Eliminating the Farm Bill as We Know It

Comments by Luther Tweeten, Emeritus Professor of Economic Policy and Trade at Ohio State University to Farm Foundation's 2007 Farm Bill Forum, April 12, 2006, Washington D.C. For elaboration, see Luther Tweeten, "Farm Commodity Programs: Essential Safety Net or Corporate Welfare?" Chapter 1 in L. Tweeten and S. Thompson, eds., Agricultural Policy for the 21st Century. Ames: Iowa State Press, 2002.

INTRODUCTION

- *Farm income and price support programs won't die, but could fade away. Five+ year transition program likely?*
- *Decoupled direct payments could become program of choice due to WTO, but not well suited to commercial farm problem of income instability*
- *"Public goods" programs of soil conservation, water quality, research, grades, standards, and food provision and safety are assumed to continue in following comments*

IMPACT OF "NO PROGRAMS" ON FARMERS

- *Payments drop $15-$20 billion*
- *Output drop 3%, raise prices 6% and receipts $9 billion for net loss of $6-$11 billion*
- *Farm real estate value declines 20%*
- *Largest relative impact on sugar, rice, wheat, and cotton—hence on South. Absolute impact large on feed grains.*
- *Livestock impact largest on dairy, but feed cost up overall*
- *Largest crop farms vulnerable because financially leveraged and dependent on farming. But also efficient. As predominantly renters, large operators will quickly pass lower returns to landowners*
- *Small farms protected by off-farm income*
- *Mid-size farms with sales of $50,000 to $500,000 most affected*
- *Might lose 10% of farms, but many of those would have left eventually*

- *Rate of return on investment: Initially down but unaffected in about 5 years. Farmers adjust resources to 4% real return on land*

- *Losses eventually accrue to landowners. Net income of operators after paying full land cost unaffected by government programs in longer run*

- *Cash flow: Less rent and land cost ease entry for new operators.*

- *Risk: Farmers face more risk but not clear-cut*

- *If world liberalized commodity programs and trade, world farm commodity prices rise 10% to erase much of pain to U.S. farmers*

IMPACT OF "NO PROGRAM" ON NATION

- *Economic efficiency: Add $6-$12 billion to national income (Amount by which loss to taxpayers currently exceeds gain to farmers from programs.)*

- *Economic equity: Income of farm households 15- 35% over that of nonfarm households. Farm net worth more than double that of nonfarmers/ household. The 7% of farmers who receive 70% of program benefits have wealth in multiples of that of nonfarmers*

- *Food cost up slightly but more than offset by lower taxes*

- *Rural communities: Few depend on farming. Other help more cost effective*

- *Food self-sufficiency: Plenty of reserve in other countries, livestock slaughter, less ethanol, etc.*

- *Fiscal responsibility: Help to balance federal budget*

- *Family farm preservation: Lose farms in short run, not in long run*

- *Less competition to farmers in poor countries*

With fewer cropped acres, less soil erosion and better water quality