

PolicyPennings by Dr. Daryll E. Ray

Will the end of US crop subsidies leave farmers elsewhere better off?

A number of international organizations concerned with overcoming hunger and malnutrition in the world have come out against the current commodity programs, attacking the subsidies US farmers receive. These groups have garnered a considerable amount of sympathy arguing that US subsidies stimulate overproduction of subsidized crops by US farmers, thus driving world prices into the basement and harming farmers around the world.

Furthermore they assert that the US is dumping cotton, corn, soybeans, wheat, and rice on the market at prices below the cost of production. Their solution is to end US crop subsidies with the expectation that the absence of subsidies will cause US farmers to plant fewer acres, resulting in higher prices.

This analysis raises several issues that are important for US farmers, farm organizations and ultimately policy makers to understand. Let us work our way through these issues one at a time.

First, as we have argued numerous times before, the amount of extra production that results from the presence of subsidies is relatively miniscule. It is true that subsidies and the price farmers expect at harvest time have some impact of the **MIX** of crops that US farmers plant each year. That being said, one needs to remember that the total area dedicated to crop production each year remains fairly stable over a wide range of prices and weather has more of an effect on planted acres than subsidies.

Second, there is no question that the present farm program policy elements are structured to enable the dumping of US agricultural products on the world marketplace at prices below the cost of production. In particular the Loan Deficiency Payments/Marketing Loan Gains (LDP/MLG) portion of the current farm program, by its design, recognizes that crop sales at prices below the loan rate are below the total cost of production. Counter-Cyclical Payments (CCP) are no different, just at a higher level.

When one looks at farm receipts for 1999 and 2000, it becomes clear that even the decoupled/direct payments allow farmers to sell their crops into domestic as well as international markets at prices well below the cost of production. There is no other conclusion that one can come to when one sees government payments—including decoupled/direct payments—for major crop producing states well above net farm

income. Farmers in those states used some of the subsidies just to cover operating costs.

Third, in the absence of subsidies, we would expect US land prices and land rents to take a tumble. Undoubtedly some cotton acreage would be shifted to other crops. But overall, nearly all crop acres presently in production would remain planted in the short- to medium-run. Some prices would increase by a small percentage, but overall the price impact of ending subsidies would be miniscule as would be the benefits enjoyed by farmers elsewhere in the world.

If subsidies are the cause of low prices for cotton, corn, soybeans, wheat, and rice, then how does one explain the price and income problems faced by the growers of coffee, tea, cacao, and other tropical crops? The US has no subsidies for these crops. It does not even grow them.

Perhaps the same economic characteristics that keep tropical crop prices low are the same ones that are responsible for the low prices for temperate crops like corn, soybeans, and wheat. The recognition of the similarity between tropical and temperate crop agricultures brings us back to the principle espoused by US Secretary of Agriculture Henry A. Wallace more than 70 years ago.

Wallace understood that, given the economic characteristics of crop agriculture, society has a role in establishing a balance between the supply and demand for crops so as to ensure that farmers receive a price that enables them to earn a livelihood while at the same time providing the public with the availability of crops at a reasonable price. It was on that principle that the New Deal farm program was established. And, perhaps applying that principle to the current situation should be the foundation of a farm policy that would be beneficial to farmers and consumers in the US and around the world.

Well designed farm and trade policies along these lines could eliminate dumping, enable farmers everywhere to earn a livelihood, and provide consumers with stable supply of crops at a reasonable price, all at the same time.

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