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ILLINOIS AG POLICY BRIEFS



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Why Some People Question Our Farm Programs

When U.S. farm programs began in the 1930s, we were deep in the Great Depression. Farm family incomes were below those of other Americans. The original objective of farm programs was to reduce poverty on the farm.

Farm policy has generally tried to raise farm family income by lifting prices received by farmers above what the market would provide. As a result, the largest farmers, who sell the most, receive the largest benefits. The lowest income farmers, who sell little, benefit little. The other policy used to increase farm income is direct payments based on historical, not current, production. The largest producers in the past receive the largest benefits now.

Over time, the benefits of both types of farm programs get capitalized into the price of farmland, increasing the wealth of land owners, with those who own the most farmland gaining the most. This becomes a barrier to entry for beginning farmers.

Variable weather conditions and commodity prices make farming a risky business. A second commonly cited goal of farm policy is to reduce farm income variability. Farmers have several ways to reduce their income variability. Cash accounting allows shifting receipts and expenses between two years. Farming is the only business that can still use income averaging (over four years) when filing federal income taxes. Farmers can buy price insurance on futures and options markets and heavily subsidized yield insurance under federal crop insurance programs. When the rhetoric is stripped away, the income stabilization objective of farm programs usually boils down to desire for stabilization *around a higher average*.

Another frequently cited objective of farm programs is to increase competitiveness. Exports are important to the profitability of American agriculture, which produces significantly more than U.S. residents consume. U.S. agricultural competitiveness depends on fertile soils and favorable climate, high productivity due to agricultural research, and lower transport costs than our competitors. However, capitalization of farm program payments into farmland prices raises our long-term cost of production, undercutting our competitiveness.

Food security is frequently cited as an objective of farm policy, however, when one acknowledges that U.S. farmers produce a quarter to a third more than Americans consume, there is little merit to this argument.

Rural development is also cited as an objective of farm programs. Farm programs which distribute the benefits in proportion to sales provide liquidity that makes it easier for larger farmers to buy up their smaller neighbors, accelerating consolidation of farms and loss of jobs in agriculture.

It is not farm programs that help most small farmers escape from poverty, but rather by becoming part-time farmers with income from non-farm jobs. If the objective of farm policy is to facilitate rural development, we need measures that improve rural infrastructure, education, and health services, not farm programs that distribute most benefits to the largest producers.

Current farm programs don't contribute much to achievement of these five frequently cited objectives of U.S. agricultural policy. The one objective with the most credibility is the objective of reducing farm income variability, but even there, many ask where the presently available policy instruments and market mechanisms fall short.

Robert L. Thompson