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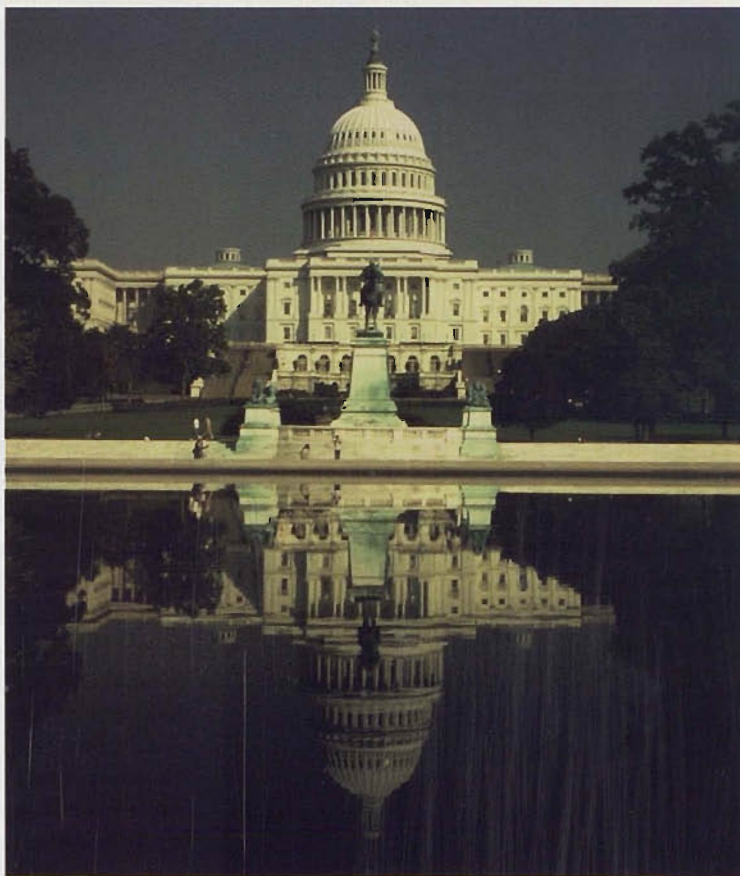
SUBSIDIZING AGRICULTURE

The Road Ahead

by Susan Offutt

Federal agricultural subsidies in the form of government checks are more likely to come to an end with a whimper than a bang, but even the whimpering ultimately may be muted if the farm lobby is successful in securing different types of government benefits in their stead. The federal budget constraint certainly is real and definitely puts pressure on continuation of highly visible, direct payments to farms and agribusiness. Emphasis on deficit reduction creates the incentive to move away from subsidies that create budget exposure in the form of direct Treasury outlays. The recent enactment of the 1996 farm bill may be taken as an endorsement of the notion that U.S. agriculture must move toward market orientation and reduce its dependence on government intervention. However, insofar as the law's provisions may, by some forecasts, provide three times the level of payments than would have been expected under the 1990 legislation over the next seven years, the issue would appear far from settled. The price tag of the farm bill will continue to figure into the debate over how to achieve food security and farm prosperity.



Intersecting trends

In order to appreciate the effect of the federal budget constraint on farm subsidies, it is instructive to consider the intersection of two trends. The first is the industrialization of commercial agriculture and the second is the drive toward a balanced federal budget; the intersection reflects the changing political expediency and economic value of different forms of federal subsidy. The question is not whether the farm sector is subsidized, but how.

Industrialization in agriculture is commonly defined as the increasing consolidation of farms accompanied by increasing vertical coordination among the stages in the production system through contracting and integration, all driven by changes in consumer demand, production technology, and international competitive pressures. Production in the dairy, seed, fruit and vegetable, turkey, and egg and broiler sectors has already moved significantly in the direction of greater vertical integration. For other commodities, about 20 percent of beef and pork production takes place under contract, and some evidence for similar movement in grain production is detectable.

The focus of attention on the industrialization phenomenon really means focus on the approximately 15 percent of the farms that produce about 85 percent of commercially sold domestic foodstuffs. These farm firms look more and more like firms in other sectors of the American economy, both in terms of the size of the business unit and in its organization as reflected in its contractual and financial relationships. These 250,000 or so large farms are the main beneficiaries of the programs today and will likely remain so even as the form of subsidy changes.

Elimination of the federal budget deficit in the next seven to ten years has become a paramount policy goal, albeit a controversial and problematic one to implement. Will the balanced budget objective of the current Republican Congress ultimately be attained? That's a matter for speculation. The budget resolution passed in the summer of 1995 and later congressional and administration proposals are heavily backloaded, much like other multiyear budget agreements, so that the really serious pain of adjustment to lower spending would occur, at least hypothetically, in the far out years. However, the disciplines on spending levels and the budget process introduced in 1990 are holding up rather well and were in fact reinforced in 1993, so the commitment to a balanced budget must be regarded as serious and certainly likely to shape debate over federal policy goals for years to come.

Subsidizing industry

Agriculture has a very large and very visible federal subsidy structure, particularly compared to other sectors of the economy. Subsidy payments from USDA's Commodity Credit Corporation, crop insurance indemnities and premium subsidies, Conservation Reserve Program rental payments, subsidized loans and loan guarantees, the Export Enhancement and Market Promotion Programs, and a host of other USDA programs and agencies add up. Only agriculture, of all the sectors in the American economy, has enjoyed the ministrations of its own cabinet agency for more than a century. This kind of high budget profile creates political vulnerabilities when Congress deems federal deficit reduction its paramount goal. Even before control of the Congress passed to the Republicans, agriculture experienced increased scrutiny from those outside the traditional farm and food stamp constituency of the agriculture committees. This vulnerability on budget exposure distinguishes agriculture from other sectors, as accumulating empirical evidence demonstrates.

Early in 1995, both liberal and conservative "think tanks" addressed the issue of federal largesse in the form of "corporate welfare." Sharing unaccustomed common ground, organizations such as the Progressive Policy Institute and the Cato Institute identified opportunities to trim the budget deficit by eliminating federal program and tax breaks designed to benefit private—and presumably undeserving—industry. By their reckoning, agriculture receives about $31 billion annually in subsidies (in the form of direct farm payments as well as export promotion and the like) and about $3 billion in tax breaks that increase the deficit by lowering government receipts. By comparison, aerospace and high-tech industries receive about $17 billion in subsidies and the energy sector receives $15 billion (*New York Times*, 7 March 1995). Tax breaks were much more important for nonagricultural sectors, worth about $21 billion to energy and $17 billion to the construction industries each year.

In July 1995, the Congressional Budget Office (CBO) took a more analytical, less judgmental approach to measuring corporate welfare and analyzed federal financial support for industry. The CBO report notes that it did not analyze or make assumptions about the value, effectiveness, or efficiency of any program, just as the discussion here does not consider who the ultimate beneficiaries of any agricultural subsidy might be. CBO counted those programs that have a direct effect on the federal budget, including direct subsidies and credit programs resulting in budget outlays as well as concessions in the tax code that create revenue losses. In its report on fiscal 1995 spending, CBO found that $14 billion of $28 billion in federal spending on direct subsidies and programs for all industries went to agriculture, as did $1 billion of the $2.2 billion in credit program outlays (representing the estimated cost of defaults and interest rate subsidies, not loan volume). However, only $1 billion of the $32 billion in tax breaks for industry accrued to agriculture. In other words, agriculture

CBO compared the subsidies received to each sector's contribution to Gross Domestic Product and found that subsidies to agriculture represented 11 percent of its GDP contribution, while the comparable figure for the next most extensively subsidized industry, utilities, equaled only 2 percent.

accounted for almost one-half of all direct federal spending on industry and at least one-third of all credit program costs, but was the beneficiary of only about 3 percent of all tax expenditures.

Taken together, the work by the Progressive Policy and Cato Institutes and by CBO supports the idea that agricultural subsidies currently take different forms from those that benefit other industries. And not only are they different in form, but agricultural subsidies are large relative to the size of the sector. CBO compared the subsidies received to each sector's contribution to Gross Domestic Product and found that subsidies to agriculture represented 11 percent of its GDP contribution, while the comparable figure for the next most extensively subsidized industry, utilities, equaled only 2 percent. Such a seemingly uneven distribution of federal largesse reinforces agriculture's political vulnerability. In spreading the pain of deficit reduction, the political calculus considers how agriculture fares relative to other industries, not just compared to the total federal budget. By itself, continuing pressure to cut subsidies in the form of Treasury outlays would create an incentive to find new forms for benefits to take. In combination with the industrialization of agriculture, the budget imperative makes other forms of subsidy more suitable and also more valuable to agriculture.

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Visibility of subsidies

A more entertaining if less rigorous approach to evaluating corporate welfare appeared in the May 1995 *New Republic.* Steve Tidrick of the Progressive Policy Institute likened generic categories of federal subsidy to the circles of Hell in Dante's *Inferno,* in which like sinners occupy the same circle, and the population of sinners in each circle decreases with the descent into Hell. In Tidrick's formulation, the deeper one gets in the "budget Inferno" the "worse" the subsidies get in the sense of being larger and larger perversions of the democratic process and of market incentives. And as the subsidies become worse, they also become less visible to the public at large, and so become less vulnerable to scrutiny and attack. Applying Tidrick's formulation, it is perhaps not surprising to find that there are "aggies" dwelling in all nine circles of the budget Inferno. Agricultural subsidies can be found from the first circle, where the familiar "pork" of appropriations bills is lodged, to the fifth circle where credit programs rank, to the deepest and ninth circle involving the use of publicly owned resources.

As the form of subsidy changes, from the more obvious earmarks and direct appropriations for beneficial programs, to credit, to crop insurance (with its substantial unfunded federal liability), to protection from market forces (as with sugar and peanut quotas and tariffs), it becomes less visible and less readily identifiable by the untutored observer. The combined effect of the federal budget constraint and agriculture's high budget profile is thus to increase the incentive to move downward in the Inferno. Until quite recently, big time sinners—sugar and peanut producers, for example—enjoyed an anonymity to which other rent-seeking commodity groups aspired. However, the ratification of GATT and this year's farm bill controversy makes this circle of market protection likely unattainable for migrants from above. The budget Inferno, then, provides another perspective on the incentive to shift the form of subsidies for agriculture.

Politics of agricultural subsidies

Anecdotal and more systematic empirical evidence support the notion that agriculture has good reason to seek new subsidy forms and also provides an idea of how farm politics might itself be transformed. Traditionally, agriculture sought specialized sector legislation, the prime example, of course, being the farm bill which had (until recently, anyway) been debated in an exclusively agricultural and farm-friendly forum. Increasingly, the agricultural industry can be expected to turn to more general tools in the form of tax expenditures or even relief from the costs of compliance with environmental and health regulations. Quite probably, the form of political influence may also change as agriculture adopts the modus operandi of other industry. For example, increased use of contributions through political action committees (PACs) might be expected to supplant the cultivation by individual farmers of home state legislators on the agriculture committees.

To see the leading edge of this transformation, consider the parts of agriculture that already resemble other industries in terms of structure. Sugar and dairy are relatively more concentrated and to some extent more vertically integrated than, say, food or feedgrain enterprises and are not subsidized primarily or exclusively by Treasury outlays

but through market intervention. The Center for Responsive Politics has documented that, indeed, the sugar and dairy industries use PACs much more extensively than other farm groups, particularly those subsidized primarily through the Commodity Credit Corporation. In 1993–94, sugar PAC contributions to congressional candidates totaled $1.8 million; from dairy cooperatives, candidates collectively received $1.5 million. In contrast, only $450,000 altogether was received from PACs associated with wheat, corn, barley, oats, grain sorghum, rice, and cotton producers. Within this group of seven commodities, cotton PACs accounted for three-quarters of the donations (or $340,000) and wheat PACs for only $40,000. No PAC even existed for corn growers. This evidence suggests that when a commodity organization represents many growers, as in the relatively less concentrated grains sector, PACs are harder to organize and support.

The prediction, then, is that agriculture will increasingly lobby like other industries. The agriculture committees, authorizing and appropriations, will become less significant to the industry because they have jurisdiction over the Commodity Credit Corporation and less favored subsidy forms, but not over more generic and increasingly attractive benefits, such as tax expenditures, under the purview of the Ways and Means and Finance committees. Similarly, regulatory relief must often be sought outside the agriculture committees from those with jurisdiction for environmental and health protection statutes.

Summary

The intersection of the industrialization of agriculture and the drive to balance the federal budget means a move away form traditional forms of agricultural subsidy to those favored by other industries. Such a shift would also mean the politics, processes, and tools of agricultural subsidies will become more generic and less rooted in traditional institutions. Farm subsidies will not be as transparent as in the past and will be pursued in arenas unfamiliar to many agriculturalists. Simply reading the USDA publications on Commodity Credit Corporation outlays will no longer suffice to provide a background for understanding public intervention and support for agriculture. Although it may seem to run counter to current sentiment and thinking, the intersection of these trends will mean more farm and agricultural policy action will occur inside the Beltway, not less. ■

■ For more information

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The views presented here are the author's and are not attributable to the U.S. Department of Agriculture.

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