

THE PROGRESS REPORT

End All Farm Subsidies

By Fred E. Foldvary

The governments of the United States, the European Union, Japan, and many other countries subsidize the owners of agricultural land. The public mistakenly thinks that the subsidies are going to the farm workers. But people need to disaggregate their thinking.

- First, there is the "farmer" as the farm worker, whether he owns his land, rents it, or is hired by an owner.
- Secondly, there is the "farmer" as the owner of the farmland, whether he works it himself, rents it out, or hires workers.

Who is the real beneficiary from subsidies to agriculture? It is not the farmhand. So long as there are unemployed workers, the wage for farm workers will remain low. The wage is low because the general wage level is set where farmland is the least productive. Workers in the more productive areas won't get paid more, since they compete with the farm workers in the less productive areas.

Since subsidies don't raise the wages of farm workers, who benefits? The farmland owners get the loot. The bigger the farm, the greater the subsidy. The subsidy pushes up the rent and selling price of the farmland.

The latest US "emergency" farm aid package is redistributing \$8.7 billion from taxpayers to farmland owners. A typical Iowa soybean or corn farmer had an income of about \$48,000, and with this latest subsidy, his income will rise by \$16,000 to \$64,000. That extra \$16,000 is rent. The hired hand won't get it. The aid is proportional to the size of the farm: the bigger the farm, the bigger the government's farm owner welfare check.

A 1700-acre cotton farm in Texas provides an income of \$180,000. The extra subsidy from the new bill will give the cotton farm owner an extra \$20,000. The farmer renting land will have to pay more rent, and the workers picking cotton won't get any of that loot. A study by Texas A&M University's Agricultural and Food Policy Center concludes that the latest aid will boost average farm income by 25 percent or more.

The reason given for this extra aid, which is in addition to the usual annual farm subsidies, is that agricultural prices, especially for grains, have been very low. Some of the aid is also going to farmers who lost crops from flooding and draught. It's true that many farm owners were facing hard times. But why should much of the aid go to the biggest farms and landowners? And why should the aid also go to farms that were not hurt by floods and draught, and are doing well?

The price of many crops is low because too much is being grown, due to subsidies in Europe, North America, Japan, and elsewhere. So we have a vicious circle: prices are low due to

subsidies that increase the amount of crops, so then subsidies have to be paid because farm income is low.

There are market remedies for the swings in the weather and the ups and downs of crop prices. Farmers can insure their crops against the destruction by floods, draughts, and pestilence. Farmers can also hedge the prices of their crops in futures markets. A farmer sowing corn or wheat can enter into a contract to sell his crop when it is harvested, based on the price when the contract is made. Then if prices drop, the farmer is protected.

The elimination of farm subsidies will make some farms no longer economical. These farms should be converted to other uses, since they are reducing the productivity of the economy by forcing resources to be shifted to less productive uses. Some of this land can revert to a more natural status and support wildlife and recreation. The trend over the last century has been for the proportion of farmers to go down as they move to manufacturing and services. Critics of farm subsidies say that aid to farms just helps consolidate farming into large corporate operations.

There is another type of subsidy besides the explicit payments to farm owners, and that is the subsidy of government services paid for by taxes on labor. Roads, schools, and other infrastructure boosts the rent of farmland, creating an implicit subsidy from workers to the owners of farmland.

So a pure free market in agriculture would not just exclude farm subsidies but also shift taxation from workers and goods to land rent. That way, government services would be financed from the rents they generate instead to pumping up rents and land values.

With a pure free market in agriculture, no longer would the gain go mostly to the landowner. Farm worker's wages would rise both from not having to pay taxes and from the elimination of the least productive farms. With greater real productivity, the whole wage level would rise, and workers would get to keep it all.

When enough folks realize what is going on with taxes and subsidies, they will rise from their apathetic slumber and demand big constitutional changes. Meanwhile, ignorance feeds apathy, letting the powerful interests get the loot.