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THE 2007 FARM BILL AND BEYOND

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New research documents economic effects of subsidies and other agricultural policies

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The 2007 Farm Bill is hardly small potatoes. Over the last five years, farmers have received an average of $20 billion a year in subsidies and other payments.

Is this money really well-spent? Do payments and government controls on agriculture help or hurt American consumers?

To answer these questions, the American Enterprise Institute commissioned eighteen well-known agricultural economists to ascertain the effects of current U.S. agricultural subsidies, spending programs, and regulations, and to offer policy recommendations.

Directed by Bruce Gardner, professor of agricultural economics at the University of Maryland, and Daniel Sumner, director of the Agricultural Issues Center at the University of California, the authors comprehensively review and analyze American agricultural policy. Among their findings:

- Elimination of farm subsidies for corn, wheat, and soybeans would have virtually no effect on the production or prices of these commodities. These subsidies are, in effect, “money for nothing.” (Babcock)
- Farm households earn an average of 20 percent more than the average American household. The average income of commercial-scale farms—which receive almost all farm subsidies—is more than three times that of the average household. (Gardner)
- Farm households are also wealthier than the average American household. The median net worth of farm households in 2005 was estimated at $460,000, close to five times the estimated $92,000 for all U.S. households. (Gardner)
- Elimination of farm subsidies would not harm vulnerable farm families. Only 3 percent of all farm households have both low-income *and* low-net worth, and these households receive only a tiny share of the subsidies. (Gardner)
- Producers of the majority of U.S. agricultural output—beef, hogs, poultry, and all the fruit, vegetables, and other commodities whose production is growing fastest—get nothing from current subsidies and would lose nothing from an end to them.
- Taxpayers currently pay $3 billion a year to subsidize crop insurance and $2 billion for ad hoc disaster payments. This allows some farmers to collect twice on the same loss.

- Much of the insurance subsidy simply pays for administration and marketing costs: only sixty cents of every dollar gets to the farmer. (Glauber)
- The U.S. sugar program costs consumers hundreds of millions of dollars each year by keeping U.S. sugar prices at about double the world level. (Beghin)
- Dairy subsidies, tariffs, and other policies raise dairy product prices, costing consumers hundreds of millions of dollars annually. (Balagtas)

Current policies also significantly distort international trade. Subsidies cause the United States to flood the world with excess cotton, driving down market prices by 10 percent, to the detriment of producers in developing countries (Babcock).

The Farm Bill also authorizes payments for humanitarian food assistance in poor, disaster-stricken countries. These programs cost taxpayers on average nearly $2 billion a year. Contributing author Christopher Barrett examined international food aid programs, and found that:

- In FY 2005, because of mandates which require U.S. food aid to be bagged, processed, and shipped by U.S. producers, USAID purchased $654 million worth of food for international food aid programs and spent nearly $1 billion in transport, storage, and administrative costs. Such logistical costs ate up 60 percent of the U.S. food aid budget; by contrast, Canada spent 32 percent on logistics.
- These mandates also produce absurd results, as history has demonstrated. The 1986 Farm Bill, for example, stipulated that Great Lakes ports should retain their right to ship U.S. food aid at the 1984 level. That legislation also required food aid to be shipped in U.S. flagged vessels which no longer enter Great Lakes ports. As a result, to comply with the 1986 bill, U.S. food aid was moved overland by truck or rail to the Great Lakes region, and then transported by land to other U.S. seaports for overseas shipment.

The reauthorization debate is taking place in a unique context that may lead Congress to make significant reforms.

- Budget deficits and Congressional pay-go rules limit new spending.
- International trade rulings and Doha round negotiations call into question the survival of current subsidy programs.
- Interest group demands for more spending on conservation, research and development, nutrition, and other Farm Bill issues are putting budget pressure on traditional commodity programs.
- Concern about oil prices and energy security has lead to calls for increased ethanol and renewable energy subsidies.
- Many believe voters punished Republicans in 2006 in part because of their allegedly free-spending ways; the Farm Bill is the first major spending issue to come before Congress since the election.

Together, the papers in “The 2007 Farm Bill and Beyond” (posted at www.aei.org/farmbill/) provide important facts policymakers should consider, and offer concrete suggestions for policy reform that would serve better the nation’s interests.

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