

# The Agricultural Safety Net 101

## 1. What is the agricultural safety net?

The agricultural safety net refers to the various federal programs and policies that insulate agricultural producers from the costs of conducting business. These programs and policies include direct federal expenditures, programs that shift business risk from producers to taxpayers, and mandates that create or influence market conditions.

Most people agree the agricultural safety net includes the following commodity programs:

- Direct payments which are cash payments to owners of farm land,
- Counter-cyclical payments that pay agricultural producers when prices for certain agricultural products drop below a pre-determined level,
- Industry-specific programs (for example the sugar industry benefits from an import quota),
- Subsidized crop insurance (where taxpayers cover on average 62% of the costs for individual purchase of insurance),
- Disaster programs (that pay producers when they suffer losses not covered by crop insurance), and
- Trade programs and policies (for example the Market Access Program that has taxpayers covering part of the costs for advertising agricultural products overseas).

Other programs that send taxpayer dollars to agricultural producers or create or influence markets for agricultural products are also part of the agricultural safety net, including:

- Conservation programs that compensate producers for implementing practices that reduce the impact of agriculture,
- Nutrition programs that create markets for agricultural products,
- Federal mandates (for example the Renewable Fuel Standard requires 15 billion gallons of conventional—corn—ethanol be used annually by 2015),
- Direct spending (U.S. Department of Agriculture (USDA) pays for most agricultural research and also purchases beef during times of emergency to prop-up prices), and
- Credit (subsidized loans and loan guarantees are available for agricultural producers).

## 2. When and why was the agricultural safety net created?

The justification most often claimed for an agricultural safety net is that agriculture supposedly faces unique challenges beyond the control of individual businesses and that taxpayers have an interest in maintaining a safe and adequate food supply. An often repeated line is that agriculture is uniquely at risk from forces beyond its control, namely pests, disease, and the weather.

The modern agricultural safety net has its roots in the Dust Bowl of the Great Depression. The first “farm bill” was passed in 1933 to help increase low crop prices and address massive soil loss on the Great Plains. Since then, subsequent legislation was passed sporadically until farm bills were passed in more regular intervals beginning in 1965.

## 3. Which government agency or agencies are responsible for carrying out agricultural safety net programs?

Agricultural safety net programs are generally administered by USDA. State and local agencies also help implement and manage certain conservation, nutrition, and rural development programs. Public-private initiatives also exist, primarily in research and crop insurance programs. For instance, crop insurance policies are sold and

serviced by private insurance companies, which receive subsidies for their administrative costs, while the program is overseen by USDA's Risk Management Agency.

#### **4. Legislative Process: How are agricultural safety net programs adopted/implemented/modified?**

The bulk of agricultural safety net programs are authorized under permanent law, meaning they continue indefinitely unless modified or deauthorized by Congress. The foundation of the agricultural safety net is the Agricultural Adjustment Act of 1949. The modern federal crop insurance program was created by the Federal Crop Insurance Act of 1980.

The primary legislative vehicle for influencing the agricultural safety net is the "Farm Bill." Farm bills generally create or extend programs and policies by suspending provisions of permanent law for five years. For more details on the Farm Bill see our *Farm Bill 101*.

Programs can also be affected by the annual budget process. For example, spending on the Biomass Crop Assistance Program (BCAP), an initiative that pays landowners to plant biofuels crops, was limited in FY2012 even though Congress authorized an unlimited amount of money to be spent when the program was created in the 2008 Farm Bill.

#### **5. How much does the agricultural safety net cost?**

The Congressional Budget Office estimated the ten-year cost of the 2008 Farm Bill at \$604 billion at passage. The real price-tag is higher, estimated in late 2012 at \$916 billion. Crop insurance alone cost taxpayers \$11.2 billion in 2011 while nutrition programs cost \$78 billion. In addition, mandates, quotas, and controls—such as those in the sugar and dairy programs—often do not involve federal spending but do raise the costs of products for consumers.

#### **6. Who benefits from the agricultural safety net?**

Agricultural safety net programs overwhelmingly support producers of favored crops. Direct payments are only available for ten types of crops. Crop insurance is available for more than 100 crops, but most of the costs are for policies covering corn, cotton, wheat, and soybeans.

In aggregate, commodity and crop insurance programs overwhelmingly benefit producers of corn, soybeans, cotton, wheat, and rice. These producers received over 90% of direct payments and 87% of crop insurance premium subsidies in 2011.

#### **7. What are the most prominent potential changes to the agricultural safety net?**

Proponents of agricultural spending are advocating for an increased federal role in managing risks faced by agricultural producers. The most prominent of these are expanded federally subsidized crop insurance and new "shallow loss" programs to compensate producers for modest losses in revenue not covered by crop insurance.

For more on "shallow loss" programs, see [Senate's New Way to Lock in Unlimited Farm Subsidies](#).

For more on crop insurance, see [Crop Insurance: A Federal Cash Assurance Program](#).

#### **8. Why should taxpayers care about the agricultural safety net?**

The agricultural sector is much different than it was in the 1930s, yet, U.S. policies have not conformed to these changes. Farm bills currently have price tags about to eclipse \$1 trillion. And the government programs and policies that make up the agricultural safety net impact all taxpayers who purchase food or use gasoline in their vehicle.

If government is to have a role in supporting agricultural producers, it should focus on catastrophic risks that the market is incapable of protecting against. The current agricultural safety net protects against more than simply catastrophic losses. Expanded federally subsidized crop insurance and shallow loss programs will simply increase the government's role in individual producers' risk management decisions. Government's role is not to protect parochial concerns at the expense of national interest and not to protect producers from normal or marketable risks. With record national debt and a profitable farm sector, now is the time to take a step back and reevaluate the government's role in American agriculture.

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