NATIONAL
REVIEW

Will Congress Pass a Bloated Farm Bill?

Chris Edwards

March 7, 2018

Federal spending is on a tear. The February budget deal hiked discretionary spending by $300 billion over two years, and rapid growth in entitlement programs continues unabated. The government will spend $1 trillion more next year than it collects in revenue, and rising amounts after that. The gusher of red ink is remarkable given that we are in the ninth year of economic expansion.

Republican control of the House, the Senate, and the White House is failing the test of fiscal sanity. Another trial for policymakers will be a new farm bill, which is on the agenda because some current farm programs expire in September. In his latest budget, President Trump proposed cuts to farm subsidies, but congressional agriculture committees may try to move ahead on legislation devoid of any reforms.

After the 1996 farm bill made reforms, every farm bill since — 2002, 2008, 2014 — went in the opposite direction and increased subsidies. The 2008 bill was so bad that even big-spending President George W. Bush vetoed it, although he was overridden by Congress.

The 2014 bill ended one major subsidy program but added two new ones — called ARC (Agriculture Risk Coverage) and PLC (Price Loss Coverage) — that have ended up costing billions of dollars more than promised. And the largest subsidy program — crop insurance — now costs $8 billion a year, or double the average cost during the Bush years. All in all, farm subsidies cost taxpayers more than $20 billion a year.

Each farm bill rejiggers the subsidy structure, but the programs have not become any more sensible. Farm subsidies are welfare for the well-to-do. The average income of farm

households in 2016 was $117,918, or 42 percent higher than the $83,143 average of all U.S. households.

Those figures are for all farmers, but federal subsidies are tilted toward the largest and wealthiest farmers — mainly growers of corn, soybeans, wheat, cotton, and rice. New estimates by scholars at the American Enterprise Institute find that 60 percent of subsidies from the three large crop programs (insurance, ARC, and PLC) go to the largest 10 percent of farms. Politicians claim to support small farmers, but the opposite is true.

Many billionaires have received farm subsidies. Looking from 1995 to 2014, the Environmental Working Group found that 50 people on the Forbes 400 list of the wealthiest Americans have received farm subsidies. But today the largest pot of subsidies is laundered through crop-insurance companies, a practice that hides the identities of the recipients. However, the Government Accountability Office found that at least four current recipients of these subsidies have a net worth of more than $1.5 billion.

Farm subsidies are unfair to the taxpayers who pay the bills, but they also harm the broader economy. By interfering with market mechanisms, subsidies can induce overproduction, distort crop choice, undermine cost control, and inflate land prices.

Farm subsidies are unfair to the taxpayers who pay the bills, but they also harm the broader economy. By interfering with market mechanisms, subsidies can induce overproduction, distort crop choice, undermine cost control, and inflate land prices.

To an extent, federal subsidies are capitalized in higher values for farmland, which in turn raises prices for renting farmland. So the ultimate beneficiaries of subsidies are landowners as much as farmers, who are often different people because half of all U.S. cropland is rented.

Farm subsidies harm the environment. They draw marginal lands into production, so areas that might have been used for forests, grasslands, and wetlands are used instead for crops. Since marginal lands tend to have poorer soils or climates, they may require more intense use of fertilizers and pesticides to be productive.

The upshot is that fiscal conservatives, liberals concerned about income inequality, and environmentalists should all line up against another big farm bill. Politically, President Trump does not want to lose support in the farm states, so it is not surprising that his budget promised to "maintain a strong safety-net for farmers," even as it proposed cuts. But why can't farmers create their own safety nets?

Farming is risky because crop prices and yields fluctuate. But businesses in other industries face big risks as well. Think about the fast pace of change in technology industries, or the large price swings in the mining and energy industries. Businesses in those industries prosper or sink depending on their own skill, planning, and luck without a federal subsidy cushion.

Farmers know they face risks, so they should save when times are good to weather the tougher years when they come along. When corn prices are high, corn farmers should save their excess profits so that when prices fall they can tap their savings. Farmers can also borrow, buy market-

based insurance, and use financial tools to hedge their risks, such as futures contracts. The problem is that the gusher of farm subsidies has replaced, or crowded out, greater use of such market financial tools.

Diversification is another strategy to reduce risks. Farmers can diversify their crop plantings to reduce risks from fluctuating yields and price changes, and they can diversify their planting locations to reduce risks from adverse weather.

Farm households can, and do, diversify their sources of income to include both farm and off-farm revenues. Department of Agriculture data show that three-quarters of farm-household income today comes from off-farm sources. That statistic has been rising over the years, which has promoted greater financial stability. Even though crop prices have been down in recent years, farms continue to generally have low levels of debt and lower bankruptcy rates than other industries.

Farmers do not need federal welfare, and the Trump reforms would cut some of the waste, as would reforms proposed by AEI, Cato, and the Heritage Foundation. Republicans must decide whether to pass another bloated farm bill or stand up to the farm lobbies and extract needed cuts.

***CHRIS EDWARDS** — Chris Edwards is the editor of www.DownsizingGovernment.org at the Cato Institute.*