July/August 2000

$3.00 / Canada $3.50

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CORPORATE PIGS
and Other Tales of Agribusiness

Freedom to Fail

How U.S. Farming Policies Have Helped Agribusiness and Pushed Family Farmers Toward Extinction

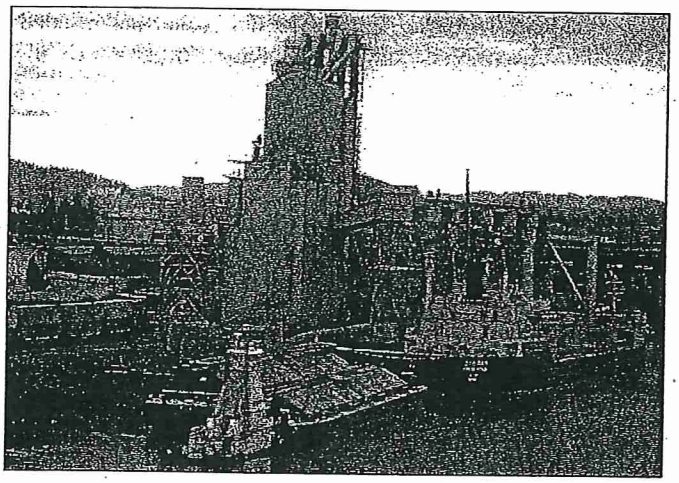
By Ben Lilliston and Niel Ritchie

GEORGE NAYLOR'S FAMILY TRAVELED to Green County, Iowa from England in the 1880s. They farmed on other people's land until 1919 when they bought their own farm. Now, in face of a growing farm crisis, George Naylor is battling to keep his family's 560-acre farm alive. "Now that prices have gone to heck, we're not getting any money at all," Naylor says. "We don't buy anything we don't need."

Naylor's experience is typical of most U.S. farmers who have been sold down the river by a calculated U.S. farm policy that directly benefits large agribusiness companies and factory-style farming at the expense of family farms. The farm crisis has hit home literally, with plunging farm prices — the bane of family farmers for centuries — forcing most farm families to work off the farm to survive. According to the U.S. Department of Agriculture, almost 90 percent of the total income of rancher or farmer households now comes from outside earnings.

"We've been looking for other jobs," says Naylor. "Almost everyone in my neighborhood has other jobs."

The driving force behind U.S. farm policy is the 1996 seven-year farm program titled the Federal Agricultural Improvement and Reform Act — with the ironic acronym (FAIR). The bill, dubbed "Freedom to Farm" by its bipartisan proponents, put an end to the New Deal system of production controls and eliminates federal price supports. It provides farmers with a guarantee of fixed but declining payments to end in 2002, and allows flexibility to plant whatever they like.



Prior to Freedom to Farm, if the price for a market commodity — such as soy, wheat or corn — dipped below the price floor, the government would cover the difference, thus ensuring that price wouldn't fall below the cost of production. Freedom to Farm eliminated price floors and removed "production controls" including land set asides and farmer-owned grain reserves. By giving farmers some ability to limit the amount of commodities on the market, these policies had given farmers some control over the price for their crops. Finally, the FAIR legislation gradually transitions away to the point of eliminating farm programs after the year 2002.

The effects of Freedom to Farm have been immediate and devastating. Proponents touted the program as a way to increase exports and the price of crops. But "Freedom to Farm" has failed miserably on both accounts. Exports of corn, wheat, soybeans and sorghum have dropped by nearly

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10 percent since enactment of Freedom to Farm. More importantly, prices have collapsed, with corn going from $3.24 a bushel in 1995-1996 to $1.90 in 1999-2000, wheat dropping from $4.55 to $2.50, soybeans declining from $6.72 to $4.70 and sorghum plummeting from $3.19 to $1.60.

U.S. Corn, Wheat, Soybeans & Sorghum Exports Since Enactment of the 1996 "Freedom to Farm" Law

Mkt. Year	Corn	Wheat	Soybeans	Sorghum
	(Exports in Billion Bushels)			
1995/96	2.228	1.241	0.851	0.198
1996/97	1.797	1.002	0.882	0.205
1997/98	1.504	1.04	0.873	0.212
1998/99	1.981	1.05	0.801	0.197
1999/2000	1.95	1.05	0.91	0.225

Source: USDA-ERS, April 2000 Agricultural Outlook

The policies of Freedom to Farm have been such an unmitigated failure that Congress has had to appropriate massive bailouts in each of the last three years to keep farmers on the land. In 1998, "emergency aid" to farmers totaled $15 billion. In 1999, it grew to $23 billion. Another $15 billion will be spent this year.

Putting these numbers into perspective, John Hansen, president of the Nebraska Farmers Union, says that the total cost of farm programs in 1996 was $4.6 billion.

FAILED POLICIES, FLAWED ASSUMPTIONS

Freedom to Farm was designed to expose farmers to the so-called free market. Freedom to Farm reduced the level of government interference, which in theory would allow farmers to thrive on the open market, particularly in what was seen as the growing export market.

The market "will decide which farmers should stay in business and which farmers should choose other avenues," one proponent, Kevin McNew, an assistant professor in the Department of Agricultural and Resource Economics at the University of Maryland, told a Heritage Foundation audience in August 1999. "It will do so solely on the basis of efficiency and costs. Those that are efficient and produce at lower cost shall remain. Like any other freely competitive industry, competition is not always kind, but it is always fair."

Freedom to Farm encourages fence-row-to-fence-row farming with no provision to control supply, and forces every bushel produced to be dumped on the market no matter how low prices are already depressed, since there is neither a fair loan rate nor a reserve program, according to Naylor. Promoting the "free market" in farming was understood to translate into lower prices by removing price supports and production controls.

The big grain traders support Freedom to Farm. "Freedom to Farm has really positioned the U.S. very well to take advantage of the opportunities in the world market," Cargill's Dan Pearson, told the Ontario, Canada *Financial Post* in December 1996, shortly after the law's enactment.

Champions of FAIR claimed that lower prices would make U.S. grain and oilseed prices competitive in world import markets and increase U.S. exports, thereby increasing U.S. farmers' income and lowering the cost of federal farm programs. Proponents also argued that the lower U.S. price supports and lower crop prices would serve to discourage foreign competitors from increasing the area they were seeding to grains and oilseeds, further benefiting U.S. farmers.

But according to Sheila Ehrich, a farmer from Elmore, Minnesota, it is the large grain buyers who have reaped the benefits of Freedom to Farm, not farmers themselves. "Cargill is buying corn damn cheap — we're back to overproducing," says Ehrich.

Ehrich and her husband grow both corn and soybeans on a 1,000 acre farm, and sell seeds to other farmers. The Ehrich's have recently found a market for their corn at two ethanol plants. But their other options for selling their crops have shrunk dramatically since Freedom to Farm passed, reflecting the growing concentration of agribusiness. The Ehrichs used to have five different elevators, each independently owned, to choose among to get the best price for their crops. Now the five elevators are owned by only two companies.

U.S. Corn, Wheat, Soybeans and Sorghum Prices Since Enactment of the 1996 "Freedom to Farm" Law (Prices in Dollars Per Bushel)

Mkt. Year	Corn	Wheat	Soybeans	Sorghum
1995/96	3.24	4.55	6.72	3.19
1996/97	2.71	4.30	7.35	2.34
1997/98	2.43	3.38	6.47	2.21
1998/99	1.94	2.65	4.93	1.66
1999/2000	1.90	2.50	4.70	1.60

Source: USDA-ERS, April 2000 Agricultural Outlook

The Ehrich's story is by no means unique. In August 1999, the University of Minnesota Extension Service conducted a survey of 300 farmers' and agribusiness leaders' opinions of the FAIR Act. Almost 50 percent gave the bill a grade of "F" and another 20 percent gave the bill a "D." Ninety-seven percent of the respondents said changes are needed.

Critics point out how the Act stripped away New Deal farm programs designed to directly protect farmers from the wild fluctuations of the market, which had devastated farmers during the Depression.

The Freedom to Farm experiment, they say, failed to take into account a number of factors: increased production by other exporting countries; the facts that lower commodity prices don't increase overall demand and that productive land never remains fallow for long; and the lack of competitive markets.

For nearly 50 years, agribusiness and grain traders who thrive on the volatility of the market and low crop prices have attacked the New Deal approaches to U.S. farm policy. Family farmers throughout the country say the agribusiness success in Freedom to Farm has returned farmers to the Depression-era conditions that brought about the New Deal farm program in the first place.

Freedom to Farm has accelerated the long and steep decline in family farms. The total number of farms in the United States has declined from 6.5 million in 1935 to 2.05 million in 1997, with most of the decline among family farms, according to Willard Cochrane, professor emeritus at the University of Minnesota. More than 60 percent of the remaining farms are resource, residential or retirement farms. Since enactment of FAIR, the number of family farms has gone into free fall.

FIGHTING THE MARKET

Farm policy has been a volatile political issue for much of U.S. history — most notably in the late 19th century, when the insurgent Populist political movement was a major force in U.S. politics. The agrarian populist movement, carried through the early part of the 20th century, was built largely on efforts by farmers to assert some control over price, supply and credit. During the 1930s, according to Daryll E. Ray, director of the Agricultural Policy Analysis Center at the University of Tennessee, growing farm production rapidly outpaced agricultural demand, causing lower prices.

Their success came in the New Deal, following the farm crisis — portrayed in the *Grapes of Wrath* — which preceded it. But farmers did not respond to lower prices by significantly reducing output nor did consumers significantly increase the quantity demanded. Instead, inventories kept building and prices kept plummeting. The crisis ended only with the implementation of New Deal regulations.

President Roosevelt's farm policy was designed to restore the farm purchasing power of commodities relative to the rest of the economy by using three policy tools — production controls, price supports and farm credit, explains Mark Ritchie, president of the Institute for Agriculture and Trade Policy in his 1986 book, *Crisis By Design: A Brief Review of U.S. Farm Policy.*

"The Parity program, as it was called, had three central features," Ritchie writes. "First, it established the Commodity Credit Corporation (CCC), which made loans to farmers whenever prices offered by the food processors or grain corporations fell below the cost of production. This allowed farmers to hold their crops off the market, eventually forcing prices back up. Once prices returned to fair levels, farmers sold their crops and repaid the CCC with interest. By allowing farmers to control their marketing, the CCC loan program made it possible for them to receive a fair price from the marketplace without relying on subsidies. Second, it regulated farm production in order to balance supply with demand, thereby preventing surpluses. Since government storage of surpluses was expensive, this feature was crucial to reducing government costs. Third, it created a national grain reserve to prevent consumer prices from skyrocketing in times of drought or other natural disasters. When prices rose above a predetermined level, grain was released from government reserves onto the market, driving prices back down to normal levels."

"Although this parity legislation was essential to saving family farm agriculture, it conflicted with the economic interest of a number of powerful corporations and banks," Ritchie writes. "For example, government intervention to stabilize prices hurt grain speculators who had benefited from the large price fluctuations by buying farm products when prices were low, storing the products and then selling them when prices rose. In addition, effective supply management, by reducing the acreage being farmed, cut into the sales of pesticides, insecticides and fertilizer by farm chemical and oil companies. Grain corporations suffered as well: because they receive the same margin of profit on every bushel of grain sold, their interests are served by the kind of high-volume, low-price agricultural market that the parity programs served to prevent."

FARMING WITHOUT A NET

Freedom to Farm has driven the move toward large, corporate farms and agribusiness partnerships and away

THE WTO PROBLEM

The U.S. government's commitment to the World Trade Organization and General Agreement on Tariffs and Trade, which eliminates agricultural price support policies, helped push through Freedom to Farm, according to Kathy Ozer of the National Family Farm Coalition. The United States needed to phase out its own systems of farm subsidies and programs in order to begin pressuring other countries to do the same.

Soon after the passage of Freedom to Farm, the United States became sharply critical of European farm subsidy programs, arguing that they violate WTO rules. But in June, European Agriculture Commissioner Franz Fischler launched similar criticisms of Congressional bailouts for U.S. farmers in the last three years. "Time and again, the U.S. denounces other countries, in particular the European Union, for providing support to their farmers while at the same time, year after year, they provide special financial packages for their own farmers, over and above that already foreseen under the 1996 farm bill," Fischler told *Farm Progress Magazine.*

The WTO also creates obstacles for those pushing for a farm policy that benefits family farmers in the United States. The WTO prohibits a broad range of non-subsidy policies to assist beginning farmers or small farmers. For instance, WTO rules would bar a state from procuring food — say for schools — primarily from in-state farmers because such a preference would discriminate against out-of-state and foreign food suppliers. Similar types of WTO-illegal policies might include tax preferences for small farms or beginning farmers, labeling food as to country-of-origin or state origin, or providing low-interest loans for smaller farms.

— B.L. & N.R.

from small and medium-sized producers. Government subsidies for farmers tell much of the story. According to an April study by the Environmental Working Group, approximately $22.9 billion was passed out in subsidies during the first three years of the Freedom to Farm Act (1996 to 1998), and the top 1 percent of subsidy recipients collected an average of $249,000 over the three years — about $83,000 per year. The top 10 percent of the recipients — 144,000 participants — collected 61 percent of the money, or an average of $32,000 in payments per year. At the same time, the majority of subsidy recipients saw little benefit from the 1996 law. Half of all subsidy recipients were paid less than $1,200 per year, and many smaller farmers saw a loss in their net farm income, the study said.

"If they would pay farmers on a basis of need — rather than just pay everybody — it would make a lot more sense to people outside of farming," says Sheila Ehrich. "I don't see how Congress can continue this. When the economy changes, we'll be the first ones cut."

Although there are other factors, the subsidies are largely determined by farm size, thereby favoring agribusiness over small family farmers. They are not determined by whether a farm makes a profit or is in need. Some landowners who are not farming as much have been eligible for large payments, solely because of the number of acres they own.

WHO'S MAKING THE BREAD?

Freedom to Farm's lower commodity prices have not translated into consumer benefits. Since 1984, the real price of a USDA market basket of food has increased 2.8 percent while the farm value of that food has fallen by 35.7 percent, according to C. Robert Taylor, professor of agriculture and public policy at Auburn University. Taylor says there is a "widening gap" between retail price and farm value for numerous components of the market basket, including meat products, poultry, eggs, dairy products, cereal and bakery products, fresh fruit and vegetables, and processed fruit and vegetables.

At a major farm rally in Washington, D.C. in March, farmers served legislators a "farmers" lunch. The lunch included what would typically be an $8 lunch — barbecued beef on a bun, baked beans, potato salad, coleslaw, milk and a cookie. The farmers charged only 39 cents for the meal, reflecting what farmers and ranchers receive to grow the food for such a meal.

FIGHTING BACK

What Freedom to Farm has done is highlight for many farmers as never before that their interests diverge from agribusiness. "The U.S. food system consists of six interrelated sectors: farm inputs, farm production, food processing, wholesaling, retailing and food service," notes Dr. Richard Levins, an agricultural economist at the University of Minnesota. "Agribusiness and their supporters in government are eager to portray agriculture as monolithic, with all sectors equal and interdependent. But the reality of which sectors have market power and political power is quite different."

The low commodity prices which benefit many large agribusiness interests erode family farms' viability. "The long-term crisis in agriculture will continue until the government addresses the fundamental problem of market prices set below farmers' cost of production," concluded a coalition of over 60 family farm, labor, environment and church organizations in a statement released in conjunction with Willie Nelson's 1999 Farm Aid concert.

Family farm and sustainable agriculture advocates are beginning to formulate policies to respond to this crisis. With the current farm bill due to expire in 2002 and a pattern of five- to seven-year programs, groups are starting to take a longer-term view of the political landscape and working to build coalitions to reverse this concentration of agribusiness power and wealth.

On March 21, over 3,000 farmers came to Washington, D.C. for what was billed as the "Rally for Rural America." An emerging coalition of family farm, church, labor, consumer and environmental groups endorsed an agenda for replacing the current failed farm policy. The coalition called for the immediate passage of a new farm bill that would:

- Set government non-recourse loans at near the cost of production to ensure that farm income comes from the marketplace and not taxpayers.
- Enact short-term conservation measures to avoid wasteful and market-depressing overproduction.
- Create a farmer-owned grain reserve to ensure food security in times of scarcity and price stability in times of plenty.
- Maintain planting flexibility.
- Establish a national dairy policy to ensure a farmer's cost of production plus a return on investment.

In addition, the coalition called for the negotiation of fair trade agreements, including assurances that all countries retained the right to develop farm programs that respond to the needs of their farmers and consumers. They also demanded that countries end export dumping — the sale of commodities below the cost of production — that undermines domestic economies. They insisted that environmental protection, fair wages and worker rights be included in every trade agreement. And finally, they called for the restoration of competition to the marketplace through strict enforcement of antitrust law and an immediate moratorium on mergers and acquisitions in agribusiness, transportation, food processing, manufacturing and retail companies.

Freedom to Farm has been derisively called "Freedom to Fail" by critics. Many agriculture experts believe the United States has only a few years left to save its family farmers, before they are either swallowed up by larger farms, or left in financial ruin. The next farm bill, expected to be hashed out next year, will likely leave a lasting imprint on whether most U.S. small farmers will be able to stay on the land in the next century.

"Given the basic framework of Freedom to Farm, there isn't any way to envision agriculture as anything but what it has turned out to be," says Naylor. A sustainable future for Rural America, says Naylor and farmers like him, depends on establishing an entirely new agricultural framework. ■