Agriculture Study

Subsidies

Background

U.S. Agriculture policy came out of the Dust Bowl and the Great Depression. After the stock market crash of 1929 people had little money to spend. And in 1933, due to dry conditions and the over tilling of the soil in the Midwest there was a scarcity of grains which were raised in that part of the country. These grains were then the basis of much of the American diet. They served in the making of all breads and for feed for much of the livestock being raised.

Congress passed the Agricultural Adjustment Act (AAA) of 1938 as part of the New Deal. The purpose of the AAA was to stabilize food prices and keep farmers working and producing food. If there was a shortage of food and demand exceeded supply, prices would rise to the point that those suffering in the Great Depression could no longer afford to eat. If farm prices fell to the point that farmers could no longer afford to farm, they would be forced to leave the farm to look for other employment. To prevent this from happening, these farmers could get subsidies to support the farm prices they were getting prior to the downturn.

Direct Subsidies

One of the major ways the farmers were supported was through direct subsidies. The 1938 AAA combined (1) conservation provisions aimed at protecting soil through better production practices (including land set asides expected to reduce crop surplices), (2) price supports for selected commodities [paid to farmers who reduced acreage but could not obtain a "fair" market price], and (3) voluntary crop insurance program.

Direct payments are cash subsidies for producers of 10 crops: wheat, corn, sorghum, barley, oats, cotton, rice, soybeans, minor oilseeds, and peanuts. The last three were added in the 2002 Farm Bill. Direct payments were based on a historical measure of a farm's acres used for production and were not related to current production or prices. There are also price supports for dairy production. These subsidies continue in all subsequent U.S. farm policies until the current farm bill passed by Congress in early 2014. That bill removed the direct payments which are paid to farmers whether they farm or not. Most of the program's $4.5 billion annual cost was redirected into new, more politically defensible subsidies that would kick in when a farmer has losses.

Results of Subsidies

Taxpayers pay for these subsidies through their taxes and sometimes through higher prices for groceries and other commodities. However, the cost is a very small percentage of the tax bill and is hardly noticeable. It does keep prices somewhat stable and allows farmers to continue to farm and put food on our table.

Pros and Cons of Direct Subsidies

There are some criticisms of the approach to the direct subsidies. Some maintain we are subsidizing the wrong food crops. Most of those subsidized were grains and used for processed foods which are not healthy. This is sending the wrong message about what our dietary priorities should be. They argue that is would send a better message if we were subsidizing fruits and vegetables which are healthy for us. Some would also say we should be supporting organic and sustainable farming.

Another argument has to do with who is getting the subsidies and how much they are getting. Large farms account for the bulk of production. Farms with annual sales exceeding $250,000 constitute just 12 percent of American farms, yet account for 84 percent of production value. Farms with annual sales of less than $250,000 comprise 88 percent of American farms while producing 16 percent of agricultural output. Farms with gross sales of $1,000,000 or more received 23 per cent of all commodity-related payments in 2009—up from 8 percent in 1991. Payments received by farms in the $100,000 to $249,999 sales class shrank from 34 % in 1991 to 15 % in 2009. In order to be financially viable, farmers are acquiring more land by buying up smaller farms and creating large, more profitable farms. There are those who argue these large farms should not be eligible for direct subsidies.

On the pro side we should consider what happened in the 1970s and 1980s. When the Nixon administration opened up new markets, lawmakers decided that the safety net for farmers was no longer necessary and instead encouraged farmers to plant more. Russia had a major drought at this time and was forced to buy from American farmers. Then in the 1980s, the bottom fell out of the market. From 1987-89 there was a higher rate of farm bankruptcies than during the Great Depression with more than 9,500 filing. Had the prices supports and subsidies been in place these farms would have been in a better position.

Indirect Subsidies

There are other subsidies in the U.S. Farm Bill. These are wide-ranging. Farmers benefit indirectly from crop insurance, loans, disaster assistance, export subsidies, ethanol production, and subsidies for research and development. Those which are germane to the League's consensus questions will be covered in other reports.