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Farm Subsidies or Agri-Business Subsidies?

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June 1995

Few policy issues engender as much passion, debate, and contention within the environmental community as so-called farm subsidies. I qualify this terminology because most of the items lumped together under the heading of "farm subsidies" are, in reality, subsidies to global food corporations or to the buyers of these products, a large number of whom are located in other countries. This article will concentrate on just one of the programs, called the deficiency payment/target price program, which accounts for roughly half of all "farm subsidy" spending.

From the 1930s until the early 1950s, the Roosevelt-era farm programs, (also called "New Deal" or "parity" farm programs) set a floor price for major farm crops at or near the cost of production. This farm program, called the Commodity Credit Corporation (CCC) non-recourse loan program, forced the grain companies and other food manufacturers and exporters to pay farmers a minimum price in the marketplace, thus avoiding the need for payments from the federal government to farmers. New Deal farm programs also included two additional elements; 1) price ceilings to protect consumers, and 2) inventory control programs that included regulation of imports and domestic supply management through production controls. These programs became law in the Soil Conservation and Domestic Allotment Act of 1936 and the Agricultural Adjustment Act of 1933.

Some parts of the CCC programs actually made a tiny profit for the federal government during this time period by making loans to farmers at harvest time which allowed them to hold their crops off the market while prices were at their lowest level. Farmers repaid these "orderly marketing" loans, with interest, when prices rose later that year.

In the late 1940s, almost all aspects of the Roosevelt era came under attack by the major corporations and banks. New Deal-era farm programs were attacked as central planning, socialist and, on occasion, Bolshevik agriculture. It was not, however, until the McCarthy era of the early 1950s that these attacks began to undermine congressional support.

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Under President Eisenhower these farm programs began to be weakened, leading to serious erosion in family farm income and the eventual unraveling these programs by the early 1970s. In the early 1970s, facing trade deficits for the first time in over 125 years, President Nixon was advised to try to re-balance U.S. trade by significantly increasing agricultural exports.

Grain exporting corporations, like Cargill and Continental, were particularly active in giving this advice, and proposed that the federal government take action to consciously lower the price paid to U.S. farmers for their crops so that the grain exporters would have more "competitively priced" products to offer world markets.

The dramatically lower prices they proposed sent shockwaves through the farm community, engendering protests across rural America. President Nixon, looking for a politically acceptable way out of this debate, chose to give the grain companies what they demanded -- significantly lower farm prices while tapping taxpayer money to help farmers cover their losses from these lower prices. Under the political logic of the late 1960s and early 1970s, taxpayer dollars were used to solve most political conflicts.

President Nixon launched the target price/deficiency payment farm programs that are the basis of our current farm policy. Here's how it works: A minimum, farmgate price is set by Congress, generally at the level demanded by the grain exporters and food processors. For most major crops, this is roughly half to two-thirds of the cost of production on the most efficient farms, not including externalized environmental costs.

In order for some farmers to be able to survive with these low prices, a check is sent from the federal government to farmers who choose to participate in this overall scheme. In the case of corn and wheat, the two most important crops in the country, over 80-90% of the farmers participate, depending on the year and specific circumstances. These checks are called "deficiency payments", and they equal the difference between the relatively low domestic market price and the slightly higher target price.

For example, corn that costs a highly efficient Minnesota farmer $3.00 per bushel to grow costs Cargill or Continental Grain Company roughly $1.80 per bushel. Then, the farmer receives a check from the government for approximately $.50 for a total income of $2.30 (realizing a loss of nearly $.70 for each bushel). Some farmers, especially older ones that have their land and machinery completely paid for, can survive for a while under this system. Younger farmers, especially those trying to integrate new sustainable agriculture approaches which are often more expensive in the short-run, cannot and do not survive under the current prices.

In 1986, over $30 billion was paid out in deficiency payments. Last year, it was roughly $10 billion. Although these payments are called farm subsidies, they are, in reality, agribusiness subsidies.

By setting farm prices at extremely low levels, the current farm program allows domestic and international food companies to buy raw materials at prices far below the cost of production. Inside the United States, this means that cereal makers like Kellogg's and General Mills can get rice, corn, wheat and other crops at half the cost of production. Since there is only five cents worth of cereal in a $3-4.00 box of cereal, it means that for each box they sell they earn an extra nickel profit--an enormous amount of money.

On the international front, however, the distortions of this system are the most dramatic. Food and feed exporters like Cargill and Continental Grain are the strongest advocates of this system, because it allows them to take high quality U.S. grain into the world markets at extremely low prices. With the help of the deficiency payment system, they are able to get huge quantities of U.S. grain at prices near half the cost of production.

These low prices allow exporters to sell into almost every market around the planet and drive other producers out of business. In Nigeria, for example, U.S. rice was sold at such heavily subsidized prices that it put Nigerian rice farmers out of business, thereby creating a dependency on imported foods. This was perhaps affordable when oil prices were high, but when oil prices fell Nigeria, had no money to buy food and few farmers still able to grow their own food. Famine and starvation leading to unrest, and a military dictatorship are just some of the terrible results of this system.

These low prices also make it possible for Cargill or Continental to sell extremely low-cost feedgrains to producers in Japan, Germany and Holland. It seems absurd that U.S. taxpayers should be asked to subsidize the buyers in such wealthy countries, but that is exactly what we are doing.

So what would happen if we got rid of all of these deficiency payments? It all depends on what was left in place. If grain companies can go on paying farmers far below the cost of production, then most farmers would go broke if the government payments were discontinued. However, if the grain companies were forced to pay a minimum price near the cost of production, as was the case in the past, then farmers would not need government payments to survive. In fact, progressive farm groups like the National Family Farm Coalition, National Farmers Union, American Corn Growers Association, American Agriculture Movement, and others have been calling for just this kind of change for over a decade. They are demanding fair prices for farmers in the market--not through government payments--and they know that this will require inventory control measures such as supply management and import quotas to keep surpluses from building up.

Unfortunately, the multinational grain companies and food processors have been extremely effective in blocking efforts to change the system in this way. They have even recruited one of the largest national consumer groups, to speak on their behalf, arguing that paying farmers a fair price would hurt consumers. If farmers got a fair price from Kellogg's or General Mills, then the cost of the grain in a $4.00 box of corn flakes would cost ten cents rather than five cents. Is this really a problem for consumers? Why not reduce the advertising costs, or the packaging costs, or the shipping costs or perhaps the profits instead of bankrupting farmers or taxpayers?

While a few environmental groups have also jumped on the agribusiness bandwagon, many have joined together with the progressive farm groups in a national sustainable agriculture dialogue, which has produced a remarkable consensus position on what to lobby for in this year's farm bill debate: policies that promote both ecological and economic sustainability. While it is unlikely that the new congressional majority will rush to support these ideas, there is significant grassroots support that will make these ideas and issues part of the national debate. Perhaps this year will be the chance to start calling agribusiness subsidies by their right name and, as Jim Hightower so elegantly puts it, a chance to start chasing the corporate hogs out of the creek.

If you would like further information about these issues you can receive news bulletins on food safety, agriculture and other farm bill issues published by the Institute for Agriculture and Trade Policy via the Internet, and you can contact us for further information. Call, fax, write, or e-mail us at IATP, 1313 5th Street SE, #303, Mpls. MN 55414 612-379-5980 fax 612-379-5982 mritchie@IATP.org.