

# A Fair Farm Bill for Taxpayers

## INTRODUCTION

Our current agricultural system just isn't working—not for farmers or rural communities in the U.S. or abroad, not for the environment, and not for public health. Increasingly, farmers struggle to remain viable while farms get larger and rural communities get smaller; the long-term health of the environment is sacrificed for short-term gains in yields; the most affordable foods are often linked to health concerns; and the decisions of a few powerful corporate players determine the playing field for everyone else.

On top of the social costs attributed to this agricultural system, billions of taxpayer dollars are required to keep it functioning. Even worse, we spend even more money dealing with the consequences of this system.

The current agricultural investment strategy has been a boon for agribusiness, but it is failing both farmers and the broader public. Similarly, many of the proposals being brought forth to “reform” agricultural policy and investment threaten to simply continue the status quo.

Public money should provide public benefits, and public money for agriculture can benefit everyone. Far from being just about farmers, agriculture can provide us with healthy food, well-managed natural resources and resilient rural communities. Everyone has a stake in a well-functioning food and agriculture system.

Achieving the agricultural system we want is not a question of investing more; it is a question of investing better and smarter. Decades of public policies and private investment have created an agricultural economy heavily in favor of the current agribusiness model. But even if we completely

eliminated subsidies, the types of agricultural practices that best serve the public cannot compete against the enormous investment into a few grain and oilseed crops. So how do we best invest public money to create a system that does work—a system characterized by vibrant rural communities, a resilient environment and healthy food for all?

## WHAT SHOULD TAXPAYERS EXPECT FROM FARM POLICY?

The agricultural system impacts all of us in many ways. Agriculture is the largest use of land in the United States,<sup>1</sup> a primary driver of water quality, a major source of employment in many parts of the country, an industry that provides \$70 billion in annual farm income,<sup>2</sup> and, of course, the primary provider of food. Food and agriculture are also a central component of cultural traditions and religious rituals. More than any other industry, food and agriculture are intertwined into most facets of our lives.

Given the complex relationship between this industry and the public, it is understandable that the function of agricultural policy is somewhat contentious. Yet over time, as Willard Cochrane, President John F. Kennedy's Chief Agricultural Economist, has explained, four goals consistently stand out as the objective of policymakers and the general public:<sup>3</sup>

- The production of a healthful, abundant supply of food, at reasonable prices, for all Americans;
- Maintaining a prosperous and productive economic climate for the commercial farmer producers of that food supply;
- Protecting the remaining small to medium-sized family farms from disappearing; and



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- The realization of a high quality of life for all people living in rural areas, together with a vibrant physical environment.

The effectiveness of agricultural policy should be measured by the progress toward achieving these goals, as well as by the costs that are incurred by taxpayers.

## NEED FOR SYSTEMIC CHANGE

There are many inspiring examples of people building alternative food and farming systems—from urban farms and farmers markets in low-income urban communities; to farm-to-institution programs that link farmers with schools, hospitals and workplaces; to the growing movement of farmers and food-related businesses that are revitalizing local food systems. All of these innovative efforts are helping to rebuild local economies, improve health, strengthen the environment, and increase food sovereignty—often all at the same time. And all of them address crucial economic, health and environmental needs. But none of these efforts go far enough to fix the broken agricultural system.

### A quick history of U.S. farm policy

Beginning in the 1930s, U.S. farm policy centered on production management programs, aimed at keeping commodity prices stable by managing supply. In concert with price support programs, measures such as acreage set-asides and grain reserves helped ensure that commodity prices would not plummet if the country’s ever-increasing production capacity surpassed the demand for its products. By the same token, grains in reserve could be released onto the market if supplies fell and prices rose too high.

Throughout the second half of the twentieth century, however, the agribusiness sector chipped away at these policies. This sector had a vested interest in keeping commodity prices low and unstable and therefore preferred the chronic overproduction and oversupply of commodities to any sort of supply management.

The 1970s marked a change in U.S. farm policy, from policies aimed at controlling overproduction to those aimed at encouraging it. Rather than continuing to manage supply, policymakers instead sought to increase demand. Farmers were encouraged to plant “fencerow to fencerow”<sup>7</sup> while production management measures were phased out and international markets were pursued.

This approach to agriculture continues to drive much of farm policy today. Since the 1970s, supply management and price support programs have largely disappeared, with the 1996 Farm Bill putting to rest the few remaining programs for everything except sugar and milk. Rather than managing production and stabilizing prices, farm policy now allows prices to fall, then provides subsidy payments to farmers to make up the difference between price and production costs.

Without addressing the root causes of the broken system, we are destined to keep expending time and money mitigating the consequences. If we really want to address the myriad problems associated with our current agricultural system, we need a fundamental shift in the system itself. To accomplish this, we also need a fundamental shift in how federal money is invested and the policies that support that investment.

## STABILITY VERSUS VOLATILITY

For the past 35 years, the general thrust of federal investment in agriculture has been to support an agricultural model that maximizes production of grain crops and promotes new uses for the excess capacity. Agricultural policy is designed to drive prices down as low as possible, under the logic that if we can just get prices low enough, we can capture markets from our competitors. The success of the U.S. farm sector, this model asserts, lies in “exporting our way to prosperity.”<sup>4</sup>

This “cheap commodity policy” has worked well for many in the agribusiness and food industries. As buyers of commodities, these groups have a vested interest in keeping commodity prices as low as possible. But it has been detrimental for independent family farmers, rural communities, public health and the environment. The promised export markets have never materialized. The drive toward maximizing production has come at great cost to the environment. And while farmers and rural communities struggle to remain viable in the face of low prices, food processors and industrial livestock producers are able to purchase commodities for less than it costs to produce them, giving an unfair market advantage to processed foods and factory farms over more sustainable food and farming systems.<sup>5</sup>

This was not always the case. The original farm programs, instituted in a time of overproduction and low prices during the Great Depression, were designed to stabilize prices through managing the supply of agricultural production (see box). These programs cost taxpayers little and ensured that farmers received fair prices for their crops while buyers generally paid the full costs of production. These programs provided the framework for some of the most stable and prosperous decades in U.S. agriculture.<sup>6</sup>

Now, rather than stabilizing prices by managing production and supply, overproduction is encouraged and prices are allowed to fall—often below the cost of production. The government, at great expense to taxpayers, then makes up the difference between production costs and market prices with subsidy payments, enabling this system to persist.

It is important to note that supply management helps in times of high prices, too. The key role of supply management is to *stabilize* prices. Agriculture is inherently volatile, and a shortage of supply due to drought or other factors could cause prices to spike as quickly as overproduction could cause prices to fall. By managing the quantity of crops on the market, supply management helps eliminate the volatile price swings that can devastate farmers, buyers and consumers alike.

## THE FARM BILL

The question of the most effective federal investment in agriculture is a timely one and the costs of federal agricultural programs are receiving considerable attention.

Complicating the usual Farm Bill deliberations is the fact that the new Farm Bill faces tight budget constraints. The bill's budget baseline is actually smaller than in 2002, due in large part to the assumption that less money will be needed for subsidy payments because commodity prices will remain high. In addition, in light of high commodity prices, many people are questioning the level of—and even the need for—commodity support.

The focus on commodity policy is exciting—and necessary. While the Farm Bill has a profound impact on funding for conservation, nutrition, rural development, energy, agricultural research and other important areas, the commodity programs underlie nearly all of the other Farm Bill programs. Commodity policy has now become a central issue for a diverse array of interest groups.

If history provides any indication, current high commodity prices are likely to be temporary and government subsidies will return to exorbitant levels. (see box). Despite this fact, much of the Farm Bill discussion assumes high prices will continue.

## REDUCING SUBSIDIES WILL NOT SOLVE OVERPRODUCTION

Numerous proposals have emerged to reform commodity policy in the 2007 Farm Bill debates. Most of these proposals seek to decrease or eliminate farm subsidies and claim to thereby both better invest in rural America and save taxpayers money.

Unfortunately, the majority of these commodity reform proposals are based on an incorrect understanding of how the commodity programs work. In particular, the focus on subsidies incorrectly assumes that subsidies are what drive the overproduction of particular commodities and the problems associated with this overproduction. But subsidies are a symptom of much larger problems and are actually needed *because* of overproduction and low prices. Subsidies are only a band-aid on, not a solution to, market failures inherent in agriculture.

Simply reducing or eliminating subsidies will do nothing to address agriculture's inherent problem of overproduction. Because individual farmers cannot influence the market by changing their volume of production, they tend to plant all of their acreage every year. While tweaking subsidies might influence the mix of crops produced, the total amount of land in production tends not to change.<sup>8</sup>

The Food and Agriculture Policy Research Institute (FAPRI) analyzed one popular subsidy reform proposal and found minimal changes in farm production practices. According to FAPRI, if the provisions of the proposed Food and Agriculture Risk Management for the 21st Century Act of 2007 ("FARM21") were to be implemented, compared to current farm policy "changes in production are marginal. Corn, soy-

bean, wheat and sorghum production all change by less than one percent."<sup>9</sup>

If production levels of these crops do not change, prices will not change either. Therefore, simply reducing or eliminating subsidies could actually hurt farmers by weakening the safety net that protects farmers in times of low prices while perpetuating the system of overproduction that allows prices to fall.

## High prices no guarantee

One of the dangers of writing a Farm Bill in a time of high prices is assuming that the farm economy has shifted so that high prices are here to stay. But this is a faulty—and dangerous—assumption.

The 1996 Farm Bill was also written during a time of high commodity prices. But shortly after the bill was enacted, with supply management programs eliminated and farmers free to produce as much as they could, prices fell and the government was forced to step in with "emergency" payments to bail them out. While the bill was touted as a way to wean farmers off of government support, its effect was exactly the opposite: most commodity prices tumbled and government payments hit record highs.

The same is true this time around. Many of the proposals being put forth in the current Farm Bill are based on the fact that commodity prices are currently at record highs. Proponents of reducing subsidies argue that it does not make sense to subsidize farmers at a time when farmers are (finally) getting a good price for their crops. Other interest groups argue that the conservation title or the nutrition title should get new money for their programs based on the "savings" that will come from reduced commodity payments.

But, as in 1996, while commodity prices may be high now, there is no guarantee they will remain so. For example, many people are betting on ethanol to keep corn prices high, but supply is quickly rising to meet demand: corn plantings for 2007 surpassed even the most optimistic projections.<sup>12</sup> Other factors are likely to come into play as well, such as a possible reduction of the current tariff on imported ethanol. If this were to happen, cheaper imported ethanol from Brazil could lower ethanol prices, undermine demand for ethanol, and thereby lower corn prices. Other commodities would likely follow corn's downward trend.

Good policy must work in times of both high and low prices. Wrangling over "savings" and rejecting beneficial programs for financial reasons in the short run makes no sense when a drop in commodity prices could negate all of these savings in the long run. Especially in a sector as unpredictable and as important to society as agriculture, policy must not be based on the assumption that prices will remain high. The best way to ensure savings is to stabilize prices at the cost of production and thereby eliminate the need for subsidies in the first place.

Subsidies are far from an ideal solution to problems with farm income. It is true that a disproportionate share of total subsidies flow to larger producers. However, many farmers do depend on subsidies to remain viable, and simply eliminating those subsidies could have a devastating impact on many agricultural communities. And as Tufts University's Tim Wise notes, many of the figures commonly cited in critique of subsidies rely on averages and obscure the true picture of the farm sector.<sup>10</sup> For example, while average income for the farm sector overall may appear to be high, the average obscures the reality that a small number of large operations make large sums of money while a large number of farmers make considerably less. Farmers do need a safety net and, while not perfect, subsidies currently provide that net.

Proponents of weaning farmers off subsidies without addressing

### Why agriculture is different when it comes to economics

Basic economics dictates that when supply goes up, prices go down. If supply outstrips demand and prices get too low, producers will decrease production in order to bring the prices back up. But as agricultural economist Daryll Ray has explained, agriculture markets often do not function like other sectors of the economy.<sup>11</sup>

There are several reasons for this. First, unlike in most industries, farmers make production decisions only once a year. If a corn crop is not doing well, a farmer cannot just pull up the crop and plant something else. Second, the agricultural industry is highly concentrated. Farmers are squeezed between a handful of suppliers from whom to buy their inputs on one end and a handful of buyers to whom to sell their crops or livestock on the other.

Third, and most importantly, individual farmers have virtually no ability to influence the market. A corn farmer who decides to curtail production because of low commodity prices will not influence either the supply or the price of corn. In addition to the problem of market concentration, there are just too many farmers producing too much of the same thing for the individual farmer to have an impact.

The only way for the farmer to maintain or increase revenue in times of low prices, then, is to produce more, making up in volume what is lost in per-unit price. This might make sense for individual farmers, but added together, the increased production drives prices even lower—setting off a downward spiral of ever-greater production and ever-lower commodity prices.

A well-functioning agricultural economy benefits far more than just farmers. Agriculture has inherent market failures, namely the tendency to overproduce and the inability to self-correct, and these market failures must be addressed through policy. Agriculture cannot simply be left to “the market.”

the inherent problem of overproduction need to be reminded of what happened in 1996. It was only *after* the 1996 “Freedom to Farm” Bill eliminated subsidies and other government supports that production soared, prices fell and the government was forced to step in with \$20 billion in “emergency” payments that were later made permanent in the form of some of the subsidies we have today. Much like current proposals, the 1996 Farm Bill was designed to get farmers off of government support. But it failed in this respect; in fact, the result was exactly the opposite. Approaching the current Farm Bill the same way is likely to produce a similar result.

To truly reform commodity programs in a way that benefits farmers, taxpayers and the broader public, we need to address the real drivers of the current agricultural system—overproduction and low prices.

### “REFORM” IS REALLY MORE OF THE SAME

Proposals to replace or augment subsidies with mechanisms such as farmer savings accounts or revenue-based payments face the same deficiency as subsidies: they do nothing to address overproduction and low prices. They are simply another way to make up for overproduction and low prices rather than address the market failures that cause these problems. In other words, they are more of the same.

Even worse than simply continuing the status quo, many of the reform proposals shift the burden of risk away from the government and onto farmers. In the case of risk management accounts, if prices drop, it is farmers who, by tapping into their “rainy day” accounts, will have to foot the bill. But without mechanisms to address overproduction, the system is pretty much set up to guarantee volatile prices.

When talking about risk management it is also important to consider what exactly is meant by “risk.” There is a big difference between losses due to unpredictable factors such as drought, pest outbreaks, etc., and those due to the predictable failure of policy to address fundamental problems with agriculture. In other words, there is a big difference between natural disasters (“acts of God”) and policy disasters (“acts of Washington”). But many of the reform proposals combine these two, claiming to better protect farmers against disasters, price swings and other risks and mixing mechanisms such as income support programs, disaster programs and crop insurance. Acts of Washington and acts of God should not be mixed. Farmers should not have to dip into savings accounts because federal policies have failed to maintain functioning commodity markets.

Many commodity reform proposals are also being put forth as a way to save taxpayers money. But this, too, is misleading. Most of the proposed “reforms” for the 2007 Farm Bill continue—or even increase—the direct payments that farmers receive regardless of production. And much of the purported “savings” comes from the reduced need for subsidy payments due to high commodity prices. But there is no guarantee prices will remain high. If commodity prices drop, government programs such as revenue-based counter-cyclical payments will trigger large payments.



## THE OPPORTUNITIES AND LIMITATIONS OF GREEN PAYMENTS

Much of the discussion around Farm Bill reform has focused on shifting money from commodity programs to conservation, nutrition and other priorities. This concept of paying farmers for environmental or social services provided, often called “green payments,” can provide more benefits per taxpayer dollar expended than traditional commodity subsidies.<sup>13</sup> But while many of these programs could certainly have more of an impact if given more funds, they do not address the inherent challenges in the agricultural economy—the price distortions in the marketplace.

Ironically, many of the conservation, nutrition, rural development and other programs included in the Farm Bill are needed in large part to make up for the problems that the commodity programs exacerbate. For example, low commodity prices represent a substantial indirect subsidy to industrial animal factories, enabling them to buy feed at prices below the cost of production and giving them a decided advantage over diversified livestock producers who raise their animals on pasture or grow their own feed.<sup>14</sup> Low commodity prices also drive food industry investment into finding as many uses for these cheap raw inputs as possible, contributing to the prevalence of unhealthy products such as high-fructose corn syrup and partially hydrogenated vegetable oils in our food system.<sup>15</sup>

While conservation and nutrition programs can help mitigate problems caused by entities such as industrial livestock facilities and food companies, they do nothing to address the perverse incentives that enable these industries to thrive. With or without these programs, food processors, livestock operators and other buyers will still be able to buy commodities at below-cost-of-production prices.

## HOW TO GET MORE VALUE OUT OF TAXPAYER DOLLARS

Most of the hot topics in the 2007 Farm Bill, such as payment limitations and revenue insurance, would do very little to change the course of agriculture. Some of these programs may provide a slight reduction in taxpayer outlays, but it would be insignificant compared to the overall cost of the Farm Bill. Other reforms, such as green payments and incentives for local foods production, can provide taxpayers with considerably more for their money. But while these programs should be promoted and encouraged, the size of the sustainable agriculture movement remains relatively small compared to the enormity of “conventional” agriculture. As long as agribusiness is allowed to thrive on cheap commodity production, more beneficial alternative agriculture systems will continue to struggle against the inertia of the current, unsustainable system.

To better achieve the goals of agricultural policy and get more value out of public investment in agriculture, we recommend the following initiatives:

### » Reform commodity policy to keep farming viable by maintaining well-functioning agricultural markets, not by subsidizing cheap commodities

Real reform of our agricultural policy will come about only through a system of fair prices, in which farmers receive a price from the marketplace that at least covers their costs and buyers pay the full cost of production.

The policies that support fair prices are well known. Grain reserves, non-recourse loans, and acreage set asides are all policy tools that have successfully been used in the past to maintain fair and stable prices for farmers. Better yet, these programs cost taxpayers virtually nothing. Unfortunately, these programs have been almost entirely abandoned in favor of assumptions that free market forces will eventually bring the agricultural economy to an appropriate, stable equilibrium. This has yet to happen.

### » Create infrastructure that meets the needs of farmers

Despite the fact that U.S. commodity exports have been flat or declining for most of the past 20 years, our agricultural system and the infrastructure that supports it continue to be directed toward expanding low-cost exports rather than supporting growing domestic markets. For example, many policymakers and the U.S. Army Corps of Engineers continue to push for expanded navigation infrastructure (locks) on the Upper Mississippi and Illinois Rivers based on very optimistic export forecasts. But navigation traffic on the river has declined substantially over the past two decades,<sup>16</sup> and with the domestic ethanol industry pulling corn away from export it is now even more unlikely that the traffic levels needed to economically justify the navigation project will ever materialize.

Future markets for farmers lie not in bulk commodity exports but in a more diversified and localized system of agriculture. While domestic markets are growing rapidly, the infrastructure needed to support them is sorely lacking. Infrastructure investment should focus on these domestic markets, including the production, processing, distribution and retail infrastructure needed to support local food, farm, fiber and energy systems.

### » Direct public research toward agricultural systems that provide the most return to the public

Publicly funded research best serves the public when it is directed toward activities that further public interest goals, such as a clean environment, public health or community development. In addition, public research has an important role to play creating a knowledge base that leads to private investment.

Current public agricultural research tends to support existing agricultural systems rather than promote more sustainable, diverse and healthier systems. Relatively little public research has been invested in perennial cropping systems, organic agriculture, local food systems, and many other alternative production systems that could lead to new opportunities for farmers while

also benefiting the environment and public health. This type of research would likely provide substantially more public return than continuing to focus on expanding yields and mitigating the negative consequences of current cropping systems.

» **Use the growth in bioenergy production to promote a more sustainable and economically viable agriculture**

While energy conservation is of the utmost importance for meeting future energy needs, there is little question that significant public investment will continue to be made in farm-based renewable energy production. Given recent trends in the ethanol industry, it is especially important to ensure that these investments are wise investments. For example, a decrease in local ownership and increase in Wall Street investment has raised concerns about benefits from ethanol plants being diverted from farmers and rural communities, while new coal-fired ethanol plants and consecutive seasons of corn plantings have raised serious environmental concerns.

The growth in biofuels has created a unique opportunity to shift cropping systems and create a more environmentally sustainable and economically viable agriculture. Public investment must help ensure that farmers and rural communities share in the economic benefits, and that conservation plays a key role in energy crop production and plant operation. It can do so by prioritizing rural development and local ownership of production facilities; providing farmers and communities with start-up capital; investing in public research in new technologies; encouraging the use of sustainable, perennial biomass feedstocks; and ensuring that the bioeconomy will help shift agriculture toward more sustainable practices in the long run.

Shifting from industrially produced, monoculture row crops into sustainable bioenergy feedstocks for “next generation” cellulosic ethanol production could also help curtail overproduction of commodity crops. Additionally, strategic bioenergy crop acreage and feedstock reserves could help stabilize volatile crop prices.

» **Strengthen the working lands conservation programs**

Most of the current agricultural conservation programs focus on either setting aside land or mitigating the consequences of the current agricultural system. For example, much of the money for the Environmental Quality Incentives Program (EQIP) is allocated to address waste management issues on factory farms.<sup>17</sup>

Investments in conservation should focus on environmentally sustainable production on working lands, providing the highest rewards for systemic approaches and multi-functional agricultural systems. The record 2007 corn crop—and record dead zone in the Gulf of Mexico<sup>18</sup>—emphasizes the need to manage working lands.

The Conservation Security Program, established in the 2002

Farm Bill, is one such holistic conservation program. CSP rewards farmers who are already practicing environmental stewardship, with increasing benefit levels for more comprehensive management practices. Unfortunately, although it was developed as an entitlement program, open to anyone who wanted to participate, CSP has been allocated only a fraction of the funding it needs and eligibility has been limited to a small number of watersheds each year. Fully funding and implementing CSP is critical for ensuring conservation on working lands.

One idea that is getting renewed interest as a way to ensure working lands conservation is to strengthen conservation compliance. Established in the 1985 Farm Bill, conservation compliance requires farmers to meet minimum environmental standards on environmentally sensitive land to remain eligible for federal farm program (commodity) benefits.<sup>19</sup> Although conservation compliance technically still exists, it is unevenly enforced and largely ineffective.

» **Make health a priority in farm policy**

Only recently have the enormous public health implications of agricultural policy been recognized. The obesity epidemic in particular has given light to the large disconnect between what the U.S. food system provides and what the federal dietary guidelines recommend we eat. The direct and indirect costs of obesity alone are estimated at \$117 billion.<sup>20</sup> Ensuring that our agricultural system does not work against public health is not only a societal benefit, it can also provide enormous savings in health care costs.

Shifting our investments toward a healthier food system could also provide consumers with a greater choice of foods, farmers with new markets and marketing opportunities, and communities with a powerful economic development tool. Examples of such investments include expanding farm-to-cafeteria opportunities, farmers markets and other regional food initiatives; providing processing and distribution assistance for regional produce farmers and pasture-raised livestock producers; and encouraging school and government procurement policies that favor healthy and sustainably produced foods. The economic vitality and physical health of farmers, consumers and their communities can all reap the benefits of a healthier food system.

» **Ensure competitive markets**

Increased market concentration, both vertically along the same sector and horizontally across different sectors, has deeply affected U.S. farmers. Fewer and fewer companies sell the inputs farmers need and buy the crops farmers produce. The resulting price squeeze has meant that farmers’ costs have gone up while the prices they receive for their crops have steadily declined. While fair prices would help reign in the growing market power of agribusiness, investments should also be made to ensure stronger antitrust enforcement, fairness in contracts and improved price transparency.

## **CONCLUSION**

A fair farm policy for taxpayers means more than simply reducing government outlays to agriculture. It requires policies that more effectively achieve the commonly held goals for our food and agricultural system. A farm policy that costs taxpayers nothing but then contributes to billions of dollars in costs for environmental mitigation or medical expenses is not fair to taxpayers.

Unfortunately, the options most commonly discussed around the 2007 Farm Bill are either to cut agricultural spending and abandon any public interest in the development of the agricultural sector, or to continue the current programs that inefficiently use taxpayer money. The opportunities to create a low-cost, environmentally friendly, economically prosperous agricultural system are largely ignored.

Using taxpayer money in a futile attempt to kick start export-oriented agriculture was a questionable tactic five years ago in the last Farm Bill. It is even more so now. Taxpayers would be much better served if the Farm Bill and other related policy vehicles would take advantage of the opportunity to truly reform agricultural policy.

## ENDNOTES

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