

# Farm Bill 101



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Whether you buy food at a grocery store, a farmers market or a cafeteria, the next Farm Bill will affect what you eat. Throughout 2007, Congress will debate policies that determine what food is grown in the United States, how it is grown, who grows it, and who can afford to eat it.

## What is the Farm Bill?

The Farm Bill sets up the funding structure for agriculture, food stamps, rural development and agricultural research in the United States. It's divided into ten chapters, called titles.

The first chapter of the farm bill deals with the "commodity crops" – corn, wheat, sorghum, barley, oats, rice, cotton, soybeans and most other oilseeds (canola, sunflower, etc.). A variety of loans and government payments (called subsidies) are available to farmers who grow these crops. Farmers who grow "specialty crops," a category that includes fruits, vegetables and ornamental plants, are not eligible for these loans and payments.

Commodity crop subsidies are the subject of much controversy. According to some critics, these payments create hardships for farmers in the United States and around the world by encouraging overproduction of staple crops. However, subsidies are only one component of the problems with our farm and food policy, the side effect of decades of agricultural policies designed to drive crop prices as low as possible.

## How Did We Get Here?

The structure of our food system is no accident – it has been shaped by years of policies designed to bring down the price of U.S. farm products, with the hope that lower prices will mean that U.S. exporters will be able to increase sales to other countries.

*The 1930's* – The New Deal established programs to stabilize farm prices by managing the supply of major agricultural products like corn and wheat. The government

required farmers to take a certain portion of their lands out of production each year. This helped to counteract farmers' tendencies to plant as much as they possibly could, which created a surplus and drove down prices. The government also maintained reserves of staple grains, and purchased farmers' surplus in high-yield years. Then, if U.S. farmers had a rough year caused by drought or pest infestation, the government released the surplus.

*The 1970's* – Policymakers saw trade as the way of the future and encouraged farmers to produce as much as possible and to export their entire surplus. This worked for several years, in large part because the Soviet Union experienced a run of low crop yields, so U.S. farmers did export large quantities of grains at a good price.

*The 1980's* – The global price of commodities collapsed. U.S. farmers, who had become dependant on exporting their crops, were hit hard. But policymakers kept their faith in trade and said that if U.S. crop prices dropped low enough, U.S. exports could undercut foreign competition. They believed that they could make up for low prices with high volume, ignoring the fact that high volume drives prices down even more.

As U.S. crop prices decreased, so did the global price of crops, because other countries' exporters all set their prices based on U.S. numbers.<sup>1</sup> A vicious cycle began – U.S. commodity traders would reduce the price of their grains to try to sell them in other countries, and the other countries would lower the price of their own crops to compete with the United States, and so on .... Prices continued to fall.





1996 - The “Freedom to Farm” Act marked the end of policies intended to control supply and stabilize farm prices. This bill eliminated the requirements that farmers keep some of their land idle. The government stopped keeping reserves of grain; instead all of the grain produced was put on the market. Even the system of loans to farmers was reworked in a way that failed to stabilize prices and encouraged overproduction.

1997 - One year into the Freedom to Farm Act, farm prices were collapsing. To quell criticism, Congress authorized emergency payments to farmers, which reached \$20 billion in 1999.<sup>2</sup> However, these payments could not make up for the decline in prices – even with the payments, U.S. net farm income declined by 16.5 percent from 1996 to 2001.<sup>3</sup>

2002 – In the 2002 Farm Bill, instead of addressing the cause of the price drop, Congress voted to make these “emergency” payments permanent.

## Who Wins? Subsidizing Agribusiness

Farm policies that permit the price of crops to fall below their cost of production actually give indirect subsidies to industrial animal production and food processing companies. Government payments make up the difference between the low price paid by agribusiness and the farmers cost of producing the crop – preventing a widespread failure of farms during low-price years.

As a result of farm policies that encourage overproduction and push crop prices down, it costs more to grow grains than to purchase them. Traditionally, farmers raised livestock and also grew the grains used to feed the livestock on their farm. Factory farms, however, must purchase grains to feed the thousands of animals they raise on one site. Therefore, the subsidy payments that are given to commodity farmers to help make up for low prices are also an indirect subsidy to factory farm operators, who do not have to pay the full price for their animal feed.

## Just Getting Rid of Subsidies Won’t Fix It

One popular theory is that U.S. subsidies are the cause of low commodity prices around the world. If the U.S. would only get rid of its subsidies, it is argued, then farmers in the developing world would have a better chance at making a living.

While it is true that the United States exports crops below the cost of production, which hurts farmers in developing world, the anti-subsidy argument ignores the fact that U.S. subsidies were implemented in 1997 *in response to* falling crop prices. In other words, subsidies were the result, not the cause, of the low prices farmers receive for their goods.

Subsidies don’t fix everything. The payments go mostly to the largest players – the top one percent of subsidy recipients get about \$83,000 per year, while the average program crop farmer only gets about \$1,200 per year.<sup>4</sup> And the top 10 percent of farm program recipients received 71 percent of farm subsidies between 1995 and 2002.<sup>5</sup>

But without addressing the underlying causes of low crop prices, removing subsidies will do little to raise global farm income. Several studies have modeled the impact of eliminating U.S. and European Union agricultural subsidies, and found that over the next 15 years, global crop prices would be anywhere from 3.7 percent higher to 3 percent lower than their current value.<sup>6</sup> On the other hand, U.S. net farm income would decrease about 25 to 30 percent, a total of about \$15 billion.<sup>7</sup>

The National Family Farm Coalition (NFFC) has developed the Food from Family Farms Act as a model for a return to supply management and price stabilization. Under the NFFC proposal, farmers would own and store reserves of grains that they could sell when prices are high, and keep off the market when prices are low. And if crop prices got too low, farmers could give up a portion of their crops to the government as payment for their loans. This return to a system of grain reserves would keep some crops off the market and keep prices from sliding even lower.

Additionally, the government could require farmers to set aside a certain portion of their land as a supply management tool in order to prevent over-production of staple crops. Additional acres would be included under an expanded version of the existing Conservation Reserve Program, which takes fragile land out of production.

## Restoring Competition

Because just a few agribusiness and grocery companies hold most of the power in the food system, they are able to

pay farmers a low price for their farm products at one end of the food chain and charge consumers a high price for their groceries at the other. If the next Farm Bill is going to get to the heart of the problem, it must include measures to restore competition and reduce concentration in agricultural markets – in a Competition Title. By preventing the ownership of livestock by meat companies, requiring better contracts for livestock growers, and providing consumers with country of origin labeling of food, a Competition Title could start to even the playing field.

### “But is it WTO compliant?”

Rather than worry about finding ways to make U.S. farm policy compliant with future expansions in global agricultural trade rules, policymakers would do better to take a serious look at the track record of the existing World Trade Organization Agreement on Agriculture. Since the Agreement went into effect in 1995, member countries have been required to reduce import taxes, called tariffs, on agricultural goods. As a result, developing countries have been flooded with crops like corn and soybeans from the United States that can be produced on mega-farms with heavy machinery, and the United States has experienced a sharp increase in imports of produce from corporate-owned plantations in developing countries with lower labor standards. In both cases, small-scale farmers who don’t have access to the export market have lost out, and agricultural diversity in each country has diminished.

The next Farm Bill should embrace the principles of “Food Sovereignty.” In contrast to the WTO’s emphasis on increasing global trade, the concept of food sovereignty is based on local agricultural production. Under food sovereignty, farmers produce first for the local, then national markets, with export markets at the bottom of the list. In contrast to the push towards uniformity of laws under the WTO, food sovereignty promotes local autonomy and the rights of countries to develop their own food and agricultural policies based on the needs and cultural traditions of their populations.

### The Next Farm Bill should:

- Establish policies to manage the supply of agricultural commodities.
- Include a Competition Title to restore fairness and transparency to the livestock sector.
- Provide funding for farm to cafeteria programs, organic transition and public research on plant and animal breeding.
- Maintain the Conservation Reserve Program and ex-

pand the Conservation Security Program so farmers across the country can participate.

- Restore the implementation date for Mandatory Country of Origin labeling for meat and produce.
- Establish a permanent system for disaster payments to farmers in the event of crop losses from a natural disaster.

For More Information:

- Take action at [www.foodandwaterwatch.org](http://www.foodandwaterwatch.org) and join our email lists to get regular updates on the Farm Bill and other food issues.
- Read the Food from Family Farms Act at [www.nffc.net](http://www.nffc.net)

### Endnotes

<sup>1</sup> Ray, Darrell et al. “Rethinking US Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide,” Agricultural Policy Analysis Center, University of Tennessee, September 2003, p. 24.

<sup>2</sup> Ibid. p. 9.

<sup>3</sup> Ibid., p. 9.

<sup>4</sup> Patel, Raj and Memarsadeghi, Sanaz. “Agricultural Restructuring and Concentration in the United States: Who wins, who loses?” Institute for Food and Development Policy/ Food First, August 2003, [www.foodfirst.org](http://www.foodfirst.org), p. 2

<sup>5</sup> EWG Farm Subsidy Database Version 2.0, Environmental Working Group, [www.ewg.org/farm/regiondetail.php](http://www.ewg.org/farm/regiondetail.php)

<sup>6</sup> Beitel, Karl. “U.S. Farm Subsidies and the Farm Economy: Myths, Realities, Alternatives.” Food First/ Institute for Food and Development Policy, Summer 2005, [www.foodfirst.org](http://www.foodfirst.org).

<sup>7</sup> Ray, Darrell et al. p. 5.

### About Food & Water Watch

Food & Water Watch is a nonprofit consumer organization that works to ensure clean water and safe food in the United States and around the world. We challenge the corporate control and abuse of our food and water resources by empowering people to take action and by transforming the public consciousness about what we eat and drink.

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