

# Farm Subsidies: Support for Farmers or Catalysts of Poverty?

## Introduction:

For those who care about eliminating hunger and poverty it is important to understand the links between domestic agricultural policy in the United States and international trade. There are currently serious debates going on at the World Trade Organization (WTO) about the relationship between agricultural subsidies in the U.S. and the EU and their relationship to perpetuating hunger and poverty around the world. This fact sheet outlines U.S. agricultural subsidy programs and the current debates surrounding them at the WTO.

## What is a Farm Subsidy?

A farm subsidy is a form of support, usually money, given by a government to a farmer. Subsidies can be cash payments that farmers receive as checks in the mail or other forms of support such as loans.

## Different Types of Subsidies:

There are two main categories of subsidies given to farmers: export subsidies and domestic subsidies.

### 1. Export Subsidies:

Export subsidies are payments given by the government to farmers so that they will sell their product abroad. Export credits ensure that those who want to export their goods will have the credit necessary to do so.

#### *Problems with export subsidies and credits:*

Export subsidies and credits make it easy and profitable for farmers to sell their goods abroad. But, farmers in other countries often do not have the same support from their government, which means that export subsidies and credits in the U.S. can lead to agricultural “dumping.” Dumping is when a business from one country sells agricultural goods to another country at a price that is lower than what it actually cost to produce the product. Dumping makes it difficult for farmers in the Global South to compete, even in their local markets, which perpetuates poverty for many small farmers in the Global South.

### 2. Domestic Subsidies:

Another form of farm support is domestic subsidies. These subsidies are given by the government to encourage a producer to grow more of a certain crop, assist farmers who are not making a profit, promote environmental protection, and respond to the needs of farmers when natural disasters occur. Different types of domestic subsidies include:

*Farm Payments:* These are usually cash payments or special loans made directly to participating producers. These payments are generally given only to the producers of certain commodities including corn, wheat, soybeans, rice, upland cotton, and oilseeds. Farm payments given to support the production of certain commodities totaled over \$11 billion in 2003 ([www.ewg.org](http://www.ewg.org)).

*Conservation Payments:* There are also agricultural subsidy payments made to farmers for environmental and conservation purposes. The Conservation Reserve Program (CRP) and the Conservation Security Program (CSP) are two primary programs in this category. The CSP provides money to farmers who engage in sustainable agricultural practices. Since agriculture is one of the most heavily polluting sectors of the economy, this program is aimed at protecting environmental resources. In 2003, the U.S. spent just over \$2 billion on conservation payments to farmers ([www.ewg.org](http://www.ewg.org)).

*Disaster Payments:* Disaster payments are made to crop producers when either planting is prevented or crop yields are abnormally low because of problematic weather conditions. Funding for disaster payments totaled \$2 billion in 2003 ([www.ewg.org](http://www.ewg.org)).

*Problems with domestic subsidies:* In certain cases, domestic supports can encourage overproduction because if the government is paying producers of a certain crop, others will want to start producing it too or will produce more of it than normal. This can make global prices

## ***WTO Agricultural Support “Box System” Definitions***

Due to the many different types of domestic farm support programs in the U.S. and around the world, the WTO decided to form distinct categories, each represented by a different colored box, to classify the various types of subsidies depending on how much they distort trade. **Trade distortion** is when the policies of one country create an environment where companies in that country have an unfair advantage over companies in another country. For example, export subsidies that cause dumping distort trade a lot because they lower the prices paid for agricultural goods. The WTO’s goal is for all support to eventually fall into the “green box” category, which distorts trade the least.

**Amber Box:** “Amber box” domestic supports are those subsidies that are seen as highly trade distorting. For example, if a government pays producers money to export more of their goods than they otherwise would, this will make the price fall in other countries and be very distorting. The WTO’s goal is for every country to have no more than 5% (10% for developing countries) of their total agricultural supports remain in the “amber box.”

**Blue Box:** The “blue box” contains any subsidy that would normally be considered trade distorting, but that encourages farmers to limit production, not increase it. These subsidies will still have an effect on trade because they deal with the amount of goods that are produced, which will have an effect on prices. However, their effect will likely not be as negative as that of subsidies that increase production. Currently, WTO regulations do not limit how much money a country can spend on “blue box” subsidies, but a cap is likely to be placed on “blue box” subsidies in the future.

**Green Box:** Subsidies that are not trade-distorting fall into the “green box” category. They must be funded by the government and cannot be a subsidy that controls prices. Different members of the WTO are still debating what should actually be considered a “green box” subsidy and whether some subsidies that initially appeared to fall into the “green box” category actually have trade-distorting effects.

Source: World Trade Organization, [www.wto.org](http://www.wto.org).

lower, which can lead to agricultural dumping and can make it very difficult for small farmers in developing countries to survive. The extent to which domestic supports actually create these problems is a topic of much debate among farmers, politicians, trade negotiators, and researchers.

### **Who Receives Subsidies in the U.S.?**

Who receives agricultural subsidies in the U.S. is a complicated and very contentious issue among farmers, politicians, consumers, and citizens. Farm payments are concentrated among the largest producers. However, this high level of concentration is the product of a much deeper problem – the structure of the farm sector itself. The farming sector has become highly consolidated to the point where very large commercial farms produced 44% of total farm output in 2003. Since farm payments have been historically linked to production, and remain partially linked, the structure of the U.S. farm system perpetuates the skewed distribution of subsidy payments. The top ten recipients of farm subsidies in 2003 were ([www.ewg.org](http://www.ewg.org)):

1. Riceland Foods Inc	\$68,942,419
2. Producers Rice Mill Inc.	\$51,400,838
3. Farmers Rice Coop	\$17,914,254
4. Pilgrim’s Pride Corporation	\$11,401,045
5. Ducks Unlimited Inc	\$7,078,200
6. Cargill Turkey Products	\$6,693,286
7. Ute Mountain Tribe	\$4,035,347
8. Dnrc Trust Land Management	\$3,106,805
9. Attebury Grain Co	\$2,971,143
10. Bureau of Indian Affairs	\$2,655,353

### **Agricultural Subsidies and the WTO:**

#### **What is all the Controversy About?**

At the WTO, there is pressure from countries in the Global South for the United States and the European Union to change their agricultural policies. One of the groups of countries leading this fight, called the G-20 and led by Brazil, China, South Africa, and India, met in mid-March of 2005 to release their vision for agricultural trade policy reform. One of their key demands is the reduction of any agricultural subsidies in the U.S. or the EU that give farmers in those countries an unfair advantage in international trade. For example, farm

subsidies that encourage farmers to produce more of a certain commodity can lead to overproduction, which lowers the price of the commodity, which in turn gives the farmers in the Global North an unfair advantage. They are able to sell their goods at a lower price because they know they will receive subsidies from their government. Many countries in the Global South do not have the resources to subsidize their farmers in a similar fashion. Their main protection is using tariffs to keep out products from other countries, but the use of tariffs is under attack at the WTO.

To figure out how to deal with the farm subsidy issue, the WTO created a “colored box” system. Their goal is to move the agricultural subsidies paid in each country to the category, known as the **green box**, where they do not give certain farmers an advantage in global trade (see the shaded area for more information on the WTO box system). Even though the U.S. and EU claim that most of their subsidies are moving toward compliance with WTO “green box” standards, there are still uncertainties about whether this is in fact the case. For example, the WTO recently ruled that U.S. cotton subsidies were in violation of WTO regulations. Concerns that other U.S. and EU agricultural support programs are trade-distorting has also led the G-20 to call for a re-examination and a re-definition of both the **blue box** and the green box regulations to ensure that they do not give farmers in the Global North an unfair advantage.

### Is Progress Being Made?

The U.S. and the EU are tentative about reforming their agricultural support programs. Although the rhetoric of the U.S. is in favor of reducing trade-distorting domestic support, it is unclear that the U.S. actually desires this move in practice. The 2002 U.S. Farm Bill, which dictates U.S. agricultural policy, increased agricultural support programs by \$84 billion over ten years. Although there are many reasons for the U.S.’s continued agricultural support programs, one important reason is the lobbying pressure from large U.S. farmers to continue the subsidy programs. Since only 10% of U.S. farmers receive over 70% of the farm subsidies, it is no wonder that they are

fighting hard to keep their payments. These large farmers are well organized and have significant political power, meaning that finding the political will to reform U.S. agricultural subsidies could be quite difficult.

Agricultural subsidy reform issues will continue to be a hot topic at the WTO for the months to come. The WTO negotiations at the Hong Kong ministerial in December, 2005 will reveal whether or not the demands for agricultural reform coming from developing countries will be met with actual changes to U.S. and E.U. agricultural policy.

The U.S. must substantially change its current farm subsidy programs, in addition to other aspects of its agricultural policy, to support family farmers in the U.S. and stop “dumping” agricultural goods, which perpetuates poverty for small farmers in the Global South.

### Reflection Questions:

1. What are two different types of farm subsidies in the U.S.?
2. Why are U.S. farm subsidies a topic of debate at the World Trade Organization?
3. What is a “green box” subsidy, according to the World Trade Organization?
4. What is one reason why U.S. farm subsidies should be changed?
5. Why might some form of farm subsidy be needed in the U.S.?

#### Sources:

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