of American farms, yet account for 84 percent of production value. Smaller farms—those with annual sales of less than \$250,000—comprise 88

percent of American farms while producing only 16 percent of agricultural output.

Large farms are generally more viable than small farms by virtue of economies of scale and access to technology.⁸ Large farms 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.⁹ At the same time, the average age of small family farmers is increasing; more of their land is being retired or incorporated into larger operations.

These trends have a direct bearing on agriculture policy. Because the volume of farm production has long been a primary factor in the allocation of subsidies, bigger farms are receiving a larger proportion of the payouts.¹⁰ Since the operators of bigger farms tend to have higher household incomes than their smaller counterparts, subsidies have shifted to higher income households.

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 1991.¹¹ 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 2009.¹²

Income Up, Debt Down

The rationale for farm subsidies is called into question by the strong performance of the agriculture sector in recent years. Net farm income hit a record \$98.1 billion last year, and is forecast by the U.S. Department of Agriculture (USDA) to reach \$91.7 billion in 2012—the second highest level on record. Additionally, the top five earnings years during the past three decades have all occurred since 2004.¹³

Two factors, in particular, have contributed to the income surge: rising exports and higher corn prices. Specifically, international sales in 2011—principally to Canada, Mexico, Central and South America, and Asia—increased by \$20.5 billion over the previous record set in 2010, to a total of \$136.3 billion.¹⁴ Commodity prices also have spiked in response to high demand for corn generated by “biofuel” mandates.

Farming is capital intensive, and debt is a fact of farm life. But there is considerable solvency in the agriculture sector. The debt-to-asset ratio¹⁵ for 2012 is pegged at 10.3 percent,¹⁶ meaning that debt is only about one-tenth of total assets—the strongest

7. 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).
8. Ibid.
9. 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).
10. Hoppe and Banker, "Structure and Finances of U.S. Farms."
11. White and Hoppe, "Changing Farm Structure and the Distribution of Farm Payments and Federal Crop Insurance."
12. Ibid.
13. Hoppe and Banker, "Structure and Finances of U.S. Farms."
14. USDA Economic Research Service, "Briefing Rooms—U.S. Agricultural Trade: Exports," <http://www.ers.usda.gov/Briefing/AgTrade/exports.htm> (accessed May 30, 2012).
15. The percentage of total debt financing compared to the percentage of total assets.
16. USDA Economic Research Service, "Briefing Rooms—Farm Sector Assets, Debt, and Equity Forecast to Increase in 2012," February 13, 2012, <http://www.ers.usda.gov/briefing/farmincome/wealth.htm> (accessed May 30, 2012).

position in some 40 years due largely to rising land values.¹⁷ The proportion of farms assuming debt financing declined by half (from 60 percent to 31 percent) between 1986 and 2007, with bigger farms taking on a larger share.

These larger farms are better positioned, generally, to repay debt—a fact seemingly ignored by those who claim that subsidies are necessary to protect supposedly debt-plagued farmers.

A Bumper Crop of Farm Programs

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 purpose is largely the same: to shift the costs of agricultural risk to taxpayers, either by augmenting farmers' income or artificially inflating commodity prices. Following is a list of the key programs in the farm bill, and the amount of estimated spending for FY 2012. (The dollar figures do not include the costs to consumers of higher food prices

resulting from government market manipulations.)

Direct Payments. Payments are provided to producers¹⁸ of grains, wheat, cotton, rice, oilseeds, and peanuts¹⁹ based on a farm's crop production history and a payment formula as set in statute.²⁰ Payments remain constant regardless of crop cultivation or commodity prices. Producers are eligible if their average annual farm income does not exceed \$750,000 (over the preceding three tax years), and average annual non-farm income does not exceed \$500,000 (over the same time period). Maximum annual payment per farmer is \$40,000 (\$80,000 for a married couple).²¹

Estimated Spending 2012: \$3.9 billion²²

Counter-Cyclical Payments. Payments to producers of grains, wheat, cotton, rice, oilseeds, and peanuts are triggered when a commodity price falls below a season-average "target price" set in statute. The rate of payment is based on the difference between the target price and the average market price (or national commodity loan rate). Annual payments are highly variable, ranging

from \$903 million in 2010 to \$189 million in 2011. USDA officials expect recent record-high commodity prices to result in zero counter-cyclical payments for 2012.²³

Estimated Spending 2012: None

Average Crop Revenue Election (ACRE). The ACRE program was introduced in the 2008 farm bill as an alternative to counter-cyclical payments, and triggered when state-level revenue for a crop falls below a guaranteed minimum and the producer experiences a revenue loss. Program enrollment carries an automatic 20 percent reduction in direct payments, and a 30 percent reduction in marketing assistance loan rates.

Estimated Spending 2012: \$28 million²⁴

Loans. A range of direct loans and loan guarantees are provided to farmers who are unable to secure commercial credit for farm operations, land ownership, and emergencies. Direct loans from the government are available for up to \$300,000, as well as "loan guarantees." Under a loan guarantee, the government pledges to repay a private lender up to 95 percent of a loan loss if a farmer

17. Brian Briggeman, "Farm Balance Sheets: The Hidden Risk of Non-Real Estate Debt," Federal Reserve Bank of Kansas City, *The Main Street Economist*, No. 2 (2011), http://www.kc.frb.org/publicat/mse/mse_0211.pdf (accessed May 30, 2012).
18. Includes owners, operators, landlords, tenants, or sharecroppers. See USDA Farm Bill Forums, "Direct and Counter-Cyclical Program," http://www.usda.gov/documents/DIRECT_AND_%20COUNTER_CYCLICAL_PROGRAM.pdf (accessed May 30, 2012).
19. Specifically, wheat, corn, grain sorghum, barley, oats, upland cotton, long-grain and medium-grain rice, soybeans, canola, crambe, flaxseed, mustard seed, rapeseed, safflower, sesame seeds, sunflower seeds, peanuts, dry peas, lentils, and chickpeas. USDA Farm Service Agency, "Direct and Counter-Cyclical Payment Program Fact Sheet," December 2008.
20. For example, a farmer with a historical base of 100 acres, a yield of 100 bushels of corn, and a direct payment rate of 28 cents per bushel would receive \$2,380 (85% X 100 acres X 100 bushels X 28 cents).
21. 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> (assessed May 30, 2012).
22. USDA, "Budget Summary and Annual Performance Plan," Fiscal Year 2012, <http://www.obpa.usda.gov/budsum/FY12budsum.pdf> (accessed May 30, 2012).
23. Ibid.

fails to repay (up to a maximum of \$1.2 million). The repayment term for both types of loans is a maximum of 40 years. A portion of loan funding is reserved for “socially disadvantaged” applicants. Loan funding hit a record of \$6 billion in 2010. The total number of loans obligated in 2011 exceeded 32,000 and the amount outstanding for all commodities totaled \$2.1 billion.²⁵

*Estimated Spending 2012: \$4.8 billion*²⁶

Crop Insurance. The federal government pays 38 percent to 80 percent of total premiums for crop insurance for more than 100 commodities, and reimburses private insurers for selling and servicing the coverage. Some 80 percent of U.S. acres in principal crops (294 million acres) are enrolled, with coverage worth \$93 billion. Coverage is available against impaired yields or price declines. There is no limit to premium subsidies.²⁷

*Estimated Spending 2012: \$3.2 billion*²⁸

Dairy. Under the Dairy Product Price Support Program, the USDA guarantees the purchase of dairy products (by the USDA) to prevent a drop in prices. The Milk Income Loss Contract Program makes payments to producers when milk prices fall below statutory limits. The Dairy Export Incentive Program pays cash “bonuses” to dairy exporters who

could not otherwise compete overseas because of the inflated cost of U.S. dairy products.

*Estimated Spending 2012: \$222 million*²⁹

Sugar. Growers of sugarcane and sugar beets, as well as sugar processors, are guaranteed artificially inflated prices through marketing quotas and import restrictions. (Duties have been lifted for some sugar imports under free trade agreements.) To prevent imports from exerting downward pressure on prices, the USDA is required to purchase domestic sugar for sale to ethanol producers.

Estimated Spending 2012: None

Disaster Assistance. Congress established the Supplemental Revenue Assistance Payments Program (SURE) in the 2008 farm bill to assist farmers located in primary and contiguous disaster counties designated by the Secretary of Agriculture, or whose farms’ production is less than 50 percent of the normal production for that year due to weather-related losses. The maximum annual payment is \$100,000 per person or legal entity.

Estimated Spending 2012: \$1.5 billion

Supplemental Nutrition Assistance Program (SNAP). Commonly known as the food stamp program, SNAP provides the equivalent of cash assistance for food

purchases to one in seven Americans (about 45 million). The maximum allotment for a family of four is \$668 per month.

Estimated Spending 2012: \$73 billion

American Recovery and Reinvestment Act (ARRA) Supplement: \$12 billion (in addition to the \$73 billion)

Nutrition. The government runs more than a dozen nutrition programs, including the National School Lunch Program; the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); and emergency food distribution after natural disasters.

Estimated Spending 2012: \$28.5 billion

Conservation. The USDA funds a variety of programs to improve soil, water, air, and wildlife resources. The Conservation Reserve Program pays property owners to retire acreage for 10 to 15 years in return for annual payments. As of 2010, the program covered 31.4 million acres. The Voluntary Public Access and Habitat Incentive Program pays private landowners to open their land to the public for recreation.

*Estimated Spending 2012: \$11.9 billion*³⁰

AARA Supplement: \$16.6 billion (in addition to the \$11.9 billion)

Exports. The USDA runs at least a dozen programs to increase

24. Ibid.

25. USDA Farm Service Agency, “Loans Outstanding—National Level,” April 10, 2012.

26. USDA, “Budget Summary and Annual Performance Plan,” Fiscal Year 2012.

27. Government Accountability Office, “Crop Insurance.”

28. USDA, “Budget Summary and Annual Performance Plan,” Fiscal Year 2012.

29. Ibid.

30. Ibid.

farmers' access to international markets, including loan guarantees for commercial financing of exports and foreign market development.

*Estimated Spending 2012: \$615 million*³¹

International Food Assistance.

A variety of programs provide commodities, funding, and technical assistance for feeding programs in foreign countries.

Estimated Spending 2012: \$2.1 billion

Rural Development. Loans, grants, and research projects are funded to expand economic opportunity in rural areas.

Estimated Spending 2012: \$2.6 billion

Agricultural Research. Funding is provided for government and private research projects related to the environment, public health, nutrition, and agricultural productivity.

Estimated Spending 2012: \$1.2 billion

Tobacco Payments to

Producers. "Transition" payments are given to owners of quotas under the former tobacco price support program.

Estimated Spending 2012: \$960 million

Unintended Consequences.

Agriculture entails multiple risks—as does any entrepreneurial venture. A drought or cold snap can ruin a crop. An entire herd of livestock may be felled by disease. Commodity prices zip up and down with economic fluctuations. These and other potentialities are commonly cited as justification for showering farmers with subsidies.

But zero risk does not exist, not in agriculture, nor any other occupational pursuit. To the extent that Congress artificially shields some farmers from the reality of their occupation, they are more likely to take bigger risks running their farms. The vast majority of farm products—including most fruits and vegetables, beef, and poultry—are produced in abundance without taxpayer subsidies. Moreover, the small family farms that politicians claim to be saving are harmed most by the subsidy regime.

Direct payments allow larger farms to access greater levels of credit, either to expand or modernize their operations. The flow of free dollars also increases the price of farmland, crowding out newcomers and relegating small farms to niche markets.

Fortunately, awareness is spreading about the fact that direct payments are unjustified—and unaffordable, given a budget deficit of \$1.2 trillion. Legislation recently approved by the Senate Agriculture Committee, the Agriculture Reform, Food, and Jobs Act of 2012, would, if enacted, repeal direct and counter-cyclical payments. But such progress is largely undone by the creation of new "protections," and the expansion of other "safety net" programs. Topping the list are yet more subsidies for crop insurance.

As noted, taxpayers subsidize 38 percent to 80 percent of the cost of crop insurance premiums for more than 100 commodities, and reimburse private insurers for selling and servicing the coverage. These subsidies were created to replace

escalating ad hoc disaster assistance strategically obtained by farm-state lawmakers. The level of subsidy and coverage has been expanding for three decades. Between 2000 and 2009, for example, the crop insurance subsidy averaged \$3.7 billion per year, up from \$1.1 billion in the 1990s and \$500 million in the 1980s.³² The 2008 farm bill alone added five new programs and a \$3.8 billion trust fund to cover crop losses, as well as three new livestock-assistance programs and even a tree-assistance subsidy. The average premium subsidy reached \$8,312 last year, up from \$5,339 in 2010—more than the premium subsidy for Medicare.

The subsidies produce unintended consequences. By lowering the cost of insurance, some farmers are over-insuring, that is, opting for coverage that exceeds their actual degree of potential risk. Secondly, people tend to take greater risks when relieved of the full cost of their actions. And, larger farms with higher earnings net more benefits than small farms because the subsidies are based, in part, on farm size.

The Government Accountability Office found a subset of very large farms collecting a disproportionate share of the subsidies.³³ Just 3.9 percent of all farmers in the crop insurance programs accounted for about one-third of all premium subsidies—with 53 of them receiving more than \$500,000 each. For example, one farmer insured crops in eight counties and received about \$1.3 million in premium subsidies. The largest recipient was a corporation that insured nursery crops across three counties in one state, for a total of

31. Ibid.

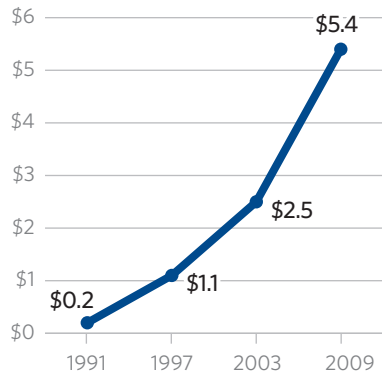
32. Dennis A. Shields and Ralph M. Chite, "Agricultural Disaster Assistance," Congressional Research Service, October 25, 2010, <http://www.fas.org/sgp/crs/misc/RS21212.pdf> (accessed May 30, 2012).

33. Government Accountability Office, "Crop Insurance."

CHART 3

Federal Crop Insurance Subsidies

IN BILLIONS OF 2009 DOLLARS



Source: USDA Economic Research Service, "Changing Farm Structure and the Distribution of Farm Payments and Federal Crop Insurance," July 4, 2011.

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about \$2.2 million in premium subsidies. (The administrative expenses came to an additional \$816,000.) Another individual insured canola, corn, dry beans, potatoes, soybeans, sugar beets, and wheat across eight counties in two states, for a total of \$1.3 million in premium subsidies (and administrative expenses of \$499,000).

Despite the massive spending on insurance subsidies, Congress

continues to dole out disaster assistance. Between 2005 and 2007, for example, supplemental disaster assistance totaled \$2.45 billion.³⁴ An additional \$695 million was disbursed in 2008.

Sweet Deals for Sugar Producers

Americans pay two to four times higher prices for sugar than consumers in other countries,³⁵ on account of government-imposed quotas on imports. The tariff rate on "excess" imports works out to 62 percent at current prices.³⁶ Overall, the sugar quotas cost the economy some \$49 million on net, according to the U.S. International Trade Commission,³⁷ because every sugar-sweetened product costs more to manufacture. The sugar quotas also erode the benefits of trade. U.S. negotiators allowed Australia to maintain trade barriers on American products in exchange for maintaining sugar tariffs. Similar issues have arisen in current trade talks on the Trans-Pacific Partnership.

Domestic sugar producers contend that industry protections are needed to secure American jobs. But for every job saved in the sugar industry, nearly three confectionery jobs are lost, according to the U.S. Department of Commerce.³⁸

Milking Consumers

Dairy subsidies date back some 70 years, the product of New Deal market manipulations to control agricultural prices. Congress has tinkered with various milk programs over the decades, but the USDA continues to "manage" supplies through a jumble of price controls and income supports for farmers.

In the past, advocates cited the perishable nature of milk as justification for government intervention in the dairy industry. Technological advances have revolutionized milk production, making such interventions obsolete—if they were ever needed to begin with.

Dramatic price fluctuations and the consolidation of dairy operations expose the failure of existing milk policies to stabilize prices or sustain family farms, as intended. In the past decade, U.S. milk prices have fluctuated between \$12.18 per hundred-weight (cwt) to \$19.21 per cwt.³⁹ At the same time, the number of milk cow operations has declined 33 percent, from 97,460 in 2001 to 65,000 in 2009. Nonetheless, milk production has increased 15 percent in the same period, in large part owing to a greater number of large operations.⁴⁰

What has remained unchanged through seven decades of dairy policy are the price distortions

34. Shields and Chite, "Agricultural Disaster Assistance."

35. Remy Jurenas, "Sugar Policy and the 2008 Farm Bill," Congressional Research Service, January 30, 2009, <http://www.nationalaglawcenter.org/assets/crs/RL34103.pdf> (accessed May 30, 2012).

36. Bryan Riley, "The U.S. Sugar Program: Bad for Consumers, Bad for Agriculture, and Bad for America," Heritage Foundation *Issue Brief* No. 3569, April 18, 2012, <http://www.heritage.org/research/reports/2012/04/us-sugar-program-bad-for-consumers-agriculture-and-america>.

37. U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints," August 2011, pp. 2-25, <http://www.usitc.gov/publications/332/pub4253.pdf> (accessed June 4, 2012).

38. International Trade Administration, "Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices," February 2006, p. 2, <http://www.ita.doc.gov/media/Publications/pdf/sugar06.pdf> (accessed May 30, 2012).

39. U.S. Department of Agriculture, "Overview of the United States Dairy Industry," September 22, 2010, <http://usda.mannlib.cornell.edu/usda/current/USDairyIndus/USDairyIndus-09-22-2010.pdf> (accessed May 30, 2011).

40. Ibid.

that result from the government's interference. By limiting supplies to maintain higher prices, consumers pay hundreds of millions of dollars more for milk, butter, cheese, and a variety of other dairy products.⁴¹ Thus, Americans are taking a double hit on dairy: Tax revenues are used to subsidize producers, and production limits raise the cost of products.

Fueling Higher Food Costs

In 2009 and 2010, the USDA subsidized more than 22,000 "renewable" energy projects, including construction of bio-refineries, production of biofuels, and cultivation of biofuel crops. Indeed, Secretary of Agriculture Tom Vilsack boasts that his agency is "helping to establish the infrastructure to put renewable fuel in all of America's gas tanks."⁴²

Congress did its part by mandating quotas of "renewable" fuels—primarily corn-based ethanol—in the nation's gasoline supply. Because of artificial demand for corn and other biofuel "feedstocks," farmers are devoting evermore acres to biofuel crops. The consequent reduction in U.S. supplies of soybeans and other displaced crops has propelled commodity prices. The attendant increase in food costs falls most heavily on the poor.

Biofuel mania is hardly environmentally benign. Two studies published in 2008 in the journal *Science* reported that the cultivation

of corn for ethanol and other biofuel feedstocks substantially increases emissions of the greenhouse gases that are supposedly causing climate change.⁴³ (The excess emissions result from land conversions that are driven by demand for corn and other crops used to produce "renewable" fuels.) Moreover, the National Academy of Sciences has reported that ethanol production is draining water supplies, while the boom in corn and other feedstock production fosters soil erosion and fertilizer runoff.⁴⁴

New Directions

There are several ways for farmers to manage risk without taxpayer subsidies. 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. First and foremost, however, a meaningful reform effort requires lawmakers to focus solely on agriculture. All the superfluous programs that clutter the farm bill—welfare, energy, broadband deployment—ought to be jettisoned to congressional committees that specialize in such issues. Otherwise, the amalgam of special interests will rise up in defense of the status quo.

With regard to agriculture policy, farm subsidies must be eliminated. Family farms are not rescued by redistributing taxpayers' money

to large, profitable agribusiness that can afford to buy them out. Subsidies do not stabilize crop prices or increase the affordability of food. Instead, they add tens of billions of dollars to the federal budget, undermine trade, and violate fundamental free-market principles.

The following nongovernment options are available to help farmers manage risk:⁴⁵

1. Futures contracts and hedging.

A futures contract is a financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a commodity, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset and are standardized to facilitate trading on a futures exchange. Futures can be used to hedge on the price movement of the underlying asset. For example, a producer of corn could use futures to lock in a certain price and manage risk (hedge).

2. Crop and other enterprise diversification.

Diversification is a risk-management strategy that involves participating in more than one activity. A crop farm, for example, may have several productive enterprises (that is, several different crops or both crops and livestock), or may operate nonadjacent parcels so that

41. A survey by the Government Accountability Office found that U.S. prices for butter averaged twice the world price, cheese prices were about 50 percent higher, and nonfat dry milk prices were about 30 percent higher. See Government Accountability Office, "Dairy Industry: Information on Milk Prices, Factors Affecting Prices, and Dairy Policy Options," GAO-05-50, December 29, 2004, <http://www.gao.gov/products/GAO-05-50> (accessed May 30, 2012).

42. News release, "Agriculture Secretary Vilsack on Priorities for the 2012 Farm Bill."

43. Timothy Searchinger et al., "Use of U.S. Croplands for Biofuels Increases Greenhouse Gases Through Emissions from Land-Use Change," *Science*, Vol., 319, No. 5867 (February 2008), pp. 1238-1240, <http://www.sciencemag.org/content/319/5867/1238.abstract> (accessed June 4, 2012).

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45. Dennis A. Shields, "Federal Crop Insurance: Background and Issues," Congressional Research Service, December 13, 2010.

local weather disasters are less likely to reduce yields for all crops simultaneously.

3. Liquid credit reserves. Farmers may maintain liquid credit reserves, such as an open line of credit, to generate cash quickly in order to meet financial obligations in the face of an adverse event. Liquid credit reserves reflect unused borrowing capacity.

4. Private insurance. Certain agricultural risks—such as the risks associated with hail and other weather-related damage—are insured by private companies without subsidized premiums.

Decades-old subsidies will not disappear quickly. In the interim, Congress can improve farm policy in the following ways:

- Limit farm subsidies to those with adjusted gross incomes below \$250,000.
- Limit total farm subsidies to \$250,000 per farm and bar farmers from collecting multiple subsidies.
- Strike the costly and unnecessary permanent disaster aid program.
- End farm subsidy eligibility for Members of Congress and their immediate families.
- Bar farmers who do not purchase crop insurance from receiving disaster payments.

Conclusion

Farm subsidies constitute the nation's largest corporate welfare program—the costs of which burden

taxpayers and increase food prices. With farm income setting records—and a soaring federal budget deficit—it is a particularly opportune time to reform agriculture policy. All that is needed is a bit of congressional backbone.

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