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On the Issues

Plowing Farm Subsidies Under

By Bruce Gardner

Congressional Democrats came to power last November on a platform of fiscal responsibility. An important test of their seriousness came this spring, as Capitol Hill considered reauthorizing the Farm Bill. A series of new research papers overwhelmingly shows that our seventy-year experiment of government micromanaging the agriculture industry has failed, and it is time for Congress to plow them under.

The programs grew out of the Great Depression, when agriculture was a threatened, yet fundamental sector of our economy. Since then, taxpayers have spent over $1.2 trillion on this effort and now spend over $18 billion per year in supports and subsidies.

Whether the goals of the bill have been to maintain farm numbers and make small-scale family farms profitable, ensure price and production support, or improve the stability of commodity markets, the federal farm program has badly missed the mark.

For starters, despite generous handouts, the number of American farms has plummeted from 6 million in the mid-1930s to 2 million today.

Meanwhile, when it comes to price and production support, subsidies often amount to money for nothing. Iowa State University economist Bruce Babcock recently found that if the average $7 billion a year in subsidies for corn, wheat, and soybeans had been eliminated in 1998, production and prices of those three crops would have been within 1 percent of what they were.

What about price stability? The U.S. Department of Agriculture (USDA) for a long time operated a vast commodity buying, selling, and stockpiling regime. The idea was to keep prices higher than market forces would support during surplus years, and to keep prices from rising as far as market forces would drive them during years of shortage.

But after fifty years of trying to make this approach work, the USDA began selling off its grain stocks for good in the late 1980s. It has neither acquired nor disbursed significant quantities during the last fifteen years. One of the last of the original justifications for regulating the farm market—price stabilization—has been abandoned by the regulators.

Despite the failure of farm policy, American farming is a remarkable success story. First, commercial-scale agriculture is flourishing. Large family farms with over $250,000 in annual sales constitute less than 10 percent of the nation's farms but account for almost three-quarters of U.S. agricultural output—and earn an average of nearly $200,000 in income, over three times that of the average U.S. household.

It is the well-off commercial farms which, if they grow crops eligible for subsidies, like corn, receive the bulk of government subsidies. The main farm commodity programs have become, in effect, a regressive income transfer.

Productivity has also been growing year in and year out for over sixty years. This productivity growth keeps the United States the world's leading

Bruce Gardner is a professor of agricultural and resource economics at the University of Maryland. He is co-director of Agricultural Policy Studies at AEI. More information about the studies and the 2007 Farm Bill are available at www.aei.org/farmbill/.
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exporter of food, even as we feed a growing population. All the while, food commodity prices continue to decline in real terms.

In recent years, even small farms have managed to cope with the changes in U.S. agriculture. This, however, has little to do with the farm programs. Instead, thanks to the integration of our rural and urban economies, opportunities now abound for off-farm work for members of farm families.

The USDA's small-farm category accounts for two-thirds of farms, which earn less than $1,000 per year from their farming operations. They are essentially avocational farmers who live off their off-farm earnings. Including those earnings, small farmers had median household incomes of over $50,000, which is above the average for all U.S. households.

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And farmers are not just bringing in more income than most Americans: they are wealthier. The median net worth of a farm household is $460,000. That is nearly five times the $92,000 median net worth for all U.S. households.

Defenders of the farm subsidy programs argue that if these transfers ended, agricultural production and commodity markets would be devastated. For example, Bob Stallman, president of the American Farm Bureau Federation, recently cautioned against significant change, saying, "You have to be careful or you can have very destructive effects in farm country." But research indicates that, deprived of subsidies, farm country would not change significantly. The main effects would be reductions in the value of cropland to which the payments are tied.

It has been argued that reductions in cropland values would cause financial distress among farmers and rural communities, but this is very unlikely. As noted already, most farmers either do not receive subsidies (e.g., livestock producers or farmers who grow fruits and vegetables) or they are doing well enough financially that they can weather the loss of subsidies. As for the impact on rural communities, land prices have risen far more over just the past four years than the decline that an end to commodity program payments would cause.

Consider the case of Iowa, where commodity program payments are as important as anywhere else in the country. In 2002–06, Iowa received $1.3 billion in payments annually. The average value of farmland in Iowa in 2006 is estimated at $3,200 per acre, after increases of over 10 percent annually during the previous five years. This puts the total state value of farmland at $102 billion. Thus, even with a high rate of capitalization of the payments, an end to commodity programs would generate a loss in the neighborhood of a single recent year's gains in land values.

America's commodity programs make no sense as industrial policy for an ailing industry or a welfare policy for a needy population. An enviable economic situation today—with low unemployment, steady growth, as well as robust commodity markets—makes this a singularly appropriate time for plowing under these obsolete policies.

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