"Agricultural Subsidy"

Wikipedia

An **agricultural subsidy** is a governmental subsidy paid to farmers and agribusinesses to supplement their income, manage the supply of agricultural commodities, and influence the cost and supply of such commodities. Examples of such commodities include wheat, feed grains (grain used as fodder, such as maize or corn, sorghum, barley, and oats), cotton, milk, rice, peanuts, sugar, tobacco, and oilseeds such as soybeans.

Agricultural subsidies by region

European Union

Agricultural and fisheries subsidies form over 40% of the EU budget.[1] As the EU budget is around €120 billion, this means that €48 billion is spent on these subsidies, or about 0.3% of the EU's GDP.[2] Since 1992 (and especially since 2005), the EU's Common Agricultural Policy has undergone significant change as subsidies have been decoupled from production. About €30 billion is spent as direct support for farmers (the *Single Farm Payment*). The next major reform of the CAP is scheduled to run from 2013.

Africa

Increases in food and fertilizer prices have underlined the vulnerability of poor urban and rural households in many developing countries, especially in Africa, renewing policymakers' focus on the need to increase staple food crop productivity.

A study by the Overseas Development Institute evaluates the benefits of the Malawi Government Agricultural Inputs Subsidy Programme, which was implemented in 2006/2007 to promote access to and use of fertilizers in both maize and tobacco production to increase agricultural productivity and food security. The subsidy was implemented by means of a coupon system which could be redeemed by the recipients for fertilizer types at approximately one-third of the normal cash price.[3] According to policy conclusions of the Overseas Development Institute the voucher for coupon system can be an effective way of rationing and targeting subsidy access to maximize production and economic and social gains. Many practical and political challenges remain in the program design and implementation required to increase efficiency, control costs, and limit patronage and fraud.[3]

New Zealand

New Zealand is reputed to have the most open agricultural markets in the world[4] [5] [6] after radical reforms started in 1984 by the Fourth Labour Government. As the country is a large agricultural exporter, continued subsidies by other countries are a long-standing bone of contention.[7] [8]

United States

The United States currently pays around $20 billion per year to farmers in direct subsidies as "farm income stabilization"[9] [10] [11] via U.S. farm bills. These bills date back to the economic turmoil of the Great Depression with 1922 Grain Futures Act, the 1929 Agricultural Marketing Act and the 1933 Agricultural Adjustment Act creating a tradition of government support. A Canadian report claimed that for every dollar U.S. farmers earn, 62 cents comes from some form of government, with total aid in 2009 from all levels of government adding up to $180.8 billion.[12]

The beneficiaries of the subsidies have changed as agriculture in the United States has changed. In the 1930s, about 25% of the country's population resided on the nation's 6,000,000 small farms. By 1997, 157,000 large farms accounted for 72% of farm sales, with only 2% of the U.S. population residing on farms. In 2006, the top 3 states receiving subsidies were Texas (10.4%), Iowa (9.0%), and Illinois (7.6%). The Total USDA Subsidies from farms in

Iowa totaled $1,212,000,000 in 2006.[13] From 2003 to 2005 the top 1% of beneficiaries received 17% of subsidy payments.[13] In Texas, 72% of farms do not receive government subsidies. Of the close to $1.4 Billion in subsidy payments to farms in Texas, roughly 18% of the farms receive a portion of the payments.[14]

"Direct payment subsidies are provided without regard to the economic need of the recipients or the financial condition of the farm economy. Established in 1996, direct payments were originally meant to wean farmers off traditional subsidies that are triggered during periods of low prices for corn, wheat, soybeans, cotton, rice, and other crops." [15]

Top states for direct payments were Iowa ($501 million), Illinois ($454 million), and Texas ($397 million). Direct payments of subsidies are limited to $40,000 per person or $80,000 per couple.[16]

The subsidy programs give farmers extra money for their crops and guarantee a price floor. For instance in the 2002 Farm Bill, for every bushel of wheat sold farmers were paid an extra 52 cents and guaranteed a price of 3.86 from 2002–03 and 3.92 from 2004–2007.[17] That is, if the price of wheat in 2002 was 3.80 farmers would get an extra 58 cents per bushel (52 cents plus the $0.06 price difference).

Corn is the top crop for subsidy payments. The Energy Policy Act of 2005 mandates that billions of gallons of ethanol be blended into vehicle fuel each year, guaranteeing demand, but US corn ethanol subsidies are between $5.5 billion and $7.3 billion per year. Producers also benefit from a federal subsidy of 51 cents per gallon, additional state subsidies, and federal crop subsidies that can bring the total to 85 cents per gallon or more.[18] (US corn-ethanol producers are also shielded from competition from cheaper Brazilian sugarcane-ethanol by a 54-cent-per-gallon tariff[19] [20])

2004 U.S. Crop Subsidies[21]		
Commodity	**Millions of US$**	**Share**
Feed grains, mostly corn	2,841	35.4%
Upland cotton and ELS cotton	1,420	17.7%
Wheat	1,173	14.6%
Rice	1,130	14.1%
Soybeans and products	610	7.6%
Dairy	295	3.7%
Peanuts	259	3.2%
Sugar	61	0.8%
Minor oilseeds	29	0.4%
Tobacco	18	0.2%
Wool and mohair	12	0.1%
Vegetable oil products	11	0.1%
Honey	3	0.0%
Other crops	160	2.0%
Total	**8,022**	**100%**

Impact of subsidies

Farm subsidies have the direct effect of transferring income from the general tax payers to farm owners. The justification for this transfer and its effects are complex and often controversial.

Global food prices and international trade

Some critics and proponents of the World Trade Organization have noted that export subsidies, by driving down the price of commodities, can provide cheap food for consumers in developing countries.[22] [23] But low prices are also considered harmful to farmers not receiving the subsidy. Because it is usually wealthy countries that can afford domestic subsidies, critics argue that they promote poverty in developing countries by artificially driving down world crop prices.[24] Agriculture is one of the few areas where developing countries have a comparative advantage, but low crop prices encourage developing countries to be dependent buyers of food from wealthy countries. So local farmers, instead of improving the agricultural and economic self-sufficiency of their home country, are instead forced out of the market and perhaps even off their land. Agricultural subsidies often are a common stumbling block in trade negotiations. In 2006, talks at the Doha round of WTO trade negotiations stalled because the US refused to cut subsidies to a level where other countries' non-subsidized exports would have been competitive.[25]

Others argue that a world market with farm subsidies and other market distortions (as happens today) results in higher food prices, rather than lower food prices, as compared to a free market. Joseph Stiglitz, a Nobel laureate in economics, has argued that farm subsidies have a long term effect of raising global food prices, which in fact harms the poor, increases malnutrition, etc. [26]

Mark Malloch Brown, former head of the United Nations Development Program, estimated that farm subsidies cost poor countries about USD$50 billion a year in lost agricultural exports:

> "It is the extraordinary distortion of global trade, where the West spends $360 billion a year on protecting its agriculture with a network of subsidies and tariffs that costs developing countries about US$50 billion in potential lost agricultural exports. Fifty billion dollars is the equivalent of today's level of development assistance." [27] [28]

Impact on nutrition

Some critics argue that the artificially low prices resulting from subsidies create unhealthy incentives for consumers. For example, cane sugar has been replaced with cheap corn syrup, making high-sugar food less expensive.[29] However, it should be noted that beet and cane sugar in the U.S. is a beneficiary of subsidies and price controls that result in artifically high prices.

Market distortions due to subsidies have led to an increase in corn fed cattle rather than grass fed.[30] Corn fed cattle require more antibiotics and have a higher fat content.[30]

Corporate farms

Some proponents view farm subsidies as appropriate for "family" or small farmers, but inappropriate for "corporate" or large farms. Many subsidy programs have limits on the size of the farm that can receive subsidies.

Critics also argue that agricultural subsidies go mostly to the biggest farms who need subsidization the least. Research from Brian M. Riedl at the Heritage Foundation showed that nearly three quarters of subsidy money goes to the top 10% of recipients.[31] Thus, the large farms, which are the most profitable because they have economies of scale, receive the most money. Between 1990 and 2001, payments to large farms have nearly tripled, while payments to small farms have remained constant.[32] Brian M. Riedl argues that the subsidy money is helping large farms buy out small farms. "Specifically, large farms are using their massive federal subsidies to purchase small farms and consolidate the agriculture industry. As they buy up smaller farms, not only are these large farms able to capitalize further on economies of scale and become more profitable, but they also become eligible for even more federal

subsidies—which they can use to buy even more small farms."[31] Critics also note that, in America, over 90% of money goes to staple crops of corn, wheat, soybeans, and rice while growers of other crops get shut out completely. In Europe, for instance the Common Agricultural Policy has provisions that encourage local varieties and pays out subsidies based upon total area and not production. Other points aside, research has shown that small farms receive more payments in relation to value of their crops than big farms.[33]

Non-farming companies

Subsidies are also given to companies and individuals with little connection to traditional farming. It has been reported that the largest part of the sum given to these companies flow to multinational companies like food conglomerates, sugar manufacturers and liquor distillers. For example in France, the single largest beneficiary was the chicken processor Groupe Doux, at €62.8m, and was followed by about a dozen sugar manufacturers which together reaped more than €103m.

See also

- Protectionism
- Free trade
- Agricultural policy
- Price support
- 2007–2008 world food price crisis
- Electrical energy efficiency on United States farms

References

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Further reading

- Farm Commodity Programs: A Short Primer, a Congressional Research Service Report for Congress, June 20, 2002.

External links

- Rethinking the Export-Import Bank (http://www.freetrade.org/node/69) by Aaron Lukas and Ian Vásquez
- Steel Trap: How Subsidies and Protectionism Weaken the U.S. Steel Industry (http://www.freetrade.org/pubs/briefs/tbp-014es.html)
- Why Congress Should Repeal Sugar Subsidy (http://www.freetrade.org/node/694)
- Ten Reasons to Cut Farm Subsidies (http://www.freetrade.org/node/697) by Chris Edwards
- Should the United States Cut Its Farm Subsidies? (http://www.freetrade.org/node/618) - Daniel Griswold, director of the Cato Institute's Center for Trade Policy Studies, and Bob Young, chief economist for the American Farm Bureau, debate whether the United States should be subsidizing its farmers
- Farm Security: The mohair of the dog that bites you (http://www.vwi.unibe.ch/unibe/wiso/vwi/content/e8950/e8957/files8966/barry_farm_eng.pdf) - Comedy writer Dave Barry on farm subsidies
- You Are What You Grow (http://www.nytimes.com/2007/04/22/magazine/22wwlnlede.t.html?ex=1334894400&en=e8328c69f0b3f4be&ei=5090&part) - Article on farm subsidies from *The New York Times*.
- Kick All Agricultural Subsidies (kickAAS) (http://kickaas.typepad.com/) - a campaign run by *The Guardian* newspaper in the UK
- Ripe for Reform: Six Good Reasons to Reduce U.S. Farm Subsidies and Trade Barriers (http://www.freetrade.org/node/31) by Daniel Griswold, Stephen Slivinski, and Christopher Preble (September 5, 2005).

- Still at the Federal Trough: Farm Subsidies for the Rich and Famous Shattered Records in 2001 (http://www.heritage.org/Research/Agriculture/BG1542.cfm)- a paper presented by the Heritage Foundation arguing that farm subsidies are corporate welfare and do not benefit small family farms.
- Environmental Working Group's Farm Subsidy Database (http://www.ewg.org/farm/)

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