Planting Permanent Subsidies in Response to COVID-19

Lawmakers look to more than triple farm subsidies

TAXPAYERS for COMMON SENSE

Introduction

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The federal response to the economic fallout of efforts to control the spread of COVID-19 is putting American farmers and ranchers on a path to a degree of federal subsidization unseen in most people's lifetimes. The amount of "emergency" federal support provided to agriculture thus far already exceeds the total annual investment in all farm bill-authorized farm safety net programs. Yet many commodity interest groups and lawmakers believe this support falls far short and are advocating for tens of billions in additional subsidies. Many are also advocating to permanently expand USDA's ability to deploy income subsidies without a Congressional appropriation, including to various industries that utilize agricultural products. This would happen by adding authorities to USDA's Commodity Credit Corporation, an entity created by FDR during the Great Depression, which the Trump Administration revived to bypass Congress and direct $28 billion in "aid" to agricultural businesses harmed by the administration's trade war.

This drastic increase in both the size and reach of the "farm" safety net poses risks for agriculture and taxpayers. The history of farm bills and ad hoc appropriations show that "temporary" programs, like Direct Payments, and their related spending tend to become permanent fixtures of federal farm policy. In addition, attempts to use the temporary disruptions caused by COVID-19 to permanently expand the power of the Secretary of Agriculture to deploy subsidies from the Treasury – without first seeking Congressional authorization – threatens to further erode Congress' constitutional obligation to exercise the power of the purse.

Instead of writing blank checks and expanding spending authority for this and all future administrations, Congress needs to do the hard work of focusing federal pandemic assistance to clearly documented pandemic-caused harms. Otherwise Congress' response to the current event threatens to undermine decades of progress toward a cost-effective farm financial safety net that promotes opportunity and innovation instead of cronyism and dependency on Washington.

TLDR

- *Agricultural interest groups claim the $16 billion in COVID-19 income subsidies committed by USDA falls at least $35 billion short of their need.*

- *Key lawmakers are proposing up to $50 billion in additional "emergency" appropriations AND expanding USDA's ability to direct up to $38 billion more through the Commodity Credit Corporation (CCC) without a Congressional appropriation.*

- *Lawmakers are also proposing to expand "farm" safety net payments beyond the farm gate to include ethanol refiners and other users of agricultural products.*

- *A conservative estimate is that federal income subsidies in 2020 will total at least $63 billion and account for at least 50 and up to 75 percent of net farm income, the highest level ever recorded.*

- *This drastic increase in both the size and reach of the "farm" safety net is a threat to efforts to create a cost-effective farm financial safety net that promotes opportunity and innovation instead of cronyism and dependency on Washington*

COVID-19 and Agriculture

Calculating the economic damages in agriculture due to COVID-19 and policy responses to control the outbreak is subject to significant uncertainty. Diversity in crops, livestock, growing regions and types of operations means economic effects can vary greatly. As private businesses, farming and ranching operations do not publicly disclose their financial or operational details. Most economists use publicly traded futures and surveys of wholesale prices to approximate economic damage.

Income from agricultural activities is expected to dip in 2020. USDA's report on farm sector finances, released February 5th prior to implementation of COVID-19 containment policies, projected net farm income in 2020 would increase $3 billion (3.3 percent) to $96.7 billion. Modest increases in cash receipts and cash expenses were more than offset by improved values of inventory. The Food and Agricultural Policy Research Institute's (FAPRI) June Baseline Update for U.S. Agricultural Markets accounts for observed economic effects and policy responses since February. FAPRI projects crop and livestock receipts dropping 8.6 percent **($33 billion)** compared to 2019. But improved value of inventory and non-cash farm income plus Washington's commitment of $16 billion in COVID-19 related farm income subsidies greatly reduces this projected reduction. FAPRI's net farm income of $**90.6 billion would be a 3 percent reduction from 2019** farm income and 6 percent less than USDA's pre-COVID forecast.

Special interest groups representing specific segments within agriculture have provided their own estimates. Not all segments of agriculture are publicly releasing their estimate of economic damage and few are releasing the details and assumptions on which the estimates are made.

INDUSTRY GROUP ESTIMATES OF ECONOMIC DAMAGE

Commodity	Claimed Economic Damage	Period	Date and Source
Biofuels-Ethanol Plants	$10.5 billion	2020	April 20; Renewable Fuels Association
Cattle	$13.62 billion	2020 and 2021	April 8; National Cattlemen's Beef Association
Corn	$6 billion	2020	April 24; University of Illinois
Cotton	$3 - $3.5 billion	2020	April 17; Hagstrom Report
Dairy – Farmers	$2.85 billion	2020	Mach 24; National Milk Producers Federation
Hogs	$5 billion ($37 per hog)	2020	April 14; National Pork Producers Council
Hog euthanasia and disposal	$1.7 billion	2020	May 13; National Pork Producers Council
Local and Regional Food Systems	$1 billion+	2020	April 9; National Sustainable Agriculture Coalition
Specialty Crops	$5 billion	YTD	April 13; Letter to Sec. Perdue
Soybeans	$2 billion	2020	April 24; University of Illinois
Total	**$51.2 billion**		

Agricultural Income Subsidies in COVID-19 Pandemic Legislation

Policymakers have responded to these projections of lost income by authorizing tens of billions in "emergency" support for agricultural businesses and promising tens of billions more. The majority of the support thus far is in the form of income subsidies sent directly to farming and ranching businesses including $9.5 billion appropriated in the CARES Act (Division B, Title 1 of P.L. 116-136). The Secretary of Agriculture is sending additional income subsidies ($6.5 billion thus far) by exercising his CCC Charter Act authority to assist with production and marketing, to dispose of excess commodities, or otherwise support prices for U.S. agriculture. In total, the USDA has committed $16 billion to the ad hoc income subsidy program known as the Coronavirus Food Assistance Program. The CARES Act included a provision making an additional $14 billion available via the CCC in July (Sec. 11002 P.L. 116-136). The USDA has not specified how this funding will be directed. The USDA is also attempting to increase prices and shore up incomes by directly purchasing crops and livestock products and distributing them to food banks, soup kitchens, and other nutrition programs.

USDA ACTIONS IN RESPONSE TO COVID-19 ECONOMIC DAMAGE

Program	Authority/Source	Amount
Coronavirus Food Assistance Program (CFAP)		**$19 billion**
Income Subsidies	CARES Act (Division B, Title 1 of P.L. 116-136)	$9.5 billion
Income Subsidies	CCC Charter Act (15 U.S.C. 714)	$6.5 billion
Direct Purchase (USDA Food Box Distribution Program)	Families First Coronavirus Response Act (Sec. 1101 (g) of P.L. 116-127)	$3 billion
Section 32 (Since 1935, 30 percent of funds collected from tariffs applied to goods imported to the United States are directed to USDA to purchase "surplus" agricultural commodities.)		
May 4 (Direct Purchase)	Agricultural Adjustment Act of 1935 (P.L. 74-320)	**$470 million**
Future Commitment		$403.3 million
The Emergency Food Assistance Program (TEFAP)	Families First Coronavirus Response Act COVID Act (Division A, Title 1 P.L. 116-127)	$400 million
	CARES Act (Division B, Title 1 of P.L. 116-136)	$450 million

This level of support has been deemed inadequate by a diverse set of interest groups and lawmakers. A primary complaint is that the amount of compensation falls short of claimed economic losses. In addition, the USDA explicitly excluded a number of agricultural products it deemed did not qualify because they did not experience a five percent reduction in futures or wholesale prices between mid-January and mid-April. Such crops include the typically highly subsidized rice, peanuts, and most wheat varieties, as well as nursery products, aquaculture (catfish), cut flowers, hemp, alfalfa, and tobacco. Industry advocates have highlighted a number of other perceived shortcomings. Prices in USDA's formula do not incorporate the premium prices charged for organic production, grass-fed livestock, or other direct-to-consumer opportunities. And lobbyists are advocating all income eligibility rules and payment limits be lifted. (By statute, most farm income subsidy programs exclude entities with an adjusted gross income greater than $900,000 and limit annual payments to $125,000. USDA set a CFAP payment limit of $250,000 for individuals and up to $750,000 for corporations; they also waive any income means test if a company or individual makes 75 percent or more of their annual income from farming or ranching).

USDA'S PROJECTED CFAP PAYMENTS (5/14/2020)

	Projected Payments	Claimed Damage	Unmet Claims
Cattle	$5.06 billion	$9.17 billion	$4 billion+
Row Crops (11 types)	$3.5 billion	$11.5 billion (corn, soybeans, cotton only)	$8 billion+
Dairy	$2.77 billion	$2.85 billion	$100 million
Hogs and Pigs	$1.6 billion	$5 billion	$3.4 billion
Specialty Crops (44 fruits, vegetables, nuts, or mushrooms)	$2.4 billion	$5 billion	$2.6 billion
Other Sectors (including wool and lambs)	$670 million	$17 billion+	$16.5 billion (minimum)
Total	**$16 billion**	**$50 billion+**	**At least $35 billion**

Potential Agricultural Subsidies in Response to COVID-19

The growing list of complaints makes it likely additional spending will be authorized. Chairman of the Senate Agriculture Appropriations Subcommittee John Hoeven (R-ND) stated May 28 that lawmakers are "working to build on the $14 billion in CCC funding that will be in place in July and secure additional assistance during this fiscal year." Agriculture Secretary Perdue has also said that farm-sector needs will exceed what is currently available. Lawmakers have introduced numerous pieces of legislation to unleash these desired subsidies.

ADDITIONAL PROPOSED EMERGENCY APPROPRIATIONS

Bill	Sponsor	Amount	Details	Status
H.R. 6611	Rep. Scott (R-GA)	$50 billion until expended	Specifies that the Secretary shall not apply any payment limits.	Introduced 4/23/20
H.R. 6800 (HEROES Act)	Rep. Lowey (D-NY)	$16.5 billion in calendar year 2020	Increases CFAP to cover 85% of losses including for currently ineligible crops. Payments adjusted higher for location, specialized variety, and farming practices.	Passed House on 5/15/20
Sec. 60101		Such sums as necessary	Payments to livestock and poultry producers that euthanized livestock.	
Sec. 60201		$500 million	Payments to dairy producers when they donate their milk to an eligible distributor instead of dumping due to lack of buyers.	
Sec. 60202		Such sums as necessary	Supplemental payments for milk production in excess of production under the Dairy Margin Coverage Program.	
Sec. 60305(a)		Such sums as necessary	Directs USDA to make payments to biofuels (primarily corn ethanol) refiners that lost sales or idled plants.	
Sec. 60305(b)		Such sums as necessary	Directs USDA to make payments to textiles manufacturers (cotton) that lost sales or idled plants.	

ADDITIONAL PROPOSED CCC DIRECTED SUBSIDIES

Bill	Sponsor	Amount	Details	Status
H.R. 6728	Rep. Scott (R-GA)	$38 billion	Raise CCC annual borrowing authority from $30 billion to $68 billion.	Introduced 5/5/20
H.R. 7030	Rep. Hagedorn (R-MN)	$1.2 billion	Directs $1.2 billion in CCC funds to producers not able to sell livestock due to closed packing plants.	Introduced 5/27/20
H.R. 7051	Rep. King (R-IA)	Such sums as necessary	Authorize CCC funds to producers that euthanized hogs.	Introduced 5/28/20
S. 3756	Sen. Grassley (R-IA)	Such sums as necessary	Reimburses through CCC, biofuels producers for 75 percent of feedstock purchases from January 1 to March 31, 2020.	Introduced 5/19/20
HEROES Act Sec. 60401	Rep. Lowey (D-NY)	Authorization	Expands CCC powers (15 U.S.C. §714(c)) to include removal of surplus livestock or poultry due to supply chain interruption during an emergency period. Expands CCC powers to aid agricultural processing plants to ensure supply chain continuity during an emergency period.	Passed House on 5/15/20

Fiscal Effects on the Farm Financial Safety Net

Even absent authorization of additional agricultural income subsidies in response to COVID-19, federal subsidies are likely to constitute more than one-third of farm income in 2020. This would be the highest percentage since 2001 when government payments reached 40 percent of net farm income. The significant gulf between the losses claimed by agricultural special interests and federal financial commitments thus far, makes it highly likely additional farm subsidies will be authorized. The question is just how much. The question is just how much.

POTENTIAL AGRICULTURAL INCOME SUBSIDIES IN 2020 ($ MILLIONS)

Direct Government Payments	ERS - Feb 5, 2020	FAPRI - June 2020	TCS - June 2020
PLC	$3,393	$4,399	$4,399
ARC	$39	$1,052	$1,052
Other farm bill spending	$1,125	$983	$983
Conservation	$4,197	$4,215	$4,215
Supplemental disaster programs	$2,513	$2,598	$2,598
MFP (trade aid)	$3,690	$3,558	$3,558
CFAP - Approps		$9,500	$9,500 to $59,500
CFAP - CCC		$6,500	$20,500 to $58,5000
Total Government Payments	**$14,977**	**$32,805**	**Conservative: $63.3 billion** **Nightmare: $134.8 billion**
U.S. Farm Income	*$96.6 billion*	*$90.6 billion*	*$121 billion to $192 billion*
Govt Payments as % of net farm income	15.5 percent	35.9 percent	**50 to 70 percent**

Direct government payments are likely to total no less than $63 billion in 2020. This estimate includes the projected Farm Bill program payments from FAPRI's June baseline update and the $14 billion in CCC spending from the CARES act available in July. While recent experience with agricultural disaster supplementals show that the longer they are debated, the higher the price tag rises, this estimate assumes "only" the $16.5 billion from the HEROES Act is eventually incorporated in the next COVID-19 supplemental or final 2020 appropriations. Assuming FAPRI's estimates of farm income, subsidies would constitute at least 50 percent of net farm income.

The $63 billion, however, is likely just a floor. Lawmakers and the Secretary of Agriculture have said they will spend more than has already been committed. Industry appetite is high, with the Farm Bureau endorsing both permanently increasing the CCC spending limit to $68 billion annually and Rep. Scott's (R-GA) proposed $50 billion "emergency" appropriation. These actions, if fully implemented this calendar year, would increase the pot of potential federal "farm" income subsidies to as much as $134 billion. While such a high level of farm income subsidies seems absurd, the four COVID-19 legislative packages already signed into law are projected to increase federal budget deficits by $2.4 trillion, or nearly double the entire 2019 discretionary budget. Lawmakers have shown a willingness to borrow from the Treasury at levels and at a legislative speed that is unprecedented. Coupled with the current administration's track record of using the CCC to buy support from farming and ranching constituencies, it is difficult to see what if any limit there is to "farm" safety net spending in the current climate.

Conclusion

While agriculture, like the rest of the economy, is clearly suffering from the COVID-19 pandemic, some agricultural special interests and lawmakers are advocating for an unprecedented expansion of Washington's role in the farm economy. If such an expansion was guaranteed to be a temporary response to the deeply destructive but conquerable health pandemic, it might be palatable. But recent experience with ad hoc spending in response to natural and trade policy disasters shows that agricultural income subsidies go up but not down. Attempts to eliminate payment limits while permanently expanding the Secretary's authority to dole out funding without consulting Congress are especially egregious attempts to undermine Congressional intent while permanently increasing Washington's role in the balance sheet for farming and ranching businesses. Lawmakers should be more deliberate in their response to COVID-19 and ensure the federal farm safety net is focused on helping farmers and ranchers manage the risks of today and tomorrow, not maximizing government payments for a select few.

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