Many voices in the public health and health care communities support these proposals and champion the elimination of crop subsidies, arguing that subsidies lead to increasing rates of obesity. It is widely assumed that subsidies have driven farmers to produce too much, and, because corn and soybeans are turned into high-fructose corn syrup, soy lecithin and other ingredients for processed food, the conclusion is that crop subsidies make junk food cheaper and more plentiful.

That’s a compelling argument, but, surprisingly, there is little to no academic research to back it up. Instead, economists and agricultural policy analysts identify a different culprit behind the overproduction of crops like corn and soybeans: deregulation.

In the 1980s and ’90s, the federal government eliminated long-standing policies that had limited production of commodity crops and helped to stabilize prices paid to farmers. This deregulation had a significant impact on the price of commodities, and it has benefited food processors, marketers and retailers while contributing to the abundance of high-calorie processed foods in our stores.

Without question, the system of farm subsidies needs reform. But crop subsidies – which were instituted after deregulation, sent prices plummeting and drove farmers out of business – are not the culprit behind America’s abundant junk food supply. In fact, eliminating farm subsidies entirely without fixing policies that affect production levels would have a devastating impact on the thousands of small to midsize family farmers who rely on subsidies as a critical safety net, allowing them to keep their land and to support local and regional food systems.

While simply doing away with payments to commodity farmers may help deficit hawks reduce the federal budget, we should not be fooled into thinking that it will magically solve the obesity epidemic or ensure that Americans would have access to healthy foods. What, then, would effective food and farm policy reforms look like if we want to promote healthy foods and reduce obesity? Rather than just ending subsidy programs, we should develop responsible federal supply management programs that reduce overproduction and stabilize price and supply, undoing the damaging deregulation that took place in the 1980s and ’90s.
Commodity policy:
More than just subsidies

There’s no question that America has a problem with overproducing commodity crops, particularly corn and soybeans, which in turn are processed into animal feed, corn syrup and other ingredients. But economists find that it is not subsidies that drive this overproduction; overproduction has been a problem for decades, long before our current subsidy programs existed. As early as the 1920s, economists recognized that unless the government intervened, farmers growing crops like corn and soybeans were going to be in trouble. This is because unlike, say, an auto manufacturing plant, crop production cannot be slowed down or sped up to increase or decrease supply in response to prices. Once farmers plant their crop, they are unable to change the amount they are producing, and one farmer planting less will not bring prices back up. For this reason, when prices are low, farmers continue to produce as much as possible in order to make whatever income they can to pay off land and equipment costs. When all producers do this, overproduction continues and prices drop even lower.

This “treadmill” of overproduction and low prices has plagued commodity markets, leading to prices that drop so low that farmers go out of business. When they do, they generally sell their farms to another producer, leading to increasing concentration of farmland in the hands of larger agribusinesses and to continued overproduction. During the New Deal, economists advised federal policymakers to intervene to prevent the farming sector from overproducing itself into bankruptcy. Farm policies encouraged farmers to idle some of their land so they wouldn’t overproduce.

The government also established a national grain reserve, much like the Strategic Petroleum Reserve we have today. It was filled in bumper years and released when crops were scarce. In this way, the reserve prevented crop prices from skyrocketing during times of drought or falling too low during times of surplus.

What was the result? Overproduction was kept in check and there were fewer wild fluctuations in commodity prices. The stable prices functioned like a minimum wage for farmers. These policies worked well for taxpayers, too; implementing them cost far less than the current-day commodity programs. But it did not work well for food processors and grain traders, who paid more for the commodities they turned into animal feed, corn syrup and other ingredients because the government was preventing overproduction and low prices.

The food industry
lobbies for deregulation

Food processors, grain traders, meat companies and marketers mounted a strong and successful lobbying effort against these policies, and, starting in 1985, the programs began to be dismantled. The 1996 Farm Bill was the final nail in the coffin. Crop prices were high and budgets were tight – much like they are today – and the lobby called for policies that would, as they put it, give farmers “the freedom to farm.” Congress eliminated land-idling programs, letting farmers plant as much as they wanted, and production increased over the next few years. Because the government had eliminated grain reserves, farmers flooded the market with their entire crop.

The result was disastrous for farmers, but it was good for the food industry. As prices fell, farmers continued to plant as much as possible to try to make up for their lost income, which further increased supply and depressed prices. All told, between 1996 and 2005, soybean prices dropped 21 percent while production rose by 42 percent, and corn prices dropped 32 percent while production rose by 28 percent. To quell criticism, in 1998 Congress authorized “emergency” payments to farmers – essentially grants to keep them in business. But because there was no attempt to reduce the amount of land in production or to shore up prices with a grain reserve, overproduction continued unchecked and commodity prices kept falling. With things still looking bad for many farmers, Congress made these emergency payments permanent in the 2002 Farm Bill. The subsidy system we know today was born.

Deregulation: A windfall
for the food industry

When commodity markets were deregulated, the food industry reaped the benefits of overproduction and low prices. Researchers at Tufts University estimate that soda companies have saved millions on their corn bill every year, for a total of $1.7 billion in savings since high-fructose corn syrup (HFCS) became commonly used in the 1980s. Large meat companies saved nearly $4 billion on animal feed between 1997 and 2005 because corn and soybean prices fell as the treadmill of overproduction sped up. It is important to note
that the literature identifies the benefit to food companies as coming from deregulation—the removal of federal policies that had previously kept overproduction in check and commodity prices stable—not from subsidies, which came later.

Since deregulation is the root cause of the problem, researchers also find that removing subsidies wouldn’t make commodities scarcer or more expensive. For example, economists at the University of Tennessee found that if subsidies were removed, the supply and price of commodity crops like corn would change very little. What would happen is that U.S. farm incomes would decline by 25 to 30 percent. In other words, farmers would become poorer, but commodities would still be abundant. Some farmers would inevitably go out of business, but their land would likely be sold to a larger agribusiness, so there would be no reduction in supply.

Finding common ground with family farmers

Media headlines suggest that only large, wealthy farms receive subsidies and that they are living “high on the hog.” But the data suggest that after deregulation, low prices forced a significant portion of small and midsized farmers to rely on subsidies to stay in business.

Data from the U.S. Department of Agriculture’s Economic Research Service shows that 82 percent of full-time small to midsized family farmers receive subsidies. In 2009, after accounting for land, labor, equipment and input costs, the average family farmer in this category netted only $19,274 from full-time farming. Government payments made up nearly half of that amount. Since deregulation, subsidies have become a critical safety net that in some years serves as the only thing keeping small and midsized farmers from losing their land.

These farmers can be important allies for the public health and health care communities in supporting policy changes that will lead to improved health outcomes from the food system. They have the potential to diversify production and supply local or regional markets with healthy food. They are large enough to deliver a good volume of product while still being small enough to shift into different products depending on demand. Building a healthy food system will require that these farmers be able to make a living from farming, can connect to new markets, are supported as they take risks to diversify into other products, and have access to the processing and distribution infrastructure to link them to consumers.

Simply removing subsidies—the payments that Congress put in place as a Band-Aid solution after deregulation caused prices to plummet and farmers to go out of business—will not bring about the changes needed to build a healthy food system. If commodity markets are not regulated, the removal of subsidies will send many farmers out of business. Focusing on the bigger-picture reforms can help the public health community build alliances with family farmers for real food policy reforms.

Policy solutions

The public health and health care communities can find common ground with the family farm community by moving beyond the focus on subsidies and pursuing priorities such as:

- Engaging in the long-term campaign to reform commodity policies by developing responsible federal supply management programs that reduce overproduction and stabilize price and supply, undoing the damaging deregulation that took place in the 1980s and ’90s.
- Increasing consumption of fruits and vegetables, whole grains and other healthy foods through strategies that promote increased access and affordability for underserved communities and protecting and strengthening federal food assistance programs, including the Supplemental Nutrition Assistance Program.
- Expanding the supply of healthy foods by helping farmers diversify their production and supply local and regional markets with healthy food.
- Building the infrastructure needed to better link farmers and consumers and aid in the delivery of healthy foods.

References:


11 Ibid.

12 Ibid. at 3.


16 Ray et al. (2003) at 5.

17 Starmer et al. (2006) at 7.
