MEMORANDUM

To: Filemon Vela, Chairman, U.S. House Committee on Agriculture
CC: Collin C. Peterson, Chairman, U.S. House Subcommittee on General Farm Commodities and Risk Management
From: Domestic 2
Date: April 4, 2019
Re: Farm Enrichment, Equitably Distributed (FEED) Act

Agricultural subsidies are inequitable and economically damaging. Large farms are unfairly, disproportionately subsidized: the top 10% in sales receive 2.5 times the national average of $12/acre.[1] Subsidies distort the market and damage the environment by encouraging over-farming. Yearly spending on agricultural subsidies has reached $20B—far outpacing inflation—after having doubled over the last two decades[2] despite stagnant agricultural output.[3] The Agricultural Improvement Act of 2018[4] and the proposed 2020 federal budget[5] took steps in the right direction by curbing redundant, simultaneous enrollment in crop insurance and ARC/PLC programs and tightening commodity payment caps. **We recommend that all at-sale agricultural subsidies be gradually phased out while instituting protections for farmers.** Funding should be reallocated to optimize agricultural productivity by establishing a grant program for the modernization of agricultural equipment and increasing the budgets for agricultural export promotion, disaster aid, and sustainable farming research. The Secretary of Agriculture will determine the exact funding amounts for reallocation.

Subsidy programs fall can be classified into seven categories:[6]

- **Insurance premiums ($8B)** to insure over 100 crops and aid providers' administration.
- **Agriculture Risk Coverage (ARC) ($3.7B)** to provide revenue protection under benchmark.
- **Price Loss Coverage (PLC) ($3.2B)** to provide yield protection under benchmark.
- **Conservation Programs ($5B)** to incentivize sustainable farming practices.
- **Disaster Aid ($1.9B)** to protect against natural and man-made disasters.
- **Marketing and Export Promotion ($1.2B)** to finance operations of more than 90 foreign offices in market research and promotion for the agricultural needs of overseas markets.
- **Research and Other Support ($3B)** to support agricultural research and statistical services.

Set a per-farm insurance premium subsidies cap at $40,000/year, which is to decrease by a fixed amount yearly until expiration. The cap mimics a Presidential budget proposal[7] and would save an estimated $1B in the first year.[8] Fully eliminating premium subsidies reduces deadweight loss by nearly $750M.[9] **Reform the crop insurance program**—for interim efficiency—to only provide yield protection at the prevailing crop price during the time of planting, saving $2.4B annually.[10] The option of compensation at harvest-price amounts[11] to subsidized speculative farming, dissociating production from market demand.[12] Private futures and options trading provides similar protections at no government expense.[13] **Establish the Agro-Capital Grant Program** to redistribute savings as grants to aid farmers in modernizing agricultural equipment. The Department of Agriculture will administer the program, and consider factors such as efficacy and environmental sustainability when approving proposals.

Increase funds for Marketing and Export Promotion, specifically Foreign Market Development (FMD) and Market Access Programs (MAP), programs which partner with agricultural trade groups to promote American agricultural goods abroad.[14] Every dollar spent on FMD and MAP increases US agricultural exports by $35.[15] It is a non-distortionary measure that increases farmer competitiveness by opening new markets.[16]

Reallocate funds from ARC and PLC to Conservation Efforts: Concurrent enrollment in ARC, PLC, and crop insurance is redundant: all programs effectively subsidize over-farming, which opposes agricultural conservation programs in damaging the environment. Instead, the $7B[17] should be used to create a more sustainable and productive economy by 1) expanding current conservation programs, 2) funding research on sustainable farming, and 3) increasing reserves for disaster relief to reduce reliance on taxpayer funds during times of catastrophe.

Our recommendations are designed to address potential concerns about removing subsidies. Our programs serve farmers' interests without distorting the market, assuaging concerns about the agricultural sector's well-being absent subsidies. The Presidential administration proposed reductions to subsidies but has expressed a generally favorable view.[18] Increased funding for FMD and MAP, however, aligns with the administration's goals: export promotion reduces the trade deficit—a top priority of the administration—and the Republican Party regards agricultural export expansion as "the surest path to farm security."[19] Legally, more export promotion funding does not violate WTO rules: such funding falls within unlimited "green box" spending.[20]

Though our policy is ambitious, it is not without precedent: New Zealand eliminated agricultural subsidies in 1984 and reallocated funds to research and disaster aid. Consequently, productivity doubled[21] and sector contribution to GDP increased[22] as farmers tailored production to their land and the market rather than the most heavily subsidized crops. In stark contrast to the existing, inequitable policies, our reallocations consider the needs of all farmers rather than the desires of few, optimizing government spending for increased farmer competitiveness.

Endnotes:

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