U.S. Farm Subsidies: Billions and Billions Served

Contributed by James Pethokoukis
Thursday, 14 September 2006

What's the real cost of an ear of corn?

It sounds all too familiar. A New Deal-era government program that many critics assail as misdirected and in need of fundamental reform—or perhaps irreversibly broken. Social Security? You bet. But that description seems just as relevant for America's farm subsidy and price-support programs. But unlike Social Security reform—a go-to-the-mattresses cause for only conservative Republicans and free-market think tanks—U.S. agricultural policies have somehow managed to draw heavy flak from both the Left and the Right.

"Look, I think we need something of a safety net or support for farmers, but the one we have right now is taking us in the wrong direction," says Ken Cook, president and founder of the Environmental Working Group in Washington, DC. "Whether it's from a fiscal-conservative perspective or an environmental perspective, the whole thing is out of kilter."

Only a cursory examination of U.S. farm policy is needed before sensing that something is askew. Budget expert Steve Stanek of the free-market Heartland Institute in Chicago, recalls reading several years back how reporter Sam Donaldson of ABC News fame had received nearly $1,000,000 in government payments for raising Angora goats for mohair. "This raises at least two questions," says Stanek. "Why was multi-millionaire Sam Donaldson receiving a taxpayer subsidy for anything, and why should mohair, of all things, have been subsidized? Was there a mohair crisis that demanded taxpayer funding to solve?"

Good policy—once upon a time

When Congress enacted the Agricultural Adjustment Act back in 1933, there was a crisis that seemed to call for taxpayer attention. Farmer incomes throughout the country were collapsing as the Great Depression deepened. But today's farm situation isn't going to remind anyone of the hardscrabble scenes famously depicted in John Steinbeck's Grapes of Wrath. According to a subsidy database compiled by the EWG, American taxpayers spent a staggering $143.8 billion on direct farm subsidy payments from 1995 through 2004. Of that amount, more than $104 billion—72%—went to just 10% of recipients, including large farming operations, cooperatives, partnerships and corporations such as Archer Daniels Midland and Tyson Foods. And nearly a quarter of that dough, or $33.7 billion, went to just 31,294 recipients. Each of them got an average check for just over a million dollars.

What crops are benefiting most? Some 90% of subsidies are paid to producers of the so-called "white" commodities—cotton, dairy, sugar and rice—as well as soybeans. But out of more than 400 domestic crops, few receive subsidies. "Most fresh produce you see in grocery stores gets to market without taxpayer subsidies," says Stanek. "And those foodstuffs—tomatoes, lettuce, onions, potatoes, mushrooms, grapes—generate enough profit to keep their producers in business."

Direct payments are probably the most notorious subsidies, but they aren't the only ones. The government also employs tariff rate quotas, which allow only a limited amount of certain commodities to be imported by selected foreign produces at low or zero tariff rates. Any imports above the quota get whacked by a higher tariff rate. A 2000 study by the General Accounting Office estimates that Americans coughed up over nearly $2 billion a year extra for sugar because of import quotas. "Sugar is a perfect example of an industry where a small group of producers reaps huge gains from a program where the costs are borne by an unsuspecting public," says Daniel Griswold, director of the Center for Trade Policy Studies at the libertarian Cato Institute. And all those billions can really add up. In 2004, according to the Organization for Economic Cooperation and Development, total government support for farm production in the United States came to nearly $47 billion.

The ripple effect

And it's not just consumers who get hit. Non-subsidized farmers suffer, as well. After all, they have to compete for land, fertilizer and other agricultural inputs against those "sectors being artificially promoted by the government," says

Griswold, who adds that inflated commodity prices here at home can also indirectly squeeze companies and their workers. He points to the example of Kraft, which in 2002 announced it was closing a Lifesavers factory in Holland, Mich., and relocating production to Canada. There, the company could buy sugar at world market prices half that of domestic rates.

To many, the whole farm subsidy system looks like a classic case of government intervention, driven by powerful interest groups and their lobbyists, gone awry. But the program has its apologists. When President Bush proposed cuts to agriculture subsidies in his most recent budget, members of the House Agriculture Committee responded with a litany of reasons to keep the dollars flowing. "Agriculture producers and their lenders need the stability promised in the 2002 farm bill," argued Congresswoman Marilyn Musgrave (R-CO). "Current market conditions make it unwise to implement further changes this year." Protests came from across the aisle as well. "We need to remember that farmers feed the nation, and the percentage of disposable income we pay for food in this country is the lowest in the world," says Congressman Leonard Boswell (D-IA). But does our cheap rice come at the cost of logical policy?

Talk about unintended consequences. A country with a supposed belief in the power of free markets, says Stanek, has created a system that encourages farmers to grow crops that have price supports, resulting in overproduction that drives down the open market prices. As a result, larger subsidies are required to ensure that end prices hit government-guaranteed minimums. Meanwhile, there are other farm programs that pay farmers to take land out of production. "There are thousands of businesses and industries in this country that must sink or swim on their own. None that I can think of is more protected than agriculture," he says.
Another unintended consequence of American farm policy is its contribution to depressed global commodity prices, which exacerbate poverty in places such as sub-Saharan Africa and Central Asia. Griswold points to cotton as a prime example. He notes that in 2002, according to the poverty agency Oxfam, the U.S. government provided $3.4 billion in subsidies to domestic cotton growers. That's nearly twice the total amount of U.S. foreign aid sent to sub-Saharan Africa and more than the GDP of Benin, Burkina Faso and Chad, the region's main cotton producers. "This has a damaging effect on America's reputation around the world," he says. It also undercuts our moral authority, he continues, when the U.S. demands—as it has been doing in the recent Doha Development Round of world trade talks—that the EU dismantle its farm subsidy programs.

Will efforts at farm policy reform fare better than Social Security reform? Cook, like many observes, is at least mildly optimistic: "You have such diverse sources of opinion who agree the system is broken that I expect there will be the strongest effort at reform that we have ever seen."

About James Pethokoukis

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