

# BACKGROUND

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## What You Should Know About Who Receives Farm Subsidies

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### Abstract

*Congress is working on its next farm bill. Legislators should ignore harmful myths that undermine the development of sound agricultural policy, including myths regarding family farms and the recipients of farm subsidies. Agricultural special interests and the agriculture committees frequently try to paint a picture of the struggling family farmer trying to make ends meet. This Backgrounder dispels some persistent myths regarding family farms, and uses U.S. Department of Agriculture data to show that almost all of the farm subsidies go to large agricultural producers whose household income and wealth are extremely high, especially in comparison to U.S. households in general.*

Congress is currently working on its next farm bill. In crafting new farm policy, legislators should ignore harmful myths that undermine the development of sound agricultural policy, including myths regarding family farms and myths surrounding the recipients of farm subsidies. Agricultural special interests and the agriculture committees frequently try to paint a picture of the struggling family farmer trying to make ends meet. They use this image to help draw support for greater farm subsidies, as if these subsidies were a social welfare program to help poor farmers—as opposed to its (alleged) purpose of helping farmers manage agricultural risk. This is not the 1940s when farm household income was half that of nonfarm household income, and when farm handouts did act in part as a social welfare program.<sup>1</sup>

This *Backgrounder* dispels some persistent myths regarding family farms, and uses U.S. Department of Agriculture (USDA) data to show that almost all of the farm subsidies go to large agricultural producers

### KEY POINTS

- Agricultural special interests and the agriculture committees frequently try to paint a picture of the struggling family farmer trying to make ends meet. But “family farm” is not a synonym for “small farm.” In 2015, 90 percent of million-dollar farms were family farms—and family farms accounted for about 90 percent of farm production.
- Almost all of the commodity payments and crop insurance indemnities are going to millionaires and multi-millionaires as measured by farm household net worth. In 2016, 80 percent of commodity payments and 85 percent of crop insurance indemnities went to family farms that had a median household wealth of \$1.7 million or more.
- Congress should make major changes to subsidies in the next farm bill, and in doing so should ask: Are subsidies providing a true safety net or has the system become a crony scheme to primarily help a small number of large producers with high farm household income and wealth?

This paper, in its entirety, can be found at <http://report.heritage.org/bg3306>

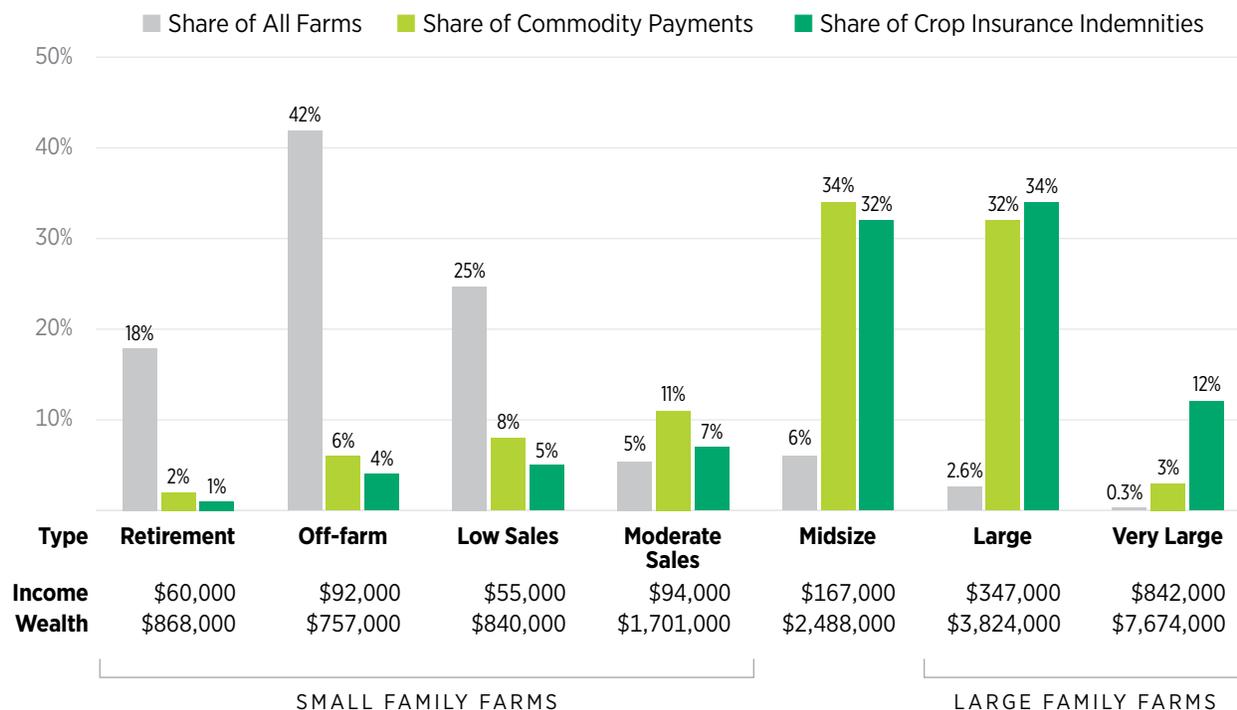
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CHART 1

## Most Subsidies Go to Farms with Greatest Income and Wealth

The largest family farms in the U.S., with the greatest farm household wealth, represent just under 3 percent of all farms yet receive more than one-third of all commodity subsidies and almost half of the insurance indemnities.



**NOTES:** Income refers to median farm household income in 2016. Wealth refers to median farm operator household net worth in 2016. Household net worth is the difference between the household’s assets and liabilities, considering farm and nonfarm assets and liabilities. Data do not include non-family farms, which account for 1.2 percent of all farms.

**SOURCES:** U.S. Department of Agriculture, “America’s Diverse Family Farms,” December 2017, <https://www.ers.usda.gov/webdocs/publications/86198/eib-185.pdf> (accessed April 10, 2018), and author’s calculations.

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whose household income and wealth are extremely high, especially in comparison to U.S. households in general.

### Dispelling Myths Regarding Family Farms

There are many myths surrounding family farms, including what constitutes a family farm. The term “family farm” simply means, as the USDA explains, “any farm where the majority of the business is owned by the principal operator—the person most responsible for running the farm—and individuals related to the principal operator.”<sup>2</sup> “Family farm” is not a synonym for “small farm.” In fact, 90 percent of million-dollar farms were family farms in 2015.<sup>3</sup> They also account for about 90 percent of farm production.<sup>4</sup>

Family farms are also not disappearing. In fact, family farms account for about 99 percent of all farms.<sup>5</sup> Further, the total number of farms in the U.S. has remained stable since the 1980s at about 2.1 million.<sup>6</sup>

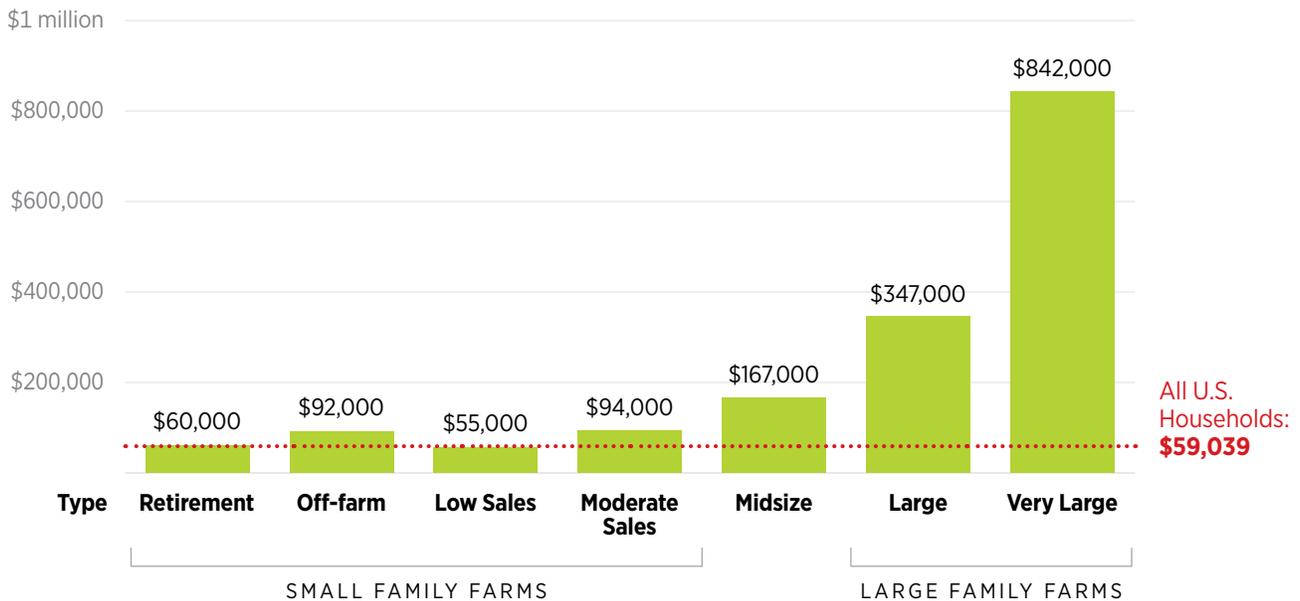
**Fact: The Farm-Subsidy System Primarily Helps Large Agricultural Producers.** The farm-subsidy system provides limited assistance to small family farms. In 2016, small family farms accounted for 89.9 percent of all farms, yet received 27 percent of commodity payments and 17 percent of crop insurance indemnities.<sup>7</sup>

In contrast, commercial farms,<sup>8</sup> which include the largest family farms, accounted for just 10.1 per-

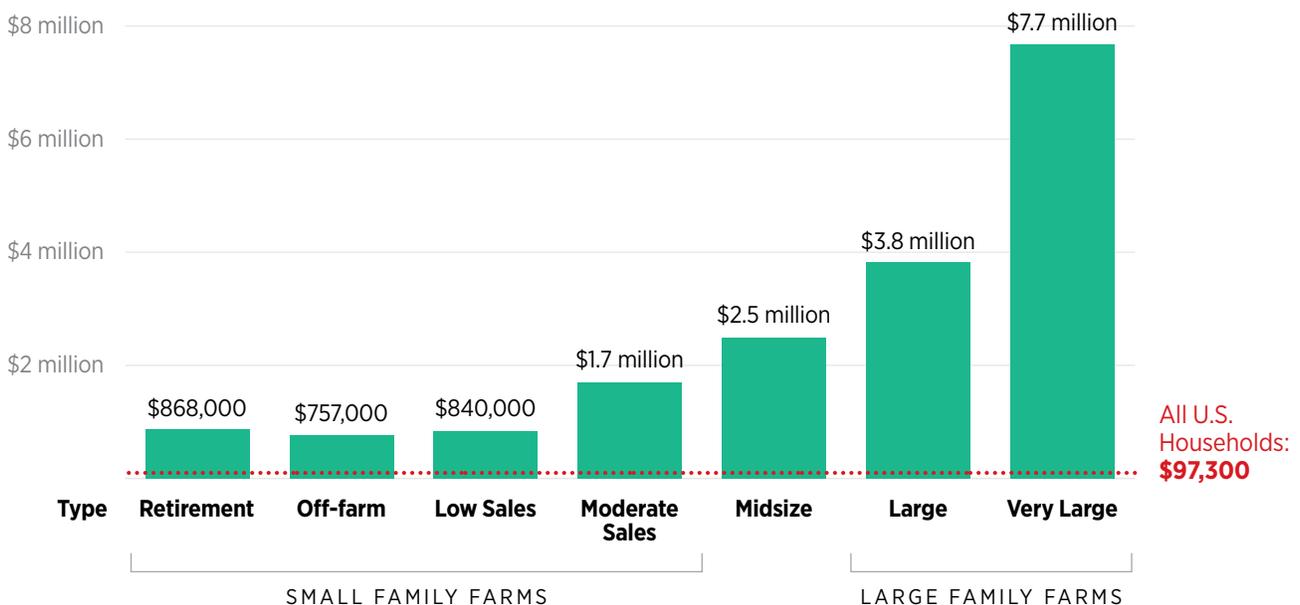
CHART 2

## Median Farm Household Income, Wealth Higher than U.S. Median

MEDIAN OPERATOR HOUSEHOLD INCOME BY FARM TYPE, 2016



MEDIAN OPERATOR HOUSEHOLD NET WORTH BY FARM TYPE, 2016



**NOTES:** Data do not include non-family farms, which account for 1.2 percent of all farms. Household net worth is the difference between the household's assets and liabilities, considering farm and nonfarm assets and liabilities.

**SOURCE:** U.S. Department of Agriculture, "America's Diverse Family Farms," December 2017, <https://www.ers.usda.gov/webdocs/publications/86198/eib-185.pdf> (accessed April 10, 2018).

cent of all farms, yet received 73 percent of commodity payments and 83 percent of crop insurance indemnities.<sup>9</sup>

Large-scale farms (large and very large family farms) accounted for just 2.9 percent of all farms, yet received over a third of the commodity payments (35 percent) and almost half of the crop insurance indemnities (46 percent).<sup>10</sup>

**Fact: Farm Households Have Much Greater Income and Wealth than All U.S. Households.** Even looking at the income and wealth of all farm households, not just those receiving farm subsidies, the income and wealth numbers are staggering. In 2016, the median household income for all farms was \$76,000, which is 29 percent greater than the median income for all U.S. households (\$59,039).<sup>11</sup> The median farm household wealth for all farms was \$897,000, which is nine times greater than the median household wealth for all U.S. households (\$97,300).<sup>12</sup>

When looking at the income and wealth for farm households that receive most of these subsidies, the numbers become even more illuminating (see Charts 1 and 2).

*Farm Household Income.* Commercial family farms (midsize, large, and very large family farms), which received 69 percent of commodity payments and 78 percent of crop insurance indemnities, had a median household income of \$167,000 or more in 2016.<sup>13</sup> When breaking it down by type of commercial family farm:

- Midsize family farms, which received 34 percent of commodity payments and 32 percent of crop insurance indemnities, had a median household income of \$167,000 (about triple the median income for all U.S. households).<sup>14</sup>
  - Large family farms, which received 32 percent of commodity payments and 34 percent of crop insurance indemnities, had a median household income of \$347,000 (about six times the median income for all U.S. households).<sup>15</sup>
  - Very large family farms, which received 3 percent of commodity payments and 12 percent of crop insurance indemnities, had a median household income of \$842,000 (about 14 times the median income for all U.S. households).<sup>16</sup>
- *Farm Household Wealth.* Even when including some small family farms (“moderate sales” farms), the wealth numbers are shocking. As measured by the wealth (defined as net worth<sup>17</sup>) of farm households, almost of all the commodity payments and crop insurance indemnities are going to millionaires and multi-millionaires.
- Commercial family farms and moderate sales farms, which received 80 percent of commodity payments and 85 percent of crop insurance indemnities, had a median household wealth of \$1.7 million or more in 2016.<sup>18</sup> When breaking down the numbers by family farm type:
- Moderate-sales family farms, which received 11 percent of commodity payments and 7 percent of crop insurance indemnities, had a median household wealth of \$1.7 million (about 17 times the median wealth for all U.S. households).<sup>19</sup>
  - Midsize family farms, which received 34 percent of commodity payments and 32 percent of crop insurance indemnities, had a median household wealth of \$2.5 million (about 26 times the median wealth for all U.S. households).<sup>20</sup>
  - Large family farms, which received 32 percent of commodity payments and 34 percent of crop insurance indemnities, had a median household wealth of \$3.8 million (about 39 times the median wealth for all U.S. households).<sup>21</sup>
  - Very large family farms, which received 3 percent of commodity payments and 12 percent of crop insurance indemnities, had a median household wealth of \$7.7 million (about 79 times the median wealth for all U.S. households).<sup>22</sup>

This massive wealth transfer takes money from taxpayers and hands it to households that generally have much greater income and wealth. There is a reverse Robin Hood effect. The problem is only getting worse over time, as a recent USDA report points out. For example, the report explains: “In 1991, half of commodity program payments went to farms operated by households with incomes over \$60,717 (in constant 2015 dollars); however, in 2015, half went to households with incomes over \$146,126,” the USDA explained. “However, in 2015, half went to households with incomes over \$146,126.”<sup>23</sup>

## Recommendations

So what should this massive wealth transfer mean in terms of policy? It does *not* mean that more subsidies should go to small farms. It also does not mean that subsidies should be precluded from going to the largest farms *solely* because of the high farm household income and wealth.<sup>24</sup> It *does* mean that legislators should:

- **Not allow the myth of the struggling farmer to influence farm subsidies.** Agricultural special interests try to conflate the issue of risk management and financial need. Farm subsidies are not a social welfare program. The only question on subsidies should be whether government intervention is necessary to help farmers manage agricultural risks.
- **Consider farm size and farm household income and wealth in determining the ability to manage risk.** Regardless of size, farms should be able to manage risk without government intervention.<sup>25</sup> However, the large size of farms and the high income and wealth of those operating the farms should inform decisions about whether those operations can better manage agricultural risk than smaller and less prosperous farm households. This might be the case due to factors such as economies of scale.
- **Make major subsidy reforms.** Even assuming (incorrectly) that government intervention is necessary to help farmers manage risk, it is very difficult to justify the current level of subsidies when most agricultural producers succeed with little to no assistance. The Congressional Research Service recently pointed out that 94 percent of farm program support goes to just six commodities (corn, cotton, peanuts, rice, soybeans, and wheat), which account for only about 28 percent of total farm receipts.<sup>26</sup> In other words, about three-fourths of all agricultural production receives 6 percent of the farm program support.

It is also very difficult to justify providing multiple subsidies to cover the same losses, to cover shallow losses (minor losses), or to insulate farmers from

competing in the market like other businesses. The high income and wealth of farm households receiving most subsidies, as outlined in this *Background*, simply make these types of indefensible subsidies even more indefensible. After all, forcing taxpayers to provide inappropriate subsidies is bad enough. It is even worse that these subsidies are primarily going to millionaires and multimillionaires as measured by the net worth of farm households.

Congress should make major changes to farm subsidies in the next farm bill. Ideally, these changes would include treating the small number of farmers receiving almost all of the farm program support the same as most agricultural producers. This means providing little to no assistance, and if assistance is provided, it would only help producers when they experience major losses due to disasters.

## Conclusion

Any subsidies provided to farmers should be based on whether they are clearly necessary to manage agricultural risks, not on the myths regarding struggling farmers. Legislators should take a step back and ask the right questions, including:

- Are farm subsidies necessary to help farmers manage agricultural risk?
- Are farm subsidies properly focused on helping those farmers when they have a real need?
- Are subsidies providing a true safety net or has the system become a crony scheme to primarily help a small number of large producers with high farm household income and wealth?

If policymakers do ask these questions, they will likely reach the same conclusion that legislators and organizations across the ideological spectrum have reached: Farm subsidies are in dire need of major reform in the upcoming farm bill.

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## Appendix: Types of Farms

### Small Family Farms (Gross Cash Farm Income (GCFI) less than \$350,000)

- **Retirement farms.** Small farms whose principal operators report they are retired, although they continue to farm on a small scale.
- **Off-farm occupation farms.** Small farms whose principal operators report a major occupation other than farming.
- **Farming-occupation farms.** Small farms whose principal operators report farming as their major occupation.
  - **Low sales.** GCFI less than \$150,000.
  - **Moderate sales.** GCFI between \$150,000 and \$349,999.

### Midsize Family Farms (GCFI between \$350,000 and \$999,999)

- Family farms with GCFI between \$350,000 and \$999,999.

### Large Scale Family Farms (GCFI of \$1,000,000 or more)

- **Large family farms.** Farms with GCFI between \$1,000,000 and \$4,999,999.
- **Very large family farms.** Farms with GCFI of \$5,000,000 or more.

### Non-Family Farms

- Any farm where the principal operator and persons related to the principal operator do not own a majority of the business.

**Note:** This classification system was developed by the USDA's Economic Research Service.

**Source:** U.S. Department of Agriculture, "America's Diverse Family Farms," December 2017, <https://www.ers.usda.gov/webdocs/publications/86198/eib-185.pdf?v=43083> (accessed April 13, 2018).

## Endnotes

- 1 U.S. Department of Agriculture, Economic Research Service, "A Safety Net for Farm Households," October 2000, <https://www.ers.usda.gov/publications/pub-details/?pubid=41154> (accessed April 11, 2018).
- 2 U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2017 Edition," December 2017, <https://www.ers.usda.gov/webdocs/publications/86198/eib-185.pdf?v=43083> (accessed April 11, 2018).
- 3 U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2016 Edition," December 2016, <https://www.ers.usda.gov/webdocs/publications/81408/eib-164.pdf?v=42709> (accessed April 11, 2018). This is based on gross cash farm income of the farms.
- 4 U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2016 Edition," and U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2017 Edition." The 2016 report states that production was 89 percent in 2015, and the 2017 report states production was 90 percent in 2016.
- 5 U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2017 Edition."
- 6 See, for example, U.S. Department of Agriculture, National Agricultural Statistics Service, "Farms and Land in Farms," <http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1259> (accessed April 11, 2018).
- 7 U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2017 Edition."
- 8 "Commercial farms" refers to the largest family farms (midsize, large, and very large family farms) and non-family farms (these farms only account for 1.2 percent of all farms). See U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2017 Edition."
- 9 U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2017 Edition."
- 10 Ibid.
- 11 Ibid.
- 12 Ibid.
- 13 Ibid.
- 14 Ibid.
- 15 Ibid.
- 16 Ibid.
- 17 According to the USDA's "America's Diverse Family Farms" report, "Operator household wealth is defined as household net worth, the difference between the household's assets and liabilities, considering farm and nonfarm assets and liabilities." U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2017 Edition."
- 18 U.S. Department of Agriculture, Economic Research Service, "America's Diverse Family Farms: 2017 Edition."
- 19 Ibid.
- 20 Ibid.
- 21 Ibid.
- 22 Ibid.
- 23 Jonathan McFadden and Robert A. Hoppe, "The Evolving Distribution of Payments from Commodity, Conservation, and Federal Crop Insurance Programs," U.S. Department of Agriculture, Economic Research Service, November 2017, <https://www.ers.usda.gov/publications/pub-details?pubid=85833> (accessed April 11, 2018).
- 24 It also is no surprise that most subsidies go to the largest farms, since they have the most agricultural output. This does not justify the subsidies, however, and certainly does not justify the level or nature of the subsidies.
- 25 A detailed discussion of this issue is beyond the scope of this *Background*. For an in-depth analysis, see Daren Bakst, ed., *Farms and Free Enterprise: A Blueprint for Agricultural Policy*, The Heritage Foundation, September 21, 2016, <https://www.heritage.org/agriculture/report/farms-and-free-enterprise-blueprint-agricultural-policy>.
- 26 Randy Schnepf, "Farm Safety-Net Payments Under the 2014 Farm Bill: Comparison by Program Crop," Congressional Research Service, August 11, 2017, <https://fas.org/sgp/crs/misc/R44914.pdf> (accessed April 11, 2018).