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Seven Reasons to Veto the Farm Bill

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As crop prices soar, American farm incomes are achieving record highs. Since enactment of the last farm bill in 2002, key crop prices have grown as much as 281 percent, and total farm income has more than doubled. More and more farmers are now multimillionaires.

Common sense therefore suggests that lawmakers writing the 2008 farm bill should pare back the $25 billion in annual taxpayer subsidies to farmers, as well as the policies contributing to rising food prices. Instead, House and Senate conferees have inexplicably completed a farm bill conference report (H.R. 2419) that *increases* farm subsidies even more.

President George W. Bush and reform-minded lawmakers should flat-out reject this farm bill that would cost taxpayers billions of dollars every year, distort food prices, and subsidize millionaires. They should demand a farm bill that understands that farming's chief economic challenge is not persistent poverty, but normal yearly income fluctuations. And they should demand a farm bill that allows farmers to base their crop-planting decisions on market demand, not government subsidies and regulations.

Because the farm bill fails to meet these standards, President Bush should veto it.

A Broken System

The case against the current farm-subsidy system is a strong one.[1] For example:

- Farm subsidies are intended to alleviate farmer poverty, but the majority of subsidies go to commercial

Talking Points

- Since the last farm bill was enacted in 2002, crop prices and net farm income have more than doubled. Yet the new farm bill would *expand* the $25 billion farm-subsidy system by raising payment rates and creating new subsidies.
- The majority of farm subsidies go to commercial farmers, who report an average income of $200,000 and a net worth of nearly $2 million. Yet the farm bill would continue to grant subsidies to multimillionaires and large agribusinesses.
- The farm bill also repeals key payment limits, thereby allowing some farmers to collect millions in annual subsidies.
- President Bush should veto Congress's attempt to increase the budget deficit in order to finance additional farm subsidies.

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farms, which report an average income of $200,000 and a net worth of nearly $2 million.

- Farm subsidies are supposedly needed to keep farmers afloat, yet 90 percent of all subsidies go to growers of just five crops (wheat, cotton, corn, soybeans, and rice). Farms producing the majority of farm products (including fruits, vegetables, beef, and poultry) survive without subsidies.
- Farm subsidies are intended to raise farmer incomes by making up for low crop prices. Instead, subsidies promote overproduction, lowering prices even further. Expensive programs to restrict plantings are then implemented to raise prices again. Ethanol mandates raise prices further.
- Farm subsidies are intended to help struggling family farmers. Instead, they harm those farmers by excluding them from most subsidies; financing the consolidation of small, individually owned farms into business conglomerates; and raising land values to levels that prevent young people from entering farming.
- Farm subsidies allegedly are intended to be consumer- and taxpayer-friendly, but they cost Americans billions of dollars each year in higher taxes and higher food costs.

The farm bill does not address any of these shortcomings. Washington would continue to spend approximately $25 billion annually to subsidize a small, elite group of farmers through policies that do nothing to help the farm economy.

Farm Incomes Shatter Records

The U.S. Department of Agriculture estimates that net farm income will reach a record $92.3 billion in 2008—a 56 percent increase over 2006. The $89,434 average household income for farmers significantly exceeds the national average.[2] Additionally, crop land values soared another 14 percent last year, bringing them to *double* their 2000 levels.[3] Farmers are now wealthier than ever.

The main drivers of this surge in farm incomes have been the rise in exports and the steep increase in crop prices. Specifically, the ethanol mandate has pushed up the prices not only of corn, but also of crops such as soybeans that have been abandoned by many farmers during the corn gold rush.

Despite the price increases, large subsidies for the five crops mentioned above would continue under the conference agreement. (See Table 1.) This makes as much sense as subsidizing Silicon Valley businesses during the peak of the dot-com boom.

The Farm Bill's Seven Principal Flaws

In its current form, the farm bill is unacceptable and deserves a veto for at least seven overriding reasons. Specifically, it:

1. **Continues to subsidize millionaires.** Currently, all full-time farmers may be eligible for farm subsidies regardless of income (part-time farmers must earn less than $2.5 million annually). President Bush reasonably proposed limiting farm subsidies to those who earn less than $200,000 a year.

   Rather than follow that commonsense approach, the conference agreement reportedly rejects *all* farmer income tests for the countercyclical and marketing loan subsidy programs and includes only a weak net farm income cap for direct payments ($750,000 for single farmers and $1.5 million for married farmers after all business deductions). Direct payments would also be restricted to singles with *non-farm* incomes under $500,000 ($1 million for married couples).

   That is not reform. Farmers with incomes in the millions of dollars would still be eligible for

1. For more information on farm subsidies, see Brian M. Riedl, "How Farm Subsidies Harm Taxpayers, Consumers, and Farmers, Too," Heritage Foundation *Backgrounder* No. 2043, June 20, 2007, at *http://www.heritage.org/Research/Agriculture/bg2043.cfm.*
2. For USDA farm income data, see U.S. Department of Agriculture, Economic Research Service, "Farm Income and Costs," at *http://www.ers.usda.gov/briefing/farmincome/* (May 7, 2008), and "2008 Farm Income Forecast," at *http://www.ers.usda.gov/Features/FarmIncome/2007/November/* (May 7, 2008).
3. U.S. Department of Agriculture, National Agricultural Statistics Service, "Land Values and Cash Rents: 2007 Summary," August 2007, at *http:/ www.usda.gov/nass/PUBS/TODAYRPT/land0807.pdf* (May 7, 2008).

Market Prices of the Five Most-Subsidized Crops

Crop	Unit	Market Price During 2002 Farm Bill Debate	Market Price During 2008 Farm Bill Debate	Price Increase	2008 Farm Bill Response*
Rice	($/cwt)	$3.88	$14.80	281%	Level, no significant cuts
All Wheat	($/bu)	$2.84	$10.10	256%	Increase subsidy rates
Corn	($/bu)	$1.91	$5.13	169%	Level, no significant cuts
Soybeans	($/bu)	$4.47	$11.80	164%	Increase subsidy rates
Upland Cotton	($/lb)	$0.29	$0.60	105%	One subsidy trimmed 1.5%.

* Based on reports of the farm bill conference agreement.

Note: These five crops are responsible for approximately 90 percent of all farm subsidies.

Source: Crop prices provided by the National Agricultural Statistics Service.

Table 1 • B-2134 heritage.org

permanent subsidies. Farm subsidies would remain America's largest corporate welfare program: Most subsidies would continue to go to large agribusinesses. President Bush is right to insist that farmers earning more than $200,000 per year no longer be eligible for subsidies.

2. **Eliminates key payment limits.** Currently, farmers face limits of $180,000 apiece in annual commodity payments ($360,000 for those who work on multiple farms and double for married couples). This has created an industry of lawyers who exploit the payment limits' large loopholes. Rather than close the loopholes, the conference agreement reportedly eliminates the payment limits. Specifically, the $75,000 limit for the marketing loan program, which has been subject to the most abuse, would be repealed.

   One seemingly positive portion of the farm bill would eliminate the commodity certificates that traditionally have been used to circumvent marketing loan payment limits, but with those limits now gone, farmers would no longer need to use commodity certificates anyway. The conference agreement would wisely eliminate the "three-entity rule" that allows farmers to collect up to $360,000 each year if they work on three or more farms; but, again, with no limit on marketing loan payments, farmers could collect larger subsidies than ever.

   The Senate rejected a commonsense proposal by Senators Byron Dorgan (D–ND) and Charles Grassley (R–IA) to limit farm subsidies to $250,000 per farm.[4] In no other profession can employees expect hundreds of thousands of dollars in taxpayer subsidies in both good years and bad. President Bush should insist that such large farm payments are unacceptable for a nation with expensive defense, education, health care, and homeland security priorities.

3. **Increases spending with gimmicks.** Congress's Pay-As-You-Go (PAYGO) rule requires that entitlement and tax legislation remain deficit-neutral over 10 years. Yet the conference agreement reportedly increases spending by $10 billion over the next decade—plus as much as $10 billion more in gimmicks.

   This is no surprise, as the Congressional Budget Office (CBO) identified numerous gimmicks in the original House and Senate bills, such as shifting costs outside the 10-year window and unrealistically assuming that new nutrition and disaster aid provisions will suddenly be eliminated after five years to save money.[5] In addition, conferees violate PAYGO by using the farm spending baseline from 2007, which allows for more spending, rather than 2008.

   President Bush proposed a farm bill that would limit spending increases to $5.5 billion and

4. Derrick Cain, "Senators Plan to Lower Income Cap for USDA Payment Eligibility," Bureau of National Affairs *Daily Report for Executives*, October 23, 2007.

include spending offsets that do not raise taxes. Given record farm incomes and the already bloated federal agriculture budget, even the President's proposal is overly generous. Every dollar of increased farm subsidies must come from (1) other programs such as Social Security, defense, or education; (2) higher taxes; and/or (3) increased debt for future generations. President Bush should block any attempt to burden current and future taxpayers with the costs of subsidizing wealthy farmers.

4. **Increases subsidy rates.** Despite sky-high crop prices, the conference agreement reportedly raises subsidy rates for more than a dozen crops under the countercyclical and/or marketing loan programs. These programs disburse subsidies whenever crop prices dip below the target prices set in the law. Raising those target prices means that any drop in crop prices would trigger the payment of subsidies sooner and cost taxpayers far more than under current law. The bill also adds four new crops (dry peas, lentils, small chickpeas, and large chickpeas) to the countercyclical program.

   These are stealth spending increases, because they do not show up in the CBO cost estimate of the bill.[6] They could also bring a challenge from the World Trade Organization for distorting global trade, potentially leading to retaliation from foreign trading partners that would deplete American exports.

5. **Continues direct payments regardless of crop price.** No matter how high corn prices soar, the direct payment program would force taxpayers to send $2 billion in direct payments to corn farmers every year. Wheat farmers would receive $1 billion in annual direct payments, and farmers of other crops would receive a combined $2 billion in annual direct payments.

   These payments are not based on farmer incomes, crop prices, or any standard of need. Farmers are not even required to grow the listed crop to get a subsidy; the law requires only that they have grown it at some point in the past. There is simply no rationale for these subsidies. Yet the Senate rejected an amendment by Senators Richard Lugar (R–IN) and Frank Lautenberg (D–NJ) that would have redirected these payments into conservation, nutrition, and deficit reduction.[7]

   Although prices of the subsidized crops have more than doubled since the last farm bill, the conference agreement reportedly reduces direct payments by just 2 percent, which would then be restored in the final year to preserve the bloated spending baseline. If farm subsidies are designed to compensate farmers for low incomes caused by low crop prices, then continuing to pay more than $5 billion annually to farmers regardless of crop price is an improper use of taxpayer dollars.

6. **Creates a new, permanent disaster aid program.** The conference agreement reportedly spends an additional $3.8 billion over five years to create a permanent farm disaster aid program.[8] Farmers already receive approximately

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5. Congressional Budget Office, "Congressional Budget Office Cost Estimate: Food and Energy Security Act of 2007," November 1, 2007, at *http://www.cbo.gov/ftpdocs/87xx/doc8784/SenAgFarmBill.pdf* (May 7, 2008), and "Congressional Budget Office Cost Estimate: Farm, Nutrition, and Bioenergy Act of 2007," October 5, 2007, at *http://www.cbo.gov/ftpdocs/86xx/doc8686/hr2419HPassed.pdf* (May 7, 2008). The CBO identifies these gimmicks in these reports but is forbidden by Congress to rate them in the final numbers.
6. If the CBO projects that crop prices will be too high to trigger these subsidies, then the new payment rates will have no new taxpayer cost in CBO projections. If crop prices drop below projected levels, the taxpayer cost will be greater as a result of these higher payment rates.
7. For a summary of the bipartisan Farm, Ranch, Equity, Stewardship and Health (FRESH) Act of 2007 (S. 2228), see *http://lugar.senate.gov/farmbill/* (May 7, 2007).
8. The Heartland, Habitat, Harvest, and Horticulture Act of 2007 (S. 2242) was approved by the Senate Finance Committee on October 4, 2007. See Congressional Budget Office, "Congressional Budget Office Cost Estimate: Heartland, Habitat, Harvest, and Horticulture Act of 2007," October 29, 2007, at *http://www.cbo.gov/ftpdocs/87xx/doc8760/Heartland.pdf* (May 7, 2008).

$20 billion in annual commodity and conservation subsidies, plus an additional $3 billion in crop insurance subsidies.

Under this proposal, many farmers who suffer crop losses would automatically collect crop insurance payments *and* disaster payments, essentially double-dipping. This new pot of money would encourage Congress to declare "emergencies" regularly in order to release these funds. Now is it not the time to increase subsidies further.

7. **Fails to modernize farm policy for the 21st century.** When President Franklin D. Roosevelt introduced farm subsidies in the 1930s, Secretary of Agriculture Henry Wallace called them "a temporary solution to deal with an emergency."[9] That emergency was the collapsing farm incomes that afflicted the 25 percent of the population living on farms. Today, farmers account for just 1 percent of the population, and farm household incomes and net worth are well above the national average, making the original poverty justification obsolete.

   In the 21st century, the challenge for farmers is not persistent poverty, but year-to-year income fluctuations brought on by weather- and pest-induced crop unpredictability. The proper response to yearly income fluctuations is not a permanent, massive program of subsidies that farmers receive even in good years. Crop insurance and farmer savings accounts can smooth out the boom and bust years in ways that keep farmers closer to their healthy annual average incomes, all at minimal taxpayer cost. Canada and Australia have already implemented these types of programs.[10]

   Additionally, lawmakers must recognize that commodity subsidies distort the farm economy. Farm subsidies induce farmers to grow whatever the government will subsidize, not what consumers want. Stephen Houston, Jr., a Georgia cotton farmer, recently told *The Atlanta Journal–Constitution*, "We're just playing a game. [Market] prices don't have anything to do with what we're doing. We're just looking at the government payments."[11]

   Farm policies also harm the environment by promoting overproduction and discouraging crop rotation, violate trade agreements, undercut African farmers, contribute to obesity by subsidizing unhealthy foods, and cost taxpayers and consumers billions of dollars every year.

The agriculture economy has been revolutionized over the past 75 years, and Americans deserve a modern farm bill that reflects today's farm economy. This farm bill clearly fails to meet that standard.

Back to the Drawing Board

With crop prices soaring, farm incomes setting records, and Congress pledging to reduce the budget deficit, there can be no better time to reform the bloated and outdated farm-subsidy programs. The conference report fails to seize this opportunity. It would continue to spend $25 billion annually on many farmers who do not need subsidies.

Lawmakers should reject a bloated version of the status quo and adopt a farm policy that fits today's farm economy. They should limit farm subsidies to those earning less than $200,000 annually and close loopholes that allow farmers to collect millions in annual subsidies. They should remove the budget gimmicks that will add to the budget deficit. Rather than increase subsidies, lawmakers should reduce them for crops with soaring prices.

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9. Henry Wallace, cited in Oxfam America, "Fairness in the Fields: A Vision for the 2007 Farm Bill," 2007, at *http://www.oxfamamerica.org/resources/files/OA-Fairness_in_the_Fields.pdf* (May 7, 2008).
10. See Mark Edelman, James Monke, and Ron Durst, "Can Farmer Savings Accounts Help Save Farming?" *Choices: The Magazine of Food, Farm and Resource Issues*, Fall 2001, pp. 38–41, at *http://findarticles.com/p/articles/mi_m0HIC/is_3_16/ai_80848252/pg_1* (May 7, 2008).
11. Dan Chapman, Ken Foskett, and Megan Clarke, "How Your Tax Dollars Prop Up Big Growers and Squeeze the Little Guy," *The Atlanta Journal–Constitution*, October 1, 2006.

Beyond those tweaks, lawmakers should examine whether farm policies that were created in the 1930s to assist poor family farmers during the Great Depression make any sense in the current era of hugely profitable agribusinesses. The first step toward reform is to reject this status quo farm bill and go back to the drawing board. The President should veto this farm bill for its backwards steps on reforms.

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