The Agricultural Safety Net 101

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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.

The agricultural safety net includes the following federal programs:

- Counter-cyclical payments that pay agricultural producers when prices for certain commodity crops drop below a pre-determined level set by the federal government,
- Industry-specific programs (for example, the sugar industry benefits from an import quota),
- Subsidized crop insurance where taxpayers cover on average 62 percent of the costs for individual purchase of insurance,
- Supplemental disaster programs that pay producers when they suffer losses not covered by crop insurance, and
- Shallow loss programs that subsidize small dips in producers' income, effectively guaranteeing high levels of income each year.

Other programs that create or influence markets for agricultural products or create additional revenue streams for producers, are also part of the agricultural safety net, including:

- Conservation programs that compensate producers for implementing practices that reduce the environmental 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 ethanol – primarily derived from corn – to be used annually),
- Trade programs (such as the Market Access Program that provides subsidies to organizations promoting exports),
- Direct spending from the U.S. Department of Agriculture (USDA) pays for agricultural research and also purchases a surplus of products like beef and cheese during times of emergency to prop up prices, and
- Credit such as subsidized loans and loan guarantees available for agricultural producers and processors of agricultural products.
- Ad hoc, "temporary" programs created through legal authority provided to the Secretary of Agriculture by the Commodity Credit Corporation (CCC) Charter Act, or through ad-hoc supplemental appropriations.

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

   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 (approximately five years) beginning in 1965. Recent farm bills were enacted in 2008, 2014, and 2018. The agricultural safety net has increased in scope and cost over time, now guaranteeing high levels of income for certain commodity crop farmers. Since 2018, numerous ad hoc "emergency" agricultural safety net programs have been created, and continued, in response to President Trump's trade war, the COVID-19 pandemic, and natural disasters.

3. **Which government agency is 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.

   Certain programs' funding is also determined (at least in part) by the annual appropriations process. Spending can either be increased or decreased, sometimes affected by Changes in Mandatory Program spending (CHIMPs). For example, spending on the Biomass Crop Assistance Program (BCAP), an initiative that paid landowners to plant biofuels crops, was cut by Congress even though the 2008 Farm Bill authorized unlimited CCC spending. Some bioenergy programs receive both mandatory and discretionary spending (the latter affected by appropriations bills) so additional spending can be provided on an annual basis, in addition to mandatory spending levels authorized in the 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 $641 billion at passage, the 2014 Farm Bill at $956 billion, and 2018 Farm Bill at $867 billion. Actual costs, however, are nearly always more than projected. In addition, mandates, quotas, and controls—such as those in the sugar and dairy programs—often do not involve direct federal spending, but do raise the costs of products for consumers, food manufacturers, and institutions buying agricultural products. Additional legislation – such as supplemental ad hoc disaster aid bills - and the establishment of administration-authorized agriculture policy programs without the approval of Congress also increase federal spending on the agricultural safety net.

Farm bill-authorized programs were created to help farmers manage risk. Increased payments to farmers and ranchers through additional programs outside of the farm bill process often discourage the use of smart, unsubsidized risk management options, incentivize unnecessary risk taking at taxpayer expense, and fail to promote resilience to future economic and climate challenges.

6. Who benefits from the agricultural safety net?

Agricultural safety net programs overwhelmingly support large producers of favored commodity crops such as corn, soybeans, wheat, cotton, peanuts, and rice. Crop insurance is available for a wider range of crops - more than 120 crops, but most of the program's costs are for policies covering the same handful of commodity crops. For instance, in 2021, nearly 80 percent of the $8.6 billion in federal crop insurance subsidies went to these six crops. With most programs tied to acreage, larger producers reap a significantly greater portion of subsidies as compared to smaller, diversified, minority, beginning, and other farmers/producers.

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. Calls to create a permanent disaster program in the next farm bill are arising due to recent hurricanes, floods, and droughts. Since passage of the last farm bill in 2018, the costliest additions to the agricultural safety net include increased policymaking outside of the farm bill process, such as trade war payments, COVID-19 relief, and more:

- **Trade war subsidies:** The Trump Administration's USDA authorized a total of $28 billion in trade mitigation payments, the majority of which came from the Market Facilitation Program (MFP), sending checks directly to farmers affected by President Trump's self-imposed trade war.
- **Ad hoc disaster aid:** Congress also authorized USDA to distribute $16.4 billion to agricultural producers that suffered losses due to natural disasters experienced since 2017. Some provisions included subsidies to producers who could have purchased crop insurance but chose not to do so, leaving taxpayers on the hook for losses. Additional subsidies were duplicative and/or were distributed to farmers for losses of uninsured stored grain, even though there is a private insurance market to cover these losses.
- **COVID-19 income subsidies:** Congress authorized more than $40 billion in direct payments to farmers and ranchers affected by the COVID-19 pandemic for the 2020 and 2021 crop years (through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Consolidated Appropriations Act of 2021, and USDA's use of $6.5 billion in CCC spending). As of March 22, 2022, approximately $31 billion was spent on the Coronavirus Food Assistance Program (CFAP) (including top-up payments) and the rest was spent (or is in the process of being spent) on biofuels, livestock, food programs, timber, dairy, and other interests.

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

The agricultural sector is much different than it was in the 1930s, yet agriculture policies have not conformed to these changes. Farm bills – covering 5-year timespans - currently have price tags nearing $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 helping agricultural businesses build resilience instead of dependence on federal subsidies. This means focusing financial safety net programs on catastrophic risks that the market is incapable of protecting against. The current agricultural safety net covers significantly more than catastrophic losses. Expanding the size, scope, and cost of the agricultural safety net on top of ad-hoc disaster and other non-farm bill spending will simply increase the government's role in everyday decisions of farmers and ranchers. Without changes, the agricultural safety net will continue to promote production decisions that fail to adequately prepare agriculture for future risks, with increasing costs for taxpayers. Soil, water quality, wildlife habitat, and climate mitigation will continue to take a backseat without significant farm bill and other agricultural policy reforms.

Increasing government-set target prices and expanding margin insurance, just to name a few, in the next farm bill will fail to increase resilience and provide a more cost-effective, accountable, and transparent safety net. The federal government's role is not to protect parochial concerns at the expense of national interests 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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