The Quarterly Review

Economic & Social Trends in Manitoba

Winter 2000

The Quarterly Review is provided free to all members of the Canadian Centre for Policy Alternatives - Manitoba.

Each issue features new independent research and analysis on current social and economic issues in Manitoba.

For information on membership benefits, or to become a member, please contact:
CCPA-Mb
309-323 Portage Ave.
Winnipeg, MB
Canada R3B 2C1
ph: (204) 943-9962
fax: (204) 943-9978
ccpamb@mb.sympatico.ca
www.policyalternatives.ca/mb

SPECIAL DOUBLE ISSUE

The Fight for the Family Farm
by Darrin Qualman

The farm income crisis is more than just a fight for survival by Canada's family farms - it is a battle over who will produce Canada's food and who will own the land. It is a microcosm of a larger issue: corporate takeover in the Canadian economy and around the world.

Government and corporate leaders use EU subsidies to explain the crisis. Are these the real problem? If not, what's really behind the farm-income crisis?
The Crisis

Most Canadians are surely aware by now that family farms in Canada are suffering. But many may not know exactly how bad things are. The reality is that now is worse than any time since the Great Depression. For example, the average Saskatchewan farm family will realize a net income of just $1,783 this year. Net farm income is not the same as “profit.” Corporate profit is calculated after everyone—workers, managers, and the CEO—is paid. In contrast, net farm income is calculated before any allowance is made for the labour or management contributions of farm family members.

To find net farm incomes at lower levels than they are now, one has to look back to 1938. Worse still, Agriculture and Agri-food Canada predicts negative realized net farm incomes for 2001, 2002, and 2003, with losses even worse than those during the Depression.

While Saskatchewan provides the starkest illustration of the farm income crisis, the crisis is not confined to that province. In nearly identical fashion, realized net farm income has fallen to 1930s levels for grain, oilseed, specialty crop, and hog producers in Manitoba, Ontario, and across Canada.¹

In the 1930s, it took a worldwide economic collapse, a stock market crash, mass unemployment, and a prairie-wide drought to drive net farm income to negative values. Today, stock markets are booming, employment levels are fair, the weather is generally good, and crops are average or better. The current farm income crisis is unprecedented in times of economic prosperity and stability.

EU Subsidies

The explanation for the collapse of net farm income that we hear most often from politicians, economists, and reporters is that the crisis is caused by agricultural subsidies, primarily European. Those who blame the farm income crisis on European Union (EU) subsidies put forward an argument that goes something like this:

EU subsidies → increased EU production → oversupply → depressed price → farm income crisis

They point to significant increases in EU production as evidence for their analysis.

Yet if the argument that EU subsidies have caused the farm crisis is true, it should be the case that production is increasing more slowly in countries with low subsidy levels. This is not the case. The table to the right lists trendline changes in wheat production for five major exporters. It demonstrates that while production rose in the heavily subsidized EU countries, it rose at comparable rates in relatively unsubsidized countries such as Australia and Argentina and (at a lower rate) in Canada. In the next most highly subsidized country after the EU—the US—production of wheat actually declined.

Production is increasing in relatively unsubsidized countries at a rate similar to that of the highly subsidized EU countries—in other words, there is no link between subsidies and increased production of wheat.

The absence of any relationship between subsidy levels and production rate increases is just as true with other crops, to the point that there is very little evidence that, had EU subsidies been lower or even non-existent over the past 20 years, its current pro-

---

¹ Source: Agriculture Economic Statistics, Statistics Canada Cat. #21-603E; Consumer Price Index, Statistics Canada Cat. #62-010; Historical Overview of Agriculture, Statistics Canada Cat. #93-358.
duction would be lower, that world grain prices would be higher, or that the worldwide farm income crisis would be less severe.

The other major flaw in the argument that EU subsidies cause oversupply, falling prices, and the farm income crisis is very simple: there is no oversupply.

Stocks/use ratios are a fundamental and often-quoted measure of supply and demand. The ratios compare the stocks on hand (in elevators, storerooms, railroad cars, farm granaries, etc.) at the end of a given year to the amount used in that year. A low stocks/use ratio denotes low supply and should trigger price increases.

Using that measurement reveals that the world has a 64-day supply of corn, oats, and other coarse grains. Given the potential for drought, flood, and the increasing uncertainty over global warming, a 64-day supply is not burdensome. And it does not in any way mean that we must bankrupt farmers in an attempt to force them to produce less.

Could we end EU subsidies? Would we want to?

Despite the evidence presented above, some would still assert that domestic subsidies cause overproduction, oversupply, depressed prices, and the current farm income crisis. These people would further assert that the solution to the current farm income crisis is to force the EU (and the US and other countries) to dramatically reduce or eliminate their subsidies. Let's grant these assertions for a moment and ask, Is it realistic to think that we can force the EU to drastically curtail or eliminate its agricultural subsidies?

In contrast with, for example, North Dakota, where vast tracts of corporate farm land lay undisturbed by farms or communities, Europe enjoys a vibrant and well-populated countryside. European citizens and politicians want to see small farms in the country, dairy cattle grazing in mountain valleys, and thriving rural communities— and they are willing to do what it takes to ensure that farmers and communities survive and prosper.

European officials tell the NFU that they have seen what market forces do to farmers and to the countryside, and they refuse to abandon their farmers and rural communities to such destructive forces. The EU will energetically resist attempts by Canada, the US, and others to force it to reduce the support it provides to its farmers in the form of subsidies.

Even if we could force the EU's hand on subsidies, how long would it take? The last round of WTO agricultural negotiations—the Uruguay round—began in 1986 and ended in 1994. The agreement reached in this round committed WTO members to modest subsidy reductions over periods ranging from six to ten years. Today, fourteen years after the start of those negotiations, we have yet to see any significant subsidy reductions. A new agreement is likely a decade away, and as in previous agreements, subsidy reductions would be phased in over ten years or more.

The plan to solve the farm income crisis by attacking EU subsidies is terribly misguided—not least because, even if it did work, there would be no appreciable effect for decades. Canada's family farms cannot hang on for two years, let alone twenty.
Before I turn to the real causes of the crisis, I would like to consider why the EU subsidy explanation is so attractive and so widely accepted. Many of the government and corporate leaders who gave us the recent parade of trade agreements, deregulation initiatives, and privatization schemes are market ideologues. They believe—a priori and often in spite of evidence—that markets work.

If markets work, how do we explain the economic carnage on family farms? Market ideologues cannot concede that markets sometimes fail, and so they blame “market distortions” and “market barriers”—state trading enterprises, tariffs, and subsidies. Hence the attraction of the EU subsidy explanation.

The markets would work for farmers, these leaders declare, if only we could clear away the barriers and distortions. Hence, they charge off to the WTO to rid the world of tariffs and subsidies and free the invisible hand of the global market economy to dispense prosperity and freedom to the industrious and efficient.

Clearly, the market is failing farmers, it is failing all around the world, and it has been getting steadily worse since at least the late 1970s. The market is failing to return a fair and adequate share of the consumer dollar to farmers. And it is failing to allocate to farmers a reasonable return on labour, management, and equity from our agri-food system’s huge revenue stream.

While the EU spent $90 billion last year to protect its farmers from this chronic market failure, and the U.S spent approximately $24.5 billion, Canadian federal and provincial governments have not protected farm families. Federal agriculture spending has fallen to half the levels of ten years ago.

Blaming low farm incomes on EU subsidies is just the latest false explanation embraced by politicians. In the 1970s and ‘80s, farmers were told to expand, specialize, diversify, add value, quit growing wheat, grow high value crops, embrace new technology, use marketing tools — all carrying the implication that farm incomes were low because farmers were doing something wrong. Today farms are much larger, farmers are using high-tech equipment.
Social Trends in Manitoba

and computers, growing chickpeas and lentils, raising wild boars and fainting goats, using high-tech seeding and harvesting gear, and marketing like never before. Their reward for this investment and innovation has been the lowest net farm incomes since the 1930s.

Worse yet, this market failure is entirely predictable. It is a direct result of dramatic market power imbalances between agri-food industry transnational corporations and the family farms that must do business with these firms.

From the farm to your table

Modern food production takes place in a chain which includes oil, fertilizer, seed, chemical, and machinery companies on the input or “upstream” side, and grain companies, railways, packers, processors, retailers, and restaurants on the “downstream” side. Almost every link in this chain, nearly every sector, is dominated by between two and 10 multi-billion-dollar multinational corporations:

- Three companies retail and distribute the bulk of Canadian gasoline and diesel fuel;
- Three produce most of the nitrogen fertilizer;
- Nine companies make our pesticides;
- Four companies are gaining control of our seed market;
- Three produce most of our major farm machinery.

As well, five banks control Canadian agricultural credit, along with some participation by the federal Farm Credit Corporation and a network of relatively small credit unions. The combined profits of Canada’s five chartered banks equalled $6.75 billion in 1998.

The situation is the same on the “downstream” side of the food production chain:

- Nine grain companies collect Canadian grain;
- Two railways haul it;
- Two companies dominate the beef packing sector and a handful dominate pork;
- Three large firms manufacture 87% of the pasta in Canada;
- Four corporations mill 80% of Canadian flour;
- Three companies manufacture the bulk of the soft drinks sold;
Four companies produce most of the cereal; five companies control food retailing in Canada; a handful of restaurant chains control an increasing portion of the restaurant business. The is only one significant exception to the pattern of extreme concentration outlined above is the farm link. In Canada, that link is made up of over 270,000 relatively small family farms.

In addition to the small number of firms that dominate each link, their size stands out. Total 1998 Canadian gross farm revenues were $29 billion. Cargill’s revenues were $75 billion that year. Philip Morris Inc. (Post, Kraft, Oscar Mayer, Kool-aid, Jello, Maxwell House, Marlboro, Miller) had revenues in 1998 of $109 billion. Nestlé (Stouffer’s, Maggi, Libby’s, Nescafé, Perrier, etc.) had revenues of $76 billion. While these revenues are large in relation to total revenues for all Canadian farmers, they are staggering compared to the revenue of any individual farm family.

The small number and large size of the firms that dominate the other sectors of the agri-food chain give these firms tremendous market power relative to farmers.

If one looks objectively—without preconceptions about the marvels of the market—at the agri-food chain, one would immediately have doubts that extremely numerous and relatively tiny family farms could extract fair and adequate revenues and profits from a chain dominated by firms a thousand to a million times larger. These doubts are borne out when one compares farmers’ profit levels to those of agribusiness corporations. While farm families struggle with large losses, the huge corporations that dominate the other links in the agri-food chain continue to earn large profits.

“Return on equity” is a common measure of profitability. It is calculated by dividing net income (profit) by average equity (assets minus debt). An accurate and startling picture of relative profitability emerges when one compares return on equity rates for farmers to those in the other links in the chain. While farmers earned just 0.3% return on equity in 1998, agribusiness corporations earned 5%, 20%, 30%.

If farmers enjoyed returns on equity comparable to those enjoyed by other players, there would be no farm income crisis.

While a bushel of corn sold for less than $4, a bushel of corn flakes sold for $133.
50%, and even higher rates. While the farmers growing cereal grains—wheat, oats, corn—earn negative returns and are pushed close to bankruptcy, the companies that make breakfast cereals reap huge profits. In 1998, cereal companies Kellogg's, Quaker Oats, and General Mills enjoyed return on equity rates of 56%, 165%, and 222% respectively. While a bushel of corn sold for less than $4, a bushel of corn flakes sold for $133. In 1998, the cereal companies were 186 to 740 times more profitable than the farms.

While low farmgate hog prices over the last year-and-a-half drove many family farm hog producers out of the business, Canada's two largest pork packers—Maple Leaf and Fletcher's—pocketed record profits. Maple Leaf's profits during the hog price crisis were a record $72.9 million—triple its average for the previous three years. Fletcher's profits were double its three-year average.

Farmers are making too little because agri-business corporations are taking too much. If farmers earned just a 5% return on their equity, Canadian realized net farm income would be $9.3 billion in 1999 instead of the projected $2.8 billion. Even a 3% return would end the income crisis. If farmers enjoyed returns on equity comparable to those enjoyed by other players, there would be no farm income crisis.

Consumers pay trillions for food. The prices they pay increase each year. The corporations that make, transport, package, process, and sell that food make billions in profits. The corporations that make tractors, fertilizer, and pesticides make billions. There is no shortage of money in the agri-food system; there is merely a maldistribution of money. That maldistribution is a direct result of the imbalance in market power in the agri-food chain. The farm income crisis is caused by that maldistribution and market power imbalance, not by EU subsidies.

**Notes**

1 In provinces such as Ontario and Quebec, the income crisis for grain and hog producers has been statistically masked by the high percentage of farmers producing supply-managed commodities (milk, chickens, turkeys, and eggs) and the relatively stable incomes those farmers enjoy. Those farmers are paid based on their costs of production and have largely been spared from the current income crisis.

2 Reliable stocks use data is available from the United States Department of Agriculture going as far back as 1960/61—40 years. Before that, reliable data is unavailable from any source. Thus, while recent levels are the lowest recorded in the period for which there is reliable data, they may be the lowest over an even longer period.

Darrin Qualman is the Executive Secretary of the National Farmers Union. He has been with the NFU since 1996. He and his wife Donna grow and sell hay for dairy cattle and horses at their farm at Dundurn, Sask.

This article is based on an excerpt from the NFU's February 2000 report "The Farm Crisis, EU Subsidies, and Agribusiness Market Power". It is available by calling (306) 652-9465. A new edition of this report, with contributions by Nettie Wiebe and Murray Dobbin, will be published jointly by the NFU and CCPA-MB later this spring.
Essayist E.B. White once remarked, “the academic rarely writes as well as the farmer talks.” In that spirit, here are some words spoken by Cory Ollikka, President of the National Farmers’ Union:

“We don’t exist just for some romantic notion of the family farm from the late 19th century. Our members are people out there producing food on a day-to-day basis. I don’t know where these criticisms (of the family farm) come from. Maybe from urban Canada. Maybe the Fraser Institute.

“In order to produce food on such a small margin of profit, year after year — you’re taking efficiency! How about people who fulltime manage farm operations, with both spouses working off the farm? I defy you to find anyone more efficient than your small, medium-sized family farm that has two, sometimes three off-farm jobs.

“All these corporate ideologies, these freemarket doctrines stem from a narrow understanding of what individualism is. The primary characteristic of all individualism is that every individual in society is inextricably linked to every other individual. So somehow by saying you’re following a freemarket doctrine, you’re going to let the invisible hand of the free market dictate and as an individual you’re going to have to adapt to that. Bull! That’s not how it works. Markets are tools. You use those tools, but you use them for the collective good.

“Farming is a business, yes, but it’s much more. There is a lot of social fabric. The fact is, there are macro policies at play in Canada being promoted by the federal government and large corporate groups are making it extremely difficult for any small and medium sized production to take place. These policies are systematically putting production in the hands of fewer and fewer people.”