Making the Grade:
CAGW's Report Card on
Farm Bill "Reform" Proposals

John Frydenlund,
Food and Agriculture Policy Director

INTRODUCTION

Although school's out for summer, members of Congress are still busy writing the 2007 Farm Bill, and Citizens Against Government Waste (CAGW) is ready to grade the papers. Farm bill authorization expires on September 30, 2007. House Agriculture Committee Chairman Collin Peterson (D-Minn.) plans to consider the farm bill in the full committee in late June and bring it to the floor in the middle of July. The Senate Agriculture Committee is holding hearings and committee mark-up will follow completion of the bill in the House.

Farm programs have been around for 70 years. The last authorization came in the 2002 Farm Bill, which was little more than a rubber stamp for most archaic agriculture subsidy programs. Unfortunately for taxpayers, that legislation locked in higher baselines for farm subsidies and introduced new programs, such as "countercyclical" payments.

This review addresses the most significant part of the 2007 Farm Bill, Title I, which covers crop subsidies. The other titles, such as credit, research, nutrition, and conservation, are not graded. Additional proposals may be forthcoming as consideration of the 2007 Farm Bill progresses, and those may deserve to be assessed as well.

CAGW ranks the following policy proposals: current law, the Bush Administration proposal; the Citigroup "buyout" plan; the Cato Institute "buyout" proposal, the American Farm Bureau Federation and National Corn Growers Association "revenue insurance" plans; and risk management accounts, such as those proposed in S. 1422, The Food and Agriculture Risk Management for the 21st Century Act (FARM-21), introduced by Sen. Richard Lugar (R-Ind.). Similar legislation, H.R. 2720, has been introduced in the House by Reps. Ron Kind (D-Wis.), Jeff Flake (R-Ariz.), Joseph Crowley (D-N.Y.), and David Reichert (R-Wash.).

The five proposals, plus current law, are evaluated for the following categories:

1) Fairness in targeting benefits to the small farmers that actually need help rather than simply lavishing exorbitant subsidies on the wealthiest farmers;
2) Providing relief to taxpayers and consumers;
3) Promoting rural development;
4) Promoting international trade; and,
5) Providing benefits to farmers in developing nations.

Explanation of Grading Categories

FAIRNESS

The primary justification for farm programs has always been that they are necessary to preserve the "small family farmer." However, farm subsidies actually benefit the largest, wealthiest agriculture producers, not the "small family farmer." Sixty percent of farmers don't even produce crops eligible for subsidies and 90 percent of farmers either receive no subsidies or receive less than $2,000 annually. In 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.

Rather than keep smaller farmers on the land, farm subsidy programs have contributed to farm consolidation and higher land prices. If farm subsidies are to be continued, a fairer program would at least target the benefits to those most in need.

PROVIDING RELIEF TO TAXPAYERS AND CONSUMERS

Farm subsidies cost taxpayers a great amount of money, but in some cases, hit them again as consumers, because the commodity subsidies, such as the dairy and sugar programs, in particular, raise prices to consumers. From 1995 to 2004, farm subsidies averaged $14.3 billion annually. Between 1990 and 1994, the average was $9.6 billion, a figure that rose to $20 billion for 2002 through 2006.

In 2004, farm subsidy programs raised the cost of food to consumers by $16.2 billion, which is nothing more than a consumer food tax. Federal milk marketing orders impose a $1.5 billion annual "milk tax" on consumers and the sugar program costs consumers $1.9 billion annually in inflated prices for sugar or products containing sugar.

Taxpayers and consumers deserve some relief from these costly programs.

PROMOTING RURAL DEVELOPMENT

Because farm subsidies funnel money to those farmers that produce certain commodities, this provides incentive to increase production to receive more subsidies. Since one of the best ways to do this is to expand the farming operation, this leads to more farm consolidation, resulting in fewer jobs in all agriculture-related businesses in rural areas and loss of population.

PROMOTING RURAL DEVELOPMENT *(cont.)*

In fact, from 1992 through 2002, of the 783 counties where farm payments have the biggest impact, 483 had job gains below the 19 percent national average, 167 had job losses, and only 133 had above average growth in employment, but most of these were counties close to urban areas where growth was unrelated to agriculture. Of the 783 counties, 461 lost population, 234 had modest growth, and only 88 had population gains exceeding the 10 percent gain nationally, with these again being counties impacted more by urban sprawl.

A better farm program would at least target subsidies so as not to hinder rural development.

PROMOTING INTERNATIONAL TRADE

Farm subsidy programs are an obstacle to expanding international trade opportunities, not just for the agriculture sector, but for the rest of the economy as well. Elimination of trade-distorting subsidies in exchange for significant tariff reductions could raise U.S. farm prices by 12 percent and increase annual farm earnings by as much as $13.3 billion annually. The failure of the U.S. government to make further concessions in farm subsidies has been one of the principal roadblocks to progress on a five-year-long effort to forge a global trade agreement.

The best way to promote international trade is to reform farm subsidy programs.

PROVIDING BENEFITS TO FARMERS IN DEVELOPING NATIONS

Farm subsidies encourage farmers to grow surplus crops that undercut subsistence farmers in developing nations that cannot afford to subsidize their own farmers. Completion of the Doha Round of trade talks, held up in large part by the farm lobby's refusal to give up the present subsidy system, would benefit farmers in developing nations, but it would also expand trade and development in emerging markets, which is vital for the continued growth of U.S. agriculture. It could be a catalyst for economic growth in the developing world, which could lift millions of people out of poverty.

A better farm policy would recognize the importance of reforming subsidy programs in a way that will provide benefits to farmers in developing nations.

Current Law

Current farm law, established by the 2002 Farm Bill, represented a significant step backward from many of the reforms encompassed in the 1996 Farm Bill, which in itself failed to provide the kind of reforms and savings that were anticipated. Current law epitomizes the archaic agriculture policies that have been in place for the last 70 years, and certainly does not qualify as "reform." Since the preponderance of members of both the House and Senate Agriculture Committees are defenders of status quo agriculture policy, it is likely that something close, if not identical to, current law, will be reported by both committees.

Agriculture subsidies go disproportionately to the wealthiest farmers, with virtually no benefit to those farmers most in need of help. They have also proven to be very costly to both taxpayers and consumers and have undermined the rural economy, stood in the way of expanding international trade, and hurt the world's poorest farmers.[1]

Current Law's Report Card	
Category	***Grade***
Fairness	F
Relief to Taxpayers and Consumers	F
Rural Development	F
International Trade	F
Benefits to Developing Nation's Farmers	F
Final Grade	F

F

After 70 years of failure, isn't it time to give it up?

[1] For more discussion on the impact of current law's farm subsidies, see CAGW's 2007 Farm Bill Issue Brief #1, ***Farm Subsidies: Myth and Reality,*** March 22, 2007, <http://www.cagw.org/site/DocServer/2007_Farm_Bill-_Issue_Brief_1.pdf?docID=2121> (accessed June 13, 2007).

Bush Administration Proposal

The Bush Administration, acknowledging that present agriculture policy is both inequitable and costly, included some reforms in its draft 2007 Farm Bill.[2] The bill would eliminate subsidy payments to individuals with an adjusted gross income of $200,000 or more and would eliminate the three-entity rule that allows some subsidy recipients to triple-dip. However, the administration proposal also left the $360,000 payment limitation in place.

The administration claimed that its proposal spends $10 billion less than what was spent over the last 5 years, but it actually would spend $5 billion more than would be spent with a simple extension of the 2002 farm bill, the most costly in history.

Unfortunately, rather than doing anything to reform the product-specific, trade-distorting income and support programs or the antiquated sugar and dairy programs, the administration proposal leaves the archaic farm program largely intact, with one slight improvement being its proposal to make countercyclical payments based on revenue rather than on historic production. This inadequate proposal has little or no impact in the categories representing "reform," as its report card reflects.

Administration Proposal's Report Card

Category	*Grade*
Fairness	C
Relief to Taxpayers and Consumers	D
Rural Development	D
International Trade	D
Benefits to Developing Nation's Farmers	D
Final Grade	**D**

D
Really, is this any way to build a legacy to be proud of?

[2] USDA, ***Legislative Language for the Administration's 2007 Farm Bill proposals,*** 5/31/2007, <http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1UH?navid=FARM_BILL_LEGISLAT&parentnav=FARM_BILL_FORUMS&navtype=RS> (accessed June 14, 2007).

Citigroup "Buyout"

Citigroup, a corporate and investment banking company, has proposed a "voluntary" buyout for direct and counter-cyclical payment recipients. Under this plan, farmers and landowners could sell their rights to these subsidies. Citigroup estimates that if 50 percent of recipients accept the "buyout," the 10-year budget savings could be about $18.9 billion.[3]

The "buyouts" would be based on current subsidy recipients, so most of the benefits would still go to the wealthiest farmers. It is unrealistic to expect that anything close to 50 percent of recipients would accept the "buyout" because there is little reason to believe that buyouts would interest farmers unless they expected the subsidy programs to be eliminated or that the buyout would be worth more than potential future subsidies. The Citigroup "buyout" proposal would have virtually no impact on anything, except that Citigroup might benefit by assisting in structuring the "buyout."

Citigroup "Buyout" Report Card	
Category	***Grade***
Fairness	D
Relief to Taxpayers and Consumers	D
Rural Development	D
International Trade	D
Benefits to Developing Nation's Farmers	D
Final Grade	**D**

D
The idea itself isn't bad, but should have been thought through more. Rather incomplete.

[3] ***A Popular Option for Direct and Counter-Cyclical Payment Recipients: Voluntary Buyouts,*** Citigroup, April 9, 2007, p. 4.

Cato Institute "Buyout"

The Cato Institute argues that the "first-best solution of completely ending farm programs—with no compensation or transition payments—is politically infeasible," so the organization proposed that "the government buyout the damaging and expensive support for farmers by paying them a fixed amount of money."[4] The Cato Institute acknowledges that its proposal would require large up-front outlays. Since it would bring a permanent end to farm programs, the impact could be far-reaching.

The biggest failing of the Cato "buyout" plan is that it could provide a huge windfall to the wealthiest farmers, so this impacts the "fairness" grade. Presumably, this plan did not provide more limitations because of the assumption that doing so would not be politically feasible. It was also difficult to assign a grade in the "relief to taxpayers and consumers" category because there is no relief in the short run, but great relief down the road.

Cato Institute "Buyout" Report Card	
Category	***Grade***
Fairness	D
Relief to Taxpayers and Consumers	C
Rural Development	A
International Trade	A
Benefits to Developing Nation's Farmers	A
Final Grade	B

B

But probably too forward-thinking for myopic Washington policy-makers.

[4] See Sallie James and Daniel Griswold, ***Freeing the Farm: A Farm Bill for All Americans,*** Cato Institute Trade Policy Analysis No. 34, Washington, D.C., April 16, 2007, p. 1, <http://www.freetrade.org/files/pubs/pas/tpa-034.pdf> (accessed June 13, 2007).

American Farm Bureau Federation (AFBF) and National Corn Growers Association (NCGA) "Revenue Insurance" Plans

Both of these proposals are based on the singular recognition, similar to one aspect of the Bush Administration proposal, that the present system of counter-cyclical payments frequently provides payments to farmers when they don't need them, while often not helping farmers that do. The present system of countercyclical payments is based on historic production, so farmers with high crop yields and/or high prices would receive the same payments relative to those that had low or inadequate yields and/or low prices. In other words, the payments bear no relationship to an individual farmer's revenue.

The only improvement of both of these proposals compared to current law is that they make the countercyclical programs revenue-based. The main difference is that the NCGA plan[5] uses county-based averages, while the AFBF plan[6] is state-based, which is a relatively insignificant difference, except that a county-based average might come closer to reflecting actual need. The most important point about both of these proposals is that neither aims to move away from the archaic subsidy programs, or to save taxpayers any money. No beneficial impact could be expected; there is no "reform" proposed.

AFBF and NCGA "Revenue Insurance" Report Card

Category	*Grade*
Fairness	D
Relief to Taxpayers and Consumers	F
Rural Development	F
International Trade	F
Benefits to Developing Nation's Farmers	F
Final Grade	F

F
These ideas don't show any effort at all!

[5] See ***NCGA 2007 Farm Bill Proposal,*** National Corn Growers Association, Washington, D.C., March 27, 2007, <http: //www.fb.org/newsroom/farmbill2007/AFBF2007FBProposal.pdf > (accessed June 13, 2007).

[6] See ***Farm Bill: An Investment That's Working,*** American Farm Bureau Federation, Washington, D.C., April 23, 2007, <http://www.fb.org/newsroom/farmbill2007/AFBF2007FBProposal.pdf > (accessed June 13, 2007).

FARM-21 (Risk Management Account) Proposal

S. 1422 and H.R. 2720, The Food and Agriculture Risk Management for the 21st Century Act (FARM-21), would transition away from the current system of farm subsidies, and in their place, create farmer-held risk management or income stabilization accounts.[7]

Current price-contingent programs, including counter-cyclical payments, would be phased out and eliminated after 2009, replaced with direct payments that would be deposited in individual risk management accounts to be used to purchase crop insurance, cover income losses, or invest in other on-farm improvements, such as conservation. Loan deficiency payments would be replaced with a recourse loan program. The bill would also decrease direct payments, remove the planting restriction that prevents planting specialty crops, and eliminate the sugar program.

The bill would direct some of the savings to other farm programs, such as nutrition and conservation and rural development, but some of the savings would provide immediate relief to taxpayers. FARM-21 would reduce the deficit by more than $20 billion over 10 years.

FARM-21 Report Card

Category	*Grade*
Fairness	A
Relief to Taxpayers and Consumers	B
Rural Development	B
International Trade	B
Benefits to Developing Nation's Farmers	B
Final Grade	**B**

B
A well-rounded effort that shows definite potential.

[7] Government Printing Office, S. 1422, The Farm Risk Management Act for the 21st Century, May 17, 2007, <http://frwebgate.access.gpo.gov/cgibin/getdoc.cgi?dbname=110_cong_bills&docid=f:s1422is.txt.pdf> (accessed June 13, 2007).

CONCLUSION

There are only two proposals, the Cato Institute "Buyout" and FARM-21's risk management accounts, which truly qualify as "reform." The Cato Institute proposal would be the best in the long run at completely getting the government out of the business of running agriculture policy. The only justification for a continuation of farm subsidy programs into the twenty-first century is nothing more than political expediency. So, Cato deserves high marks for both acknowledging this and attempting to deal with what is politically acceptable.

Because the Cato Institute "Buyout" ends all farm programs, it consequently ends all the negative impacts of farm subsidies on rural development, international trade, and benefits to developing nations' farmers. It receives an "A" grade in all of those categories.

FARM-21, on the other hand, recognizes the political difficulty of completely ending some sort of "safety net" for farmers, even though it is no longer really necessary. The FARM-21 proposal is on the right track and would have received even higher grades if the risk management accounts were eventually completely self-funded by farmers, without any taxpayer funding.

Because FARM-21 does not end all programs, it will still have some residual negative impact on rural development, international trade and benefits to developing nation's farmers, so it receives a grade of "B" in all of those categories.

The other three proposals, as well as current law, should be flunked out. They couldn't even pass after going to summer school.