MERCATUS ON POLICY

Ending Farm Subsidies: Unplowed Common Ground

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In recent years, food stamps have constituted about 80 percent of farm bill spending, which may be why nearly 100 percent of public debate has focused there.[1] Unfortunately, with all of the attention on food stamps, both political parties have missed the opportunity for reform that lies in the remaining 20 percent of the farm bill.

REDISTRIBUTION FROM LOW- TO HIGH-INCOME AMERICANS

This remaining 20 percent largely consists of insurance subsidies and price and revenue supports that raise the grocery and tax bills of middle- and low-income Americans in order to pad the pockets of the nation's wealthiest farmers. Given that these subsidies and price supports distort free market signals and transfer wealth from the relatively poor to the relatively wealthy, one would think they would face bipartisan opposition. Indeed, the vast majority of economists—spanning the ideological spectrum from one-time Bush advisor Greg Mankiw to Nobel Laureate Paul Krugman—oppose them.[2]

One reason for economists' opposition is that there is no coherent story of market failure to justify these privileges. As a commodity industry with free entry, agriculture exemplifies the textbook definition of a competitive market that ought to operate without interference.

These policies also create what economists call "deadweight losses," which impose costs on consumers and taxpayers that exceed the benefits they confer on farmers. In the case of subsidies, the taxes that fund them create deadweight losses by discouraging mutually beneficial exchange. Economist Martin Feldstein estimates that the deadweight loss from income taxation, for example, is 30 percent more than the revenue raised.[3] In the case of price supports, it is consumers who bear the deadweight loss. American consumers, for example, pay nearly twice what world consumers pay for sugar.[4] This might seem trivial, but sugar isn't the only item that is more expensive because of agricultural price supports. The House version of the farm bill imposes artificial price floors on wheat, corn, grain sorghum, barley, oats, long and medium grain rice, soybeans, oilseeds, peanuts, dry peas, lentils, chickpeas, sugar, and dairy products.[5]

More economists might favor these policies if the costs borne by consumers and taxpayers could be defended in the name of social justice. But these subsidies and price supports transfer wealth from low-and middle-income Americans to upper-income Americans.

According to Census data, farm household income has exceeded average household income for more than a decade and a half. Today, the average farm household earns 53 percent more than the average US household.[6] And in 2013, net income of the US farm sector is projected to rise by another 15 percent, to more than twice its 2009 level.[7] Higher incomes have permitted farms to accumulate substantial wealth. According to USDA data, the net worth of the median commercial farm rose from $800,000 in 2000 to more than $2.5 million in 2013.[8] Today, 98 percent of all farm households have wealth accumulation in excess of the median US household.[9]

But those farmers that receive aid are not the average or median farmer. Of the $17.5 billion directly paid to farmers annually, about 80 percent goes to the wealthiest 15–20 percent.[10] As Professor Vincent Smith puts it, these are farms whose owners' "wealth is measured in millions of dollars."[11]

Sometimes these privileges are defended on the grounds that farming is a uniquely risky business. This is not so. The average annual business failure rate in the US is 14 times greater than the average annual failure rate of farms.[12] And few (if any) economists believe it would be equitable or efficient for the average firm to have such a safety net. Social safety nets should catch people, not the inefficient firms that employ them. In fact, the mark of a healthy, dynamic market is having new firms constantly challenge the business models of old firms. Without this creative destruction, economies fail to serve consumer desires and stagnate.[13]

Despite the relative wealth and stability of farming, the amount of federal aid that farms receive can be astronomical. A 2011 US General Accounting Office study found that over 50 farms each received more than half a million dollars in subsidies for crop insurance premiums.[14]

The Senate's version of the farm bill would end direct payments to farmers. Unfortunately, it would replace them with a less-conspicuous but potentially more costly shallow loss program that would pay farmers if their revenue fell below 89 percent of a recent five-year average.[15] According to a recent report, if corn prices were to fall to $4 per bushel in 2014, corn would qualify for the new program and "a farmer could double what he now gets in direct cash payments."[16] The Senate proposal offers this new subsidy despite the fact that current law already subsidizes crop insurance premiums up to 70 percent.[17]

CONCENTRATED BENEFITS AND DIFFUSED COSTS

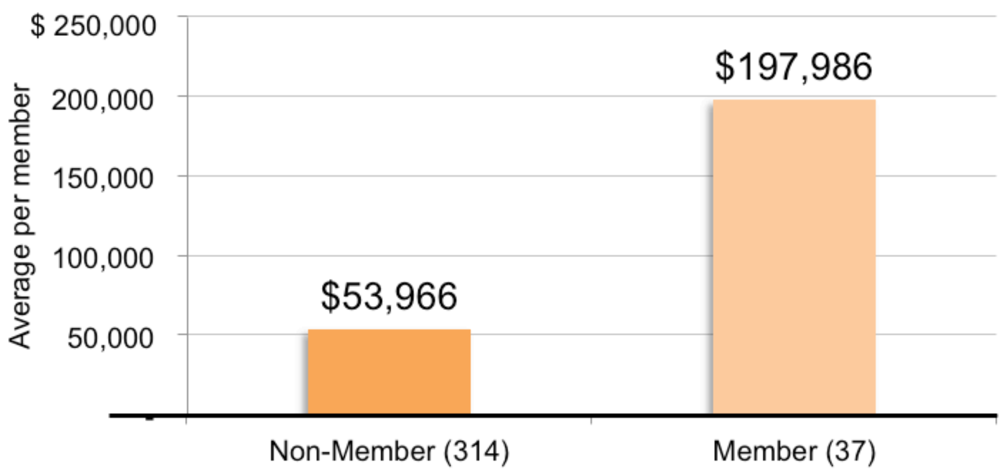
How, then, do these policies persist?

One reason is that though total costs exceed total benefits, the costs are dispersed while the benefits are concentrated. For example, taxpayers make $1.1 billion in loans to US sugar producers each year.[18] Spread out among 313 million Americans, this comes out to $3.50 per taxpayer. Understandably, few of us are ready to invest much effort in an anti-sugar-subsidy campaign. But this year the bulk of the money—about $600 million—went to just three firms.[19] With each of these three standing to gain about $200 million in subsidized loans, it is no wonder that these firms are willing and ready to organize on behalf of the farm bill. It should be noted that sugar producers also benefit from price supports and import quotas that artificially increase the costs that consumers pay by about $3 billion each year.[20]

THE LOGROLL

Logrolling is another factor that facilitates the passage of farm privileges. A logroll occurs when two or more legislators agree to support each other's policies. It can facilitate the passage of inefficient legislation by concentrating benefits on the winning coalition while pushing costs onto members outside of the coalition.[21] Economist Thomas Stratmann studied logrolling in the 1985 farm bill and found that members who represented dairy and sugar interests were statistically significantly likely to vote in the interest of peanut farmers and vice versa.[22] Since the House and Senate Agriculture Committees are where these deals are worked out, it is no surprise that this is where the agribusiness industry concentrates its political donations (see Figure 1).

FIGURE 1. AGRIBUSINESS DONATIONS BY HOUSE AGRICULTURE COMMITTEE MEMBERSHIP, 2012



Source: Center for Responsive Politics via www.opensecrets.org, accessed 11/25/2013.
Data note: These figures represent donations from the 2012 election cycle to members of the House Agriculture Committee of the 112th Congress.
Produced by Matthew Mitchell, Mercatus Center at George Mason University.

But the farm bill's logroll takes another form as well. It typically packages privileges for wealthy farmers with food stamps for lower-income earners. In recent years, this has meant that a vote against subsidies for well-to-do farmers is a vote against food stamps. Thus, one step in ending this regressive policy would be to decouple food stamps from the farm bill (as the House version of the 2013 bill did).

THE THREAT OF WORSE POLICY

There is another reason the farm bill is routinely passed: if Congress does nothing, farm policy gets worse. That's because in each farm bill, Congress "temporarily" replaces what's known as the "permanent law" of farm policy. It has done this for more than half a century.[23] Some portions of this permanent law are based on 100 year-old price data and would trigger price supports for commodities whose currently high prices make them ineligible for support.[24] Another portion of the permanent law would compel the government to purchase dairy products until the price is approximately double its current level.[25] The threat that policy might revert to something that almost no one supports helps ensure routine passage of the bill. Thus, permanent repeal of the "permanent law" would be another important step in making farm policy more equitable and efficient.

CONCLUSION

Democrats, we are told, favor equity.[26] Republicans, we are told, favor free markets.[27] Current US farm policy is anathema to both of these goals. Elimination of price supports and subsidies for wealthy farmers is a rare proposal that occupies ideological ground common to both parties.

ENDNOTES

1. *Agriculture Reform, Food, and Jobs Act of 2013: Cost Estimate* (Washington, DC: Congressional Budget Office, May 13, 2013), http://www.cbo.gov/publication/44175.
2. Eighty-five percent of economists oppose these policies. Robert Whaples, "Do Economists Agree on Anything? Yes!," *The Economists' Voice* 3, no. 9 (January 17, 2006).
3. Martin Feldstein, "Tax Avoidance and the Deadweight Loss of the Income Tax," *Review of Economics and Statistics* 81, no. 4 (November 1, 1999): 674–680.
4. Veronique de Rugy, "Cronyism in the Sugar Industry: Comparing US to World Prices" (Chart, Mercatus Center at George Mason University, Arlington, VA, July 2, 2012), http://mercatus.org/publication/cronyism-sugar-industry-comparing-us-world-prices.
5. Frank Lucas, *Federal Agriculture Reform and Risk Management Act of 2013*, 2013, http://agriculture.house.gov/sites/republicans.agriculture.house.gov/files/pdf/legislation/HR2642.pdf.
6. *Historic Data on Mean and Median Farm Operator Household Income and Ratio of Farm Household to US Household Income,*

1960–2011 (Washington, DC: Economic Research Service, US Department of Agriculture, November 26, 2013), http://www.ers.usda.gov/data-products/farm-household-income-and-characteristics.aspx#.UpULU9IqiSo.

7. *US Farm Sector Financial Indicators, 2009–2013F* (Washington, DC: US Department of Agriculture Economic Research Service, November 26, 2013), http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics/us-and-state-level-farm-income-and-wealth-statistics-(includes-the-us-farm-income-forecast-for-2013).aspx#.UrMmKtK1ySr.

8. For the 2000 figure, see Figures 3 and 4 in Vincent Smith, "The 2013 Farm Bill: Limiting Waste by Limiting Farm-Subsidy Budgets" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, June 17, 2013). For the 2013 figure, see *Wealth, Farm Programs, and Health Insurance* (Washington, DC: US Department of Agriculture Economic Research Service, November 26, 2013), http://www.ers.usda.gov/topics/farm-economy/farm-household-well-being/wealth,-farm-programs,-and-health-insurance.aspx#wealth.

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10. Smith, *The 2013 Farm Bill: Limiting Waste by Limiting Farm-Subsidy Budgets*, 6.

11. Ibid.

12. Ibid., 12.

13. Philippe Aghion and Peter Howitt, "A Model of Growth Through Creative Destruction," *Econometrica* 60, no. 2 (March 1992): 323, doi:10.2307/2951599.

14. Government Accountability Office, *Crop Insurance: Savings Would Result from Program Changes and Greater Use of Data Mining* (Washington, DC: GAO, 2012), 20, http://www.gao.gov/assets/590/589305.pdf.

15. Smith, *The 2013 Farm Bill: Limiting Waste by Limiting Farm-Subsidy Budgets*, 11.

16. David Rogers, "Corn Popping in Farm Bill Talks - David Rogers," *POLITICO*, accessed November 19, 2013, http://www.politico.com/story/2013/11/corn-prices-farm-bill-100047.html.

17. Smith, *The 2013 Farm Bill: Limiting Waste by Limiting Farm-Subsidy Budgets*, 11.

18. Alexandra Wexler, "Bulk of US Sugar Loans Went to Three Companies," *Wall Street Journal*, June 26, 2013, http://online.wsj.com/news/articles/SB10001424127887323689204578569332949046260.

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26. "We encourage initiatives to remove barriers to equal opportunity that still exist in America." "The Democratic Party Platform," *Democrats.org*, accessed November 19, 2013, http://my.democrats.org/platform-fbs.

27. "Republicans will pursue free market policies that are the surest way to boost employment and create job growth and economic prosperity for all." "We Believe in America: Republican Party Platform, 2012," n.d., http://www.gop.com/wp-content/uploads/2012/08/2012GOPPlatform.pdf.

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