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Richer Farmers, Bigger Subsidies

By: James B. Stewart – July 19, 2013

It's hard to imagine a more widely reviled piece of legislation than the nearly \$1 trillion farm bill. Its widely ridiculed handouts to wealthy farmers and perverse incentives have long united liberals concerned about the environment, conservatives upset about the deficit and market-distorting subsidies, and just about everyone concerned about basic fairness.

Just about everyone, that is, except the powerful farm lobby and its allies in Congress, which every five years or so since the Depression has managed to fight off any meaningful reforms and actually increase farm subsidies.

And now they're doing it again.

Last week House Republicans stripped the farm bill of its food stamp provisions, citing runaway costs and rampant waste and fraud in the \$80 billion federal program. Fueling conservative outrage in Congress and the news media was a man who continued to collect food stamps after winning \$2 million in the Michigan lottery two years ago.

But the bitter and much publicized debate leading up to the party-line vote tended to obscure what happened to the rest of the bill in the House: many of the same legislators up in arms about government spending and welfare abuse nonetheless voted for an increase in federal subsidies to wealthy farm interests.

"What's remarkable and extraordinary about the farm bill is that, at a time of record crop prices and federal deficits, the House overwhelmingly passed a bill to increase subsidies," Scott Faber, vice president for governmental affairs at the Environmental Working Group, told me this week. "Only an evil genius could have dreamed this up."

The debate over food stamps provided a smoke screen for the agriculture subsidies, he said. "Unless you read the fine print in the agricultural press, you wouldn't have noticed."

The Environmental Working Group has long campaigned for changes to farm subsidies, citing among other concerns the negative impact that farm subsidies have on the environment.

"It's hard to understand how anyone in the House who calls himself a conservative could support this, but many did," said Chris Chocola, president of the free-market-oriented Club for Growth, which opposed the bill and lobbied against it.

Mr. Chocola is a former congressman from Indiana's Second District and commutes to Washington from his 40-acre farm near Elkhart. He said he's spent most of his life in agriculture.

“With the federal debt and deficit we have, to be subsidizing millionaire farmers makes absolutely no sense,” he said.

Many farm commodity prices, farm incomes and farmland values are at or near record levels, notwithstanding a severe drought in some parts of the Great Plains.

Earlier this year, the Agriculture Department projected that farm income in 2013 would be \$128.2 billion, the highest since 1973, fueled by “record crop production levels” and “high prices for many crops.” Moreover, surging prices of farmland — 2013 was the third year of double-digit increases, according to the Federal Reserve Bank of Kansas City — have greatly improved farm balance sheets, the department said, and raised the net worth of many farmers.

Despite flush times in the farm belt, the bill the House passed last week provides what the Environmental Working Group calls the most generous farm subsidies in history. It increased crop insurance subsidies and raised price targets for a wide variety of crops, locking in price guarantees at their recent near-record levels.

Under previous incarnations of the farm bill, such subsidies expired every five years unless Congress acted to extend them. It always did, but at least there was an opportunity for periodic changes reform. Under the new bill the subsidies are permanent.

“It’s frightening,” Mr. Chocla said. “They’re locking in historically high commodity prices at taxpayer expense. And maybe the worst is that this is now permanent.”

The Senate version of the farm bill, although it retains financing for food stamps, contains many of the same generous farm subsidies.

“Right now, the federal government favors the big guy over the little guy,” Congressman Paul Ryan, Republican of Wisconsin, who is the chairman of the House budget committee and a former Republican candidate for vice president, told me this week. “We subsidize large agribusiness and the wealthy at the expense of the family farmer and the taxpayer. It’s an egregious example of cronyism. Both parties are to blame, but I’m hopeful both sides can come together to set this right.”

The new House bill does contain some purported reforms. It slashes spending for conservation and nutrition, taking aim at favored liberal causes. And, with the exception of cotton farmers — “Who always get the best deal,” Mr. Faber said — it ends so-called direct payments to farmers who don’t grow anything.

Direct payments are the \$4 billion to \$5 billion given each year to owners of farmland that had traditionally grown various crops, including corn, wheat, soybeans, cotton and rice. These resulted in widely criticized payments to wealthy absentee “farmers” in places like Manhattan — including over \$340,000 to a Rockefeller scion, Mark F. Rockefeller, The New York Post reported earlier this year — who owned land that grew nothing. Even the farm lobby backed down on that.

Yet most of the estimated \$50 billion that might have been saved on direct payments over 10 years — and perhaps far more, depending on commodity prices — was plowed back into other subsidy programs. As the Cato Institute’s Sallie James put it, what the proposed bills “offer with one hand, they take with the other” for programs that “are even more likely to distort markets.”

These include increased crop insurance and increased target prices for crops that guarantee farm incomes. According to the Environmental Working Group, crop insurance subsidies already cost taxpayers \$9 billion a year, and flow overwhelmingly to the wealthiest farmers and agribusinesses. While the wealthiest farmers collect over \$1 million a year each in insurance subsidies, and 10,000 get over \$100,000, the lowest 80 percent of policy holders collect on average just \$5,000 each, according to the group.

Under so-called shallow loss provisions of both the House and Senate versions of the farm bill, the government makes direct payments to farmers to guarantee they receive 88 percent (in the Senate version) or 85 percent (in the House version) of the “target” price of various crops.

By raising target prices, the bills vastly increase the likelihood of huge payments should prices decline from their current near-record levels. The American Enterprise Institute estimated that the program could cost as much as \$18 billion annually based on historical average prices for crops covered by the bill.

These payments, too, go overwhelmingly to the largest and wealthiest farmers.

“The more you produce, the bigger the subsidy and the more you get,” Mr. Faber said. “This really favors big agribusiness, since they produce and sell the most crops. “

Mr. Chocola of the Club for Growth agreed.

“You talk to young farmers, and they don’t want any of this,” Mr. Chocola said. “It’s not helping small farmers. We really need a generational change in thinking on farm subsidies.”

Is there any hope for reform? Congress still has to reconcile the House and Senate versions, but most of the attention is again expected to be on the food stamp program, and not the generous agriculture subsidies. Senators Tom Coburn, Republican of Oklahoma, and Dick Durbin, Democrat of Illinois, have proposed reducing crop insurance subsidies by 15 percent for farmers earning more than \$750,000 a year. Capping the subsidies would save taxpayers an estimated \$1 billion a year, the senators said.

In the House, Mr. Ryan got his knuckles rapped by Speaker John Boehner after he initially voted against the House bill, in part because it had no income cap for subsidy recipients. Although he supported this week’s version, he said he wouldn’t vote for a final bill that doesn’t set an income limit.

“I’m hopeful that a conference agreement will limit crop-insurance subsidies to small farmers,” he said in a statement last week.

Mr. Chocola doubts the final bill will be much better than either the Senate or House versions. Democrats are likely to look the other way to restore food stamps, and many free-market Republicans have already caved. “It’s just the way Washington has always worked and we can’t afford it anymore,” he said.

“The bigger picture is, how can developing countries compete with our massive subsidies?” he said. “You can talk about improving the plight of the poor in third world, but there’s no way they can compete with our farmers. There’s nothing free market about

it, there's no national security aspect, and we're not going to run out of food. There's no excuse."