2019

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# Summer Policy Boot Camp

## Director's Award Winners

## Bad Seeds: A Case against Federal Farm Subsidies

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At the founding of the United States, Thomas Jefferson is said to have imagined a nation of gentleman farmers tending to the land of the nation through their work and civic involvement. Writing to George Washington, he reflected, "Agriculture . . . is our wisest pursuit, because it will in the end contribute most to real wealth, good morals & happiness."[1] But the system of corporate welfare that has grown a part of American agriculture is much closer to "government . . . wasting the labours of the people, under the pretence of taking care of them"[2] than any sort of Jeffersonian democracy.

Farm subsidies have ballooned, becoming a major government expense. In 2018 alone, farmers received $18 billion in direct farm subsidies.[3] To justify this sticker price, the American public would need a cornucopia of public benefits, but the fruits of this labor appear lacking. Current farm subsidy programs increase the price consumers pay for items on the shelf; distort market incentives for farmers, leading to inefficient production; concentrate wealth through the means of government redistribution; pose a worsened risk to environmental impact; aggregate international trade relations; and are subject to bureaucratic waste, fraud, and abuse.[4]

There is a bushel of reasons to rethink farm subsidies, but the political incentives that have led to the currently bloated system are the very same that will make reform difficult—subsidy benefits are concentrated whereas costs are dispersed. Billions of dollars distributed evenly to farmers, composing only 1.3 percent of the American workforce,[5] would be motivation enough for the group to focus on lobbying over tending fields. Yet, much like the corn syrup being produced on the taxpayers' dime, subsidies are highly concentrated. The top 20 percent of agricultural subsidy recipients receive over 90 percent of all subsidies; the top 10 percent still maintain over three-fourths of all subsidies; and the top 1 percent alone rake in over a quarter of subsidies by themselves.[6] With more than six thousand entities receiving upwards of $1 million in farm subsidies, there is plenty of reason for interest groups to keep farm bills alive.[7] Meanwhile, the costs for these programs are widely dispersed across taxpayers, making it a relatively minor political issue for most voters. As American Farm Bureau chief economist Bob Young points out, detailing costs of the programs (using the extremely conservative estimate of $7 billion per year in farm subsidies), "That works out to $23 per capita on an annual basis, six cents per day, or two cents per meal."[8] While not enough of a burden to fire up the electorate, hiding the costs of subsidies across the populace does not change the fact the it costs quite a bit more than peanuts.

Given their current state, agricultural subsidies need much more than some light pruning. Crop insurance, Agriculture Risk Coverage (ARC), and Price Loss Coverage (PLC) all should be cut to allow a free agricultural market to once again grow back into place. Smaller programs should also be evaluated to determine what tangible public benefit they offer, and likely trimmed or cut as well. Putting an end to unneeded distortion in the agricultural market will help honest farmers, consumers, and taxpayers alike.

**Data Analysis**

Proponents of agricultural subsidies argue that the programs are designed to stabilize commodity markets, ensure security in food production, and aid impoverished farmers and communities, among a variety of other benefits. However, multiple studies have failed to find any tangible benefits from these programs.[9] In fact, a study by the Kansas City Federal Reserve Bank found that counties receiving the highest per-capita payment had population and employment growth both below average.[10] While these subsidy programs are massive, the majority of American agriculture functions perfectly well already, with over two-thirds of American farmers producing without government support.[11]

What these subsidies have been proven to do is distort market incentives. According to the US Department of Agriculture (USDA), sales for the most subsidized crops grew only 14 percent from 1980 to 2005, whereas nonsupported foodstuff like fruits, vegetables, and nuts increased by over 186 percent during that same period.[12] Additionally, since most agricultural subsides are production based, subsidies create an undue incentive for negative environmental impact by promoting overuse of fertilizers and pesticides.[13] While the subsidies incentivize overutilization of some lands, in 2017 alone $1.8 billion was paid out so that farmers would not use their land at all.[14]

These are not funds going to help impoverished farmers that barely get by. In 2016 the median income of all farm households was 29 percent higher than the national average, and mean income was 42 percent higher.[15] Among farm households, subsidies further advantage those who are already flourishing in the private sector. USDA data highlights that, of farms with revenues below $100,000, only one-third receive subsidies, whereas three-fourths of those above that figure do.[16] With over $626 million being paid out in farm subsidies to urban areas between 2015 to 2017[17] and over 10 percent of those on the Forbes 400 list of wealthiest Americans receiving subsidies[18] it's a stretch to claim these programs are helping struggling farmers.

By all accounts, the agricultural industry is doing very well. Between 2004 to 2006, the collective net worth of American farmers grew by an average $90 billion each year, making the debt-to asset ratio for farmers the lowest it's been in nearly half a century.[19] Farms are not just doing well by their own standards but also as compared with other sectors in the economy. In 2017 the bankruptcy rate was only 2.4 per 10,000 farms versus the average bankruptcy rate of 8 per 10,000 for all businesses.[20]

It's worth noting too that these subsidies bring a host of other problems with them. There are serious conflicts of interest in restricting these programs, with thirty-two current members of Congress receiving farm subsidies.[21] The bureaucracy that administers the programs is rampant with waste, including embarrassing mistakes like admitting to $3.7 billion in "improper payments" in 2004 and $1.1 billion paid to deceased farmers in 2011.[22] This is all while protectionist agricultural tariffs and quotas cost Americans about $10 billion more at the store each year,[23] and while studies by the Congressional Budget Office find that removing these farm subsidies and trade barriers would bolster the economy.[24]

A departure from the status quo could cause concern, especially for something as vital as the food supply, but the United States would not be the first nation to end these subsidies. In the 1980s, New Zealand cut its agricultural subsidies to the bone so that today Kiwi farmers only receive 3 percent of their income from the government as compared to 16 percent in the United States.[25] Following the cuts, not only was the agricultural industry sustained but New Zealand saw productivity, earnings, and output rise.[26] By Kiwi farmers' own account, according to the Federated Farmers of New Zealand, that nation's example of nixing these programs "thoroughly debunked the myth that the farming sector cannot prosper without government subsidies."[27]

**Policy Recommendation**

The simple answer to the complex web of problems federal farm subsidies create is to cut the programs. The three largest farm subsidy programs (crop insurance, ARC, PLC) are the natural place to start given that they make up of a vast segment of total expenditures.[28] Those three programs are designed to mitigate risk for farmers, but instead they distort incentives of crop choice and land management, with over 70 percent going to only to three crops of corn, soybeans, and wheat, while running up enormous expenses for taxpayers. [29]

Various conservation programs, such as those that pay farmers not to produce, should be cut given they spur nonoptimal usage of land. Instead, long-term production incentives will be able to drive proper land use. Other programs such as disaster aid and research and development spending should be further evaluated for their effective benefits. While these programs do not have the same market-distorting effects, if their public benefit is minor then they should likewise be cut.

Protectionist foodstuff tariffs should be reduced to encourage competition within the market and lower consumer prices. This would further allow for specialization of agricultural production and provide the stability to the food supply that many of these programs claim to seek.

**Methods for Evaluation**

Restoring proper markets to the agricultural industry is likely to have a variety of benefits for both farmers and consumers. While some of these benefits will be difficult to immediately quantify (such as proper R&D incentives, lessened strain on international trade agreements, and dietary changes as a result of removing price distortions) others will be more readily observable using government and market data. Four methods that can be used to evaluate the effectiveness of cutting farm subsidies are: the lessening of the tax burden, total agricultural production, consumer food prices, and farmer welfare.

Every dollar not spent on agricultural subsidies is a dollar less taken from the taxpayer. Therefore, the direct dollar amount cut from these subsidy programs can be counted as a positive benefit towards the policy. It is worth noting that lessening the tax burden frees up citizens to either further consume or save/invest in the economy which will have further benefits.

Agricultural production can be tracked in terms of GDP. While it is likely to observe some temporary fluctuations in production and between different products as subsidies and price controls are lifted, long-term aggregate production trends can be used to track the effectiveness of the policy. Additionally, the prices of foodstuffs can be tracked to evaluate consumer surplus. A GDP deflator approach for food-at-home purchases should be used to allow for consumer substitution as opposed to a more rigid CPI basket-of-goods approach that may over- or understate the impact of the subsidies.

Finally, the cut in subsidies is not designed to hinder farmers but to work to their long-term benefit. Average pretransfer income of farmers should be tracked to see how the removal of the subsidies effects their welfare. Given the concentration of the subsidies to major farming corporations and the distorting effect they have on the market, it is likely, with increased efficiency, that average farmers will see an increase in their income as well.

**Recommendation**

Modern agricultural subsidies in the United States were first introduced in the 1930s along with other New Deal programs.[30] Like many New Deal programs, this policy spurred poorly aligned incentives and has grown to become a massive but entrenched drag on the American taxpayer and private enterprise. The removal of these subsidy programs would make America one of the world's few developed nations that allow for the free market to flourish within agricultural production. This should allow for lower prices on shelves, more dynamic and fast-growing food production, and more prosperous farmers, all while reducing federal expenditures by billions annually. America's current cash crop is no longer tobacco or cotton but taxpayer subsidies. If these programs are cut, once again the nation's agricultural sector can get back to doing what it does best—growing.

[1] Thomas Jefferson, Letter to George Washington, Thomas Jefferson Foundation, August 14, 1787, http://tjrs.monticello.org/letter/98.

[2] Thomas Jefferson, Letter to Thomas Cooper, Thomas Jefferson Foundation, November 29, 1802, https://www.monticello.org/site/research-and-collections/wasting-labours-people-quotation.

[3] US Department of Agriculture, "The United States Farm Subsidy Information," Environmental Working Group, n.d., https://farm.ewg.org/region.php?fips=00000&progcode=total&yr=2018.

[4] Chris Edwards, "Agricultural Subsidies," *Downsizing the Federal Government*, April 16, 2018.

[5] Kimberly Amadeo, "Farm Subsidies with Pros, Cons, and Impact," *The Balance,* July 4, 2019.

[6] United States Department of Agriculture, "Commodity subsidies in the United States totaled $217.5 billion from 1995-2019," *Environmental Working Group*.

[7] Adam Andrzejewski, "Mapping The U.S. Farm Subsidy $1M Club," *Forbes,* August 18, 2018.

[8] Quoted in Daniel Griswold, "Should the United States Cut Its Farm Subsidies?" Cato Institute, April 27, 2007.

[9] Daniel A. Sumner, "Agricultural Subsidy Programs," The Library of Economics and Liberty, n.d., https://www.econlib.org/library/Enc/AgriculturalSubsidyPrograms.html.

[10] Griswold "Cut Farm Subsidies?"

[11] Griswold "Cut Farm Subsidies?"

[12] Griswold "Cut Farm Subsidies?"

[13] Griswold "Cut Farm Subsidies?"

[14] Andrzejewski, "Farm Subsidy $1M Club."

[15] Edwards, "Agricultural Subsidies."

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[17] Andrzejewski, "Farm Subsidy $1M Club."

[18] Amadeo, "Farm Subsidies."

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[22] Andrzejewski, "Farm Subsidy $1M Club."

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[25] Griswold, "Cut Farm Subsidies?"

[26] Edwards, "Agricultural Subsidies."

[27] Edwards, "Agricultural Subsidies."

[28] Edwards, "Agricultural Subsidies."

[29] Edwards, "Agricultural Subsidies."

30 Sumner, "Agricultural Subsidy Programs."