

FAMILY FARM WELFARE

A SOCIAL AND ECONOMIC TRAGEDY

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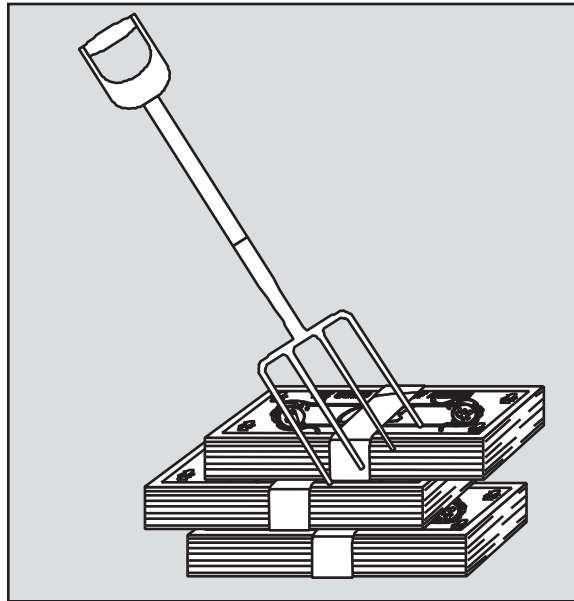
Early in 2002, Congress passed, and President Bush signed, one of the most counterproductive and politically embarrassing welfare packages in the history of the United States.

Like social welfare programs of past decades, this new welfare system will be mindlessly expensive. It will spur massive cheating to maximize government payouts.

And, like many social welfare policies of the past, this new program will ultimately hurt those it is supposed to help.

It is the new Farm Security and Rural Development Act of 2002. Designed to protect "the small family farmer," in the end, it will put small farms out of business even more rapidly, just as past farm bills have done. And it will do so at massive taxpayer expense.

For Wisconsin's struggling dairy farmers, who most people envision when they describe Wisconsin's disappearing "family farms," defenders of the new Act say it produces some glimmers of hope. But past farm bills are prologue: Congress has spent more than \$300 billion on farm programs since 1978, with each five-year farm bill proclaimed as a boost for



struggling family farms. In each case, the reverse happened: Wisconsin had 45,000 dairy farms in 1980. It has 19,000 today and the losses actually have accelerated in the last three years — despite some of the largest farm subsidies in history (\$26 billion in 2001).

At the same time, Wisconsin's competitors flourished. "In 1976, California was losing

dairy cows," noted UW-Madison dairy economist Ed Jesse who recently completed an analysis of the new farm bill's "dairy title" with fellow dairy economist Bob Cropp. Today, California's 2,600 dairy farms out-produce Wisconsin's dairy farms by nearly 30 percent, according to the U.S. Department of Agriculture.

Because of its magnitude, the new farm Act will be an even larger blow to "family farmers."

This Act will cost as much as \$200 billion over the next 10 years. It expands subsidies to farmers in almost every way imaginable. It

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Wisconsin Farm History

Wisconsin every day loses between three and four dairy farms. Many of these farms are the model of the small, diversified farming operations supporters call “family farms.”

Keeping in mind that “family farm” is a misnomer — as just about all the farms in the country are still operated by one or more families working together — the recent history of dairy farm legislation is a sad primer in how, and why, small, diversified farms are hurt by farm subsidies.

- In 1976, former President Nixon signed a farm bill that boosted farm prices to 80 percent of “parity” — a measure of farm prices compared to the cost of living. By 1981, that new formula boosted milk prices to a government-supported \$13.10 per hundred pounds of milk, higher than today’s milk price.

Result: Wisconsin farmers enjoyed temporary prosperity. They expanded their barns and added cows to their barns, and dairy farm numbers in Wisconsin stabilized for precisely one year. Spurred by higher prices, however, milk production in the West and the South exploded as dairy farmers in those states built new, modern dairy operations. Surpluses mounted rapidly. By 1983, the federal government was buying so much surplus butter, cheese, and powdered milk that the United States could have supplied Canada’s market for the entire year without Canadians producing a gallon of their own milk. Those surpluses, which were costing more than \$2 billion a year by 1984, hovered over the market place and forced radical new farm policies.

- Farmers and farm groups convinced Congress to include new tax breaks for “family farmers.” The massive tax bill of 1981 signed by former President Reagan included a series of tax “incentives” such as new and accelerated depreciation rules for breeding livestock and for single-purpose barns.

Result: The tax legislation spurred huge new investments by non-farmers into livestock production, notably dairy and beef.

- In 1984-85, the farm bill authorized the “dairy diversion plan” which paid farmers to reduce the size of their dairy herds. In 1987, Congress approved a program to purchase entire dairy herds from farmers and sell them for beef (called the “whole herd buyout”).

Result: Small, diversified dairy operations were the ones most anxious to sell, rapidly speeding the exit of dairy farmers from Wisconsin. Wisconsin lost 13,000 dairy farms between 1985 and 1995, and 386,000 cows — with many of the productive cows shipped to Western states.

- 1996. The “Freedom to Farm” Congress destroys old farm programs and eliminates production controls, which never worked very well. Surpluses mounted, prices plummeted, and Congress attempted to keep farmers in business by passing \$92 billion in “emergency relief” over the next five years.

Result: Wisconsin loses 7,000 dairy farms between 1995 and 2000.

- 2002. The Farm Security and Rural Investment Act creates massive new subsidies for farmers in almost every imaginable area. The Act means about \$10,000 a year in subsidies for a Wisconsin dairy farmer with 75 cows. It also pumps \$464 million into Wisconsin’s economy in the form of farm aid. Payments are limited to 2.4 million pounds of milk a year, the production of 130 cows.

Result? Because the dairy subsidies are heavily targeted to small producers, Wisconsin’s \$20 billion dairy economy could benefit, says Bob Cropp, UW-Madison dairy economist. “If, for example, Wisconsin farmers take these subsidies today and invest them in modern facilities as California farmers did in the 1980s, Wisconsin could make the leap and its dairy economy — which amounts to \$20 billion a year — could actually benefit from this farm bill.”

However, that’s a big “if.” Past farm bills have accelerated the trend toward large, specialized farm operations. This one will almost certainly do the same.

they make their claims for reimbursement (their base acreage), and it escalates the size of the subsidies. In the case of cotton, the new federal target price is more than double the market price when President Bush signed the bill May 16. The Act essentially removes limits on payments. It expands the number of crops eligible for subsidies. And, for Wisconsin, it will now include cash subsidies to support milk production for the first time.

The Act has some positive aspects to it. It provides for large new investments in conservation programs, \$17.1 billion over 10 years. That's an investment that was long needed and much welcomed in the farm community. It also attempts to target dairy subsidies toward smaller dairy operations. Dairy farmers will receive subsidies on the milk from their first 130 cows. Any milk produced after that is subject to the vagaries of the marketplace. The analysis by Cropp and Jesse concludes that this Act actually does favor states such as Wisconsin that have large numbers of smaller, diversified farms with labor supplied mostly by family members.

The Act suffers from fatal political and economic contradictions, however.

Its most basic problem is political. *Newsweek's* Robert Samuelson called the subsidies "massive giveaways" under the headline: "A Sad Primer in Hypocrisy."

Only six years ago, House Republicans authored the 1996 "Freedom to Farm" bill designed to free farmers forever from the "shackles" of government. The bill eliminated all production controls and dramatically reduced farm subsidies over the next five years. The predictable happened: production soared, market prices plummeted, and

Congress responded by passing \$92 billion "emergency" bailouts for roughly 350,000 full-time farmers over the next five years. (Wisconsin has 18,000 farmers the USDA considers "full time," as they have gross sales of more than \$100,000.)

Last year, 49 cents of every dollar farmers earned in the United States came from the government, according to the USDA. In Illinois, last year, farm payments amounted to 103 percent of net farm income. In other words, every dime of profit came from taxpayers. Wisconsin's farmers received the equivalent of 31 percent of net farm income from the federal government.

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The new Act is not just a step backwards from the market principles hailed by free market Republicans. It is an absolute reversal. It basically puts back all the old subsidy programs created amid the misery of Great Depression farm poverty, according to an analysis of the Act by UW-Madison economists Randall Fortenberry and Bill Dobson.

There's one key exception: the subsidy program again includes no production controls. While these controls (paying farmers to idle land, etc.) were never all that effective, it is clear that having no production controls does spur overproduction and dampens market prices. That forces Congress to play an even stronger role in subsidizing farmers. "It's not a perfect bill, but no bill ever is," moaned President Bush as he signed the legislation.

"This is more of a political document than economic policy," Cropp said.

The fact is that in an election year, no elected official in either party wanted to see a collapse in the farm economy. Samuelson called the subsidies "huge political bribes."

The problems with the Act vastly exceed its political doublespeak, however. This massive intervention in the agricultural market place will send bow waves splashing everywhere and will swamp “family farmers” from many directions, some in obvious ways and some in ways many farmers don’t even realize.

The obvious:

- **Subsidies spark overproduction and depress market prices.**

In the end, government — no matter how generous — cannot beat the market place. Market prices for farm commodities today rival those of the 1960s. Even with massive government outlays this year, farm income is still expected to drop substantially. The reality is there will never be enough taxpayer money to permanently offset depressed market prices in a sector of the economy as large as American agriculture.

History shows that lower market prices tend to push smaller, poorly capitalized farm operations out of business first. Their capital and labor costs per unit of milk (or any commodity) produced are higher, and even subsidies targeted to small farms don’t make up enough of the difference.

- **Subsidies always benefit larger operations.**

Even proponents of the new Act concede that two-thirds of all government handouts to farmers go to the nation’s largest ten percent of U.S. farm operations, as 350,000 farmers nationwide produce about 90 percent of the nation’s food. The concentration of payments will be even worse under the new Act because there are essentially no limits on payments. Past farm bills have included \$50,000 limits, but farmers easily skirted the limits by dividing up their operations among many owners and separating “enterprises” on farms — each qualifying for the maximum payment.

The new Act doesn’t even pretend. It limits payments to \$350,000 per farm. (That’s why farm state lawmakers, traditional defenders of farm programs such as U.S. Representative

David Obey, D-Wis., voted against it.) And it limits milk payments: Dairy farmers will receive subsidies on their first 2.4 million pounds of milk produced — the production of about 130 dairy cows. But no sane gambler would bet against larger dairy operators’ success in skirting the limits.

- **Subsidy programs choose winners.**

The programs favor wheat, corn, cotton and rice — but do nothing for, say, tomato producers, notes University of Maryland agricultural economist Bruce Gardner. If the goal is to help keep a large number of participants in farming, “you should really spread this money across commodities.” Many economists have framed this farm bill as yet another battle of “North versus the South,” with Southern lawmakers leading the charge to do away with payment limits entirely to benefit the South’s large cotton and rice operations.

“Family farm” advocates say these problems can be corrected if Congress would simply do a better job of targeting federal subsidies to smaller operations. Perhaps. Yet the courts have consistently ruled that Congress cannot prevent farmers from splitting ownership of their farms — with each owner receiving maximum payments. (Even the defender of small family farms will have a tough day in court arguing that a farm wife can’t have a separate ownership stake in a farm.)

Even if subsidies could be better targeted, however, they would ultimately ruin those smaller, diversified operations Congress is trying to help. That’s because subsidies hurt smaller farmers in ways many farmers don’t realize, including the following:

- **Subsidies ease the path toward specialization — and larger farms.**

Farm subsidies were created not to make farmers wealthy, but to take some of the risk out of a very risky business operation. Smaller, diversified farms grew up in the 19th and 20th centuries as farmers sought ways to balance risk, ensuring that at least one or two farm enterprises would be profitable if others were

not. Subsidies essentially reduce the risk in agriculture — encouraging farmers to invest in larger and larger equipment to farm more and more acres. The larger the subsidies, the more government reduces the risk of farming — and the more aggressive some farmers become in expanding their operations. Those subsidies made sense in the 1930s when virtually all farms were tiny and farm families desperately poor. They don't make sense today. They will, in the end, be self-defeating because they were designed to encourage farmers to get bigger in the first place.

- ***Subsidies encourage the formation of large, specialized livestock operations by making feed cheaper to purchase than to grow.***

Subsidies spur over-production, which depresses price. When government makes up the difference, American livestock operations suddenly find they can enter the commodity markets and purchase subsidized feed-grains at prices far below what it costs their diversified “family farm” competitors to grow them. While it is true that small farms receive subsidies as well, the advantage still goes to the large operations with huge buying power and economies of scale.

That's why many of the nation's largest feedlots, hog operations, and dairy farms sit on only a few acres of land. Under this new “model” of livestock production, there is no limit to the size of livestock operations because they're no longer dependent on surrounding cropland for feed. Targeting even more subsidies to small grain farmers may help in the short run. But in the end, it makes grain even cheaper for their large livestock (and dairy) producing competitors.

(One of the ironies of the new Act is its huge conservation title which, in many cases, is designed to clean up some of the problems that farm subsidies helped create in the first place — such as huge, concentrated livestock operations.)

- ***Subsidy programs favor landowners over actual farmers.***

Defenders of the small “family farm” frequently are not aware that, in many cases, farmers do not own the land they farm. In Rock County, for example, 75 percent of the farmland is rented. Nationwide, it's 45 percent.

What this means is that subsidies tend to become transfer payment systems to land owners, not family farmers. This may seem obscure. It's not. In Wisconsin, and nationwide, the price of farmland is stable or increasing (up 10 percent last year in Wisconsin) while farm income is dropping. That's because farm subsidies tend to be “capitalized” into higher land prices and cash rents. The USDA estimates that subsidies increase the price of farmland by about 20 percent.

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Higher land prices hurt smaller farmers disproportionately in a number of ways. They make it harder for young farmers to enter the business. They reduce the profit margins of raising crops and livestock, giving competitive economic advantages to producers with large, labor saving equipment. They transfer to non-farmers potential farm income that could be used by smaller farmers to modernize and improve efficiencies.

- ***Subsidies wreak havoc on world markets.***

This could be profound. The United States is one of the world's largest grain exporters, and Congress is counting on renewed exports to

keep farm programs from bankrupting the Treasury under this farm bill. Over the past three decades, the United States has freely lectured Europe for using heavy agricultural subsidies to encourage over-production, and for dumping the ensuing surpluses on world markets. The new Act commits the very sins the United States has been preaching against. As might be expected, major exporting nations such as Australia and Brazil have vowed to challenge the Act in international courts and the World Trade Organization. If that happens and U.S. exports are jeopardized, prices to farmers could plummet to new lows. As they do, smaller farmers will be hurt disproportionately.

As if the impact on family farmers under the new Act weren't bad enough, the wave of economic problems it creates also comes at huge cost to taxpayers. The Act is technically budgeted to cost \$73.5 billion over 10 years. Estimates put the actual cost at \$190 to \$200 billion, according to the Food and Agricultural Policy Research Institute at the University of Missouri and Iowa State University. And even that might be conservative. The dairy title alone was supposed to cost in the \$2 billion range. A new University of Wisconsin-Madison study by Cropp and Jesse shows the cost may actually be close to \$4.3 billion — and that's just for the subsidies, not the cost of running other aspects of the nation's dairy programs.

It's not even clear that these massive subsidies will result in cheaper food, which should be an obvious benefit to this race-to-the-bottom farm program. Again farmers themselves missed a central reality: Heavy concentrations of livestock operations have also made it easier for meat packers to concentrate. Today, three meat packers control the vast majority of all meat sold in grocery stores in the United States. In fact, the heavily Republican U.S. Cattlemen's Association — which breathlessly favored, and received, special tax breaks for livestock operations under former President Reagan — is now suing the nation's largest meat packers for exercising their market power to force down prices to cattlemen and force up

prices to consumers. In many cases, packers are also creating vertical monopolies by producing their own cattle, hogs, and poultry, bypassing independent farmers entirely.

Just as the future cost of these programs is unclear, so is their political future. They're certainly not popular with farmers. "All the profit has come from government payments — I think everyone's depressed about the situation," says Jim Gay, a Rockport, Illinois farmer quoted by reporters after President Bush signed the bill.

Many farm state lawmakers also said they dislike the Act including those from Kansas, Texas, Indiana, and Wisconsin. (Wisconsin's two Democratic senators split. Herb Kohl told the *Country Today* that "the bill restores a much needed economic safety net to an industry that experiences wide fluctuation in price." Russ Feingold voted against, noting the elimination of payment limits.)

It's also not clear how Washington supporters of these giveaways can maintain their "message." Many of Washington's strongest agricultural lobbies, such as commodity groups, are unabashedly conservative Republican in their orientation with a distrust of government and a faith in free markets written right into their organizational constitutions. Yet the American Farm Bureau Federation, one of the strongest voices in Washington for a smaller government, was a strong supporter of eliminating all limits on payments to producers. At some point, these groups' political actions may not stand the laugh test when pitted against their stated beliefs — and the fate of the farmers they claim to represent.

"Why are we continuing to subsidize a system that is building larger and larger farms that are more and more dependent on federal subsidies?" asked Charles Cook, of the Environmental Working Group. His organization has published a national list of U.S. farmers receiving more than \$1 million in subsidies, including 21 in Wisconsin who received \$1 million or more under the last farm bill.

The problem for Congress and President Bush, however, is now that they've added more fuel to keep the train running, the entire subsidy gravy train will pick up speed and be harder than ever to stop. More subsidies mean lower market prices, which creates a need for more subsidies, and so on.

Stopping the train suddenly would almost certainly mean massive farm failures, especially among the nation's largest farmers that produce most of the nation's food. The consequences of those failures are nearly impossible to predict.

"We have a train wreck coming," warned Senator John McCain, R-Ariz., as the conference committee hammered out the final details of the bill.

For Wisconsin, dissolution of all subsidy programs would ultimately favor the state, as diversified farm operations run primarily with family labor would be in a stronger position to survive long-term.

But removing farm subsidies would certainly cause economic dislocation — and would likely bankrupt many larger farmers who produce the bulk of the nation's food and fiber. Critics of farm policy also conveniently

forget how desperately poor farm families were — and how marginally productive they were — even as late as the mid-1960s.

Yet, for Wisconsin, "a train wreck" may be the only political and economic policies that make any sense in the long run. Given the gross size of this bill, a "train wreck" may be inevitable — and Wisconsin farmers might actually consider embracing a phased-in version of a plan to eliminate all farm subsidies.

Sources

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