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U.S. Farm Subsidies

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"Prosperous farmers mean more employment, more prosperity for the workers and the business men of every industrial area in the whole country."

—Franklin D. Roosevelt, 1940

The latest Farm Bill ensures continuation of public policies that support farmers. Roosevelt's New Deal introduced farm subsidies in 1933 after years of falling crop prices. Their main goal was to keep prices high. Subsidies included price supports, which guaranteed farmers a certain price for their crops, and government purchases of excess crops. Farmers were also paid to stop farming some land to limit overproduction. The 2002 Farm Bill introduced direct payments, which are payments for certain crops independent of price. Over the years, subsidies have increased (see Figure 1): In 1933 farmers received $1.5 billion in government payments, and more recently from 1998 to 2007, farmers received an annual average of $16.4 billion (both totals are in constant 2000 dollars). However, commodity subsidies alone (excluding disaster and conservation payments) declined by 31 percent from 2005 to 2006, in part as a result of higher crop prices. For example, total corn subsidies decreased by 48 percent during that period partly because higher demand for ethanol had increased the price of corn.

Proponents of farm subsidies argue that they help farmers avoid wide fluctuations in yearly income by protecting them from large declines in crop prices and natural disasters. For instance, farmers may receive subsidies if weather conditions destroy their crops. From 1995 to 2006, 8.4 percent of subsidies were disaster payments (see Table 1). Another argument in support of subsidies is that they provide incentives to farmers to continue planting crops, avoiding complete dependence on other countries for food.

Opponents of farm subsidies argue that although one of the original goals was to save small family farms, today most subsidies go to a small percentage of farms, typically the largest ones. Also, the structure of price supports and direct payments gives farmers an incentive to produce more crops, which further decreases market prices, in order to receive more subsidies regardless of lost income. Moreover, in 2007—a record net income year—farmers received more than $5 billion in direct payments; 93 percent of those were for only five crops (corn, wheat, upland cotton, soybeans, and rice). According to a 2006 Organisation for Economic Co-operation and Development (OECD) report, U.S. farm subsidies added $12.3 billion in food costs and $91.1 billion in taxes per year from 2003 to 2005, which translates into an annual average of $109 in food costs and $812 in taxes per household.

The Congressional Budget Office estimates that although the 2008 Farm Bill will cost more overall than the previous Farm Bill in 2002, crop commodity subsidies will cost about $5 billion less per year. The new bill establishes Average Crop Revenue Election, an optional program that might add further protection if farmers lose revenue. In the new bill, individuals with farm income over $750,000 are ineligible for direct payments and those with nonfarm income over $500,000 are ineligible for all subsidies, a decline from the previous $2.5 million cap. The 2008 bill maintains direct payment rates but raises the target prices farmers receive for most covered commodities in 2010-12. The merits of farm subsidies will likely continue to be debated regardless of changes to future farm bills.

By Kristie M. Engemann, Senior Research Associate, Federal Reserve Bank of St. Louis

Recent Articles and Further Reading on Farm Subsidies

"How Farm Subsidies Harm Taxpayers, Consumers, and Farmers, Too" by Brian M. Riedl, The Heritage Foundation *Backgrounder*, No. 2043, June 19, 2007.

Riedl discusses common arguments in favor of farm subsidies and provides reasons why those arguments do not work.

"U.S. Farm Subsidies and the Farm Economy: Myths, Realities, Alternatives" by Karl Beitel, Food First Institute for Food and Development Policy *Backgrounder*, Vol. 11, No. 3, Summer 2005.

Beitel reviews some of the common arguments against farm subsidies and discusses the arguments' flaws.

"Agricultural Policies in OECD Countries: At a Glance" by OECD Committee for Agriculture, OECD Publishing, Vol. 2006, No. 10, 2006 (United States entry, pp. 68-69).

This report provides an overview of agricultural support in OECD countries, including the United States, in recent years.

Free Data Sources and Reports

Data: United States Farm Bills
Description: Links to all farm bills, starting with the first one in 1933 (provides full text)
Published by: The National Agricultural Law Center
Location: http://nationalaglawcenter.org/farmbills/

Data: Farm Subsidy Database
Description: Annual breakdown of farm subsidies by state, type, top recipients, etc. for recent years
Published by: Environmental Working Group
Location: http://farm.ewg.org/farm/index.php?key=nosign

Data: U.S. and State Farm Income Data
Description: Annual data from 1929 to present year (forecast); provides various data series on farm income (net value added, cash receipts, government payments, number of farms, real estate values, etc.)
Published by: United States Department of Agriculture, Economic Research Service
Location: http://www.ers.usda.gov/Data/farmincome/finfidmu.htm

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