Address the Need for Subsidies

WHERE SUBSIDIES FIT

Numerous proposals have emerged to reform commodity policy, most of which seek to decrease or eliminate farm subsidies. Unfortunately, the majority of these proposals are based on an incorrect understanding of how commodity programs work. In particular, the focus on subsidies incorrectly assumes that these payments drive the overproduction and low prices of particular commodities.

Subsidies are a symptom of much larger problems in agriculture and simply tweaking them will do nothing to address the inherent weaknesses of our current agricultural system. In fact, the 1996 Farm Bill dramatically slashed subsidies, but overproduction increased and under-priced farm commodities continued. Real farm policy reform will only come from addressing the need for subsidies in the first place, not the subsidies themselves.

AGRICULTURE IS DIFFERENT

Basic economics dictates that when supply goes up, prices go down. If supply outstrips demand and prices get too low, producers will curtail production to bring prices back up. But, as agricultural economist Daryll Ray has explained, agriculture markets often do not function like other sectors of the economy. Individual farmers have virtually no ability to influence the market, and in the face of low prices the only way for a farmer to increase revenue is to produce more, not less–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. Subsidies are then used to make up the difference between production costs and market prices. In other words, subsidies are needed *because of* overproduction and low prices; they do not cause overproduction and low prices.

As we learned after the 1996 Farm Bill, simply reducing or eliminating subsidies will do nothing to address agriculture's inherent tendency to overproduce. Nor will it reverse the perverse incentives that give an unfair market advantage to factory farms and processed foods over more sustainable food and farming systems. If production levels do not change, prices will not change either. Farmers will continue to struggle to remain viable in the face of low prices while food processors and industrial livestock producers will purchase commodities for less than it costs to produce them.

IATP'S BOTTOM LINE

Real reform of agricultural policy will only come through a system of fair prices, where farmers are paid from the marketplace at least the full cost of production. With fair prices, commodity subsidies would not be needed.

Policies that support fair prices are well known. Supply management through acreage set-asides and grain reserves, and price supports such as non-recourse loans are well-tested. The challenge is finding the political will to reform the current system.

A well functioning agricultural economy that provides fair prices to farmers benefits everyone. A system of fair prices would also help: healthier foods compete in the marketplace; protect against skyrocketing food prices; enable more new farmers to farm; value conservation practices; and reduce export dumping.

LEARN MORE

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Institute for Agriculture and Trade Policy

2105 First Avenue South | Minneapolis, Minnesota 55404 | USA | (612) 870-0453 | iatp.org | Published September 2007

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