Administrations Can Currently Raid Commodity Credit Corporation Funds for Their Own Initiatives: Good Idea or Bad Idea?

Vincent H. Smith, Joshua Sewell, and Eric J. Belasco

April 2024

Key Points

- Leaders in the House and Senate agriculture committees are exploring ways to respond to several farm groups' requests to raise reference prices for commodity subsidy programs.
- Secretary of Agriculture Thomas Vilsack recently suggested using surplus Commodity Credit Corporation (CCC) moneys, effectively an annually refurbished \$10–\$15 billion slush fund, to pay for these increases.
- Following the removal of restrictions on the use of CCC funds in the 2018 and subsequent annual agricultural appropriations bills, the Trump and Biden administrations have used CCC moneys to fund policy initiatives without congressional oversight.

On January 12, 2024, during an on-the-record interview with reporters in Altoona, Iowa, the current secretary of agriculture, Thomas Vilsack, floated the idea of using the secretary's discretionary authority to access Commodity Credit Corporation (CCC) funds to underwrite long-run increases in farm safety-net program subsidies.[1] Over the past three decades, Congress has authorized an annual appropriation of \$30 billion for CCC funding of congressionally approved farm subsidy programs, but spending on those programs has averaged about \$15 billion and never exceeded \$21 billion. Thus, under current law, the current secretary of agriculture can effectively count on having up to at least \$9 billion available for discretionary initiatives that do not require congressional approval. This was not the case between 2010 and early 2017, when the secretary of agriculture's discretion about how funds could be used was much more heavily circumscribed.

Secretary Vilsack's farm safety-net funding strategy would be to increase reference prices that drive subsidy payments for 17 different crops under two subsidy initiatives: a price-support program called Price Loss Coverage (PLC) and a similar "revenue per acre" support program called Agriculture Risk Coverage (ARC). The secretary noted that the strategy would be a "contingency" approach to be used if baseline federal funding in the farm bill budget was not available for the proposed increases in PLC and ARC subsidies because of other program commitments.

The political context in which he made this proposal was, and remains, as follows: About 60 seats held by Republican House members are in districts with a substantial farm vote. Some of those seats are viewed as competitive, and both parties would like to claim credit for introducing changes to agricultural price and revenue support programs that benefit the farm vote.

House Agriculture Committee Chair Glenn Thompson (R-PA) and his Republican counterpart on the Senate Agriculture Committee, Ranking Member

John Boozman (R-AR), have strongly supported such increases. The Republican approach to solving the farm bill funding problem has been to seek the required increase in baseline funding, on average about $5 billion annually for the 20 percent increase in reference prices preferred by farm lobbies, from reductions in federal nutrition program spending and spending on conservation programs authorized under the 2022 Inflation Reduction Act (IRA).[2]

This approach was, and continues to be, strongly opposed by Democrats in the House and Senate,[3] and it is widely viewed as infeasible by both parties. Thus, Secretary Vilsack, whose party is as interested as President Joe Biden is in seeking the farm vote, has suggested solving the funding problem for higher farm subsidy payments by using surplus CCC funds.

Many farm interest groups also support sustaining the increased level of funding for conservation subsidies authorized under the IRA *and* increasing farm-income support subsidies. Thus, Secretary Vilsack's approach would be more lucrative and attractive for their members because it would yield larger increases in total farm subsidy payments from all agricultural programs. Further, Secretary Vilsack's approach would also vitiate any need for a fight over reductions in nutrition subsidies, which in fact benefit more rural households than do agricultural subsidies because poverty rates among rural households are relatively high.[4]

Since the relaxation of congressional controls over the use of unspent CCC funds in 2017, both Republican and Democratic administrations have seen and seized opportunities to use those moneys for their own political purposes. Between 2018 and 2020, with a sharp eye on the 2020 general election, the Trump administration authorized using CCC funds for about $25 billion in so-called Market Facilitation Payments (MFPs). The MFPs' primary political purpose was to shore up support for Republican House, Senate, and presidential candidates in the 2020 general election by overcompensating farmers for revenues lost from price declines for agricultural commodities. Especially for hogs and soybeans, and to a lesser degree for other commodities, those price declines were unambiguously the direct consequence of the then-president's tariff war initiatives against China and other major importers of US agricultural commodities.[5] More recently, the Biden administration has viewed surplus CCC funds as a source of revenue to support climate-oriented conservation initiatives and now, apparently, increased farm safety-net subsidy payments.

Of course, the costs of all these administration initiatives to increase agricultural subsidy spending fall on the taxpayer or increase the federal budget deficit, which is widely viewed as unsustainably large and inflationary. What, then, should be the rules for using surplus CCC funds? Should any administration, through the secretary of agriculture, have the freedom to use a $10–$15 billion annual slush fund in almost any way it chooses, which historically has included buying farm votes in an election year? Alternatively, should Congress strictly limit the use of those funds for rare genuine emergencies?

A Brief History of the CCC

Initiated under an executive order in 1933, the modern incarnation of the CCC sprang from the CCC Charter Act of 1948.[6] This act made the CCC a wholly owned corporation of the United States government,[7] with its functions subsumed under the US Department of Agriculture (USDA). Congress has since made the CCC the primary vehicle for making payments to farmers through many agricultural subsidy programs by giving the corporation permanent authority to borrow up to $30 billion from the US Treasury. In the annual appropriations process, Congress reimburses the CCC for its borrowing, effectively making the $30 billion borrowing limit an annual cap on total CCC spending.[8] From 2010 to 2017, CCC spending on programs authorized by Congress averaged about $15 billion and never exceeded $21 billion.

The CCC Charter Act, however, also makes the CCC a source of largely unrestrained power for an administration. The Charter Act articulates a number of specific authorities granted to the CCC, the exercise of which is at the secretary of agriculture's discretion.[9] These authorities include creating programs or direct payments aimed at supporting commodities by increasing domestic consumption, removing "surplus" commodities, assisting in production and marketing, aiding in exports, purchasing crops for federal programs, and supporting prices through loans, purchases, payments, and other operations. The only potential limits are the $30 billion cap on total borrowing authority and limitations and restrictions articulated in appropriations bills.

In 2011, disagreements emerged concerning the Obama administration's use of Charter Act authority to support emergency agricultural disaster payments, which were perceived to favor Arkansas farmers represented by the politically vulnerable Senate Agriculture Committee Chair Blanche Lincoln (D-AR).[10] Subsequently, a legislative prohibition on the secretary of agriculture's use of Charter Act–surplus removal and price-support authorities was included in every annual appropriations bill from fiscal years 2012 to 2017.[11] This legislative rider effectively prevented the secretary of agriculture from creating "Charter Act" programs to disperse large amounts of funds. Thus, Charter Act–authority programs were limited to initiatives such as the $327 million Cotton Ginning Cost Share Program (2016) and a $100 million Biofuels Infrastructure Partnership grants initiative (2015) that used discretionary authority to expand markets for US commodities.

However, the Consolidated Appropriations Act of 2018—drafted under Republican control of the House and Senate and signed into law by President Donald Trump on March 23, 2018—did not contain the long-running legislative rider restricting the secretary of agriculture's exercise of discretionary authority. The rider has also been omitted from subsequent appropriations.

Since the relaxation of congressional controls over the use of unspent CCC funds, Republican and Democratic administrations have seen and seized opportunities to use those moneys for their own purposes. As discussed above, between 2018 and 2020 the Trump administration authorized the use of CCC funds for about $25 billion in Market Facilitation Payments as it eyed the 2020 general election.

More recently, the Biden administration has also tapped surplus CCC funds while avoiding the normal legislative process. The USDA's $3 billion Partnerships for Climate-Smart Commodities was an effort to bolster climate-oriented conservation spending. It was also an end run around Congress, as the program was announced while Congress and the administration were still negotiating the climate-focused IRA. In October 2023, also with no institutional oversight from Congress, the Biden administration tapped the CCC to create a $1.3 billion Regional Agricultural Promotion Program and make $1 billion in direct purchases for foreign-food-aid programs.[12]

The Vilsack Farm Safety-Net Proposal

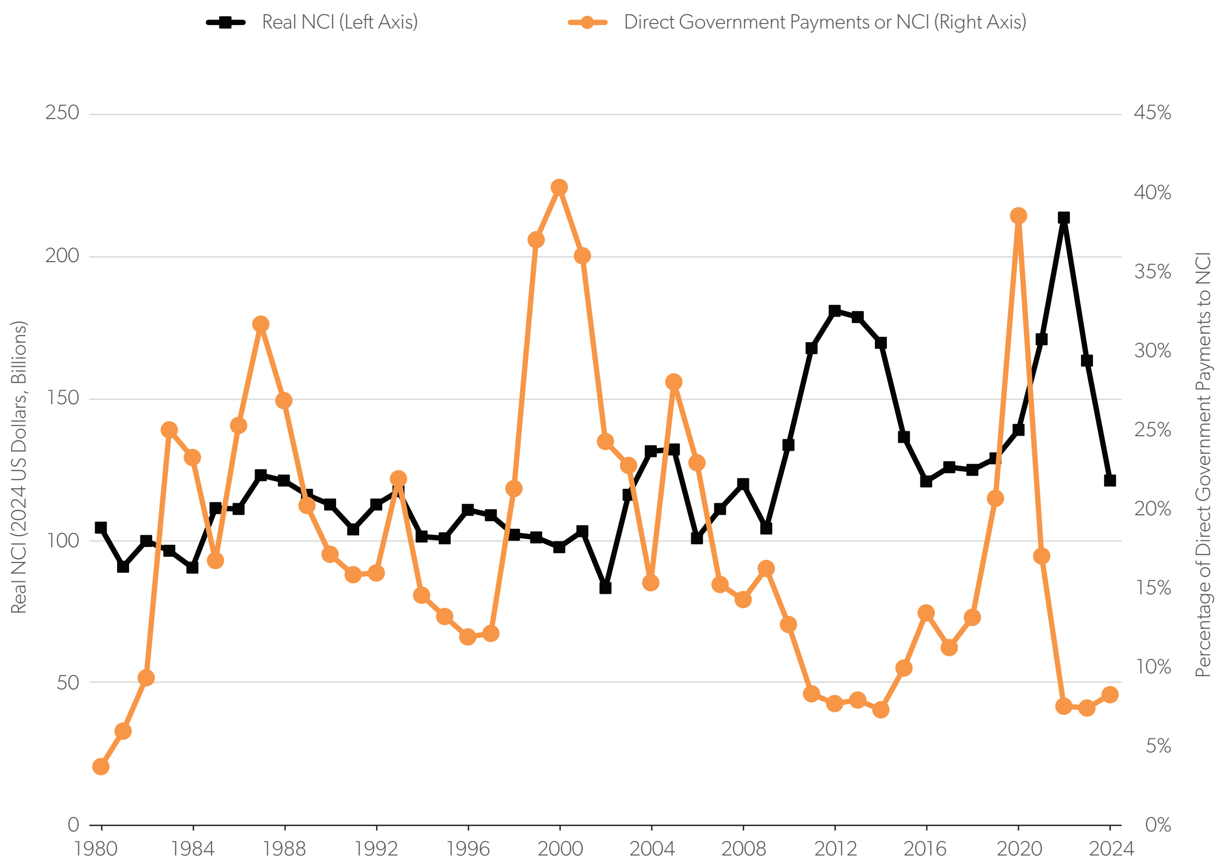
Continuing in a long tradition of administrations accessing CCC funds to buy votes, Secretary Vilsack recently promoted the idea of using CCC funds to increase reference prices that trigger subsidy payments for major and other commodities covered under the ARC and PLC programs. Agricultural interest groups—such as the American Farm Bureau Federation, the National Farmers Union, and many other commodity associations representing crops such as corn, soybeans, wheat, cotton, and rice—have all called for 10–20 percent increases in reference prices.[13] Their pleas for higher subsidy payments are essentially motivated by the relatively low payments provided through ARC and PLC over the past three years. However, these were years in which prices were exceptionally high for many of the commodities covered by the programs, and net farm incomes were close to record highs.

As shown in Figure 1, direct federal farm subsidies tend to follow a countercyclical pattern by design, in which subsidy payments decrease during times of high prices and farm incomes. Given that ARC and PLC are notionally intended to serve as farm income safety-net initiatives, the two programs should and currently do provide smaller subsidies and a smaller share of farm incomes under those circumstances.

For example, in 2022 and 2023, the proportion of direct government payments as a share of net farm income fell to around 8 percent. That level of support is similar to the level of federal support between 2011 and 2014, when prices and, in inflation-adjusted or real terms, net farm incomes were also relatively high. Currently, the loudest farm lobby complaints concern the PLC program, under which subsidy payments declined from $5.9 billion in 2020 to $8.1 million in 2023 and are projected by USDA to be $40.8 million in 2024. However, the "blame" for low farm-income safety program payments lies with high commodity prices and farm incomes, as Eric J. Belasco and Vincent H. Smith discussed in their recent report.[14]

The Food & Agricultural Policy Research Institute recently evaluated the impact from a 10 percent increase to all commodity reference prices, which is consistent

Figure 1. Real (Inflation-Adjusted) Net Farm Income and Total Government Farm Subsidy Payments: 1980–2024



Note: NCI is net farm cash income. Values for 2023 and 2024 are USDA forecasts. Net farm incomes and direct government payments are reported in terms of the purchasing power of 2024 dollars. Farms also receive benefits in the form of indirect supports of prices and incomes from other federal programs such as import quotas, tariffs, and domestic production restrictions, but the impacts of these programs are not accounted for in the data presented here.
Source: US Department of Agriculture, Economic Research Service, "Farm Income and Wealth Statistics," February 7, 2024, https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.

with some Senate proposals.[15] The study reported such an increase in reference prices would lead to an estimated annual average increase of $1.89 billion in ARC and PLC subsidy payments over the next eight years (2025–32). This implies an increase of 16.8 percent in total government subsidies to the farm sector from all programs.

In addition to the large increase in payments from the ARC and PLC programs, the beneficiaries are also likely to receive large payments from other support programs. For example, past research by Anton Bekkerman, Belasco, and Smith has shown that overlaps between ARC, PLC, and other income-support programs such as crop insurance are extensive.[16]

This has led other groups to criticize Secretary Vilsack's proposal on equity, environmental, and fiscal responsibility grounds. For example, the National Sustainable Agriculture Coalition[17] and the Environmental Working Group[18] state that such a program adjustment would only increase payments to large-scale commercial farms already receiving vast sums of cash through other programs, while providing little or no assistance to other farms. It is somewhat paradoxical that Secretary Vilsack—who has consistently emphasized the importance of helping smaller-scale farms operated by new, beginning, and socially disadvantaged farmers—has suggested doubling down on subsidy programs that overwhelmingly benefit the largest and most financially successful “corporate” farm businesses but provide few, if any, benefits for small and medium-sized operations.

Summary

The CCC was originally set up during the Dust Bowl era to fund programs to assist poor farm families in times of disaster. Today, 90 years later, regardless of their political affiliations, administrations seem more likely to use those resources to fund programs that increase votes from farm and other interest groups, especially in federal election years, regardless of whether the programs serve any substantive public policy purpose.[19] The Trump administration’s Market Facilitation Program is widely viewed as an especially transparent use of CCC funds to obtain farm votes. However, several Biden administration initiatives, including Secretary Vilsack’s recent suggestion that CCC funds be used to increase farm safety-net subsidies, also represent expensive end arounds of congressional oversight and legislative responsibilities.

Clearly, between 2012 and 2017, Congress severely restricted the secretary of agriculture’s ability to access CCC funds through annual appropriation bills that included a legislative prohibition on the secretary’s use of Charter Act–surplus removal and commodity-price-support authorities. The upshot was that spending on administration initiatives using CCC funds was also much lower during that period, annually averaging less than $100 million between 2012 and 2017. In contrast, between 2018 and 2023, under the leadership of Secretary Sonny Purdue and Secretary Vilsack, administrative initiatives using CCC funds involved average annual expenditures that exceeded $5 billion, a 50-fold increase in outlays.

A return to the policy environment in which administrations are not given blank checks to invent new farm programs or increase funding for existing initiatives would significantly reduce federal spending. After all, annual savings of $5 billion in federal expenditures, $50 billion over 10 years, would be a substantial contribution to any deficit-reduction program. The policy shift would be especially valuable when the savings are the result of limiting administration efforts to buy farm votes through otherwise wasteful initiatives and could be readily incorporated in a new 2024 or 2025 Farm Bill.

About the Authors

Vincent H. Smith is a nonresident senior fellow and the director of agricultural policy studies at the American Enterprise Institute. He is also professor emeritus at Montana State University, where he was professor of economics in the Department of Agricultural Economics and Economics.

Joshua Sewell is director of research and policy at Taxpayers for Common Sense, where he focuses on agricultural issues and general government transparency.

Eric J. Belasco is a nonresident senior fellow at the American Enterprise Institute, where he studies federal agricultural support programs, such as crop insurance and disaster aid. He is concurrently an associate professor in the Department of Agricultural Economics and Economics at Montana State University.

Notes

1. Chris Clayton, “An Option to Raise Reference Prices: Vilsack Says CCC Fund Offers a Creative Solution to Raise Reference Prices in Farm Bill,” *Progressive Farmer*, January 12, 2024, https://www.dtnpf.com/agriculture/web/ag/news/article/2024/01/12/vilsack-says-ccc-fund-offers-raise-2.

2. Saul Elbein, “Farm Bill Faces Battle as GOP Pushes to Strip Climate, SNAP Funding for Subsidies,” *The Hill*, November 6, 2023, https://thehill.com/policy/equilibrium-sustainability/4292953-farm-bill-battle-gop-push-crop-subsidies-climate-snap-funding.

3. See Office of Chellie Pingree, “Protect Billions in IRA Funds for Rural Clean Energy in Farm Bill, House Ag Dems Tell Committee Leadership,” press release, November 30, 2023, https://pingree.house.gov/news/documentsingle.aspx?DocumentID=5027; and Jerry Hagstrom, “The Farm Bill and Climate-Smart Funds: Argument Continues over IRA Conservation Dollars and Farm Bill,” *Progressive Farmer*, March 15, 2024, https://www.dtnpf.com/agriculture/web/ag/news/article/2024/03/15/argument-continues-ira-conservation.

4. Diane Whitmore Schanzenbach, "SNAP Supports Rural Families," American Enterprise Institute, April 1, 2022, https://www.aei.org/research-products/report/snap-supports-rural-families.

5. US Government Accountability Office, "USDA Market Facilitation Program: Stronger Adherence to Guidelines Would Improve Future Economic Analyses," November 18, 2021, https://www.gao.gov/products/gao-22-468; and Joseph P. Janzen and Nathan P. Hendricks, "Are Farmers Made Whole by Trade Aid?," *Applied Economics and Policy Perspectives* 42, no. 2 (June 2020): 205–26, https://onlinelibrary.wiley.com/doi/10.1002/aepp.13045.

6. For a detailed analysis of the Commodity Credit Corporation, see Megan Stubbs, *The Commodity Credit Corporation (CCC)*, Congressional Research Service, January 14, 2021, https://sgp.fas.org/crs/misc/R44606.pdf.

7. US Department of Agriculture, "Commodity Credit Corporation," https://www.usda.gov/ccc; and Commodity Credit Corporation Charter Act of 1948, 15 U.S.C. § 714 (1948).

8. See, for example, Consolidated Appropriations Act, Pub. L. No. 117-103 (2022), Division A, Title I.

9. Commodity Credit Corporation Charter Act of 1948, 15 U.S.C. § 714c (1948).

10. Dan Morgan, "Bogus Promise on Deficit Undercuts Lincoln," Fiscal Times, October 29, 2010, https://www.thefiscaltimes.com/Articles/2010/10/29/Senator-Lincoln-Farm-Aid-Boosts-Deficit.

11. The appropriations rider prevented the secretary of agriculture from sending income subsidies directly to farmers and ranchers by restricting the ability "to carry out clause (3) of section 32, or for any surplus removal activities or price support activities under section 5 of the Commodity Credit Corporation Charter Act (15 U.S.C. 714c)." See, for example, the Consolidated Appropriations Act, Pub. L. No. 115–31, § 715 (2017), Division A.

12. US Department of Agriculture, "USDA Bolsters Investments in International Trade and Food Aid," press release, October 24, 2023, https://www.usda.gov/media/press-releases/2023/10/24/usda-bolsters-investments-international-trade-and-food-aid.

13. Vincent H. Smith and Eric J. Belasco, "Leave Reference Prices Where They Are: Farm Safety-Net Programs Already Work Too Well," American Enterprise Institute, November 6, 2023, https://www.aei.org/research-products/report/leave-reference-prices-where-they-are-farm-safety-net-programs-already-work-too-well.

14. Smith and Belasco, "Leave Reference Prices Where They Are."

15. University of Missouri, Food & Agricultural Policy Research Institute, *Reference Prices, Farm Incomes, and Agricultural Land Markets*, October 4, 2023, https://fapri.missouri.edu/publications/ref-prices-oct-2023.

16. Anton Bekkerman, Eric J. Belasco, and Vincent H. Smith, "Does Farm Size Matter? Distribution of Crop Insurance Subsidies and Government Program Payments Across U.S. Farms," *Applied Economic Perspectives and Policy* 41, no. 3 (October 2018): 498–518, https://onlinelibrary.wiley.com/doi/abs/10.1093/aepp/ppy024.

17. National Sustainable Agriculture Coalition, "Farm, Taxpayer, Conservation Groups Agree: Don't Raise Reference Prices," September 12, 2023, https://sustainableagriculture.net/blog/farm-taxpayer-conservation-groups-agree-dont-raise-reference-prices.

18. Scott Faber and Jared Hayes, "Calls to Increase Crop Reference Prices Would Help Fewer Than 6,000 Farmers," Environmental Working Group, September 5, 2023, https://www.ewg.org/news-insights/news/2023/09/calls-increase-crop-reference-prices-would-help-fewer-6000-farmers.

19. Vincent H. Smith, Benjamin Goren, and Philip G. Hoxie also showed that farm groups have also exhibited a long-standing pattern of substantially increasing campaign contributions and lobbying efforts in federal election years, and they are one of the sectors (relative to their industry's size) that most heavily invests in such activities. Vincent H. Smith, Benjamin Goren, and Philip G. Hoxie, "Political Influence Efforts in the US Through Campaign Contributions and Lobbying Expenditures: An Index Approach," American Enterprise Institute, December 7, 2021, https://www.aei.org/research-products/report/political-influence-efforts-in-the-us-through-campaign-contributions-and-lobbying-expenditures-an-index-approach.