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FOOD

Farm Subsidies 101

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Whether the topic is obesity, climate change or even the budget deficit, there are few debates these days when U.S. farm policy doesn't get mentioned. One popular recommendation to fix our farm policy is slashing payments to farmers entirely, or redirecting that money into other programs. Proponents of this approach claim it would encourage farmers to shift to crops other than corn or soybeans and would protect the environment. It's an appealing concept — save money and stop promoting industrial agriculture at the same time. The problem is, when it comes to the food system, it's never quite that simple.

Farm programs were developed to provide a safety net for farmers to blunt the effects of wild price swings that are unique to agriculture. While the demand for food remains fairly steady, the supply of food is vulnerable to droughts, floods, pests or unusually good seasons with high yields. All of these factors can create volatility in the price farmers are paid for their crops. Other factors, like the increasing consolidation in agriculture, which has led to fewer buyers at every step of the food chain, have further complicated the market that farmers sell into and make it harder for them to get a fair price for their crops.

Individual farmers often respond to low crop prices by planting more acres of the crop, which then increases the supply and drives prices lower. Well-designed farm programs can moderate price volatility and stabilize farm incomes by creating a floor for crop prices, stopping the cycle of overproduction. But our current farm programs do nothing to stop the downward spiral of crop prices and the resulting overproduction by farmers trying to make up for low prices with higher volume.

Farm program payments are not the main reason that U.S. farmers grow lots of corn and soybeans. Farmers plant crops that are in demand by the largest buyers — grain-trading companies like Cargill and Archer Daniels Midland, meatpackers and feedlots that feed corn and soybeans to livestock, and food manufacturers that use soybeans and corn in processed foods. The buyers of these crops are the real beneficiaries of farm payments, because government payments to farmers allow these buyers to pay less for the crops that are their raw materials.

Ending farm programs won't fix the problems in our food supply. Making farm programs work better could.

New Deal to Raw Deal: The 1996 Farm Bill

In the 1930s, the New Deal established the farm safety net that protected farmers from the vagaries of weather and price volatility for half a century. Simple mechanisms stabilized farm prices by managing the supply of commodity crops (corn, soybeans, cotton, several other grains and milk) and ensuring farmers received more for their crops than it cost to produce them. Farmers were required to let some fields lay fallow each year, to help counteract farmers' tendency to cultivate every square inch of their fields, which creates surpluses and drives down prices.

The government also maintained crop reserves — like the strategic petroleum reserve — that purchased farmers' surpluses in high-yield years or released grains from the reserve if bad weather reduced supplies and raised prices. Prices never dipped too low in years of bounty and they never rose too high in years of blight. Such price support mechanisms established a price floor, a "minimum wage" for farmers, to give them some bargaining power. Lawmakers started to erode these programs during the Reagan administration and totally eliminated them during the Clinton administration.

The 1996 farm bill, called the Freedom to Farm Act, marked the end of policies designed to stabilize farm prices. The legislation was passed during a period of high prices and tight federal budgets — much like 2011 — and was designed to phase out all farm subsidy payments.

The legislation eliminated the requirement to idle some land and let farmers plant as much as they wanted. By 1997, farmers harvested 15 million more combined acres of corn and soybeans than in 1995.[1] Additionally, the government eliminated grain reserves, so farmers flooded the market with their entire crop.

As a result of this drastic increase in production, crop prices plunged. The first year, real corn prices dropped by 28.4 percent.[2] The crop price free fall continued and by 1999, the real price of corn was 50.0 percent below 1996 levels, and the soybean price was down by 40.9 percent. As prices fell, farmers planted more acres to try to make up for their lost income, which further increased supply and depressed prices. The Freedom to Farm Act became known in farm country as "Freedom to Fail."

To quell criticism after crop prices collapsed, Congress authorized "emergency" farm payments that reached $20 billion in 1999.[3] These payments could not make up for declining prices and net farm income still declined by 16.5 percent from 1996 to 2001.[4] In the 2002 farm bill, Congress made these emergency payments permanent. Rather than address the primary cause of the price drop, they perpetuated overproduction by allowing agribusiness buyers to get away with paying farmers less than crops cost to produce.

Broken Farm Policies Continue

The 2002 and 2008 farm bills largely maintained the commodity programs created by Freedom to Farm. This effectively replaced the supply and price management policies in place since the 1930s with payments designed to keep farmers from going bankrupt due to low prices generated by overproduction. Since then, taxpayer money has been used to make up some of the income lost by farmers who grow commodities that get sold cheap.

Instead of programs that could put a brake on collapsing prices, government payments make up the difference between the low price agribusiness pays for commodities and the farmers' cost of sowing, growing, harvesting and transporting crops. Farm programs that allow prices to fall below production costs and then pay farmers some of the difference with taxpayer dollars are really subsidizing meatpackers, factory farms and food processors. For example, a Tufts University study found that factory farms saved $34.8 billion between 1997 and 2005 because they were able to buy feed at below-production cost.[5]

What Next?

As the failed experiment of the 1996 Farm Bill shows, simply cutting subsidies will not deliver taxpayer savings, protect farmers or fix America's food system. Ending farm programs will simply allow agribusiness to game the system to their benefit at the expense of farmers.

The 2012 Farm Bill is an opportunity to redesign our farm policy to protect farmers from price shocks that undermine farm incomes and prevent price spikes that drive up consumer food costs. The next Farm Bill should:

- Restore common-sense practices that manage supply of commodity crops, including establishing crop reserves.
- Level the playing field for farmers by re-invigorating antitrust enforcement and breaking up big food monopolies.
- Restore the safety net for farmers by ensuring farmers are paid more for their crops than it costs to produce them to stop the cycle of price volatility that agribusiness buyers use to their advantage.

To learn more and get involved, go to **www.foodandwater-watch.org/fairfarmbill**

Endnotes

1 USDA. National Agricultural Statistical Service data.
2 USDA National Agricultural Statistical Service, Agricultural Prices Annual Summary. 1990-2009, adjusted for inflation using the BLS inflation calculator to constant 2009 dollars.
3 Ray, Darrell et al. Agricultural Policy Analysis Center, University of Tennessee. "Rethinking US Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide." September 2003 at 9.
4 *Ibid*.
5 Starmer, E., and T.A. Wise. Global Development and Environment Institute of Tufts University. "Feeding at the Trough: Industrial Livestock Firms Saved $35 Billion from Low Feed Prices." GDAE Policy Brief No. 07-03. December 2007.

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