



Future Vision: Do farm statistics lie?

by Chuck Abbott, *Top Producer* magazine

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Timothy Wise, Global Development and Environment Institute, Tufts University

Economist Timothy Wise had become increasingly annoyed. As he researched the impacts of U.S. corn subsidies on farmers in Mexico, he couldn't help but notice how the media and policy makers frequently referred to imprecise and misleading statistics about U.S. agriculture. That seemed to be the case when arguments were being made as justifications for more or less government support.

The bias led Wise, the deputy director of Tufts University's Global Development and Environment Institute, to author his own critique on the topic (see www.esopassociation.org).

Most puzzling to Wise is the common use of farm income numbers that lump all "farmers" together, even those whose primary incomes are off the farm. "If your question is about how family farmers are doing, why would you bother looking at aggregate farm statistics when more precise data is readily available from USDA and its Economic Research Service?" he asks.

"It would be like looking at the income of the auto industry as a whole to find out how auto workers are doing in their livelihoods," Wise says. "Why not just look at the income of the auto workers themselves?"

Among the most misleading of statistics is the one that says there are more than 2.1 million "farmers" in the U.S. In reality, if you take out those whose primary occupation is not farming, there are really about 654,000 commercial and family farms. And among that group there is significant participation in government programs—to the tune of 44% of small farms and 82% of large family farms.

Wise readily admits that his view is that the government is justified in maintaining farm programs to help family farmers. "Prices are not sustaining them," he says. "That fact is payments are something that need to be defended. In truth there is no more evidence now than at the time of the Great Depression that the free market works well in agriculture."

He also contends that organizations such as the Environmental Working Group misuse statistics to portray large corporate farms and other entities as soaking up all the farm subsidies. In fact, the typical farmer in the top 13% of farm payment recipients is a large family farmer who is making \$60,000 per year and half of that income is coming off the farm. More than half the on-farm income (\$18,000) comes from farm programs.

"If large family farms can only make a quarter of a living from selling their farm products, farm programs are failing family farmers," says Wise. "Reforms are needed, but getting the U.S. government out of agriculture is not the solution." —*Des Keller*

Wise's Six Most-Common Statistical Errors

1. "Rural residence farms" is a USDA term that refers to those who live on farmland, may farm, but don't farm for a living. Statistically, these people represent two-thirds of all farms. As a result, critics of government farm programs often say that a minority of farms get farm payments. Yet most full-time farmers do receive program benefits.
2. Averages don't work when presenting farm income data. It is accurate to say that farm household income is 18% higher than the non-farm population. But 56% of full-time farmers sell less than \$100,000 a year and have average incomes that are only 86% of the U.S. average.
3. Family farms receive more than half their incomes from off-farm activities. Yet this non-farming income is used to analyze farm programs. 4. In many cases, farm program payments go to landowners, not the farmers themselves. Yet it is often assumed that farmers are always receiving those benefits.
5. Given that farm program benefits have generally been based on production or acreage, the biggest operators will naturally get a larger proportion of the benefits. This fact shouldn't be surprising or scandalous.
6. Farm payments are highly concentrated, but it is misleading to contend that subsidies go unfairly to the top 10% to 20% of farmers with the assumption they don't need them. The average full-time family farmer in the top 13% of payment recipients receives modest payments amounting to \$18,000 annually.

What's ahead for tax reform?

Sen. Charles Grassley (R-Iowa), Senate Finance Committee Chairman

If it hadn't been for Hurricane Katrina, I would have expected to have an estate-tax repeal bill to the president by now. I think it was the distraction of Katrina and maybe, at the same time, feeling a little bit guilty about tax relief for people that have estates. The timing is poor when you're spending a great deal of money for recovery, or worse yet, when you've got people that are swimming in sewage in New Orleans.

I expect estate tax reform will come up next year. We probably won't be able to repeal it, as I would like, so we'll likely end up with a \$4 million or \$5 million exemption in permanent law beyond 2010. Hopefully, we'll get estate tax rates [on amounts above the exemption] at no more than 15%, based on the principle that surely an estate should not be taxed at a higher rate than capital gains.

I expect we'll renew the capital gains tax rate of 15% through 2010. We were not able to get that done in the Finance Committee but the House is headed that way, so there's a chance it will be in the tax bill that passes Congress. I'd like to extend it even further.

I would expect IRS Section 179 expensing to continue at the level it presently is: \$100,000 for machinery and equipment and single-purpose agricultural buildings.

Until the president makes up his mind, which I don't think will be until January, I don't think his advisory panel on tax reform will have much impact. One thing I want to say though—I don't dispute the

fact our tax code is so complicated it needs an overhaul, and that's why I reserve judgment and wait to find out what the president recommends. The panel is trying to stay revenue neutral in its proposals. But I think that when you talk about capping the deduction for mortgages and doing away with deductions for state and local taxes, that's a pretty heavy lift.

We ought to have the guts to repeal the Alternative Minimum Tax (AMT). It was a tax never to be collected except from a few thousand people. And now it's hitting millions of people. We get another five million people next year if we don't do anything about. But all we can do is kick the can down the road a year or two at a time by extending AMT exemptions. Repealing the AMT alone would cost \$27 billion out of the \$70 billion the Finance Committee was told to write in tax cuts.

My position is pretty consistent: Given a choice, I would have a flat rate income tax, I think at about 23%, with the only deductions being mortgage and charity. Without those two things in, it's about 17%. What I'm drawing on is not recent statistics but memories of what it was when Steve Forbes ran for president.

Now, under Steve Forbes' plan, there was some tilting toward low-income people through the deduction for family, which means your personal exemption including your spouse and children. Now you could make about \$46,000 before you paid any tax.

You eliminate everything else—capital gains, estate tax, depreciation, AMT and state and local tax deductions. There would not be a whole lot of difference from what we did in 1986, when we broadened the tax base and lowered the marginal tax rate. The principle of taxation is to tax like income approximately the same for everybody.

A great deal of productive capability is wasted by accountants and lawyers and individuals in making out the income tax. That could be put to more productive use with a flat tax.

The other thing is, under a flat tax, the marketplace is making a decision on the distribution of goods and services in this country, as opposed to the tax code doing that. —*Chuck Abbott*