CourierPress

Subsidies bad for farmers at home and around world

By ERIC SCHANSBERG Indiana Policy Review
May 16, 2006

In developed countries over the last century, relatively free markets and massive technological advances have resulted in staggering increases in productivity. However, hundred-fold increases in productivity have not been matched by hundred-fold increases in consumption - and so, fewer farmers are necessary.

This economic reality can be tough on farmers, but it is great news overall since resources can be diverted from agriculture to more productive uses Likewise, technological advance has resulted in increasing economies of scale where large-scale production is far more efficient than production on a smaller scale.

The upshot is that we have significantly fewer and significantly larger firms than in the past. The small family farm has been replaced for the most part by the corporate farm. Even so, tens of thousands of Hoosiers receive millions in direct agricultural subsidies; that is, money taken directly from taxpayers and given directly to "farmers."

In Vanderburgh County, farm subsidies amounted to $35.3 million. In the three surrounding counties, the subsidies amounted to $216 million. And in the 8th Congressional District, the subsidies amounted to $958 million. In some instances the subsidy payment is for not producing (conservation) or as compensation for an officially proclaimed disaster (rather than using private insurance).

Other subsidies are indirect. In many markets, competition is squelched, allowing farmers to charge higher prices. For example, one must possess one of the few available licenses in order to grow and sell peanuts in the United States.

Trade protectionism is another common tool for restricting agricultural competition. In some agricultural markets, the government has artificially increased the market price and then dealt with the surplus by storing it, giving away, or even destroying it.

Most significantly, farmers of some crops benefit from target pricing. Farmers are promised an above-market price that artificially stimulates production. This results in lower market prices, but this requires a subsidy from taxpayers to bridge the difference between the market price and the promised price.

This is good for consumers and producers but at the expense of taxpayers. Moreover, it is clearly inefficient (if you think not, try artificially increasing prices in every market).

Looking at the data from 2004, the Organization for Economic Co-operation and Development (OECD) estimated total direct subsidies from taxpayers of $46.5 billion. This represented 18 percent of total farm income - not exactly small potatoes. (Interestingly, taxpayers only paid for $27.1 billion in food stamps that year.) And the OECD estimated indirect subsidies of $16.2 billion from U.S. consumers - through higher product prices. Combining the impact on taxpayers and consumers, our farm programs imposed a burden of $836 on the average family of four in 2004. That's a lot of hay. The Environmental Working Group provides a data set on direct farm subsidies from 1995 to 2004 (www.ewg.org/farm). There you can see the monies transferred from taxpayers to the rich and famous - people such as Ted Turner, David Rockefeller, Sam Donaldson, Scottie Pippen and the relatives of John Mellencamp. But you can also analyze annual farm subsidies by county, congressional district, or state, and by crop and type of subsidy program.

For example, over that time period (using round numbers), 3.12 million Americans received subsidies worth $144 billion - costing the average family of four nearly $2,000 for the decade. Of that, 87 percent of the subsidies went to the top 20 percent (who averaged $201,000 apiece) and 55 percent went to the top 5 percent (averaging $506,000). In Indiana, 55,000 people received subsidies worth $6.03 billion - and the distribution is nearly identical to the national numbers. Among other things, it's important to note that most of the subsidies go to relatively few "family" farms.

In the United States, corn dominates the direct subsidies with $41 8 billion (almost 30 percent of the total) redistributed to 1.49 million people. The next highest are wheat ($19.8 billion), cotton ($15.8 billion), soybeans ($13.0 billion), and rice ($10.0 billion) - before a big drop-off to sorghum ($3.7 billion), dairy, livestock, peanuts and barley. In Indiana, corn also dominates ($3.25 billion to 101,000 people) - with soybeans ($1.15 billion to 78,000 people) and wheat ($260 million to 60,000 people) as the next highest.

For American farmers, subsidies for conservation (being paid not to farm) totaled $16.6 billion to 700,000 people (about $220 from each family of four). And "disaster" relief amounted to $11.9 billion to 1.18 million people (about $160 from each family of four). That's a lot of disasters. In Indiana, conservation subsidies were $347 million to 28,000 people and "disaster" relief was $112 million to 23,000 people.

One should expect farmers to cultivate relationships with politicians. But allowing them to take advantage of the public as illustrated here is asking the rooster into the hen house. The outcome is clearly bad for American taxpayers and consumers as well as for farmers in less-developed countries. In the interests of justice, it's time to end these subsidies.

D. Eric Schansberg, Ph.D., an adjunct scholar of the Indiana Policy Review Foundation, is a professor of economics at Indiana University-New Albany. He is the author of "Turn Neither to the Right nor to the Left: A Thinking Christian's Guide to Politics and Public Policy." Contact him at dschansberg@inpolicy.org.

TALKBACK

Comments | Trackback