FOOD SYSTEMS insider
YOUR LINK THOUGH THE FOOD CHAIN

Issue Date: March 2007, Posted On: 3/6/2007

What do we want from the new farm bill?

Food Systems Insider staff
editor@food360.com

In September, the current Farm Bill will expire, and the debate over what comes next is gathering steam. Many voices, perhaps an unprecedented number, are straining to be heard. They come from all sides of the political and philosophical spectrum: anti-hunger, pro-trade, faith-based and public health groups. Many from the farm sector, including fruit and vegetable growers and the National Corn Growers Association, are all pressing for change.

Dissatisfaction has been growing with farm policy, which looks quite different from farm programs in the 1930s, at their inception. Then, 25 percent of the population lived on farms, earning incomes far below the national average. Programs meant to address the "farm problem" were designed to raise their incomes and stabilize income nationally, using supply management and price supports.

Over the years, those techniques have given way to a subsidy-based system, with eligibility tied to acreage or production, not income. Farmers can produce as much as possible; when prices fall, the government comes in with payments. Growers of corn, wheat, cotton, soybeans and rice receive more than 90 percent of all subsidies.

Some critics claim that our farm problem has been solved and subsidies can end. Farmers now have higher income levels than the average population, says Bruce Babcock, director of the Center for Agricultural and Rural Development at Iowa State University. Besides that, subsidies are not achieving their goals. "That the farmer needs a strong safety net is not a goal but a rationale after the fact," he says. "There is no public policy served by the commodity program, other than a political goal: Senators can stand up and say 'Farmers did not go out of business on my watch.'"

But the claim that farmers have a higher than average income comes from lumping together all kinds of farms and farmers, including the two-thirds who don't do it for a living — hobby farms, retirement farms, etc. Full-time family farmers are a subset of the remaining third. "Of those, a very significant majority are at or below median income for the United States," says Tim Wise, deputy director of the Global Development and Environment Institute at Tufts University. "Subsidies matter to them." And even with subsidies, more than half of their income comes from off-farm sources. That income usually gets included in farm income analyses, although "the idea of the farm program was not to support them by making them get off-farm jobs. The argument goes: Farmers were disadvantaged; they aren't disadvantaged anymore. So we don't need to pay special attention to agriculture."

The factors that got us where we are today, like the system itself, are labyrinthine. One is the rise in power of the agribusiness (whose interests do not always align with those of the family farmer, making their grouping as the "farm lobby" questionable). Another is the policy changes made by Earl Butz, President Nixon's secretary of agriculture. Hoping to drive down the price of food, Butz instructed farmers to plant their fields ''fence row to fence row." He dropped the target price for grain and introduced the subsidy system, so that rather than lending farmers money, the government offered a check and allowed them to glut the market. Since then, commodity prices have steadily declined, while production has increased.

Agriculture market is unique

That is the inevitable outcome of the logic of producers, says George Naylor, Iowa grain farmer and president of the National Family Farm Coalition. Out of either fear or greed, they overproduce. "History shows that the free market will guarantee low prices until agriculture comes crashing down," he says. "If you let the market set prices of agricultural commodities, you have to accept farmers are going to be poor and they'll destroy the environment." While other commodities have a labor force they can lay off during hard times, thus shifting their costs to the rest of society, the farmer can't make that adjustment: He has no one to lay off. He may switch crops, but he won't usually take land out of production. If a farmer goes bankrupt, chances are another farm will absorb the land and it will remain in production. The bankruptcy of an individual farm does not reduce supply.

That's part of the reason prices don't automatically go down in the absence of subsidies. In the case of corn, for example, none of the prevailing economic models suggests that reducing subsidies would reduce overproduction. A USDA study found that, if all "rich country" agricultural subsidies were eliminated, agricultural prices overall would rise by only 2 percent.

If subsidies were in fact the cause of low prices for corn, cotton and rice, some agricultural economists have asked, what explains the low prices faced by growers of crops such as coffee, tea and cacao? The United States cannot be accused of influencing their prices with subsidies, since the United States doesn't produce them. In agriculture the balance between supply and demand is elusive. "That is why the original framers talked about a chronic imbalance of supply and demand," Wise says. Agriculture is a special case in a free market.

Not all economists agree. "They can operate under the free market," Babcock says. "But they've never really tried it. Other commodities — oil, copper, coal, lumber — go through cycles of pain. They adjust output. But in agriculture, they make money in boom times, and in bad times, they rely on the government. Ask the fruit and vegetable producers how to do it; they go through boom and bust like crazy."

Many say the focus of agricultural policy has been on developing export markets, while domestic prices are allowed to fall.

In the United States, prices of primary agricultural exports have fallen more than 40 percent since 1996; world prices have followed suit. U.S. subsidies are often blamed, and international pressure has been building against them. Last year, after a challenge from Brazil, the World Trade Organization decided that some U.S. cotton subsidies are illegal, harming world farmers by keeping millions of acres in production in the United States that wouldn't otherwise be. The Institute for Agriculture and Trade Policy estimated that the U.S. export price for cotton is 57 percent below the cost of production. Now several countries are challenging U.S. corn subsidies under the WTO. There is widespread concern that the new farm bill be "WTO-proof."

Making cheap food

If it's hard to establish whether subsidies drive down commodity prices, it's at least as hard to determine the effect of subsidies on food prices. While many people draw that connection, the share of the food dollar that goes to farmers is extremely small. "Most Americans would be embarrassed to find out how little lands in the hands of farmers," Wise says. "That is its own problem: the level of upstream capturing of retail dollar. The system is designed to force down food prices."

Babcock calls the idea that farm subsidies are really a cheap food policy a myth.

If, he says, their removal caused the price of corn to increase by 5 percent, pork would increase by about 0.53 percent. So pork chops that cost $3.00 a pound now would increase in price by less than 2 cents a pound. If corn prices rose by 10 percent without subsidies, then pork chops would rise by 3 cents a pound. Increases in beef and dairy prices would be even smaller percentages of their cost, because corn represents a smaller share of their final value.

It is tough to find examples in which subsidized U.S. commodities have a greater than 10 percent share of final retail value, he says. And even at that maximum level, commodity prices would have to double to increase consumer prices by 10 percent. No one suggests that commodity prices will double without subsidies.

Moreover, people who claim that subsidies do give us cheap food are giving ammunition to countries that want to challenge subsidies under the WTO. "U.S. and world prices move together because the commodities that receive U.S. subsidies are widely traded on international markets," Babcock says. "If farm payments reduce U.S. prices, then they also reduce world prices, which means that farmers around the world are hurt by U.S. farm payments." That is, in essence, the argument Brazil used. Babcock says we have productivity increases to thank for low food prices, and those are a result of improved science and management.

Some analysts argue that subsidies actually make our food more expensive because they shield the domestic market from global competition. According to the Organization for Economic Co-operation and Development, the higher domestic food prices caused by U.S. farm programs transferred $16.2 billion from American consumers to domestic agricultural producers in

2004. That amounts to an annual “food tax” per household of $146. This consumer tax is paid over and above what we dole out to farmers through the federal budget.

Defending subsidies

On this, too, there is disagreement. “They make food cheap,” says Robert Goodman, Alabama Cooperative Extension farm economist. “It is going out as cheap corn, coming back as cheap beef.” He doesn’t think subsidies influence farmers’ planting decisions, so, though subsidies do distort the marketplace, they don’t do so significantly. In fact, the system works pretty well. “The subsidy system is supposed to support farm income, and I think it does. The consumer has, over the long haul, benefited. The farmer gets stability and is also a winner — not just commodity farmers, but everyone.”

The subsidies keep the wheels turning on the whole complicated system. “The thing that keeps us ahead of Malthusian doom is technology, and what fuels advances in technology is profit. That’s paid to suppliers like Monsanto. They profit because the farmer can command those prices in the workplace,” Goodman says. “It’s true that the market is the best determiner of proper price. But in other circumstances, we step in when we need to.”

He cites subsidies for providing stable incomes for farmers and stable food prices for consumers. Our outlays are actually relatively low compared to other first-world countries. The European Union spends more than $100 billion on farm support payments, while the United States spends $44 billion on a much larger agricultural economy.

But the fact that farmers need them is really a sign that the marketplace is not being dealt with correctly, Naylor says. “Two years ago, corn was $1.35 — less than half the cost of production. A banker would not loan a farmer the money to plant the next crop unless some government mechanism could tell him he’ll get his money back.” That was not the original intention of the first farm programs, which set a floor under farm prices in relation to farm expenses. “The floor was meant to be high enough that farmers wouldn’t need other government payments,” Naylor says. “From 1933-1953, the government actually made money on the farm program; the price of commodities was being supported. In 1953, big business lowered price supports and reliance on government programs grew.”

Now that the government has abandoned a supply-management program, it ensures an oversupply of commodities. If you’re a buyer, that’s ideal; that’s why the biggest winners in farm policy have been large agribusinesses, Wise says. His research shows that because of the disparity between the price for corn and the cost of production, between 1997 and 2005, the broiler chicken industry received $1.25 billion in implicit subsidies — a 13 percent discount on their operating costs. “Who benefits is not just who has money put in their hands,” he says. As the biggest beneficiaries, agribusinesses are also most invested in keeping the status quo.

The biggest losers, meanwhile, are the taxpayers.

Next time around

Few observers expect to see major changes in the next farm bill. Even the harshest critics say that eliminating subsidies is politically unrealistic and would have severe implications for already struggling rural economies. But there are predictions of limitations on payments.

The problem with that, Goodman says, is that those payments are rewards for efficiency. “If a producer is efficient, he gets big,” Goodman says. “So why can’t we say ‘you’re good at this’ and reward you?”

They could at least eliminate the duplication of subsidies, Babcock says. “It’s a baby step, but it’s so big it will never get done. We’ve got crop insurance, commodity programs, disaster assistance. Let’s bring them together; make it transparent; make it so people can understand what is going on.” Early indications are not favorable: Rather than eliminating programs, the new Agriculture Committee chairman wants to add one for standing disaster assistance.

Another problem with a payment-cap approach is that only a handful of farmers would be affected, because few farms are big enough to approach those limits. That solution doesn’t address the cheap commodity issue, Naylor says, which is the real problem. “All the other things you try to do will fail unless you deal with the price problem.” He would prefer to see price floors, a return to government reserves and more conservation measures. “You can do away with subsidies and use that money for other purposes.”

The price floor can be thought of as a minimum-wage program for farmers. “The government mandated a minimum wage because the most disadvantaged workers didn’t have the bargaining power to get a fair wage,” Wise says. Farmers, likewise, do not have the power to bargain a minimum price. He sees conservation and biofuels as viable options for taking agricultural land out of food production, a strategic method of stabilizing prices. Using tools such as acreage set-asides, inventory reserves and price support could mean government outlays drop by $10 billion a year without sacrificing farmer income.

“Getting the government out, or keeping the subsidies going — neither has a prayer of keeping the farm sector in farming and giving the U.S. people what they say they want: a farm system not dominated by industrial conglomerates,” Wise says. What most farmers say they want, meanwhile, is a safety net for the bad times. Who gets what they want will be revealed in the next farm bill.