Eye on Economics:  
A Conceptual Analysis of Farm Subsidies

by

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How history sowed the seeds for today's regulations, and the resulting effects on the produce industry

degree. Domestic food production is generally more secure, if not always cheaper, and unregulated food markets are too disruptive for reliable economic planning.

The History of Farm Subsidies

New Deal farm policies supported farmgate prices above the cost of production through a system of non-recourse loans secured by program crops. Crops could be forfeited to the government in full payment of the loan plus interest if prices stayed low. From 1933 to 1953, loan rates were maintained high enough that farms mostly sold commodity crops on the market, farm communities prospered, and the program earned money for the government. Supply management structures protected against overproduction. Perishable crops were ill-suited to this approach, and spent decades on the farm policy sidelines. Corn, soybeans, wheat, rice, and cotton became the backbone of the evolving system, with peanuts, tobacco, and sugar in a second tier. Larger, mechanized farms were rewarded under the yield-based, then acreage-based, payment system, and maintaining stable stocks of staple goods provided the feed and food-manufacturing industries with consistently low-cost inputs.

When loan rates were severely lowered in a 1954 bid to "get government out of agriculture," prices fell and stayed too low for many farmers to consistently recover costs. Traders and food manufacturers profited and grew as over one-third of U.S. farmers were lost between 1950 and 1970. More mechanization, industrialization, and farm debt characterized most survivors, and direct income support became necessary. As the program shifted from price to income support, cheap commodities seemingly overtook rural economic health as the primary policy objective.
Farmsubsidies do not directly apply to the produce industry, but indirect effects can be felt. Therefore, it’s good to know how these subsidies work:

- U.S. farm policy has evolved in the decades since the Depression in an attempt to balance farmer, consumer, agribusiness, balance-of-payments, and environmental needs.
- Most agricultural policy considerations are subsumed to the goal of maintaining a cheap, safe, and continuous food and fiber supply for the majority outside of the agricultural sector.
- The majority of direct agricultural support continues to favor crops used as food manufacturing inputs rather than crops that are more directly consumable with little or no processing.
- To the extent that subsidies for staple grains lower the prices for grain-based foods and the meat from animals fed those grains/seed, the farm program has consistently increased demand for these relative to produce.

To learn more about each key element, look for the "" throughout the article.

Payments “coupled” to individual farmer production and commodity market prices were formulaically determined. In the early 1970s, a “fair” price (or “target price”) system was enacted that triggered “deficiency payments” to make up the difference between the target price and the best price farmers could get on the market. This raised program farmer income somewhat, but as with other farm payments, much of the value was capitalized into land. The bursting of the land-value balloon in the early 1980s brought the worst farm crisis since the Great Depression.

- U.S. farm policy has evolved in the decades since the Depression in an attempt to balance farmer, consumer, agribusiness, balance-of-payments, and environmental needs amidst parochial, regional, national, and global political agendas. Some interests coincide while others conflict, resulting in an ongoing battle with complicated results—the 2008 Farm Bill tops out at over 650 pages.

**“Freedom to Farm”**

Over time, different interests have attempted to overhaul an agricultural support system that in its broad outline has developed significant inertia. In 1994, Congress put through a “Freedom to Farm” bill intended to turn the whole system over to the free market. Restrictions on program acreage and crop choice (that had implicitly helped manage supply) were to be removed, while producers received transition payments “de-coupled” from production as a subsidy program buyout.

In spite of the buyout, when program commodity prices turned down sharply in 1998 Congress was pressed into tens of billions in emergency aid, and the free-market ideals associated with the 1996 Bill were quietly ignored. The intended result of the overhaul—a smaller, more flexible program—instead became a new era of payments “de-coupled” from production decisions and prices (but still based on program crop participation), paid in addition to “countercyclical” payments designed to engage as a safety net with minimal market distortion.

Federally-subsidized private-company-issued crop insurance exists, but never supplanted federal disaster payments as the

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1996 Freedom to Farm Act intended. Crop insurance, like many other aspects of agricultural economics, does not meet academic ideals of the market. Losses are random, regional, and large, and premiums are therefore unattractive to producers at actuarially sound premium prices. The 2002 Farm Bill included de-coupled payments, countercyclical payments, and crop insurance support.

Farm Policy Formation

Decades of attempted change have not altered the fundamentals of U.S. farm policy formation. Most agricultural policy considerations are subsumed to the goal of maintaining a cheap, safe, and continuous food and fiber supply for the majority outside of the agricultural sector. Americans pay a smaller portion of their incomes on food than anyone else in the world. Large, capital-intensive program crop farms and animal operations make this possible, and so economically dominate both agricultural production and the most direct program benefits.

All farm subsidies encourage more production, so supply management of some form is necessary to avoid price-crushing overproduction or expensive storage. This occurs through indirect "voluntary" policy mechanisms, including the Soil Bank Program, Acreage Reduction Program, and later the Conservation Reserve Program; and through direct mechanisms, such as acreage allotments required for some program crop participation.

As producers' numbers and relative percentage of the population have decreased, the large, highly-capitalized, higher-debt operations that result are implicitly less stable financially, creating a greater incentive to either move toward dependency on subsidies, or directly away from them to survive. "Insulating producer support from market price impacts" has become the rule for farm program designers and participants. Non-program options include diversification (to an extent prohibited by program participation) and attempts to move up the value-added chain (into processing, direct marketing, and/or transitioning into organic).

Industries or organizations successful in securing program advantages in the past are likely to maintain some form of those advantages in any next stage of policy development. Entrenched interests benefit from policy inertia and the ease of organizing a small number of profit-motivated agents relative to the general welfare interests of the broader public. Those without a strong comparative advantage will attempt to leverage one through policy.

International considerations and treaties are growing in their ability to restrict domestic policy options. Any doubt of this was removed when U.S. program support for cotton was ruled illegal in a recent challenge before the World Trade Organization (WTO). Major bilateral trade partners weigh in on U.S. policy debates whenever they can.

The farm program has never subsidized all agricultural producers, or offered general income payments to preserve the rural economic, environmental, and scenic roles that farms perform. The majority of direct agricultural support continues to favor crops used as food manufacturing
inputs rather than crops that are more
directly consumable with little or no
processing (except for regional fluid milk
price supports).

The staying power of dominant
economic interests in agricultural policy
tends to dampen the effects of any single
election or mood to shift policy, and
situations can become very political. The full
assortment of political tools used in
Capitol policy-making have been applied
to agricultural policy, including attaching
riders onto unrelated bills and scheduling
votes before interested parties have time to
read legislation. Not all farm bill provisions
carry mandatory funding, so many can be
undermined in later political rounds by
defunding or underfunding in annual appro-
priations processes. Competing national
funding priorities can collapse authorized
funding quickly.

Effects on the Produce Industry
and the 2008 Farm Bill

The imbalance of subsidies for some
crops and not for others (i.e., fruit and vege-
tables) does cause some indirect effects on
the produce industry. Supported crops are
overproduced, often for export, and unsup-
supported crops may be underproduced. For
example, corn has been pushed to hyper-
abundance for use as feedstock, and then
fue-stock, a push the traditionally unsubsi-
dized fruit and vegetable industry does not
receive. If the money lies elsewhere, some
farmers may be tempted to switch their
fields over to the more profitable crops.

To the extent that subsidies for staple
grains lower the prices for grain-based
foods and the meat from animals fed those
grains/oilseeds, the farm program has con-
sistently increased demand for these rela-
tive to produce. Fruit and vegetable
production is much more labor-intensive
than program crops, and more vulnerable
both to changes in labor practice standards
and to sudden environmental changes that
may affect more delicate crops. So produce
production remains a structurally more
expensive category, despite recent extremely
high program crop prices.

While subsidies for produce are not on
the political radar, fruit and vegetables did
finally make it into the 2008 Farm Bill. The
Food, Conservation, and Energy Act
of 2008 was signed into law on June 18,
2008, replacing the 2002 Farm Bill.

According to the House Committee on
Agriculture, the Bill increases nutrition
program funding, better enforces payment
limitations, adds $8 billion in conservation
spending, redirects some renewable energy
support from corn ethanol toward cellu-
losic ethanol, and strengthens international
food aid.

While the Bill continues direct payments,
countercyclical payments, and marketing
assistance loans, it also offers a new option,
paid for by reductions in both the marketing
loan rates and direct payments. Farmers may
enter the Average Crop Revenue Election
(ACRE) program to disengage from the cur-
tent system. ACRE allows farmers to focus on
market prices rather than government-set
target prices, and only offers assistance when-
there is a demonstrable loss of revenue, rather
than making automatic payments. Farmers
absorb the first 10 percent of revenue loss
before benefits kick in. Enrollment is
optional, but once entered, a farmer must
remain in the ACRE program for the life of
the 2008 Farm Bill.

In a major victory for the produce indus-
try, the Bill also includes the first title for
fruit and vegetable production. An array of
regulations and policies already strongly
impact the fruit and vegetable industry, but
the explicit title and increase in funding add
a level of official legitimacy to a sector
responsible for one-third of U.S. cash crop
receipts and one-fifth of U.S. agricultural
export value.

Congressional Web sites summarize the
following authorizations:

- $33 million to expand direct marketing
  and farmers’ market promotion programs
- $22 million for cost-sharing in organic
certification
- $377 million over ten years for pest and
disease protection and control
- $23 million for research on food safety
hazards
- $10 million annually for high-priority
  research on honeybee colony collapse
disorder
- $466 million over ten years to expand
  the specialty crop block grant program
  to support states’ projects promoting
  specialty crop development, marketing,
  and pest protection ($224 million of this is fully
  funded in a schedule through 2012)

Placing flexibility into fruit and vege-
tables on crop program base acres remains
prohibited under the 2008 Bill, except for

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