US Farm Bill 2002: Its implications for world agricultural markets

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The US Senate and House members recently agreed on a six-year farm bill that would increase subsidy payments and benefit mainly the country's biggest grain and cotton farmers. While claiming to promote free trade through the WTO, the US and EU have been protecting their farmers with subsidies that are "non-violative" because they are ostensibly non-trade distorting. In actual fact, American agricultural policy distorts food prices, frustrates innovation, limits product diversity and subsidises a select group of farmers at enormous public cost. Its inherent protectionist qualities confound American efforts to reduce protectionism abroad and gain access to new markets. However, while the EU is up in arms, protesting against the rise in subsidies in the US, it itself is guilty of subsidising its farmers. In fact farm subsidies in the EU have been historically much higher than those in the US. In 1999 total support to farmers in the EU was to the tune of US $ 126 billion. The European Union's farm subsidies have drawn the harshest attacks from critics, who include left-wing activists, academic economists, World Bank officials and right-wing free-marketeers. But thanks to the farm bill that President Bush has signed into law on May 13, U.S. agriculture policy may rival Europe's as the most reviled among experts on Third World economies, especially since it runs counter to the Bush administration's free-trade rhetoric.

The provisions of the US Farm Bill 2002 include:

- **SUBSIDY PAYMENTS:** It raises subsidy payments to large cotton and grain farmers, without the significant payment limits passed by the Senate. To restrict payments to the wealthy farmers, the Senate wanted to limit subsidy payments to US $ 275,000 per farmer. However, after negotiations, the limit was raised to US $ 360,000, that too with enough exceptions to make the limit symbolic.
- **CONSERVATION PAYMENTS:** It dedicates $17 billion over 10 years to preserve farmland, save wetlands and improve water quality and soil conservation on farms.
- **FOOD STAMPS:** It increases food stamp benefits for working American families and restores the rights of legal immigrants to receive them.
- **DAIRY PROGRAMME:** It creates a new national $1.3 billion dairy program to replace the lapsed Northeast dairy compact.
- **FOOD LABELLING:** It requires that starting in two years all meat and fish produce be labelled with its country of origin.

The Bill is estimated to cost more than US $100 billion during the next six years and $180 billion over a 10-year period, though many budget experts believe the expenditure will be even higher. This marks a complete reversal of the attempt made by the US Congress six years ago, through the 1996 Freedom to Farm Law, to eliminate subsidies and let the market dictate prices and production levels. Agricultural spending is expected to swell by nearly 80 per cent over the cost of existing programmes. While US $17 billion has been dedicated over the next decade to preserve farmland, save wetlands and improve water quality and soil conservation on working farms, bulk of the money will go to subsidise the inefficient rich farmers of the United States.

The Senate agreed to lower the demand for spending on conservation programmes from US $ 21 billion to US $ 17 billion. Though, as a compromise, it managed to include in the farm bill increased spending on food stamps, an expanded nutrition programme and restoration of entitlement of legal immigrants to food stamps. The amount budgeted for this purpose is US $ 6.4 billion. This seems to be the only part of the bill that is going to help the relatively marginalised sections of the population.

However, it is the rich farmers who walked away with most of the benefits that would accrue from the new farm bill. Some 10 per cent of the nation's farmers receive an overwhelming share of all subsidy payments with three percent of the farms getting two-thirds of the subsidies. Apart from the cotton and grain producers, peanut farmers will get a subsidy of US $ 3 billion. Besides, a US $ 1 billion buyout of the old peanut price support system has been announced. The government would pay to "buy out" many of those same farmers and others who hold lucrative licenses, known as quotas, to grow peanuts. Under the current 70-year-old subsidy system, only 1.5 million acres can be used for planting peanuts for domestic consumption, and the quotas to farm those acres have grown increasingly valuable. The old peanut quota system guaranteed the producers US $610 a ton for their peanuts. However, since signing of the NAFTA, American peanuts are facing increasing competition from Canadian peanut (mainly peanut butter) and Mexican raw nuts. With the guaranteed prices being too high compared to prices of products from these countries, the US government has drafted a new plan under which the government would buy up those quotas from their owners, who could then continue growing peanuts under the new subsidy system. Receiving a quota buyout would not prevent a farmer from continuing to grow peanuts or receiving federal subsidies. The bills in Congress would treat peanuts like many other crops, setting a "base'' amount of peanuts guaranteed to receive a minimum price. For the first time, the taxpayers will make up the difference if market prices are below the guaranteed minimum.

A new dairy subsidy worth US $1.3 billion has also been allowed for. Fruit and vegetable growers in California however remain a neglected lot so far as farm subsidies are concerned. While till date these growers managed with little to nil subsidies, global competition is now threatening to invade the markets where Californian products are being sold.

Further the cause of small farmers has been dealt a body blow in the US Farm Bill 2002. The proposed subsidies are not going to improve the condition of owners of small and medium sized plots of cultivable land in rural America. Funds for conservation programmes that reach small farmers have seen a US $ 5 billion decline. The family farm has pretty much been lost, and this bill does nothing to bring it back.

The table below provides some indication of the extent to which US growers of different crops are subsidised. In most crops loan rates plus direct payments add up to more than ninety per cent of the target price. In the US the loan rate serves as a floor price for participating farmers in the sense that they can default on their loan and forfeit their crop to the Commodity Credit Corporation rather than sell it in the open market at a lower price.

Loan Rates, Direct Payments and Target Prices for Covered Commodities in the US

_	Loan Rate		Direct Payment	Target Price	
	2002-2003	2004-2007	2002-2007	2002-2003	2004-2007
Corn (bu)	$1.98	$1.95	$0.28	$2.60	$2.63
Sorghum (bu)	$1.98	$1.95	$0.35	$2.54	$2.57
Barley (bu)	$1.88	$1.85	$0.24	$2.21	$2.24
Oats (bu)	$1.35	$1.33	$0.024	$1.40	$1.44
Wheat (bu)	$2.80	$2.75	$0.52	$3.86	$3.92
Soybeans (bu)	$5.00	$5.00	$0.44	$5.80	$5.80
Minor Oilseeds (lb)	$.0960	$.0930	$0.0080	$0.0980	$0.1010
Cotton (lb)	$.5200	$.5200	$0.0667	$0.7240	$0.7240
Rice (cwt)	$6.50	$6.50	$2.35	$10.50	$10.50

The measures are a blatant attempt to buy votes in the Farm Belt. The payment limits have been hiked above the Senate recommended levels. Armed with such six-figure federal payments, large farms are driving small farmers to the brink of extinction. Since the last farm bill hundreds of big farmers and absentee landlords have received millions of dollars in subsidies. Such subsidies have often been used by the recipients to buy out the small family farms the subsidy programme was originally intended to save. Even Republican lawmakers have repudiated the farm bill, saying its lavish subsidies would bring price-crushing crop surpluses and do little to close loopholes for the corporate farmers who already receive roughly 80 per cent of annual subsidies.

Farmers in just six states — Iowa, Illinois, Texas, Kansas, Nebraska and Minnesota — will receive almost half of these payments. Most of the subsidies go towards corn, wheat, cotton, rice and soybeans and the protected speciality products like milk, sugar and peanuts. In states where these products are not grown, most farmers are out of luck. For example, in California only 9 percent of farmers receive subsidies; in Florida, only 8 percent; and in New Jersey, only 7 percent.

A study by the Congressional Office of Technology Assessment concluded, "Communities that are surrounded by farms that are larger than can be operated by a family have a bimodal income distribution with a few wealthy elites, a majority of poor laborers and virtually no middle class." Republican lawmakers have repudiated the farm bill, saying its lavish subsidies would bring price-crushing crop surpluses and do little to close loopholes for the corporate farmers who already receive roughly 80 percent of annual subsidies.

Analysts have also predicted that these huge subsidies will have little effect in terms of lowering prices of commodities on the supermarket shelves in the US. The existing subsidies are partly paid for by implicitly taxing the consumers and the remaining part is borne by taxpayers. While there is no mention of any reduction in the implicit tax on consumers, it has been mentioned that the higher subsidies will mostly be borne by taxpayers. So while there may not be any increase in prices consumers have to pay, there is no reason to think that prices will come down either. The grain companies are likely to benefit the most while taxpayers have to shell out higher taxes to pay for the hike in farm subsidies.

Some Commodity-wise Implications

The United States is a major wheat exporting country. In 2001-02 the country exported more than 24 million tonnes of wheat, about a quarter of the total wheat exports worldwide. While this is the lowest the US has exported in 30 years (owing to falling area and yield), the farm subsidies proposed in the Farm Bill will no doubt propel output and hence the exportable surplus is bound to rise. This will further depress international wheat prices, and rule out exports from countries which cannot subsidise their wheat producers.

In rice, the US has a share of about 12 per cent in world exports, which, though not as high as the share in wheat, is nevertheless significant enough to affect world prices. In 2001-02 the US exported 2.8 million tonnes of rice, up 50, 000 tonnes from the year before.

Corn output in the US is also expected to rise 11 million tonnes during 2002-03 as the corn growers emerge as one of the biggest gainers from the US Farm Bill. Export of corn from the US in 2001-02 was 49 million tonnes, and is expected to go up by another 4.5 million tonnes during the current year.

World coarse grain export is expected to be around 99 million tonnes during the current year, implying that the US has a share of almost 60 per cent of the world coarse grains market. Similarly out of a total world soyabean export of about 59 million tonnes, the share of the US is about 27.8 million tonnes, or more than 47 per cent of the total export of soyabean.

Finally, the US produces about 20 per cent of the world's cotton and in 2001-02 accounted for 11 million bales (of 480 lb. each) of exports when the total world export figure stood at 29.258 million bales. While a fall in domestic production may not allow the US to step up cotton exports immediately, being a key player in the world cotton market, any change in the exportable surplus owing to a subsidy-backed output increase will definitely have a downward pressure on world cotton prices in the future.

As is evident, in almost all the crops for which there have been significant hikes in subsidies under the US Farm Bill 2002, the US has a significant share of the world export market. So any change in output and exportable surplus in the US of these crops is bound to affect availability, and hence prices of these crops in the international market.

In his presidential campaign Mr. Bush had said that a more market-driven approach is the best way to ensure a strong, growing and vibrant agricultural sector in the long run. The subsidy hikes however run contrary to such market optimism. Australia has accused the United States of violating WTO provisions. Warren Truss, the Agriculture Minister of Australia has said that the US has returned to the worst protectionist excesses of the 1980s and has called the US Farm Bill “an act of terror on Australian producers and growers.”

However, the Bill has found mild support in those Asian countries which import food items. Australia and the US are strong rivals in wheat and cotton exports to Asian markets and importing countries like South Korea expect prices of US food items to fall owing to the increased subsidies US farmers will now get. Traders from the Philippines are hoping for lower prices of wheat, soyabean and corn.

While the competitive advantage developing countries will have in agriculture once all subsidies are removed by developed countries has been repeatedly harped on to entice developing countries into joining the WTO, the developed world has found means to constantly increase agricultural subsidies, ignoring or bypassing WTO rules and regulations. Now, with even the Cairns Group of countries, including Australia, protesting against the US Farm Bill, it is time the developing world puts up a united fight against such gross violations of WTO norms by the richer countries and demands that they fall in line. Otherwise, the inherently iniquitous WTO regime would prove even more damaging to their economic futures. More so if the US bill prompts other rich countries to follow the U.S. lead and increase farm subsidies.