The farm bill offers an opportunity to reform costly subsidies

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Did the debt-ceiling deal passed in May reflect a new congressional focus on spending restraint? Or was it a fluke win by House conservatives that will unravel as Congress addresses spending this fall?

One test will be the upcoming farm bill, which will reauthorize both farm subsidies and food stamps. Without reforms, the bill will cost $1.5 trillion or more over the coming decade. Expensive farm bills usually pass because of a giant logroll—rural members favor farm programs and urban members favor the food stamp program, also called the Supplemental Nutrition Assistance Program (SNAP).

But this time may be different. Republicans beefed up SNAP's work requirements in the debt-ceiling deal, and the program remains a target for reform because it is a budget buster. SNAP has doubled in cost since 2019 to more than $120 billion a year.

One reform idea—championed by Sen. Marco Rubio (R-Fla.)—is to cut junk food from SNAP, which accounts for about one-quarter of the program's cost. Such a reform could garner support from both fiscal conservatives and health advocates. Subsidizing junk food makes no sense because obesity is a growing problem for the poor.

Cuts to low-income welfare—SNAP—should be combined in the farm bill with cuts to high-income welfare—farm subsidies. The farm lobby is powerful, but cuts are possible. One reason is that only about one-third of the nation's 2 million farms receive regular subsidies, and the bulk of the aid goes to a small group of large farms. One study found that 60 percent of subsidies from the three main crop programs go to the largest 10 percent of farms.

An obvious reform would be to end subsidies for these top farms, as that would affect few farmers but save taxpayers a lot of money. Today, even billionaires receive farm subsidies, which likely doesn't make sense to either Democratic progressives or Republican populists. To its credit, the Trump administration proposed capping eligibility for crop subsidies to households with incomes less than $500,000, but a much lower limit would be better.

All in all, there are about 150 overlapping federal programs for farmers and agriculture that cost more than $30 billion a year. The programs protect farmers from fluctuations in prices and revenues, and they subsidize insurance, land improvements, loans, marketing, research, and export sales.

An overhaul of these programs is long overdue because farmers are not struggling as they were in the 1930s when the farm welfare system was created. Indeed, far from it—the average income of all farm households in 2021 was $135,281, which was 32 percent higher than the $102,316 average of all U.S. households.

It is true that farming is a risky business, but the risks don't seem to be any greater than in many other industries. The annual bankruptcy rate in farming, for example, has been about two per 10,000 for farm businesses in recent years compared to four or more for all U.S. businesses. If you live in a city, you notice the large turnover in retailers and restaurants in your neighborhood as tastes change and competition is fierce.

Farm businesses can and should rely on returns in the marketplace like other businesses. They can use financial tools, such as forward contracts, to manage price risks. They can build up their savings to weather downturns. They can diversify crops to reduce risks from fluctuating yields, and they can diversify planting locations to reduce risks from adverse weather.

Republicans often say that welfare, such as food stamps, should be only temporary, and that people should strive to stand on their own two feet. The same should be true for farmers. If subsidies were ended, farmers would need to adjust, but over time they would prosper, just as low-income individuals adjusted after welfare reforms in the 1990s.

New Zealand has shown that farmers can prosper without subsidies. That country ended its farm supports in the 1980s, and farmers adjusted by cutting costs, diversifying land use, seeking nonfarm income, and developing new markets. Over time, farm productivity and incomes rose.

The government of New Zealand now boasts that agriculture "is a highly productive sector, with minimal government intervention" and "is run as any other business." Agriculture is 5 percent of the New Zealand economy but just 1 percent of the U.S. economy, so if the kiwis can farm without subsidies, then so can we.

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