

Reforming the Farm Safety Net: Principles for Accountability

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Overview

Every five or so years, Congress has an opportunity to reform agriculture policy in the farm bill, a massive piece of legislation that has been frequently updated since the Great Depression. Last year, the farm bill expired when a new five-year bill was not passed before the end of the year, but a short-term extension of the 2008 farm bill was enacted instead. Nonetheless, the full Senate and the House Agriculture Committee voted to continue status quo proposals that guarantee income for profitable agribusinesses, reward special interests with lavish subsidies, shift risks onto taxpayers' backs, distort agricultural markets, redistribute wealth, and crowd out the private sector. No other sector would dare ask for \$1 trillion of lavish taxpayer supports while our country faces a \$16.8 trillion national debt, but agriculture is not any other industry. The entire agricultural safety net is in dire need of meaningful and lasting reforms that will make federal subsidies and agricultural programs more accountable to the public and taxpayers. Here, we offer reform principles that should guide upcoming debates in the full House and Senate about the future of agricultural subsidies.

Background - Current Agricultural Policy Structure

The current agricultural subsidy system is a maze of market distorting policies that reward a handful of large farm businesses at the expense of taxpayers. The system results in costly inefficiencies that detract from program goals and produce numerous unintended consequences. The federal government subsidizes a disproportionate amount of the risks agribusinesses face to the detriment of taxpayers, consumers, and agriculture as a sector making it less competitive, less resilient, and less accountable for its impacts. These programs and policies are made up of direct federal expenditures, programs that shift business risk from producers to taxpayers, and mandates that create or influence market conditions. Examples include direct payments, government-set target prices, industry specific programs, highly subsidized crop insurance, disaster programs, trade policies, biofuels mandates, subsidized loans, and many more.

Agriculture Subsidy Accountability – Principles for Reform

A more adequate, effective, and efficient agriculture safety net can be created by meeting the following four reform-minded principles: cost-effective, accountable, transparent, and responsive.

(1) *Cost-effective*

- **Eliminate duplicative and wasteful subsidies:** With numerous agricultural subsidy programs striving to achieve similar goals and cover the same risks, agribusinesses ultimately receive duplicative payments that waste taxpayer dollars. Outdated subsidies must be eliminated once and for all.
- **Cut income guarantee subsidies:** Washington should not guarantee any industry's profits – including agriculture. Subsidy programs must only pay out during true times of

need, not every year or after a bountiful harvest or record profits. Because new “shallow loss” income guarantee subsidies would only increase the government’s role in the everyday business decisions of agricultural producers, at great cost and with little public benefit, they should be rejected outright.

- **Allow agribusinesses to assume more risk:** Instead of shifting nearly all risks onto taxpayers, agribusinesses should assume more of their own business risks. Numerous unsubsidized private risk management options exist, like hedging, private crop insurance, off-farm income, diversification, contracting, and vertical integration.
- **Allow private sector to compete on level playing field:** The federal role in the agricultural safety net is to help protect against risks that the private sector is incapable of effectively managing, not crowd out the private sector out of convenience or the benefit of parochial interests.
- **Only pay for additional conservation practices:** Instead of paying agribusinesses to implement conservation practices that they would employ on their own, either as routine business practice or in response to reasonable health and welfare regulations, millions of taxpayer dollars could be saved by only paying for additional practices that produce measurable public benefits and reduce downstream and future costs of the agriculture industry’s impacts. To achieve full cost-effectiveness, payments must be targeted to areas most in need and to practices with the greatest measurable impact.

(2) Accountable

- **Limit market intrusions:** Subsidy programs should not distort agricultural markets, perpetuate unintended consequences, inflate land prices, alter planting decisions, or promote excessive risk taking at taxpayer expense. Subsidies shouldn’t incentivize agribusinesses to plant crops on marginal lands where success is unlikely and that would likely not be cultivated in the absence of federal subsidies.
- **Meet minimum accountability standards:** Agribusinesses must use best management conservation practices in exchange for any taxpayer support. Rotating crops, conserving wetlands, using conservation tillage practices, and other time-tested industry-standard means should be employed to reduce downstream costs of agricultural pollution, conserve land for future generations, and reduce taxpayer liabilities.
- **Achieve measurable results:** Taxpayers have a right to know which agriculture programs receiving federal dollars are achieving measurable results. Agricultural programs must have improved performance measures and metrics in order that spending can be prioritized and targeted toward the most effective projects with the best return on investment.
- **Target subsidies to the needy:** Federal taxpayers cannot afford to dispense unlimited agricultural subsidies to profitable agribusinesses or landowners that are divorced from the actual risks involved in agricultural production. Reasonable limits and stricter definitions on which agribusinesses qualify for subsidies must be utilized to ensure that federal programs do not work at cross-purposes.
- **Eliminate corporate welfare subsidies:** Corporate subsidies that place taxpayers in the position of covering the expected and inevitable costs of business decisions should be eliminated (like subsidizing crop insurance companies to sell and service subsidized policies, paying for swine odor reduction research, or mitigating pollution caused by large animal feeding operations). Businesses must be accountable for the inevitable

ramifications of their business decisions.

(3) *Transparent*

- **Make agricultural subsidy programs transparent:** At one point or another, all taxpayer subsidies have been shielded from the public eye. It's time all subsidies became transparent and available in an easily accessible and understandable format. If agribusinesses object to the public's right-to-know, they can turn down federal subsidies and instead utilize unsubsidized risk management options.

(4) *Responsive*

- **Make agriculture responsive to current needs by repealing permanent farm bill law:** Agriculture policy should not be based on outdated policies developed decades ago that no longer meet modern needs. Keeping permanent law in place serves one purpose: forcing lawmakers to choose bad policies over disastrous ones. This cynicism must end.
- **Separately consider farm and nutrition policies:** Lawmakers should separate farm policies from nutrition policy in order to separately debate the merits of each. Tying nutrition policy to agricultural policy provides a disservice because the needs of producers don't necessarily intersect with the needs of nutrition program participants. For too many years, the special interest wishes of farm subsidy proponents have dictated the outcome of agricultural and nutrition policies rather than the needs of average farmers and consumers.
- **Eliminate special interest subsidies and parochial programs:** Provide an adequate and appropriate agricultural safety net that provides public benefits rather than special interest subsidies and parochial programs. Taxpayers cannot afford to insulate individual agricultural businesses from the physical and market conditions impacting their operations.

Conclusion/Recommendations

The time has come that U.S. agricultural policies become more cost-effective, transparent, accountable to taxpayers, and reflective of today's modern production practices. Taxpayers and America's farmers alike deserve an adequate, effective, and efficient agricultural safety net that limits unintended consequences, eliminates long-term liabilities, and allows private risk management options to compete on a level playing field. Taxpayers have a right to know where their taxpayer dollars are going and which programs produce the best return on investment. Producers should strive to operate under free markets that aren't littered with unnecessary distortions and arbitrary special interest carve-outs that pick winners and losers. Making federal agricultural policies more accountable to taxpayers and the public will not only save billions of federal dollars, but will also reduce barriers for beginning farmers, conserve land for future generations, and promote a more resilient American agriculture.

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