YES: Farmers Don't Need Them, and They Impede Innovation

By Vincent H. Smith

U.S. farmers don't need support from U.S. taxpayers, either directly or through legislation that restricts the supply of a commodity to raise its price.

First, many people seem to believe that farmers, like the Joad family in John Steinbeck's "The Grapes of Wrath," are poor, when in fact the average farm household enjoys an income that is about 15% higher than that of the average nonfarm family. What's more, the 10% to 15% of farm families that receive more than 85% of all farm subsidies—amounting to millions of dollars a year in a few cases—have annual household incomes many times as large as those of the average U.S. taxpayer. Some estimates suggest that the farmers who receive the bulk of all subsidies—many of whom mainly raise corn, cotton, rice, peanuts, soybeans and wheat—are worth somewhere between $6 million and $10 million on average.

Second, farming is anything but the risky business it is often portrayed to be. The sector certainly isn't highly leveraged; the average debt-to-asset ratio in U.S. agriculture today is between 10% and 11%. And in contrast to the claims of the farm lobby and the private insurance companies (who take about $2 billion of taxpayer funds annually to deliver heavily subsidized crop insurance), competent farmers are perfectly capable of managing the year-to-year price and production risks they face.

Less than 1% of all farms (about one in every 200) go out of business in any given year, and the three main causes of those failures are catastrophic health-care costs, divorce and incredibly poor management. Fortune 100 companies and Main Street businesses face much riskier financial environments.

Third, farmers don't need "stable" prices to stay in business, especially when stable means they can enjoy high prices but are protected from below-average prices through price-support programs. Most farmers are financially well-positioned to handle both price and production risks. Consider, for instance, that many livestock producers and fruit and vegetable growers run profitable and successful farms and provide plentiful supplies of produce to U.S. consumers without any significant support from the government.

Rational response

These days, crop-insurance subsidies are the major source of government largess for farmers. Some proponents say farmers wouldn't be able to get crop loans without them. Anyone tempted to buy that argument should consider that before 1980, when crop insurance covered less than 20% of all operations because subsidies were small, banks made plenty of loans to farmers who didn't have such coverage. They also make loans to livestock and fruit and vegetable producers who don't have access to or don't use crop insurance as a risk-management tool.

The problem with subsidized crop insurance is that it allows farmers to operate in ways that increase the risk of crop and other forms of financial loss because they know that any losses they incur will be covered by taxpayers. Farmers have responded rationally by, for example, planting crops on poor-quality land, cutting back on things like pesticides and fertilizer that reduce the risk of crop losses and reducing the extent to which they diversify their enterprises (for example, by jointly raising livestock and crops).

Subsidies also discourage farmers from being innovative and improving productivity. That’s because when any business is effectively guaranteed profits by the government, there is much less incentive to adopt new practices and technologies.

Granted, subsidies have had a modest effect on reducing soil erosion because farmers are required to file conservation plans to receive them, but many economists believe the same effect could have been achieved through other means.

Land-rich nation

The farm lobby may argue that subsidies lead to increased food output and lower prices for consumers, but that isn’t true when subsidies are considered as a whole. Some subsidy programs may produce that effect, but others do the opposite by taking farmland out of production for conservation purposes. And the idea that U.S. food security depends on government farm programs is an even weaker argument. As a land-rich nation, the U.S. is a net exporter of crops and food products and would be under any credible price scenario.

At about $20 billion a year, total spending on agricultural subsidies is a relatively small part of the overall federal budget. But wasteful government spending is still waste, and most farm subsidies are wasteful.