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Market Support for Farmers in the United States

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History

- Commodity programs started as temporary measure in 1930s
- Political support remained after depression
- Farm problems occur regularly

Economics of Agricultural Policy

- Goal - raise farm incomes, end farm failures
- Actually gives farmers a one-time boost in wealth
- Don't work in long run
- Don't stop farm exit
- Subsidize large farms more than small
- Subsidize rich at expense of poor

Program Commodities

- Feed grains – mostly corn
- Oil seeds – mostly soybeans
- Wheat
- Cotton, rice, sugar, peanuts
- Dairy products
- Wool, mohair, honey, dry peas
- 13% of Farm Bill spending

Types of Policies

- Quotas – limit production – makes it difficult to expand – quota gains value if it can be sold or rented – only sugar now
- Price supports – government buys surplus
- Countercyclical payments
- Direct Payments – attempt to decouple payments from market

Types of Policies

- Deficiency payments – farmer produces what he wants – government pays a portion of difference between target price and market price – no production surpluses – expensive
- Land retirement – pay farmers not to grow – takes least productive land out of production – hurts some regional economies

Marketing Loan

- Interim financing, and if prices fall below loan rate, income support
- Commodity loans may be repaid in three ways:
 - At the loan rate plus interest costs
 - By forfeiting the pledged crop to the government at loan maturity

ACRE Program

- Average Crop Revenue Election
- New program
- Revenue insurance – based on
 - 5 year average yield
 - 2 year average national price
 - support price reflects current conditions

Participation Rules

- Direct payments – 80% of before
- Marketing loan rate – 70% of before
- Get acre payments

Payments occur

- If actual state revenue is less than revenue guarantee
- And actual farm revenue is less than farm benchmark revenue
- Payment will be made on 83% of planted acres

Capitalization of Programs

- Farmers learn program will continue
- Price of land and cows and other specialized assets reflects value to best farmers
- Artificially high milk prices drive up prices of cows
- Worst farmers still lose money

Bio-Fuels

- Subsidies for corn from ethanol
- Loans for bio-refineries
- Corn and soybean prices are very high
- Vegetable oil prices very high
- Very little savings in petroleum use

Policy Attributes

- Complicated
- Controversial
- Political
- Slow to change

U.S. Government Organization

- Three branches
- Executive
 - President
 - Administers laws
- Legislative
 - House of Representatives and Senate
 - Writes laws
- Judicial
 - Interprets Laws

Some important points

- Very few farmers
- House of Representatives based on population – disproportionately urban
- Senate – two members per state – more rural
- Often control of Congress very close
 - Senate 51-48-1
 - House 229 -205-1

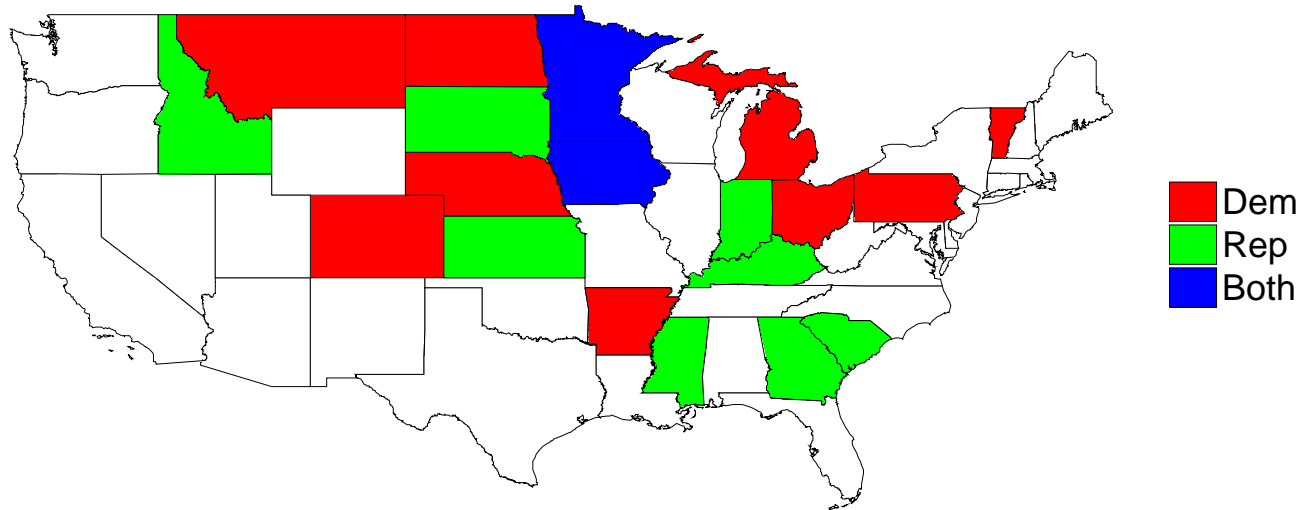
Other Points

- Farmers vote together
- In a close election farm vote can be very important
- No one wants to tell farmers no

The Coalition

- Farmers
- Consumers
- Environmentalists

Senate Ag Committee 2008



Policy and GATT

- Small countries walked out in Cancun
- Didn't believe U.S. and E.U. and Japan want to reform agricultural policies
- Politicians don't want to take the political risk

Concluding Comments

- Policy not a big success
- Very costly
- Very important politically – domestically and internationally
- With close elections – programs won't go away