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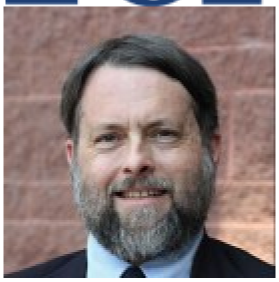

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Op/Ed

It’s Time To Kick Farmers Off The Federal Dole

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The U.S. government has no money. Uncle Sam is borrowing 40% of this year’s $3.8 trillion in outlays. Total federal obligations and unfunded liabilities run roughly ten times the formal national debt of $14 trillion.

Washington must cut spending.

Suggesting that Uncle Sam go on a fiscal diet predictably triggers the cry: What about the poor? But despite their rhetoric politicians do not spend much time worrying about those in poverty. The two biggest domestic programs provide middle class welfare: Social Security and Medicare. The Pentagon mostly provides welfare for populous and prosperous allies throughout Asia and Europe.

The rest of the federal budget is filled with outrageous special interest pay-offs. Consider the agricultural dole.

Many city folk have an emotional attachment to a way of life they have never experienced. The image of the "family farm" possesses particular appeal.

Yet most entrepreneurs work hard, as do farmers, while facing enormous and unpredictable risks, only less based on weather. Working with animals and plants is interesting, not ennobling. And the family farm is largely a quaint historical artifact: today agriculture increasingly is big business pursued by shrewd corporate operators, who are even more adept at politics than economics.

Government subsidies obviously aren't necessary for food production: people have fed themselves and traded their surpluses for thousands of years. The system doesn't help consumers. Reducing supplies and imposing price floors obviously are bad deals for the hungry. Paying off farmers might lower some prices, but steals back through taxes any benefits received by consumers. Agricultural subsidies are designed by farmers for farmers.

But which farmers? Not the idyllic family farmer. The majority of payments go to farms with average annual revenue exceeding $200,000 and net worth around $2 million.

In a new paper for the American Enterprise Institute, Dr. Barry K. Goodwin at North Carolina State University observed: "a large share of agricultural subsidies goes to a small segment of society that tends to be wealthier, less financially leveraged, and of higher income than the nonagricultural sectors of the aggregate economy. Moreover, farmers do not generally face more risk than business owners in other sectors, nor do farms fail more often than other forms of business. In fact, farm businesses rarely fail."

In short, Uncle Sam is playing reverse Robin Hood.

Washington began supporting farmers more than a century ago, though the president did not become Farmer-in-Chief until the Depression. Farm subsidies remained largely unchanged until passage of the 1996 Freedom to Farm Act, when Congress replaced target price-deficiency payments with declining fixed subsidies. But when the economy worsened legislators did what comes naturally, voting to spend billions on extra aid without regard to the law.

When it reauthorized the Farm Bill in 2002, Congress increased payments and added nearly $50 billion to the legislation's six-year cost. Noted Goodwin: "It was made clear that direct, decoupled payments were not a short-run buyout intended to ease a transition to the market, but rather, yet another long-run institutionalized transfer payment from taxpayers to agricultural landowners." In 2008 legislators added more spending increases to the farm boondoggle, while rejecting the Bush administration's proposal to cap income eligibility for payments at $200,000.

The 2008 Farm Bill will end up costing around $300 billion, though the bulk of that will be for food and nutrition programs, which only indirectly benefit producers. (That's one reason the legislation is supported by urban as well as rural politicians.) Commodity and conservation payments constitute about a fifth of the total cost. Taxpayers typically spend around $20 billion a year directly subsidizing farmers.

However, these numbers do not capture the real price of turning farmers into government wards. My Cato Institute colleagues Sallie James and Dan Griswold figured the true "opportunity cost" of the money spent (what otherwise could have been done with the money) between 1986 and 2006 to be about $1.7 trillion.

There is very little to like about Uncle Sam's agricultural dole. The overwhelming conclusion of a just-released series of papers ("American Boondoggle: Fixing the 2012 Farm Bill") from the American Enterprise Institute is that Washington spends far too much doing too much in the farm economy.

For instance, Bruce A. Babcock of Iowa State University examined the direct payments provided farmers. About the only good thing he could say about them was that they don't change what crops get planted, an "insufficient justification for continuing to spend more than $5 billion a year on Farm Bill programs." Moreover, "Current farm programs are not an efficient use of taxpayer money because they duplicate price protection that the private sector can provide and they make payments when the farm sector is highly profitable."

Joseph V. Balagtas at Purdue University called the dairy program "folly." He was being polite. During the Reagan administration the government paid farmers to add cows for milking. Then it paid farmers to kill cows so they couldn't be milked. Along the way the government accumulated huge cheese surpluses that had to be given away, but only in a manner that did not reduce public demand for cheese.

The program has relied on a variety of measures, most notably marketing orders, deficiency payments, and price supports, to transfer money to farmers. However, wrote Balagtas, "Key elements of current dairy policy are outdated– too often ineffective in achieving higher, less variable farm income and costly to consumers and taxpayers." The latter alone pay almost a billion dollars annually for the privilege of hiking milk prices.

The sugar program directly empowers producers to plunder consumers. Import quotas limit sugar supplies, sharply hiking prices and pushing food-makers to use high-fructose corn syrup. Explained Michael K. Wohlgenant of North Carolina State University: "Since the mid-1970s, as a result of the sugar program, the price of sugar in the United States has been almost twice as high as the price of sugar on the world market in most years. The resulting estimated costs to U.S. consumers have averaged $2.4 billion per year, and with producers benefiting by about $1.4 billion per year."

The beneficiaries of this largesse are not family enterprises. Sen. Richard Lugar (R-Ind.), a farmer, observed: "the biggest winners are a handful of huge industrial operations that cover thousands of acres."

Most agricultural supports are justified as promoting a food-related end. Ethanol subsidies are supposed to promote energy and the environment, even though the fuel is wasteful and inefficient, containing just two-thirds of the energy content of gasoline. Ethanol benefits from a combination of regulatory mandates, tax preferences, construction subsidies, and trade restrictions. The annual cost of this subsidy mix is estimated at nearly $7 billion.

By shifting grain supplies to energy use — an incredible 40% of U.S. corn goes to ethanol — federal policy has raised food prices even at a time of good weather and bountiful harvests. Two University of Illinois economists warn that bad weather could double prices, with a potentially huge impact on food markets. Concluded Wall Street investor and investment banker Steven Rattner: "Washington has managed simultaneously to help drive up food prices and add tens of billions of dollars to the deficit, while arguably increasing energy use and harming the environment."

Even though the entire agricultural program is justified on the basis that farmers are vulnerable to the weather, Congress provides disaster payments through five different programs. The annual cost of the crop program alone has ended up more than $2 billion, well over twice the original estimate. Moreover, wrote Myles Watts and Anton Bekkerman at Montana State University (Bozeman), the program reduced "most farmers' crop insurance deductibles, increasing moral-hazard incentives. In response, farmers are more likely to adjust their production practices to incur indemnifiable losses more frequently and to increase the size of indemnity payments. The result is a waste of economic resources and increase in taxpayers' costs."

At the same time, Uncle Sam has bungled a separate crop insurance program. Explained Vincent H. Smith of Montana State University: "Since 2007, government subsidies for crop insurance have averaged about $5.6 billion a year, representing over one-third of total expenditures on income transfers and other government payments for programs targeted directly to farmers." Almost 60 percent of that money has gone to the insurance industry, making this system "one of the most expensive ways of transferring income to farmers." At the same time, the benefits encourage moral hazard and subsidize waste.

Subsidies and export promotion assistance by both the U.S. and Europe have hindered further trade liberalization through the World Trade Organization's Doha round. Moreover, the industrialized nations have undercut poor nations which desperately need to export to grow economically and which normally would have a comparative cost advantage in agriculture.

Daniel A. Sumner of the University of California (Davis) explained: "Farm-commodity and related subsidies reduce world prices, especially when prices are already low. Ethanol and related demand-side policies raise world prices, especially when prices are already high." Further, he added, federal regulations "have the potential to restrict gains from trade and add to trade barriers facing poor farmers."

There are more expensive government programs, but few bigger wastes than agricultural subsidies. Despite the cant offered by the farmers' lobby, these programs are designed to benefit agribusiness, not the public. When asked about the rural economy, one Iowa banker told the *Washington Post*: "things are good here."

But not good for the rest of us.

Even some farmers know the time has come for change. Craig Lang, president of the Iowa Farm Bureau, has proposed dropping direct payments: "Everyone has got to share in the pain, including farmers."

Some farm-state legislators also are getting the message. Rep. Tim Huelskamp (R-Kansas), a freshman legislator and fifth-generation corn farmer, said, "Everybody needs to share." He, like Lang, pointed to direct payments, given irrespective of economic circumstance.

House Budget Committee Chairman Paul Ryan, whose constituents collect bountiful farm payments, has proposed cutting $30 billion in agricultural spending over the next decade. Budget negotiations with Vice President Joe Biden have targeted $45 billion in reductions. Even Sen. Chuck Grassley (R-Iowa), another farmer, said, "There's no sacred cows anymore," though he cautioned against cutting agriculture "more than anything else."

In fact, farm subsidies should be cut more because they have less justification. Nevertheless, reform won't be easy. The GOP House recently rejected significant spending cuts, putting off tough budget decisions until next year, when the Farm Bill comes up for reauthorization. As Rep. Jack Kingston (R-Ga.), chairman of a subcommittee dealing with agriculture and rural development noted, "These programs are enormously popular."

Popular, but unjustified. Goodwin, Smith, and Sumner noted that farmers have no more need than other businessmen for subsidies: "some programs serve no purpose other than to give farmers and landowners handouts." All that matters is the agriculture lobby's political clout. Declared the three analysts: "The most important conclusion is that, overall, farm program subsidies could be eliminated, or at least reduced from current levels by about $8 to $10 billion, without affecting the U.S. food supply or the financial viability of U.S. agriculture."

No doubt, farmers have trouble imagining life without their special federal dole. However, two-thirds of American farm production, such as meat, fruit, and vegetables, is not subsidized. In 1984 New Zealand ended its subsidy programs and its farmers have prospered.

Moreover, American farmers are entrepreneurial and productive. Noted my Cato Institute colleague Chris Edwards: "many industries have been radically reformed in recent decades with positive results, including the airline, trucking, telecommunications, and energy industries. If farm subsidies were ended, and agriculture markets deregulated and open to entrepreneurs, farming would change," but "a stronger and more innovative industry would likely emerge."

The U.S faces a fiscal emergency. Government outlays must be cut. It is time to end farm welfare.