US FARM POLICY: WE KNOW WHERE WE HAVE BEEN, BUT DO WE KNOW WHERE WE ARE GOING?

In the United States, the federal government has been involved with, and provided subsidies for, farmers and the agriculture sector since at least 1862, when the Morrell Act established the Land Grant University system to encourage both agricultural research and education. Beginning in 1933, with the Agricultural Adjustment Act, farm policy became increasingly focused on providing direct subsidies for farmers to increase farm household incomes, especially when commodity prices were low. After eight decades of federal support, most farm organizations in the United States have come to view farm subsidies as taxpayer funds to which they are entitled and are mortified when policymakers or other commentators suggest that those subsidies should be reduced.

In fact, subsidies to the US agricultural sector have become increasingly difficult to justify as, in stark contrast to the 1930s, in America average farm household incomes are now substantially higher than average non-farm household incomes. Moreover, the average farm household is six or seven times wealthier than the average non-farm household. In addition, about 80 percent of farm subsidies are received by the largest 20 percent of farmers who are much wealthier and have much higher incomes. Nevertheless, farm organizations in the United States continue to be powerful lobbies that have a great deal of influence with key House and Senate Congressional Agricultural Committees, whose members largely come from rural states and constituencies. In addition, especially since the early 1980s, those farm lobbies have also formed effective alliances with other interest groups, including environmental, agricultural business, and insurance organizations. As a result, they have been able to sustain those transfers to farmers from taxpayers, albeit in shifting forms.

TRENDS IN US FARM POLICY SINCE THE MID-1980s

The evolution of US farm programs since the mid-1980s has been complex, but more recently highlighted by two major trends that are related to the alliances that have developed between farm and other interest groups. The first is a shift away from price supports and more obvious transfers such as export subsidies; the second is a shift towards government payments for on-farm conservation practices and agricultural insurance “risk management” subsidies. These trends are illustrated in figure 1, which shows the size and distribution of farm subsidies among four categories of program over three five year periods, 1996-2000, 2001-2005, and 2006-2010. The four subsidy categories are: traditional subsidy programs (export subsidies, price support subsidies, counter-cyclical subsidies, disaster aid, etc.), direct payments (based on the historical production of selected crops such as wheat,
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Congressional Budget Office is predicting that those subsidies will be even larger between 2013 and 2017, averaging about $11 billion a year. In contrast, annual direct payments remained relatively stable over the entire fifteen year period at between $4.5 billion and $5.5 billion, varying only in response to relatively modest changes in payment rates associated with attempts by the Congressional agricultural committees to comply with federal budget objectives that varied over time.

WHERE IS US AGRICULTURAL POLICY HEADED: THE WRONG DIRECTION?

Over the past two years, for two reasons, the direct payments program has increasingly been criticized as a waste of tax payer funds. First, those subsidies are transparently payments for doing nothing associated with farming; second, they disproportionately flow to larger farms and wealthier farmers and landowners, often being described as “corporate welfare.” Much of the debate over the new “2012” farm bill, now likely to be a 2013 Farm Bill, has been focused on the abolition of the direct pay-
Much of the debate over the new “2012” farm bill, now likely to be a 2013 Farm Bill, has been focused on the abolition of the direct payments program and what will happen to the approximately $5 billion that would result in “farm bill budget savings.”

In late September of 2011, the Congressional House and Senate Agricultural Committees cut a deal with the Congressional “Super Committee” charged with accomplishing a reduction of about $200 billion a year in the federal deficit. Total spending in the 2012 Farm Bill would be reduced by $2.3 billion a year, with a cut of $0.5 billion in nutrition (food stamp) program spending, another $0.3 billion or so reduction in conservation program outlays, and a net cut in farm subsidy program spending of $1.5 billion. Given that the Agricultural Committees agreed to end the direct payments program, they would then have about $3.5 billion to spend on new farm subsidy programs. Since then, the House and Senate Agricultural Committees have been soliciting “input” from farm lobbies about how to spend that money.

All of the proposals have involved shifting subsidies away from the direct payments program that is widely viewed as not distorting production and, therefore, as a green box or blue box program from the perspective of US commitments in the 1994 World Trade Organization (WTO) Agricultural Agreement. The spare money ($3.5 billion) would then be allocated to programs that tie subsidies to farmers current production choice, which are unambiguously production distorting and a potential “amber box” problem with respect to the WTO.

The Senate is proposing a shallow loss program tied to every hectare planted to crops like wheat, corn and soybeans that would give farmers subsidies when estimated revenues from the crops fall below 89 percent of their average levels over the past five years (on a per hectare basis). The House Bill would give farmers subsidies on every hectare planted to a crop if prices for the same set of crops fall below a new set of support prices that would be much closer to current market prices than the support prices available under the traditional loan rate program.

WHAT WILL HAPPEN TO US FARM POLICY

At this point, no one knows whether the Senate or House proposals will prevail, or whether Congress and President Obama will cut a “fiscal cliff” deficit reduction deal over the next two months that sharply reduces the monies available for farm subsidies. Many observers suspect that there will be no farm bill deal until a deficit reduction package has been crafted. If that is the case, a possible scenario is that Congress, with the goal of protecting funding for other programs such as food stamps for the poor and national defense, will simply reauthorize the 2008 Farm Bill for the next five years and phase out or immediately end the direct payments program, saving $5 billion a year for other uses.

In an era of record prices for most agricultural commodities, the impacts of that sort of initiative on the financial health of the US farm sector would be minimal and, for the most part, fall on the largest and wealthiest farm operations and landowners. From a global trade perspective, that outcome would be better than passage of either the proposed Senate or House Farm Bills. No new trade distorting agricultural subsidy programs would be introduced and the adverse effects on US farm families, who are generally doing very well relative to other US families, would be very modest.

BIBLIOGRAPHY