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THE 2013 FARM BILL:
Limiting Waste by Limiting Farm-Subsidy Budgets

Vincent H. Smith



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Mercatus Center
George Mason University
3351 Fairfax Drive, 4th Floor
Arlington, VA 22201-4433
(703) 993-4930
mercatus.org

Release date: June 17, 2013

ABOUT THE AUTHOR

VINCENT H. SMITH is professor of economics in the Department of Agricultural Economics and Economics at Montana State University (MSU) and co-director of MSU's Agricultural Marketing Policy Center. He is also a visiting scholar at the American Enterprise Institute and visiting senior research fellow at the International Food Policy Research Institute. Smith's current research program examines agricultural trade and domestic policy issues, with a particular focus on agricultural insurance, domestic and world commodity markets, risk management, agricultural trade policy, and agricultural science policy. He has authored 12 books and monographs, including his widely cited work with North Carolina State University professor of agricultural economics Barry Goodwin, *The Economics of Crop Insurance and Disaster Aid*. He has also published over 150 articles on agricultural and other policy and economic issues, including studies in the *Journal of Political Economy*, the *Journal of Public Economics*, and the *American Journal of Agricultural Economics*. Smith's contributions have been recognized through multiple national awards for outstanding research programs. In 2008 he became a distinguished scholar of the Western Agricultural Economics Association and in 2011 he received the USDA Bruce Gardner Award for outstanding economic policy research.

ABSTRACT

CURRENTLY, US TAXPAYERS spend about \$20 billion a year on subsidies to American farmers. This money mostly flows to the largest farms and the wealthiest 15 percent of farm households. In the context of new farm policy proposals for the 2013 farm bill, this study examines how different levels of required reductions in farm-subsidy spending would affect the structure of US agricultural policy. A cosmetic reduction in total farm bill spending of \$1.8 billion, coupled with ending the \$5 billion a year direct payments program, would provide funding for new, potentially expensive and economically inefficient income and price support programs. If congressional leaders required the House and Senate Agriculture Committees to reduce annual farm-subsidy spending by \$5 billion, then such programs could not be introduced. A larger cut of \$10 billion would result in reduced funding for existing programs but would have minimal effects on the financial performance of the agricultural sector.

JEL code: Q18

Keywords: US farm policy, farm subsidies, political economy, federal deficits

I. THE POLICY BACKGROUND

SINCE THE 1960s, successive agriculture bills have funded subsidies that for the most part are paid to farmers who are much wealthier and enjoy much higher incomes than the average American.¹ They have also funded nutrition programs for households with low or modest incomes and low or modest levels of assets.² Currently, the programs remain tied together for no reason other than that, especially in the House of Representatives, legislators with farm constituencies need the support of legislators with urban constituencies to continue to give farmers taxpayer-funded subsidies.³ Today's nutrition programs have relatively little to do with the commodities produced on farms and are now, fundamentally, a major component of the federal government's antipoverty program.⁴ They have very little effect on the demand for agricultural commodities at the farm gate.⁵ As a result, the farm bill and the US Department of Agriculture are poor matches for the development and management of antipoverty nutrition programs.⁶

The US government now spends about \$100 billion a year on farm bill programs, of which almost 80 percent, about \$77 billion, is for nutrition programs.⁷ Most of the remaining \$23 billion consists of subsidy payments to farmers. (A relatively small amount is allocated to publicly funded research and development programs and international food aid, and some of the funds are used to run USDA.) Of the \$20 billion targeted for farm-subsidy programs, about \$2.5 billion is paid to private

1. Barry K. Goodwin, *We're Not in Kansas Anymore: Is There Any Case for Ag Subsidies?* (Washington, DC: American Enterprise Institute, 2011).

2. Julian M. Alston, *US Food and Nutrition Programs: Costs, Effectiveness, and Impact on Obesity* (Washington, DC: American Enterprise Institute, 2012).

3. Barry K. Goodwin, Vincent H. Smith, and Daniel A. Sumner, *American Boondoggle: Fixing the 2012 Farm Bill* (Washington, DC: American Enterprise Institute, 2011).

4. Yonatan Ben-Shalom, Robert A. Moffitt, and John K. Scholz, "An Assessment of the Effectiveness of Anti-Poverty Programs in the United States" (National Bureau of Economic Research Working Paper 17042, 2011).

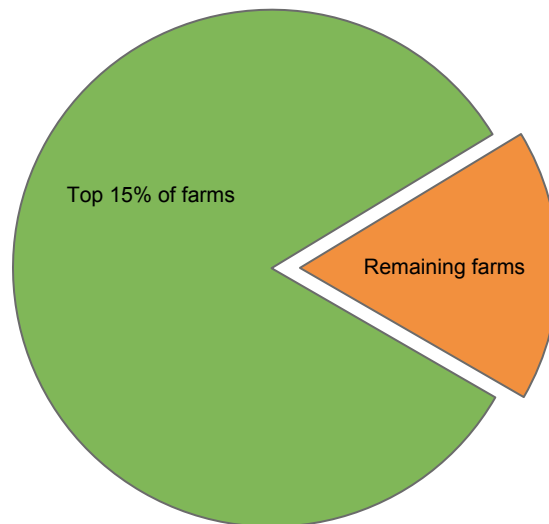
5. Alston, *US Food and Nutrition Programs*.

6. Goodwin, Smith, and Sumner, *American Boondoggle*.

7. Congressional Budget Office, *Agriculture Reform, Food, and Jobs Act of 2013: Cost Estimate* (Washington, DC, 2013), <http://www.cbo.gov/publication/44175>.

agricultural-insurance companies to deliver the federal crop-insurance program to farmers (which is the focus of this paper).⁸ About 80 percent (approximately \$14 billion) of the remaining \$17.5 billion that is paid directly to farmers flows to the largest 15–20 percent of farm operations.⁹ The majority of that approximately \$14 billion goes to the largest 10 percent of farms, whose owners, for the most part full-time farm operators, typically earn many times the national average household income. Their wealth is measured in millions of dollars.¹⁰ It would seem axiomatic that if Congress is looking to reduce spending, then there is no need to continue such subsidies, which are targeted at “row crops” like wheat, cotton, corn, and rice, especially because farmers who produce fruits and vegetables and raise cattle have been successful without receiving such government largesse.

FIGURE 1. CONCENTRATION OF USDA FARM SUBSIDY PAYMENTS, 1995–2011



Note: Since 1995, 83 percent on farm subsidy payments have gone to the top 15 percent of farms, while the remaining 85 percent of farms have received only 17 percent of the payments made during this time.

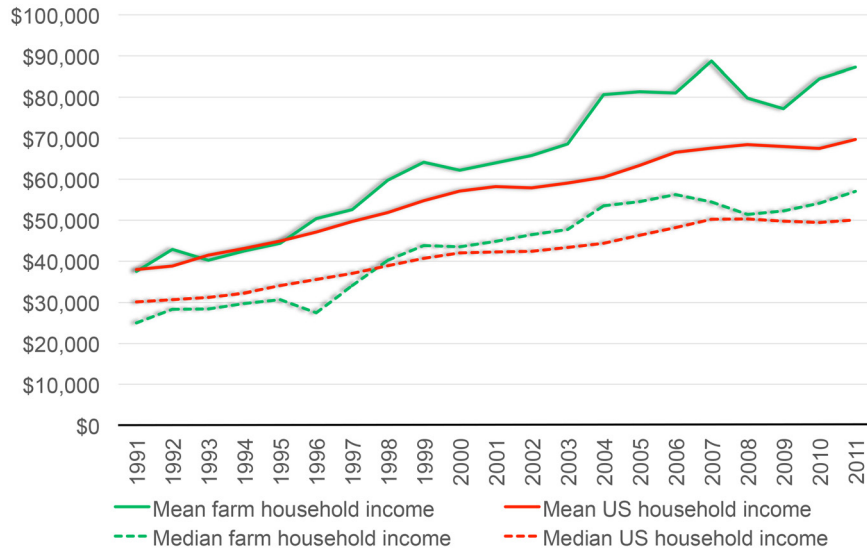
Source: Environmental Working Group, “USDA Subsidy Concentration, 1995–2011,” accessed May 15, 2013, <http://farm.ewg.org/progdetail.php?fips=00000&progcode=total&page=conc®ionname=theUnitedStates>.

8. Joseph W. Glauber, “The Growth of the Federal Crop Insurance Program, 1990–2011,” *American Journal of Agricultural Economics* 95, no. 2 (2013): 482–88; Vincent H. Smith and Joseph W. Glauber, “Agricultural Insurance in Developed Countries: Where Have We Been and Where Are We Going?” *Applied Economic Perspectives and Policy* 34, no. 3 (2012): 363–90.

9. Goodwin, *We’re Not in Kansas*.

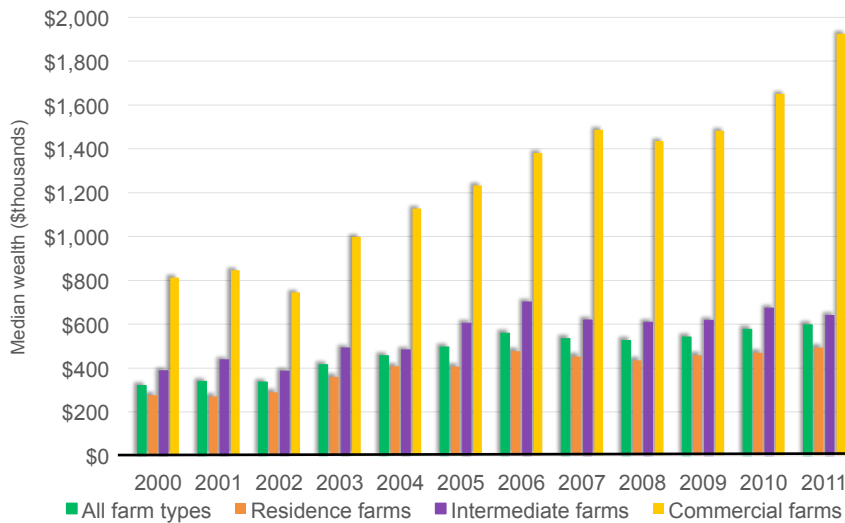
10. “2010 Agricultural Resource Management Survey,” USDA Economic Research Service, May 2013, <http://www.ers.usda.gov/data-products/arms-farm-financial-and-crop-production-practices>; Goodwin, *We’re Not in Kansas*.

FIGURE 2. FARM HOUSEHOLD INCOME VS. US HOUSEHOLD INCOME, 1991–2011



Source: USDA, Economic Research Service, "Median Farm Household Income Forecast Up in 2012 and 2013," accessed May 15, 2013, <http://www.ers.usda.gov/topics/farm-economy/farm-household-well-being/farm-household-income.aspx>.

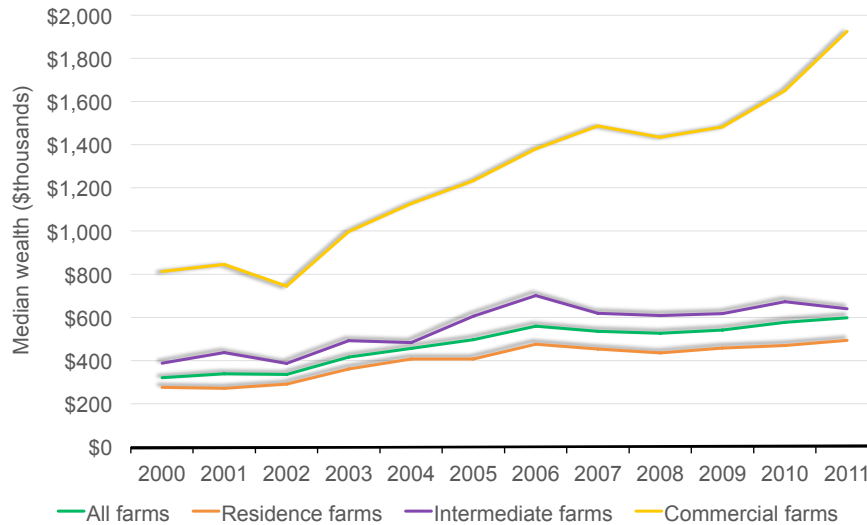
FIGURE 3. MEDIAN WEALTH BY FARM TYPE, 2000–2011



Note: The USDA has defined three categories of farms. "Residence farms" include those farms whose operators have either reported as retired or have reported a primary occupation other than farming. "Intermediate farms" include those farms whose operators have reported farming as their primary occupation. "Commercial farms" are those farms whose operators have reported farming as their primary occupation and whose gross sales exceed \$250,000. See USDA, Economic Research Service, "Farm Household Well-Being—Glossary," accessed May 15, 2013, <http://www.ers.usda.gov/topics/farm-economy/farm-household-well-being/glossary.aspx>.

Source: USDA, Economic Research Service, "Wealth, Farm Programs, and Health Insurance," accessed May 15, 2013, <http://www.ers.usda.gov/topics/farm-economy/farm-household-well-being/wealth,-farm-programs,-and-health-insurance.aspx#wealth>.

FIGURE 4. MEDIAN WEALTH BY FARM TYPE, 2000–2011



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Source: USDA, Economic Research Service, "Wealth, Farm Programs, and Health Insurance," accessed May 15, 2013, <http://www.ers.usda.gov/topics/farm-economy/farm-household-well-being/wealth,-farm-programs,-and-health-insurance.aspx#wealth>.

II. SUBSIDIES TO INDIVIDUAL FARMERS

NOTABLY, SOME SUBSIDIES to individual farms are astonishingly large. For example, the US General Accounting Office recently reported that, in 2011, more than 50 farms each received over half a million dollars in subsidies for crop-insurance premiums.¹¹ Nothing has changed with respect to the structure of the farm subsidies provided by the crop-insurance program since 2000, so, over the past two years, when prices for grains and oilseeds have been at or close to record highs, each of those farms has almost surely received over \$1 million in gifts from the US taxpayers from that subsidy program alone.¹²

11. Government Accountability Office, *Crop Insurance: Savings Would Result from Program Changes and Greater Use of Data Mining*, GAO report 12-256 (Washington, DC, 2012).

12. Glauber, "Growth of the Federal Crop Insurance Program."

TABLE 1. USDA SUBSIDIES IN THE UNITED STATES, 1995–2011

Recipients (%)	Payments (%)	Recipients (no.)	Total payments, 1995–2011	Payment per recipient
1%	25%	36,551	\$57,141,392,610	\$1,563,333
2%	37%	73,102	\$84,384,511,163	\$1,154,339
3%	45%	109,653	\$104,346,501,868	\$951,606
4%	52%	146,205	\$119,972,322,789	\$820,576
5%	58%	182,756	\$132,661,684,898	\$725,895
6%	62%	219,307	\$143,218,302,012	\$653,049
7%	66%	255,858	\$152,145,658,759	\$594,649
8%	69%	292,410	\$159,787,134,076	\$546,449
9%	72%	328,961	\$166,390,688,773	\$505,807
10%	75%	365,512	\$172,155,196,742	\$470,997
11%	77%	402,063	\$177,224,556,842	\$440,788
12%	79%	438,615	\$181,712,724,671	\$414,288
13%	81%	475,166	\$185,708,236,290	\$390,828
14%	82%	511,717	\$189,284,419,819	\$369,901
15%	83%	548,268	\$192,501,293,945	\$351,108
16%	85%	584,820	\$195,408,396,296	\$334,134
17%	86%	621,371	\$198,044,198,022	\$318,721
18%	87%	657,922	\$200,441,066,005	\$304,658
19%	88%	694,473	\$202,627,041,823	\$291,771
20%	89%	731,025	\$204,625,049,166	\$279,915
Remaining 80%	11%	2,924,101	\$26,069,971,107	\$8,916

Note: USDA subsidies in the United States totaled \$277.3 billion from 1995 to 2011.

Source: Environmental Working Group, "USDA Subsidy Concentration, 1995–2011," accessed May 15, 2013, <http://farm.ewg.org/progdetail.php?fips=00000&progcode=total&page=conc®ionname=theUnitedStates>.

The same households also obtain additional benefits from other subsidy programs, such as the direct-payments program, which annually pays landowners and farmers substantial amounts of taxpayer dollars (up to \$80,000 for each farming unit they own) that have no links to their current production practices or to the crops they raise. Many of these farmers organize their businesses as family-based partnerships that typically own multiple farms, each consisting of thousands of acres of cropland. The families associated with these partnerships are much wealthier than the average household.¹³ Most commentators would place those families and their farm operations low on their lists of individuals who need government handouts.

13. Goodwin, *We're Not in Kansas*.

III. HOUSE AND SENATE AGRICULTURE COMMITTEE PROPOSALS

NEVERTHELESS, ON A largely bipartisan basis, the House and Senate Agriculture Committees continue to offer farm programs and policy initiatives that would provide those farms and others like them with large subsidies. In March 2013, the House Budget Committee, chaired by Representative Paul Ryan (R-Wisconsin), established a goal of \$3.4 billion a year in farm bill cuts, all to come from farm subsidies.¹⁴ In implicit defiance of the House Republican leadership, the chair of the House Agriculture Committee, Representative Frank Lucas (R-Oklahoma), announced on April 26, 2013, that, while his committee would cut \$3.8 billion a year from a 2013 farm bill, \$2 billion of that cut would come from nutrition programs and only \$1.8 billion a year would come from farm subsidies.¹⁵ Those cuts were reflected in the House bill (H.R. 1947, entitled the Federal Agriculture Reform and Risk Management Act of 2013) that was subsequently approved by the House Agriculture Committee on May 15, 2013, on a split committee vote of 36-10.¹⁶

The House Agriculture Committee's legislative proposal would introduce a new price support program, called Price Loss Coverage, and a specialized shallow-loss program¹⁷ for cotton called the Stacked Income Protection Plan, or STAX for short. These programs would provide relatively large subsidies to growers of peanuts, rice, and cotton in southern states like Texas, Arkansas, Georgia, and Mississippi.¹⁸ Such subsidies would also effectively be tied to the amount of product produced on the farm¹⁹ and would therefore create the potential for serious problems for the United States with respect to its international trade relations and commitments.

To obtain \$1.8 billion in total subsidy cuts while introducing a potentially expensive new price support program, the House Agriculture Committee's 2013 bill would

14. House Budget Committee, *The Path to Prosperity: A Responsible, Balanced Budget* (Washington, DC, 2013), <http://budget.house.gov/uploadedfiles/fy14budget.pdf>.

15. Jerry Hagstrom, "Lucas Plans Farm Bill with \$38 Billion in Cuts," *Hagstrom Report*, April 26, 2013.

16. House Agricultural Committee, "House Ag Committee Approves Farm Bill with Significant Savings and Reform," press release, May 16, 2013, <http://agriculture.house.gov/press-release/house-ag-committee-approves-farm-bill-significant-savings-reforms>.

17. Shallow-loss programs may take many different forms, but all have the following core feature: they would make payments to farmers when their per acre revenues for a crop fall below about 90 percent of their average levels over the previous five years. In combination with other subsidy programs like the \$10 billion a year federal crop-insurance program, which covers "deep losses" that occur when revenues from a crop drop below 75–80 percent of their expected levels, the goal of shallow-loss programs is to guarantee that a farm's revenues from a covered crop never fall much below their recent (five-year) average levels. For detailed descriptions of how shallow-loss programs work, see Vincent H. Smith and Barry K. Goodwin, "The ACRE Program: A Disaster in Waiting" (working paper #2011-01, American Enterprise Institute, Washington, DC, 2011); and Vincent H. Smith, Bruce Babcock, and Barry K. Goodwin, "Field of Schemes: The Taxpayer and Economic Welfare Costs of Shallow-Loss Farming Programs" (working paper #2012-01, American Enterprise Institute, Washington, DC, 2012).

18. Vincent H. Smith, Bruce Babcock, and Barry K. Goodwin, "Field of Schemes Mark II: The Taxpayer and Economic Welfare Costs of Price Loss Coverage and Supplementary Insurance Coverage Programs" (working paper #2012-03, American Enterprise Institute, Washington, DC, 2012).

19. *Ibid.*

terminate the direct-payments program and a linked “shallow-loss” Average Crop Revenue Election (ACRE) program introduced in the 2008 farm bill, for an initial annual savings of about \$5.6 billion. That would leave about \$3.8 billion a year for the House Committee to use for new federal farm-subsidy programs. The House committee’s bill would spend about \$0.5 billion a year to refund a series of four permanent disaster-aid programs, which are mainly for livestock producers managing cattle, poultry, and hog operations.²⁰ It would then take most of the remaining \$3.3 billion and spend that on the Price Loss Coverage program, the shallow-loss STAX program, and a new shallow-loss and subsidized insurance program called the Supplemental Coverage Option (designed to offset the deductibles associated with the federal crop-insurance program).

The House Agriculture Committee’s 2013 farm bill proposal is simply the most recent in a long line of “bait-and-switch” agricultural policy proposals. Embedded in the Senate Agriculture Committee’s May 2012 farm bill proposal and its May 15 farm bill proposal (Senate Bill S.954, the Agriculture Reform, Food, and Jobs Act of 2013) was the “bait” of ending the direct-payments and ACRE shallow-loss programs. However, the Senate Agriculture Committee would replace those programs with a new and potentially more expensive shallow-loss program that the committee called Average Revenue Coverage (ARC).²¹

Under the Senate’s ARC program, if a farm’s estimated per acre revenue from a crop (its actual yield multiplied by the crop’s national average price for the year, as reported by USDA) fell below 89 percent of its recent five-year average, the farm would receive a payment equal to the difference, with a cap on total per acre payments of 10 percent of that five-year average. For per acre revenue losses that fall below 75–85 percent of a farm’s expected revenues (depending on the farm’s geographic location and crops), most of the producers who would be eligible for the Senate Agriculture Committee’s shallow-loss program would be covered under a federal crop-insurance-subsidy program. That program has been available to most producers since the mid-1980s and currently pays about 70 percent of their premium costs. So the Senate Agriculture Committee would have replaced the direct-payments program with one that would almost never allow farmers to receive less than 89 percent of their expected incomes.

IV. THE ECONOMIC AND FINANCIAL CONDITION OF US FARMERS

ALL THIS SEEMS to resemble “Soviet-style” agricultural policy, as House Speaker John Boehner described the House Agriculture Committee’s proposed program

20. Vincent H. Smith and John P. Hewlett, “Farm Policy and Disaster Aid Programs: The Path Looking Forward,” *Choices* 28, no. 1 (2013): 1–5.

21. Smith, Babcock, and Goodwin, “Field of Schemes: The Taxpayer and Economic Welfare Costs.”

for dairy farmers.²² In the banking world, from the government’s perspective, some firms apparently continue to be too big to fail; in the world of the House and Senate Agriculture Committees, no farm should be allowed to fail.

This policy approach has engendered a crop sector that reflects some important elements of what Professor Mancur Olson famously described as a sclerotic economy.²³ An explicit mantra of farm-state legislators and the farm lobbies is that farmers “need” a safety net because they are in such a risky business. Empirically, the “risky business” claim is questionable. Farms fail at an annual rate of 0.5 percent: only one in every 200 farms goes out of business because of financial problems.²⁴ By comparison, the annual business-failure rate is over 7 percent, 14 times greater. Among small nonfarm businesses, the companies most comparable to farms in terms of sales, the failure rate is about 14 percent, almost 30 times greater than among farms.²⁵

Other measures of financial risk, such as debt-to-asset ratios, also indicate that the agricultural sector faces much less financial risk than other sectors of the economy. For example, the average debt-to-asset ratio among farmers is currently about 10 percent, and it has not exceeded 15 percent since the late 1990s.²⁶ The data indicate that farmers generally face very little in the way of financial risks, and, as a result, even the most inefficient operations are able to survive. This is scarcely an ideal way for any sector of the economy to organize itself.

V. REFORMING FARM POLICY

INEFFICIENT AND POORLY targeted farm subsidies and farm programs can and should be constrained, especially in a period in which, by any reasonable measure or historical standards, the federal budget deficit is exceedingly large. Regardless of where they are located on the political spectrum, legislators should find it an easy call to end programs that are inefficient and that, for the most part, transfer tax dollars to wealthy people, as is the case with farm programs. How big should the required reduction in farm subsidies be? And what would different levels of subsidy reductions imply for farm programs? At one extreme, some might argue that all farm-subsidy programs should be abolished, saving about \$20 billion a

22. Tom Quaife, “Boehner’s ‘Soviet-Style Dairy Program’ Comment Draws Response,” Dairy Herd Network, July 17, 2012, <http://www.dairyherd.com/dairy-news/latest/Boehners-Soviet-style-dairy-program-comment-draws-response-162740126.html>.

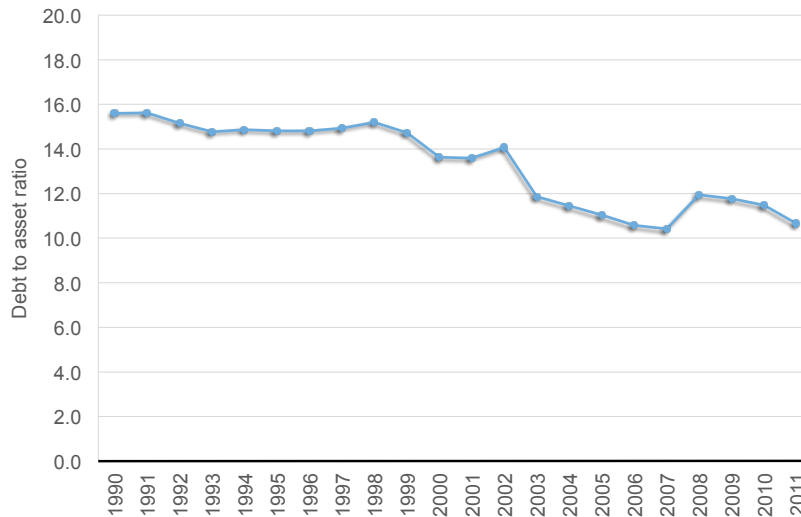
23. Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven, CT: Yale University Press, 1982).

24. Goodwin, *We’re Not in Kansas*.

25. Ibid.

26. “Farm Sector Income and Finances: Assets, Debt and Wealth,” USDA Economic Research Service, May 2013, <http://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/assets,-debt-and-wealth.aspx>.

FIGURE 5. FARM SECTOR DEBT TO ASSET RATIO, 1990–2011



Source: USDA, Economic Research Service, "U.S. and State Farm Income and Wealth Statistics," accessed May 15, 2013, <http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.aspx>.

year, but that approach seems to be politically infeasible. An essentially cosmetic recommendation would be the annual reduction in farm subsidies of \$1.8 billion proposed by Representative Lucas. The Lucas proposal is essentially very similar to the cuts proposed by the House and Senate Agriculture Committees in their 2011 negotiations with the 12-member federal-deficit-reduction super committee. These proposals are merely cosmetic because, although the direct-payments program would be ended, as discussed above, other price-support and shallow-loss programs would take its place.

Economics professors Bruce Babcock, Barry Goodwin, and I have showed that if commodity prices decline from their current near-record levels toward but not close to their long-run trend levels, these programs could cost taxpayers as much as \$10 billion to \$20 billion a year (two to four times as much subsidy as farmers are currently obtaining from the direct-payments program).²⁷ The Congressional Budget Office (CBO) "score" for the proposed programs is only in the \$2 billion to \$3 billion a year range, because CBO assumes that prices will remain at or close to current record levels over the next 10 years.²⁸ But there is no guarantee that the CBO's assumptions about agricultural commodity prices will hold, and, if the Lucas

27. Smith, Babcock, and Goodwin, "Field of Schemes: The Taxpayer and Economic Welfare Costs"; Smith, Babcock, and Goodwin, "Field of Schemes Mark II."

28. Congressional Budget Office, *Agriculture Reform and Risk Management Act of 2013: Cost Estimate* (Washington, DC, 2013), <http://www.cbo.gov/publication/44177>.

proposals are embedded in a 2013 farm bill, then taxpayers, not farmers, will become responsible for managing almost all the downside price and revenue risks associated with producing corn, cotton, peanuts, wheat, rice, and many other crops. Moreover, taxpayers already shoulder much of that risk through the extensive and heavily subsidized federal crop-insurance program.²⁹

VI. A RATIONAL APPROACH TO REFORMING AGRICULTURAL POLICY

STARTING POINTS FOR addressing this question are provided by the February 2013 sequester-related proposal by Senate Democrats to reduce farm subsidies by \$3.1 billion a year and by Congressman Ryan's House Budget Committee's March 2013 proposal to reduce annual farm-subsidy spending by \$3.4 billion.³⁰ These proposals are very similar to a series of budget-related recommendations by the White House that farm-subsidy reductions be in the range of \$3.1 billion to \$3.4 billion a year.

That general level of subsidy reduction could be accomplished simply by ending the \$5 billion a year direct-payments program. (The net savings would be smaller because farmers who participated in the ACRE shallow-loss program introduced in the 2008 farm bill had to take a 20 percent cut in their direct-payments check.³¹) While much less than 25 percent of the expected revenues from crops, direct payments were guaranteed and invariant. As a result, enrollment in the ACRE program has been relatively modest, and only about 14 percent of cropland eligible for the ACRE program has been enrolled in it.³² Ending the direct-payments program would therefore remove a major barrier to enrollment in the ACRE program, and its annual costs, currently estimated by the CBO to be about \$650 million, would increase substantially (by almost \$2 billion a year according to the CBO).

If, however, the House and Senate Agriculture Committees were only required to cut between \$3 billion and \$3.5 billion from the current levels of farm-subsidy spending, they could choose to end the direct-payments program and the ACRE program (yielding \$5.65 billion a year in estimated budget savings) which might give them enough wiggle room to introduce a shallow-loss program through either Price Loss Coverage or Average Revenue Coverage. As discussed above, these programs

29. Bruce Babcock, *The Revenue Insurance Boondoggle: A Taxpayer-Paid Windfall for Industry* (Washington, DC: Environmental Working Group, 2011); Barry K. Goodwin and Vincent H. Smith, "What Harm Is Done by Subsidizing Crop Insurance?," *American Journal of Agricultural Economics* 95, no. 2 (2013): 489–97.

30. House Budget Committee, *Path to Prosperity*.

31. The ACRE program makes payments to farmers when, on a statewide basis, estimated per acre revenues for a crop fall below 90 percent of their recent historical average levels, but (on a per acre basis) could be as much as 25 percent of the crop's recent historical average revenue. A farm's direct payments are an annual fixed amount, typically determined by the crops planted on the land managed by the farm in the early mid 1980s (1983–1986) and the per acre yields for those crops obtained over the same period.

32. "Enrollment Data," Excel sheet (Washington, DC, 2013), http://www.fsa.usda.gov/Internet/FSA_File/2012_prelim_enrLrptb_st.xls.

could expose taxpayers to new subsidy outlays of as much as \$18 billion to \$20 billion a year if prices for major crops like corn and wheat moderate toward their long-run trend levels from their recent and current levels—which have been at record and near-record highs.³³

From the perspective of limiting the taxpayer costs and the adverse economic-efficiency effects of farm programs, a better number for the budget cut would be \$5 billion a year. At that level, the House and Senate Agriculture Committees would have to end both the direct-payments program and the current shallow-loss ACRE program, for annual savings of about \$5.65 billion. There would not be enough money available to introduce a new shallow-loss or price support program, but the committees could afford to renew a suite of four livestock-disaster programs for which funding expired at the end of 2011. These would cost an estimated \$400 million to \$500 million a year.³⁴

A higher budget-cut number would force the committees to make changes to other programs in addition to ending the direct-payments program and the ACRE program. Currently, the federal crop-insurance program is the largest farm-subsidy program; the CBO estimates that it will cost the taxpayer an annual average of between \$9 billion and \$10 billion a year over the next decade (\$90 billion to \$100 billion over ten years). A \$9 billion to \$10 billion cut in total farm-subsidy spending would likely force a substantial reduction in crop-insurance subsidies. Currently, as noted above, the taxpayer provides 70 percent of the total costs of the insurance policies farmers purchase by covering all the program's administrative costs and 62 percent of the expected indemnity costs.

A recent legislative proposal sponsored by Senator Jeff Flake (R-Arizona) and Representative John Duncan (R-Tennessee), the Crop Insurance Subsidy Reduction Act (S-446), would reduce the indemnity-related crop insurance subsidy by one-third (bringing it down to 40 percent of the expected indemnity or actuarially fair premium). CBO has scored the bill proposed by Flake and Duncan as reducing total crop-insurance subsidies by an average of \$4 billion a year.³⁵

Far from being devastating to US agriculture, the Flake-Duncan proposal would simply roll crop-insurance subsidy rates back to the levels provided between 1995 and 2000. During that period, despite relatively low prices for major crops like wheat and corn between 1998 and 2000, farming continued to be financially viable and, by value, agricultural exports were about 30 percent of the total value of US farm output.

33. Smith, Babcock, and Goodwin, "Field of Schemes: The Taxpayer and Economic Welfare Costs"; Smith, Babcock, and Goodwin, "Field of Schemes Mark II."

34. Smith and Hewlett, "Farm Policy."

35. Jeff Flake, "Federal Subsidies for Crop Insurance Must Be Reduced," press release, March 5, 2013, <http://www.flake.senate.gov/record.cfm?id=339911>.

Farmers would not go broke and US agricultural production would not collapse if the Flake-Duncan proposal were implemented. In fact, farmers would have to take a more responsible approach to managing financial risks. At present, because of the moral hazard effects of publicly funded insurance, farmers are engaging in practices that increase the underlying riskiness of their businesses. As a plethora of academic studies have shown, these practices include reducing the use of herbicides, pesticides, and other inputs that reduce the risk of crop loss, as well as expanding production on higher-risk lands with poor soils.³⁶

Fundamentally, therefore, farm subsidies could be reduced by at least \$9 billion to \$10 billion a year as part of the reductions in federal spending that Congress and the White House have recognized as being essential to any serious deficit-reduction program. Further, in view of the current economic and financial condition of the US farming sector, as explained above, such cuts are not likely to have measurable effects on US agricultural production. These cuts would simply reduce transfers from less-wealthy taxpayers to wealthier farm households, and they would encourage US farmers to be more efficient and more productive.

36. For reviews of this literature, see Goodwin and Smith, "What Harm Is Done?"; Smith and Glauber, "Agricultural Insurance"; and Bruce Babcock, "Taxpayers, Crop Insurance, and the Drought of 2012" (Environmental Working Group, Washington, DC, 2013).