PolicyPennings by Dr. Daryll E. Ray

Freedom to Farm: The root of current farm-related problems

The need for the US to completely dismantle its farm program is one of the ideas being spread at this time by think tanks, academics, and trade officials. The argument is that the current program with its LDP/MLGs and counter-cyclical payments subsidize the export of US grain at below the cost of production leaving us open to charges of dumping.

This is essentially the argument that Daniel A. Sumner makes in the analysis he did for the Cato Institute, B*oxed In: Conflicts between U.S. Farm Policies and WTO Obligations*. Last week we looked at the model that Sumner used in his analysis and showed that by looking at crops one at a time he came to some very questionable conclusions.

We would not disagree with the overall conclusion that US farm programs have resulted in lower prices for US farmers and thus farmers around the world. We would not disagree with the argument that US farm policy allows US farmers to sell their crops at below the cost of production, both domestically and in the export market.

What we do disagree with Sumner about is the cause of the low prices and below the cost-of-production-exports. He argues that it is the subsidies themselves because they result in excess US production. We would argue that the problem is not with the subsidies themselves but rather the set of policy mechanisms contained in the 1996 and 2002 Farm Bills. From a trade compliance point of view, the 1996 Farm Bill was the wrong legislation at the wrong time. And the 2002 legislation made the situation even worse.

Let us suppose that in 1996 we had renewed the policy instruments contained in the 1990 Farm Bill (a far from perfect piece of legislation) with a minor tinkering, what would be the current cost of this program? Would it cost more or less than the current $20+ billion? What boxes would these payments fall into and what would be the impact on commodity prices in the US and around the world?

The costs for a continuation of the policies contained in the 1990 Farm Bill would be in the range of $8-$10 billion a year, a far cry from the $20+ billion slated to be spent this year. Because the 1990 legislation used supply management programs much of the cost of the farm program would be blue box and compatible with our current and projected World Trade Organization (WTO) obligations.

With the elimination of supply management programs in the 1996 Farm Bill, at any given stocks-to-use level, US farmers received $0.34 a bushel less for their corn than they did under the 1990 Farm Bill and earlier legislation going back to the mid 1970's. Soybean and cotton prices would also have been proportionately higher under supply management than under the current legislation. As a result, under supply management US prices could easily have approached the non-land cost of production. Because the US is the world price leader in agricultural commodities, much of this price gain would have been transmitted to farmers around the world, reducing their incentive to charge the US with dumping.

The irony is that while the 1996 Farm Bill was touted as being more market oriented than previous legislation it is actually less market oriented than its predecessors under which farmers earned most of their income from the marketplace and not the mailbox. In addition to being less market oriented, we argue that in terms of WTO negotiations it is more market distorting.

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