Research paper on the effects of the farm bill

[Business](), [Marketing]()

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Introduction

Public policy in the United States refers to legislature on the production, distribution and selling practices of food products. Ever since the Great Depression, the federal government came up with regulations known as the Farm Bill that would assist the farmers by increasing and stabilizing their farm earnings (Godwin, Mishra and Ortalo- Magne, 6). Over the history of the country, the government has used two tools, price supports and price control to ensure that the income of the farmers is not adversely or negatively affected.

There are different kinds of farm subsidies that a government can provide for its farmers. Farm subsidies may take the form of direct payments to the farmers and the landowners. The government may set minimum prices for certain crops in a certain location or use of other parameters or characteristics. The government may also have subsidies when it comes to expenses such as crop insurance, credit services, marketing and purchase of the irrigation water. There are also subsidies in the form of import barriers where the government imposes quotas and tariffs in order to protect the domestic producers from intense foreign competition. The government may also provide support by being one of the purchasers of the agricultural produce and storing it for sale later where the demand has been lower than expected. The farmers may also be assisted when it comes to agricultural research and development and rural infrastructure development in the farm areas.

There has however been a lot of debate among the scholars on the benefits and adverse effects of the subsidies in the Farm Bill. With the world economy facing great challenges, the Obama administration has cut down on the budget in the Farm Bill and this is bound to increase in the successive years. There are those who believe this is the right direction to take while others are against it. Should the government be involved in the agricultural sector and to what extent?

There are several advantages of the farm subsidies. First of all they compensate the farmers on the low income they would receive from the trade. The subsidies also stabilise the agricultural commodities industry. Farmers in other countries also receive subsidies from their governments so the subsidies the United States gives to its farmers offset the effects of the foreigner's subsidies. It also ensures there is food security in the country. The farmers have incentives to continue producing the different crops regardless of the market conditions since they will be compensated.

The United States has recently favoured the use of three forms of agricultural support. These subsidies are generally offered in the production of oilseeds, cotton and grains. The first one is the direct payments support system where the farmers get payments regardless of the market prices of the crops. The payment is based rather on the farm's history when it comes to the production of a certain crop. There used to be a number of restrictions on the use of the land however now farmers receive the payments whether they live the land idle or participate in the farming of other crops.

There are also countercyclical payments where the farmers receive payments which are tied to the market prices of the goods. The farmers have the flexibility in choosing the crops they

will plant. However, since the continuation or the subsequent increase in the payments depend on the current farming output of a specific crop; it tends to lead to the overproduction of that crop. The farmers also receive marketing loan benefits which are also tied to the current production of a particular crop. These marketing loan benefits are inversely related to the market prices of the crop in the industry. Economists generally propose that if these subsidies were to be reduced the production of specific crops would decrease.

When President Obama released the 2011 financial budget proposal, there was a lot of protest from the agricultural advocacy groups. However the president stressed that the budget reflected the serious challenges that the country was facing. Over the last two years, there was a loss of 7 million jobs. The government had been operating on an increasing budget deficit for the last few years and it was time to reduce the government debt. This would mean that there would be reductions in spending in the two areas of payments to large farmers and agricultural related insurance.

Crop insurance had been receiving a lot of attention from the federal government. It had been noted that the insurance companies were getting huge windfall profits. This was due to the structure and terms of the Standard Reinsurance Agreement, which was an agreement between the government and the insurance companies. There were also two other proposals in the budget that faced resistance. The cotton and grain farmers would face a drop of $10, 000 in the direct payments that they had been receiving. They would now be getting $30, 000 or less each year.

Secondly, the farm payment eligibility caps have been dropped from $750, 000 to $500, 000 for farm income while the non-farm income reduced from $500, 000 to $250, 000. The aim of the proposed changes is to ensure that that the people who benefit from the farm payments are the ones who are mostly in need and that the farmers have protection against low farm prices and natural disasters. The rural areas had been facing various difficulties and the new approaches would serve to strengthen rural America (Bennet, 2010)

However the agricultural advocacy groups are against the President’s budget plans. As much as there is an economic crisis and the budget is at a deficit, they do not want a disproportionate burden to be placed on the farmers and the rural communities. They maintain that the budget cuts will lead to even more job losses in rural America. Furthermore the President is changing the rules of the game in the middle of the Farm Bill. The President’s Budget in 2010 had also advocated for similar budget cuts in agriculture however the Congress delayed the implementation of the proposed changes.

The Obama administration has been accused of targeting farmers and ranchers in order for the administration to fund Washington-based programs and also achieve certain levels of savings. The National Cotton Council specified that the cotton industry will be one of the areas that will be affected adversely by the proposed changes. The farmers would face a cut in their payments and there would be issues in the marketing and storage activities. The American Soybean Association also added its voice to the heated discussion. The organization stated that changing the terms of the Farm Bill would impact the farmers as they had already made long term decisions based on the 2008 Farm Bill. It stated that agricultural programs just accounted for almost one percent of the government’s $3. 8 Trillion Budget for the year 2011. The government was trying to achieve minimal savings through agricultural cuts yet the cuts would be disastrous to the agricultural industry is the country’s driver for economic recovery and export growth.

There have however been numerous complaints from different quarters on the nature of the farm subsidies. First of all there are select crops that receive the highest percentage of the farm subsidies. These are grains, oil seeds, cotton, sugar and dairy products. Other farmers who specialise in livestock, fruits and vegetables receive only a minimal share of the government financial support.

The subsidies also have the effect of transferring income from the consumers and the tax payers to the farmers or the land owners of agricultural land. Research has shown that farm subsidies tend to raise the rental fee of agricultural land. When the government imposes production quotas, the price of commodities go up increasing causing the production rights of the quota owners to rise. In the US history, the tobacco quota continued for six decades while the dairy quotas increased for a period of three decades. The farm subsidies cause the farmers to concentrate on production of a few select crops. If the subsidy of a certain crop was to be eliminated, there would be a substantial decrease in the production of that crop. The farm subsidies therefore cause other crops to have low production.

Globally, farm subsidies have impacted the international trade markets. The ideal situation would be for governments to restrain from imposing farm subsidies and other trade

barriers in their countries. The farm subsidies do not allow countries to engage in the pursuit of their agricultural comparative advantage. The farm subsidies which are usually common in the wealthy or developed countries complicate the nature of the multilateral trade agreements.

After the 2002 Farm Bill, farmers in the poor or developing countries highlighted the adverse effects of the farm subsidies.

Most of the poor countries export a variety of crops such as cotton. The farm subsidies in wealthy countries lead to overproduction of cotton which depresses the price of cotton in the world markets. The farmers from the developing countries in 2001 to 2002 received between thirty five cents to forty five cents per pound of their produce. However, the American farmers received seventy cents more due to the farm subsidies. It is estimated that without the farm subsidies, the production of cotton would have been lower and the prices would have been 10 to 15% higher than the prevailing world prices at that time.

The United States government used to require the farmers to leave a part of their farmland idle. This would help in controlling the production of certain commodities. The practice is still prevalent by the governments in the European Union and Japan.

Conclusion

As the 2008 Farm Bill comes to an end in 2012, there is a lot of attention focused on the next Farm Bill provisions. The agricultural experts are hoping that the long-term local farming and national security agendas will be considered weighty however due to the amount of national debt they understand that they have to be realistic (Christian, 2011). The public policy on food production has a great impact on the economy with scholars debating its merits and disadvantages.

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