

The Case For and Against Farm Programs

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Common Justifications for Farm Programs

- Save the family farm
- Support rural communities
- Provide a cheap food supply
- Maintain the environment
- Compete against large agribusinesses and subsidizing countries



Save the Family Farm

- The small farm has a special place in the U.S.
- Jeffersonian Democracy
 - Jefferson's vision for the U.S. was:
"a nation of landowning farmers living under as little government as possible"
- Subsidies originated in FDR's New Deal legislation in 1933
 - In 1930, 21.5% of U.S. workforce employed in ag
 - Contributed 7.7% of U.S. GDP
 - Farm household income $\frac{1}{2}$ of nonfarm income

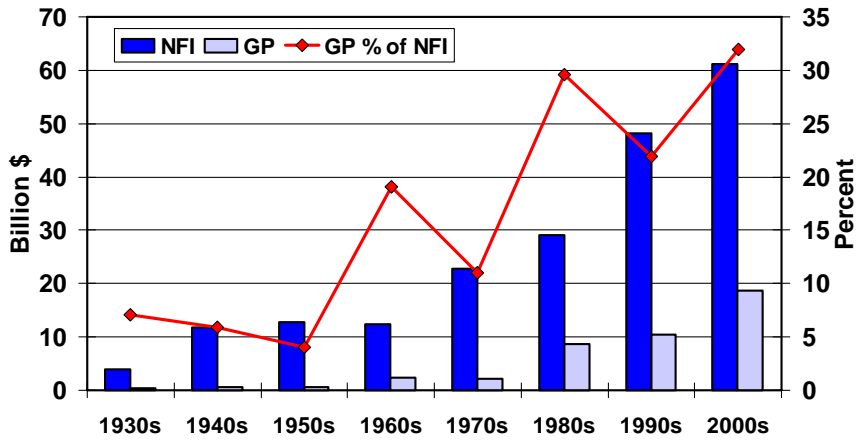


Save the Family Farm

- Today, situation in ag is much different
 - In 2000, 1.9% of U.S. workforce employed in ag
 - Contributed 0.7% of U.S. GDP

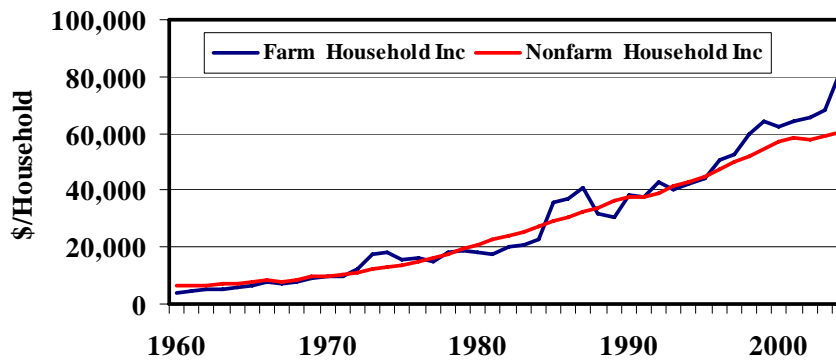


Average U.S. Net Farm Income and Government Payments by Decade



Save the Family Farm

U.S. Farm and Nonfarm Household Income



Household Income from Farm and Non-farm Sources

Farm Typology Group	No. of Farms	Total Farm Household Income	Income from Farm Sources	Income from Non-farm Sources	% from Farm Sources
Rural Residence	1,373,956	\$75,316	\$-76	\$75,391	-0.1
Intermediate	529,071	\$64,789	\$12,240	\$52,549	18.9
Commercial	157,795	\$191,115	\$145,080	\$46,035	75.9
All	2,060,822	\$81,480	\$14,201	\$67,279	17.4

Rural Residence – Limited resource, retirement, residential farms

Intermediate – Family farms with sales under \$250,000

Commercial – Family farms with sales over \$250,000



Save the Family Farm

- Equity of Farm Income Support
- One of the most common criticisms of farm subsidies is that “large farms get all the payments”



Equity of Farm Income Support

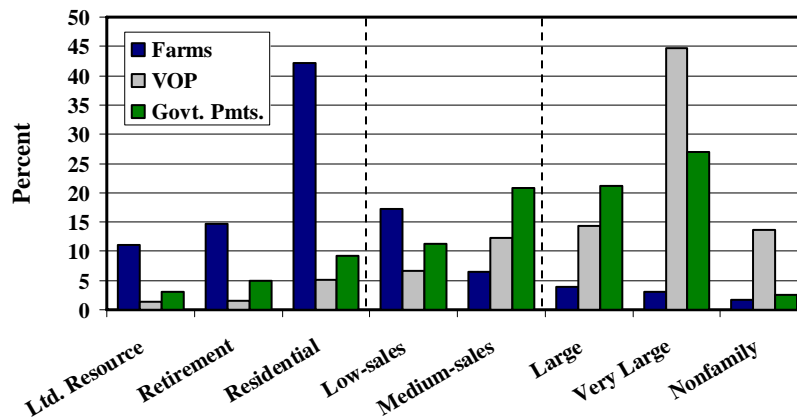
- Sec. Johanns
 - During 2002-05, 93% of commodity payments were estimated to go to wheat, rice, corn, soybean and upland cotton, while accounting for an estimated 21% of total farm cash receipts in 2005

- Sen. Clinton
 - Observed that 10 percent of farmers receive 70 percent of the subsidies. www.agdayta.com 8-2-06



Equity of Farm Income Support

Share of farms, value of production, and government payments by farm typology group, 2003



Source: ARMS, USDA



Percentage of Farms Specializing in Producing Specific Commodities

Commodity specialization	Small family farms					Large-scale farms		
	Limited-Resource	Retirement	Residential/Lifestyle	Low-sales	Medium-sales	Large	Very large	Nonfamily farms
Cash grain	11.7	6.5	8.7	18.1	42.5	42.3	27.1	10.7
Other field crops	17.8	32.6	20.5	14.8	9.0	9.6	10.9	33.0
High-value crops	5.5	4.9	3.8	8.4	7.0	10.6	13.1	17.5
Beef	35.4	40.8	38.4	38.6	15.3	13.1	9.3	19.9
Hogs	d	d	0.8	d	1.4	3.1	6.9	d
Dairy	2.5	d	d	5.7	20.0	11.0	10.4	3.3
Poultry	d	d	1.0	0.9	2.1	7.6	20.4	d
Other livestock	26.3	14.3	26.5	13.1	2.6	2.8	1.9	12.5

Source: ARMS, USDA

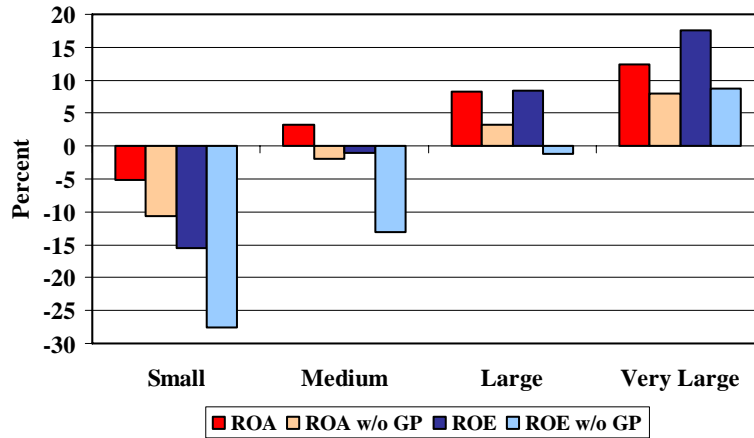


Equity of Farm Income Support

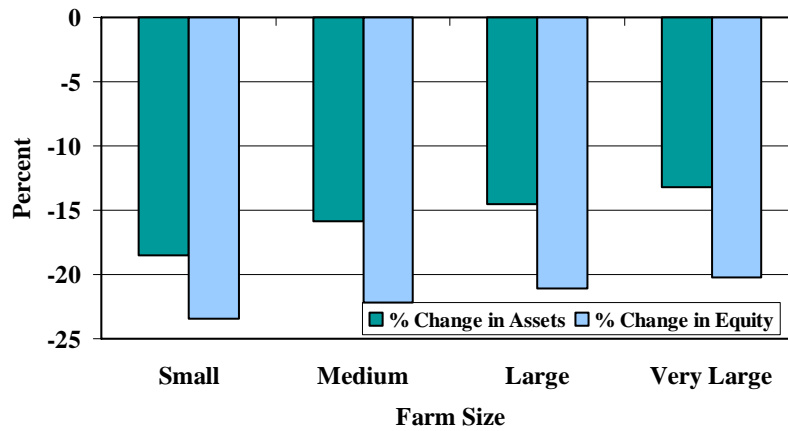
- Given the current structure of farm programs in tying farm program payments to specific commodities, it is debatable whether farm subsidies help save “the family farm”
- Government payments have contributed a significant portion of net farm income
- But—not all government payments go to farmers
 - Government payments get capitalized into land value
 - Land values estimated to fall by 30.6% in Kansas if government payments are eliminated



KFMA Profitability with and without Government Payments (1995-2004)



Average Assets and Equity with Reduction in Government Payments



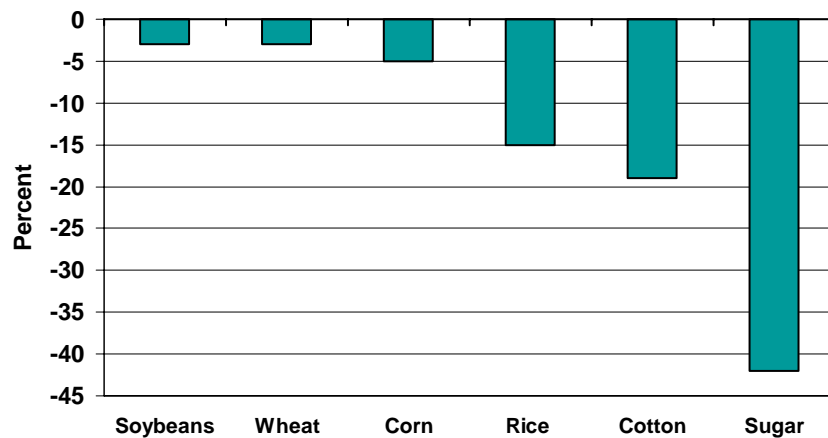
ABARE Study on Elimination of U.S. Farm Subsidies

- Net present value impact of elimination of U.S. subsidies (2007-2020)
 - \$120 billion in budget savings
 - \$65 billion loss in gross farm income without improved market access
 - \$50 billion loss in gross farm income with less ambitious market access improvements
 - \$7 billion gain in gross farm income with more ambitious market access improvements

ABARE – Australian Bureau of Agricultural and Resource Economics



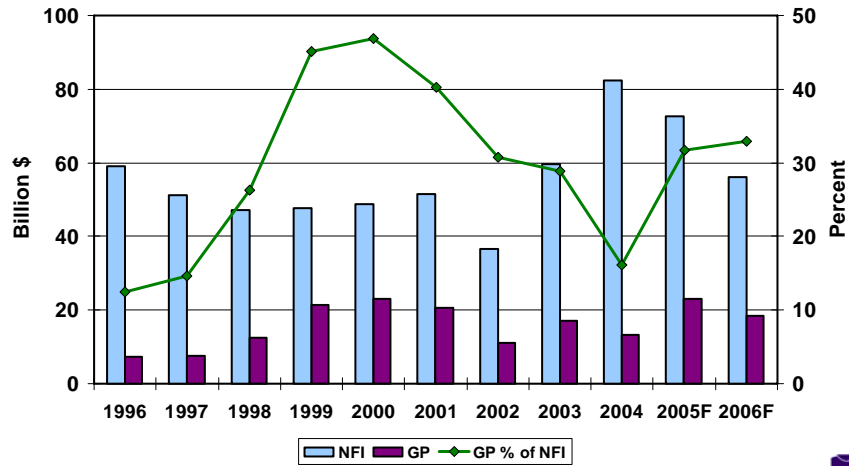
Change in US crop gross income with elimination of subsidies (2007-2020)



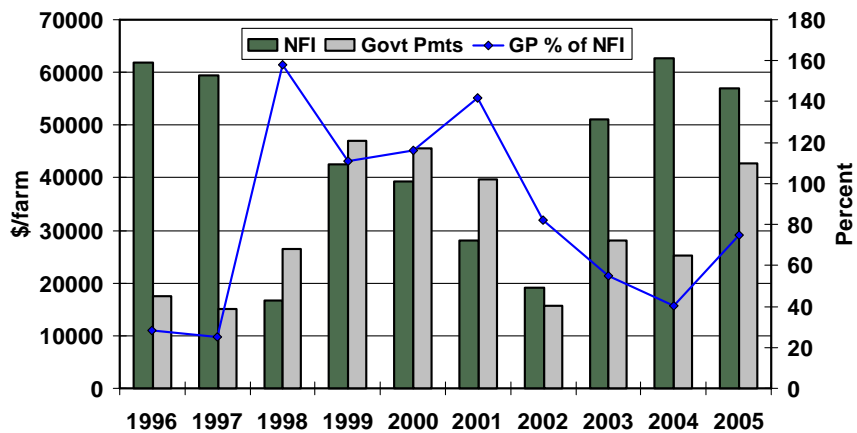
Source: ABARE



U.S. Net Farm Income and Government Payments (1996-2006)



KFMA Net Farm Income



Variability of Farm Income

- Because U.S. has supported some farmers through subsidies does not mean there that there are not other means to manage risk
- If subsidies are eliminated immediately, some farms will go out of business



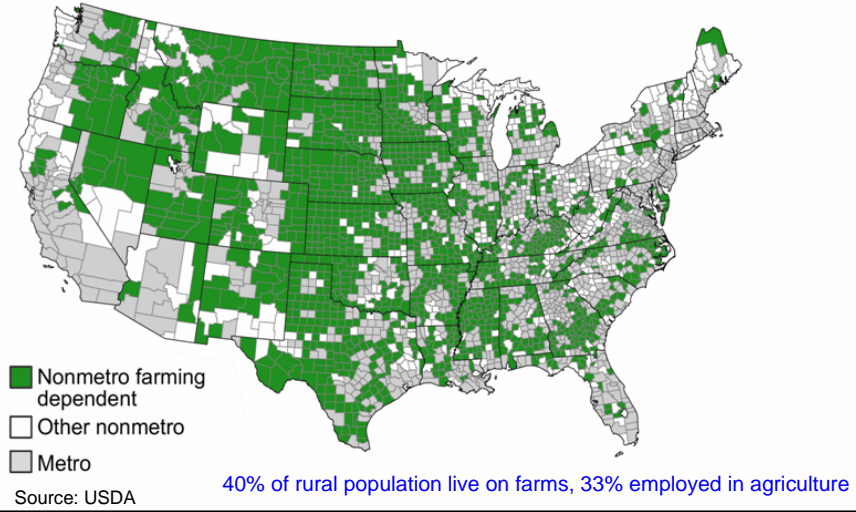
Support Rural Communities

- Justification:
 - By supporting farm income through farm programs we help support rural communities
- Rural America has changed significantly since farm income supports were first instituted in the 1930s



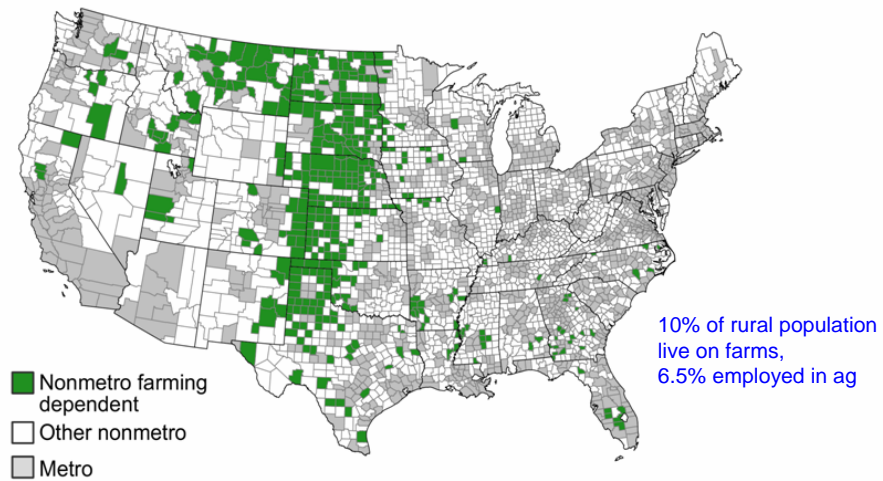
Support Rural Communities

Nonmetro farming-dependent counties, 1950



Support Rural Communities

Nonmetro farming-dependent counties, 2000



Source: Farming-dependent counties are defined by ERS. Metro/nonmetro status is based on the Office of Management and Budget (OMB) June 2003 classification.

Support Rural Communities

- Center for the Study of Rural America of KC Federal Reserve Bank study
 - U.S. counties that were most dependent on farm payments relative to the local economy actually experienced lower job and growth rates compared to counties less dependent on farm payments
 - However, it is possible that the economic performance of these counties would be worse without the payments



Support Rural Communities

- *Understanding Rural Population Loss* by McGranahan and Beale
 - It is not necessarily the economic viability of ag in farm-dependent counties that is causing population loss
 - The following characteristics discourage development
 - Remoteness
 - Low population density (small labor pool)
 - Lack of natural amenities
 - Farm-dependent rural communities may be better served by programs that facilitate the development of non-farm economies



Cheap Food Supply

"For all the money it costs farmers to pay for gas, equipment, employees and seed, the price of a single tomato would be astronomical without subsidies."

Lynn Hoot, Exec. Dir. Maryland Grain Producers Association

Source: *The Frederick News-Post* 8-13-06

"Some people think subsidies are a bad thing, but not only do they help keep farmers in business; they help keep the prices of our food and fiber low for Alabama consumers."

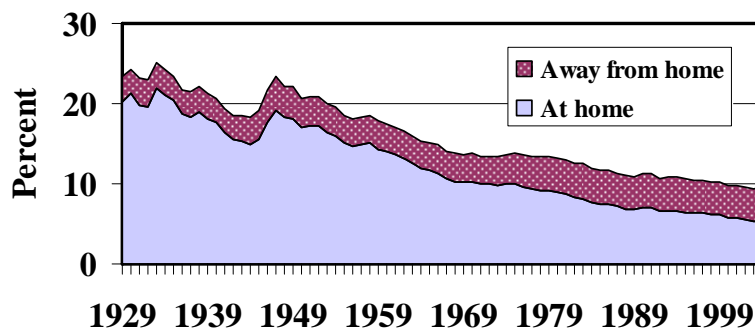
Ron Sparks, Alabama Ag Commissioner

Source: *FarmPolicy.com*, 2-9-06



Cheap Food Supply

Percentage of Disposable Income Spent on Food in U.S.



Source: USDA-ERS



Share of Household Consumption Expenditures Spent on Food, 2002

Country	Food Share of Household Expenditures (%)	Total Household Expenditures (\$)	Food Household Expenditures (\$)
United States	6.9	25,590	1,775
United Kingdom	9.1	16,867	1,543
Canada	9.9	12,715	1,264
Germany	11.9	13,663	1,624
Japan	14.4	17,456	2,517
France	14.8	13,106	1,939
Mexico	24.5	4,394	1,075
India	39.7	313	124
Philippines	47.5	667	317

Source: USDA-ERS



Cheap Food Supply

- Miller and Coble evaluated the impact that U.S. farm subsidies had on the proportion of disposable income spent on food from 1960-99
- Conclusion:
 - Subsidies are not statistically significant in determining the percentage of disposable income spent on food
 - Disposable income, productivity, and the farm-to-retail spread of food commodities had a statistically significant impact on the proportion of disposable income spent on food



Cheap Food Supply

- Other problems with the argument?
 - Brazil argued in the WTO that U.S. subsidies caused increased production that, in turn lowered world cotton prices
 - By saying U.S. subsidies lower food prices for U.S. consumers, we are making the same argument Brazil did



Maintain the Environment

- Justification:
 - Government policies (including income supports) are needed to compensate farmers for environmental practices that are not supported by the market
- Question:
 - Do income supports result in a net environmental gain or loss to society?



Maintain the Environment

- Does the market (with or without income supports) provide sufficient incentives to maintain the productive capacity of cropland and manage externalities?
 - Previous studies indicate some conservation practices will not pay for themselves
- Income supports may hinder conservation efforts
 - Encourages production on less profitable, environmentally sensitive land
 - Encourages use of fertilizer and chemicals above market clearing levels

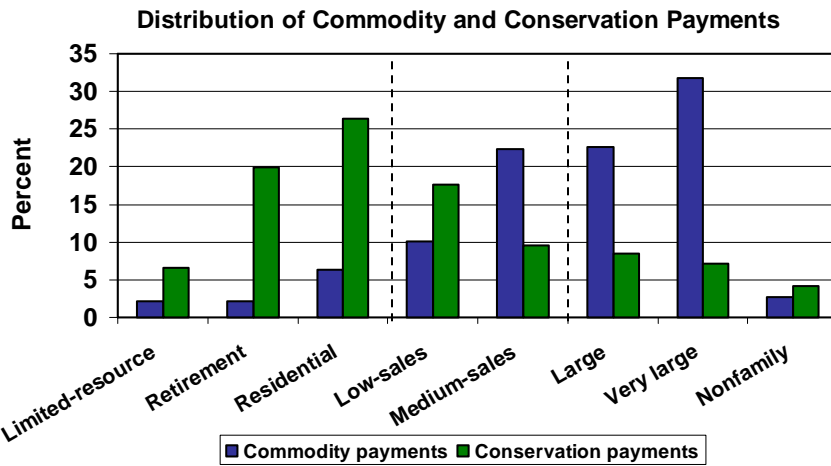


Maintain the Environment

- In 2005 the U.S. spent \$2.8 billion on conservation programs
 - Suggests income supports are not sufficient in maintaining the environment
 - Conservation payments are more evenly distributed across farms



Maintain the Environment



Source: ARMS, USDA



Compete with Large Agribusinesses and Subsidizing Countries

➤ Justifications:

- Large agribusinesses use market power to take advantage of small farmers
- U.S. farmers are locked out of other markets because foreign governments subsidize (protect) their farmers



Agribusiness Competition

- Do large agribusinesses systematically use market power to take advantage of small farmers?
 - Studies indicate that agribusiness markets “are imperfectly competitive, but cost efficiencies resulting from greater concentration exceed losses from market power distortions”
 - Farmers may benefit from
 - Gains in R&D and production efficiencies on the input side
 - Advertising to increase demand for food



Export Shares of U.S. Agricultural Production by Volume

	1980-84 (Avg)	1990-94 (Avg)	1999	2002
	----- Percent -----			
Aggregate Share	29.2	23.1	22.8	21.9
Livestock	2.7	5.4	10.1	10.3
Red meat	1.3	4.1	8.0	8.6
Poultry meat	3.9	7.4	14.3	14.4
Dairy products	8.3	5.0	5.5	3.3
Crops	30.8	24.2	23.8	22.8
Food grains	61.1	51.0	47.1	46.7
Feed crops	27.4	21.2	21.2	21.3
Oilseeds	32.9	25.4	27.2	24.0
Fruit and nuts	8.7	12.2	13.3	13.9
Vegetables	5.1	5.7	6.5	6.5
Cotton/tobacco	49.0	40.7	39.3	57.6



Foreign Subsidies and Trade Barriers

- Do farm subsidies benefit U.S. farmers in light of other countries' subsidies and protectionism?
 - Reactionary trade barriers or price supports may benefit some U.S. producers, but cost others and U.S. consumers
 - Is it politically expedient to stand by while a domestic industry suffers?
 - OECD study estimated \$44 billion in welfare gains if subsidies and trade barriers worldwide were halved
 - IFPRI estimates \$200 billion in income gains to global economy if trade was fully liberalized



Summary

- The economic justifications for farm programs may not be as valid as they seem at first
 - Unintended consequences occur
 - In the U.S. farm programs have not kept pace with changes in agriculture
- Variability of income in agriculture is a concern
- If government payments are eliminated immediately, some farms will go out of business and some rural communities will suffer



Summary

- The question may not be: Should we eliminate farm subsidies?
- Are there farm policy options that would better serve U.S. agriculture, taxpayers, and consumers?

