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Farm Subsidies: Myth and Reality

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Citizens Against Government Waste

Citizens Against Government Waste (CAGW) is a private, nonprofit, nonpartisan organization dedicated to educating the American public about waste, mismanagement, and inefficiency in the federal government.

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CAGW has more than 1.2 million members and supporters nationwide. Since 1986, CAGW and its members have helped save taxpayers more than $898 billion. CAGW publishes special reports, its official newspaper *Government WasteWatch*, and the monthly newsletter *Wastewatcher* to scrutinize government waste and educate citizens on what they can do to stop it. CAGW's publications and experts are featured regularly in television, radio, print, and Internet media.

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Introduction

Farm programs have been in existence for more than 70 years. From the Great Depression until the 1996 Farm Bill, the federal government tried to manage U.S. agriculture through a combination of subsidies, commodity supply and price controls, acreage allotments, production quotas, and restrictions on imports. The central planning was supposed to provide a safety net to prevent farm income from falling below "acceptable" levels. In practice, the U.S. Department of Agriculture (USDA) usually ended up telling farmers how much and what to produce in order to remain eligible for government income support.

This strategy never worked well. It effectively priced American farmers out of the export market and led to a significant loss of America's share of the expanding world market. The acreage reduction programs at home led to an increase in production abroad. The 1996 Farm Bill appeared to be the first breakthrough for moving away from a heavily regulated and subsidized farm industry.

The 1996 bill provided fundamental reform of the major farm commodity programs (wheat, feed grains, cotton, and rice) freeing American farmers to plant these crops for the world market rather than the government. In return, they were to receive fixed, declining "market transition payments" through 2002. Despite the fact that dairy and sugar programs were not reformed, the 1996 Farm Bill would have provided the framework for weaning farmers from the public dole.

Unfortunately, weak global agricultural commodity prices and depressed farm incomes in the late 1990s prompted a series of costly "disaster" bills leading up to the 2002 Farm Bill. That legislation represented a significant retreat from the 1996 reforms, locking in higher baselines for farm subsidies and introducing new programs, such as "countercyclical" payments.

Congress is poised to reauthorize farm legislation again this year. Before simply continuing with the archaic system of subsidies, price and supply controls, and import restrictions, now is the time to examine some of the myths surrounding agriculture subsidies. Despite the exaggerated claims that are used to perpetuate these outdated practices, the reality is that the current farm program structure helps the richest farmers get richer, but doesn't help small farmers stay on the land. It is also costly to taxpayers and raises prices to consumers. By concentrating wealth in the hands of the few, it undermines the economy of rural America. Finally, it interferes with international commerce (which impacts the entire U.S. economy) and hurts poor farmers in developing countries.

Myth: Farm subsidies are necessary to preserve the "small family farmer." Reality: Farm subsidies amount to little more than "welfare for the rich."

For the past 70 years, the primary justification used to defend farm subsidies has always been that they are necessary to preserve the "small family farm." The U.S. farm lobby does everything possible to perpetuate this myth and the idea that farm subsidies are also essential to assure an abundant food supply.

However, the truth is that farm subsidies benefit the largest, wealthiest agriculture producers, not the "small family farmer." The subsidy payments really amount to corporate welfare for the rich. The food supply argument is fictitious, since there is either surplus production of every agricultural commodity or supply control to prevent a surplus.

First, 60 percent of farmers don't even produce crops that are eligible for subsidies. More than 90 percent of farmers either receive no subsidies or receive less than $2,000 annually.

Large farm operations, with ten times the wealth of the average American family and annual incomes averaging more than $230,000 — four times the income of the average American household — receive most of the subsidy payments. In 1995, the top 10 percent of farm subsidy recipients received 55 percent of total payments. By 2003, the top 10 percent of farm subsidy recipients collected 72 percent of total subsidies and the top 5 percent collected 55 percent of payments. The largest 10 percent of grain farmers, with an average net worth of $2.4 million, receive 50 percent of all grain subsidies. And, 60 percent of sugar program benefits go to the wealthiest one percent of sugar farmers.

Furthermore, 95 percent of landlords don't even farm, but they own 60 percent of U.S. farmland eligible for subsidies. These absentee landlords collect subsidy checks directly from the government, while also receiving much of their tenants' subsidy payments through higher rental rates. A November 2005 University of Maryland study found that landlords captured up to 25 percent of the total amount of subsidies.[1]

Second, despite the record-setting amounts of money that have been spent in the last decade on farm subsidies, small farms that depend on farming for their livelihood continue to disappear from the American landscape. According to the USDA's 2002 Census of Agriculture, there were almost 100,000 fewer farms than in 1997 and average farm size increased from 431 to 441 acres.[2] In comparison, when farm programs began more than 70 years ago, there were almost 7 million farms and the average size was less than 200 acres.

Between 1997 and 2002, the only farm size categories that increased in numbers were those between 10 and 49 acres, which are primarily hobby farms that rely on off-farm income to make a living, and those with more than 2,000 acres. The census data also shows that there were increases in the number of farms that had sales of less than $2,500 annually and those with sales of more than $500,000 annually, but all other categories decreased in numbers.[3]

Rather than keep smaller farmers on the land, farm subsidy programs have actually contributed to farm consolidation and higher land prices, which has made it even more difficult for younger farmers to enter farming. The average age of farmers continues to steadily increase, going from 50 in 1978 to 55 in 2002.[4]

Finally, many Americans have a false picture of rural America and American agriculture, gladly perpetuated by the farm lobby, with the help of the federal government. For instance, the government's count of the number of farmers is based on the outdated definition of a "farm" as any unit selling more than $1,000 worth of agricultural goods during the year. However, most of the supposed 2.1 million farms earn the majority of their income from non-farm sources.

Sixty percent of the 2.1 million farms have sales of less than $10,000 annually and another 10 percent have sales between $10,000 and $25,000, which means that at least 70 percent of so-called farms are run either by hobby farmers or derive most of their livelihood from off-farm income. Almost 10 percent of farms have sales between $25,000 and $50,000, which means that they should probably also be considered to be hobby farmers.[5]

The bottom line is that there are no more than 450,000 farms that rely on farm sales to make a living. Of these, most farm payments end up going to an elite subgroup of farms numbering less than 100,000.

To its credit, the Bush Administration has proposed a farm bill that attempts to tighten payment limitations, particularly by eliminating payments to those individuals with an adjusted gross income (AGI) of $200,000 or more, and by eliminating the three-entity rule that allows some subsidy recipients to triple-dip. However, it would have been even better to propose reducing that threshold to $100,000 – still 50 percent higher than the average American household. The administration's proposal also keeps the overall payment limitation at the present excessive level of $360,000 rather than reducing it to some more reasonable level, such as $50,000 or $100,000.

Myth: Farm subsidies are really a good deal for the American taxpayer and consumer. Reality: Farm subsidies deliver a double whammy for taxpayers and consumers.

Although farm subsidies have done nothing to preserve the mythical "small family farmer," they have cost taxpayers a great amount of money, particularly in recent times. In some cases, taxpayers get hit twice, because the commodity subsidies and other farm programs, such as the dairy and sugar programs, also raise prices to consumers.

From 1995 to 2004, farm subsidies cost taxpayers $143 billion, averaging $14.3 billion annually. By comparison, between 1990 and 1994, the average was $9.6 billion annually. Between 2002 and 2006, the cost to taxpayers for subsidies and so-called disaster assistance rose to $100 billion, an average of $20 billion annually. In 2005, the federal government paid out approximately $25 billion to subsidize producers of a handful of farm commodities, a year in which U.S. cotton farmers alone received $4.2 billion.[6]

From 2003 through 2005, farm subsidies increased consumer costs by an average of $10.5 billion annually. In 2004, farm subsidy programs raised the cost of food to consumers by $16.2 billion, which is really nothing more than a consumer food tax.

By keeping the price of milk artificially high, federal milk marketing orders impose a $1.5 billion annual "milk tax" on consumers, with the greatest impact on low-income families with young children. The U.S. sugar program costs consumers $1.9 billion annually in inflated prices for sugar and sugar-containing products.

Myth: Farm subsidies are an essential engine of economic development in rural areas. Reality: Farm subsidies actually undermine the rural economy.

Since farm subsidies redistribute so much money from taxpayers and consumers to farm payment recipients, it may seem counterintuitive, but farm subsidies are doing nothing to promote the rural economy. Farm programs funnel money to those farmers that produce certain commodities, which provides an incentive for these farmers to increase production in order to receive more subsidies. One of the best ways to accomplish this, of course, is to expand the farming operation.

The drive to get bigger leads to more farm consolidation. While productivity growth contributes to farm consolidations, farm subsidies, which distribute benefits in proportion to production or sales, play a very important role. As the Chicago Council on Global Affairs noted in its report, "Modernizing America's Food and Farm Policy: Vision for a New Direction," "Larger farm operations have often invested money received from government program payments in the purchase of even more farmland as well as newer, larger, higher-tech machinery with which to cultivate the larger acreage."[7]

In those parts of the country that are most dependent on farm subsidies, farm consolidation is moving the fastest. Because farm program benefits are distributed in proportion to the amount of sales, it makes it easier for larger farmers to acquire their smaller neighbors.

Farm consolidation leads to fewer jobs in all agriculture-related businesses in rural areas, including hardware stores, implement and equipment dealers, and banks. Farm consolidation also impacts other businesses such as grocery stores, and even affects a community's ability to support schools, hospitals, and churches. The net result is that subsidies for growing certain commodities accelerates the consolidation of farms and contributes to the loss of jobs and population in rural areas.

In fact, according to a March 2005 study by the Center for the Study of Rural America at the Federal Reserve Bank of Kansas City, "farm payments are not providing a strong boost to the rural economy in those counties that most depend on them. Job gains are weak and population growth is actually negative in most of the counties where farm payments are the biggest share of income."[8]

The study looked at employment growth from 1992 through 2002 in the top 25 percent of U.S. counties dependent on farm payments. Of the 783 counties where farm payments have the biggest impact on the rural economy, 483 had job gains below the 19 percent national average over 10 years, 167 had job losses and only 133 had above average growth in employment. The study concluded that "job growth is decidedly weak in the counties most dependent on farm payments."[9]

The study also discovered that "farm payments have an even weaker impact on population growth," with 461 counties (59 percent) losing population. While 234 counties had modest growth, only 88 had population gains exceeding the 10 percent national average over 10 years.

Finally, the study concluded that "farm payments are not yielding robust economic and population gains in the counties where they should have the greatest impact. If anything, the payments appear to be linked with subpar economic and population growth."[10]

Myth: Farm subsidies are necessary in order for U.S. farmers to compete in the international marketplace.
Reality: Farm subsidies undermine international trade and hurt the world's poorest farmers.

U.S. farm programs are an obstacle to expanding international trade opportunities, not just for the agriculture sector, but for the rest of the economy as well. These programs also hurt poor farmers in developing countries.

Farm subsidies distort markets by encouraging farmers to grow surplus crops that undercut subsistence farmers in developing nations that cannot afford to subsidize their own farmers, which forces those countries to resort to retaliatory tariffs to protect their own producers.

According to USDA, elimination of trade-distorting subsidies in exchange for significant tariff reductions could raise U.S. farm prices by 12 percent, increasing annual farm earnings by as much as $13.3 billion. In particular, livestock and specialty crop producers could enjoy significant increases in prices and exports if trade barriers were reduced.[11]

However, thanks to the refusal of federal policy makers to buck the subsidy lobby, the failure of the U.S. government to make further concessions on farm subsidies has been the principal roadblock to progress on a five-year-long effort to forge a global trade agreement. Completion of the Doha Round of trade talks would not only benefit developing country farmers, but also open export markets for U.S. farmers and much of the rest of the nation's economy as well.

The suspension of the Doha Round threatens the expansion of trade and economic development in emerging markets, which is vital for the continued growth of U.S. agriculture. But the importance of trade expansion extends far beyond agriculture. It could be a catalyst for economic growth in the developing world, which could help to lift millions of people out of poverty and create new markets for U.S. products, including agricultural goods.

Conclusion

Despite the myths that are used to perpetuate farm subsidies, the reality is that only a handful of wealthy farmers benefit from a continuation of the present system. Farm subsidies don't help small farmers; they help the richest farmers get richer. They are costly to both taxpayers and consumers, but don't help the rural economy. Farm programs also undermine international trade, hurting all sectors of the U.S. economy, in addition to further impoverishing farmers in developing countries.

When members of Congress consider farm legislation this year, they need to face the reality of what farm subsidies do rather than hold to the myths that have been used to justify their continuation.

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[1] Barrett E. Kirwan, "The Incidence of U.S. Agricultural Subsidies on Farmland Rental Rates," The University of Maryland, November, 2005, p. 4.
[2] U.S. Department of Agriculture, National Agricultural Statistics Service, "2002 Census of Agriculture," Washington, D.C., p. 1.
[3] Ibid., p. 3.
[4] Ibid., p. 4.
[5] Ibid., p. 3.
[6] U.S. Department of Agriculture, Economic Research Service, "USDA Agricultural Outlook," February, 2006.
[7] The Chicago Council on Global Affairs, Report of the Agriculture Task Force, "Modernizing America's Food and Farm Policy: Vision for a New Direction," 2006, p. 18.
[8] Federal Reserve Bank of Kansas City, Center for the Study of Rural America, "Do Farm Payments Produce Rural Economic Growth?" March 2005, p. 3.
[9] Ibid.
[10] Ibid.
[11] U.S. Department of Agriculture, "USDA Foreign Agriculture Service Fact Sheet: The Importance of Agricultural Trade," February, 2006, p. 2.