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Recommended Citation
Reczek, Jeff, "Domestic and International Consequences of US Farm Subsidies" (2007). Honors Projects and Presentations: Undergraduate. 89.
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Jeff Reczek
Senior Honors Thesis

Domestic and International Consequences of US Farm Subsidies
Take a moment to consider the life of a United States farmer 150 years ago. Though it involved considerably more manual labor, the world seemed simple then. Farming was a family business where the children grew up to sustain the farm like their parents before them. With a little grit and hard work, jobs were secure, food was certain and as long as the weather remained tolerable, business was thriving. Fast forward to the globalized world of today. Few family farms are prosperous and it seems that the only sure way to make money is to invest in a gigantic farm corporation that sells its products worldwide. Competition is fierce and many have gone as far as to suggest that the U.S. farming industry is in crises. This paper is concerned with the consequences of current policies that employ trade distorting subsidies and where U. S. policy needs to move in order to provide a stable farm economy both domestically and internationally. The international community, specifically the World Trade Organization (WTO) has placed a great amount of pressure on the U. S. to liberalize its trade and this paper wishes to address the specific consequences trade liberalization has on American agriculture. Contrary to the beliefs of many farmers, one can see that trade liberalization not only positively impacts the long term activities of farmers, it also empowers the US consumer and aids international farmers and citizens in their effort to industrialize and become self sufficient.

Before one can delve into the consequences of domestic and international subsidies, it is important to have more concrete data to understand why many suggest farmers are in crisis. I will begin this discussion by briefly addressing the troubles of agriculture. This will give a general understanding of why the U. S. would be
compelled to employ subsidies and it will give a quick introduction into why agriculture may be in crisis. After the current troubles of agriculture are addressed, this paper will discuss how subsidies and the poor state of world farmers have spurred the formation of the World Trade Organization (WTO).

After background is given, the arguments contrary to the thesis that subsidies harm many aspects of domestic and international farming are given. These arguments rest on statistical analysis that claim removing subsidies would have little to no effect on world prices. In the end, supporters of subsidies declare that removing subsidies would drive U.S. farmers out of business, have little to no effect on international farmers, and greatly hinder the United States to remain competitive in the world market.

Conversely, the overwhelming majority of scholars, the WTO, international communities, and even the Executive branch of the United States claim that the removal of subsidies would cause a dramatic difference in world prices and increase world equity. The international impact will be directly assessed in regards to overall money that would enter the world system if subsidies and other trade distorting practices were removed. I will then in-depthly attend to the benefits removing subsidies and other trade distorting barriers have on the U.S. economy.

In conclusion, though it is difficult to predict the exact outcome of eradicating subsidies, it is safe to say that if the U. S. wishes to increase its exports and improve the state of agriculture, it must remove subsidies.
The Troubles of Agriculture

Those who are in the business of agriculture and those who pay the slightest attention to the productivity of world agriculture know that agriculture is facing serious difficulties. Since the mid-1990’s, world crop prices have dramatically dropped. In the U.S, prices have dropped by more than 40 percent since fiscal year 1995/1996; including the strongest U.S. products of corn, wheat, cotton, rice etc. Recent struggles have brought the U.S. to the world stage as it realizes that a greater exportation of crops would help to make up for the lag in prices. To gain a greater world market share, the U.S. objective is to sell their products at lower prices than the world price in order for the U.S. to establish itself as a leading trader in the world market. The inevitable result of this policy is to increase government subsidies, enabling U.S. farms to be sustained amidst low market prices. In 1996 Congress decided to introduce radical changes so that more government money than ever before could be given to farmers as “direct emergency payments” to compensate low market income (Ray et al, 2003, p. 9). Daryll Ray et al, from the Agricultural Policy Analysis Center at the University of Tennessee, cites data that shows U.S. government agricultural subsidies ranging from $7 billion to $13 billion throughout much of the 1990’s. As market prices continued to decline, government payments tripled and jumped to over $20 billion by 1999. Interestingly enough, despite the large investment of money to farmers, net farm income in the US declined 16.5
percent between 1996 and 2001. In 2001, government payments to farmers were a striking 47 percent of farmer income, with eight states, whom happen to be the nation’s largest crop-producing states, receiving over 100 percent of their net farm income. Michigan was the nation’s largest subsidy receiver with an astonishing 185 percent payment of their net farm income. This illustrates the dependency the U.S. crop farms have on government subsidies (Ray et al, 2003, p. 10).

This data speaks to a fundamental problem: the cost of production is higher, if not significantly higher, than the prices of that which is being produced. Data from the Agricultural Resource Management Survey (ARMS) shows that market prices in 2001 were 23 percent below the cost of production for corn, 52 percent for cotton, 48 percent for wheat, and 45 percent for rice. Even more interesting is that even with the large U.S. subsidies, returns for wheat and cotton were still well below the cost of production. Corn moved to one percent above market costs, while rice payments seemed to be the only subsidy that adequately compensated for market losses (Ray et al, 2003, p. 11).

U.S. farmers are not the only ones struggling to get by; many international farmers are hurt even more by American policies. U.S. prices drive down world prices which puts other countries, particularly those driven to reduce subsidies through trade liberalization (WTO), under considerable stress. The result is that farm policy directly affects the sustainability of smaller farmers around the world. Another consequence is overproduction, leading to a large share of international markets. Without U.S. subsidies, American farmers would be forced to either change crops or shut down farms. This scenario is similar to many other farmers worldwide and it
would reduce the overall production of crops. As discussed, due to large subsidies U.S. framers do not have to cut down production so exports have soared as price drops because worldwide farmers cannot compete with low prices.

This assessment of domestic and world prices will be enhanced further in this essay. The main purpose of this short explanation is to show that both domestic and international farmers are struggling, if not in a crises. This has resulted in the formation of the World Trade Organization (WTO), a governing body intended to level the playing field for world farmers.

**The Founding of the WTO**

The WTO was established on January 1, 1995. It serves as a multilateral institution whose duty is to administer rules for trade among its member countries. There are currently just fewer than 150 official members of the WTO which are countries who have been able show themselves committed to the liberalization of trade. The basic purpose of the WTO is to lower tariffs and non-tariff barriers to increase international trade. The goal is not to prevent tariffs outright, but to set tariffs of a certain good at a set price so that countries are aware of the full consequences of trade. If prices are raised without consent, then compensation to the trading nation affected must be given. The WTO also aims to prevent agricultural protectionism which often comes in the form of subsidies. It calls for a major reduction and eventual end to trade-distorting subsidies that many countries, particularly the more industrialized countries, employ.
In 1948, the first efforts to invest in multilateral trade agreements through international discussions began. After many decades of attempting to establish a strong international organization real progress was made in the Uruguay Round where multilateral trade liberalization talks became more serious. At this point in time, government support (subsidies) for protection in agriculture had been spreading globally and the need for reform was evident. All countries were beginning to feel the consequences of rising budget expenditures, depressed markets, trade frictions, and an overall drain on economic growth (Proposal for Comprehensive Long Term Agricultural Trade Reform, p.1). The primary culprit? International agricultural markets were distorted by the use of high price supports and restrictive import barriers which inevitably protected domestic producers while denying competitive producers the opportunity to sell their products in international markets. The high price supports in specific countries eventually led to surplus production which was discarded in developing countries, eventually making the international farmers unable to compete. This resulted in growing tensions between countries that no world organization in place could properly handle. The need for a world institution where different nations could come together and cooperate with the same objective of liberalizing trade was evident and thus the WTO was formed.

**Competing Arguments**

With a background of the issue, one can now assess and understand the arguments in place. A major consequence of the formation of the WTO is an
insistence of all countries to get rid of subsidies. The following will discuss the
options and the implications to banning subsidies.

There is a considerable amount of disagreement about the effects domestic
subsidies have on international and domestic trade. Those who wish to keep subsidies
argue that world prices are only moderately affected by subsidies. Such analysts
claim that world prices would not be raised high enough to benefit international
farmers and domestic farmers would face drastic cuts in their programs, resulting in a
farm industry that struggles more than it currently does. Alternatively, many analysts
believe that if the United States were to remove their subsidies and other trade
distorting barriers, the world would face drastic increases in prices (helping
international farmers), and domestic production would actually increase due to the
fact that more trading partners results in higher demand and more money.

Arguments in support of subsidies

U.S. farmers have pushed back against the reduction of subsidies and
liberalization of trade. More specifically, many farmers do not like the WTO and how
its rules have implications for the ability of farmers to survive in an ever more
competitive agricultural world.

George Naylor, the President of the National Family Farm Coalition (NFFC)
states: “With the inherent uncertainty of commodity markets and the tendency of
prices to decline in real dollars over time, the U.S. farm system would collapse
without subsidy scheme to diminish uncertainty and provide liquidity to the farm
Naylor and many other farmers vehemently oppose the reduction of subsidies, however it is interesting that Naylor notes “Naturally, many developing countries can’t offer even a modicum of government payments to avoid an agricultural train wreck” (Naylor, 2005, p.1). This shows that farmers are very aware of how much they rely on government subsidies, and they think it’s a shame that other governments cannot support their farmers like the U.S. However, instead of proposing ways to reduce U.S. subsidies to help international farmers, Naylor thinks that the more liberalization of trade that occurs through the WTO, the more every country around the world suffers from the destruction of food sovereignty.

Is this claim that reducing subsidies would do nothing but harm or at the very least maintain the status quo of world farming accurate? One can assess this assertion by entertaining specific studies done to address whether or not removing United States subsidies would improve the world market prices for agricultural products. The International Food Policy Research Institute recently conducted a study in which one scenario examined the effects on developed countries if one removed “protectionist measures and trade distorting subsidies by 2006 while developing countries maintain their existing policies” (Ray et al, 2003, p.37). The model shows that the much predicted price increases, failed to appear. If one looks at world corn prices, after 20 years of the model, the world price increased a marginal 3 percent, while the U.S. experienced a 9.5 percent price drop by 2020. Similarly, the price of rice rose about 1.6 percent by 2020 while U.S. prices declined 4.2 percent (Ray et al, 2003, p. 37). The study did show however, that increases did occur in the dairy sector. World dairy
prices increased a solid 19.2 percent and world beef increased by 5.2 percent. Though scholars tend to push passed these increases, it does suggest that world prices in some areas will move significantly.

Looking more specifically at the impact on the U.S, Ray shows the results of the simulation assuming the removal of all “U.S. marketing loan payments, counter-cyclical programs payments, and direct payments” (Ray et al, 2003, p. 38). Granted it is not realistic that all government payment programs be eliminated in one year, however, Ray contends that this simulation suggests that there is a dramatic change in net U.S. farm income with only miniscule differences in price. More specifically, the result is a net loss income of around $11 to $15 billion which is about 25 to 30 percent of total U.S. revenue. Farmers cannot sustain themselves under these types of cost reductions particularly if world prices remain low. Eventually, production will have to decline, resulting in the quick drop in land prices (though many disagree about the extent of this drop). Some scholars suggest that the sudden declining of revenues would force large quantities of land out of production quickly and others believe change would be more gradual as farmers attempt to adapt. Regardless of how it happens, Ray et al contend that there is little doubt that farmers will struggle as a result of the removal of subsides and the international impact is minimal, there is little reason to change the current system (Ray et al, 2003, 40).

Ben Shepherd also assesses this argument; however he does so with a specific eye towards the effect of cotton prices and reduced subsidies. He takes both a historical and current look at the differences in prices and judges, much like Ray, that the removal of subsidies would hurt many farmers while not dramatically increasing
world wide prices. He also put together an in-depth model in which he attempts to judge the worldwide effect of removing United States subsidies and other price distorters. First, Shepherd finds that historical levels of US subsidies are not particularly useful in making forecasts of current world prices. Shepherd states: “…it is quite possible to make reasonable forecasts of world cotton prices without the slightest indication as to the level of US subsidies in the past” (Shepherd, 2004, p. 22). Furthermore, what he terms the “VAR model”, can be adapted to test for the “what if” scenario. A percentage reduction is applied to per pound subsidies and 10 percent, 50 percent, and 90 percent reductions were applied. The results show that a 10 percent reduction in US subsidies has essentially no impact on the market, as simulated prices and quantities have almost no distinguishable differences from the baseline. With this said, 50 percent and 90 percent reductions did have an impact on simulated means in both the price and quantity column with world prices increasing in both cases. Shepherd makes it clear that results cannot be overstated due to the relative degree of uncertainty in the results. The confidence intervals for the reduced subsidies are rather wide at 95% and Shepherd even goes on to say that it is dangerous to conclude that the hypothesized effects are statistically significant at all (Shepherd, 2004, p.25). In conclusion Shepherds analysis does not provide much support for those who believe that cutting U.S. subsidies, even drastically, will result in an increase in world prices.

These two scholarly studies produce unpredicted results. Many have always assumed that reducing American subsidies would drastically increase the world prices so that international farmers can compete. Though these studies are in no way
conclusive, they at least require a more in depth look at the reasons scholars contend that the removal of subsidies, through the insistence of the WTO, will increase world prices and provide domestic farmers sustainable income that will last for years.

**International Impact of US Subsidies**

Now that one better understands arguments for retaining subsidies, it is appropriate to address the arguments of scholars who feel banning subsidies would have a very positive affect on the world market. When one takes a comprehensive look at the situation, contrary to the beliefs expressed above, one can see that, in the long run, trade produces many great opportunities and jobs. One can first address some of the international considerations before the domestic benefits are touched upon.

The U.S. can no longer have both subsidies and strong international trade; the world is beginning to resist (it should be noted that international debate is not only centered on the U.S. but also on the E.U.). Oxfam addresses the issue based on a legal standpoint that the U.S. and EU are not following WTO rules to reduce the amount of subsidies. Along with subsidies in cotton and sugar, the U.S. and EU have been shown to allow subsidies in products ranging from butter to orange juice, from tobacco to tomatoes, and from corn to rice, with the total illegal subsidies in this study alone amounting to $4.2 billion for the EU and $9.3 billion for the US in the time span of just one year. Oxfam wants to put pressure on the United States and the
European Union to stop these subsidies in order to promote the trade liberalization that these countries support in their rhetoric. All of the potential ramifications come from the body of the WTO (Stuart, 2005, p. 3). When asking how the WTO affects United States agriculture, one can see that it is primarily behind the removal of subsidies. The data from the United States Department of Agriculture (USDA) and data from Oxfam international shows that there is little doubt the United States employs trade distorting subsidies and this is an issue is because of the governing body the WTO forbids the amount of subsidies that Americans apply. Oxfam takes major issues with US subsidies in corn, rice, and sorghum, and implies that as many as 27 countries could bring cases to the WTO citing specific violations of the WTO Agreement on Subsidies and Countervailing Measures (Stuart, 2005, p. 4).

A more detailed analysis of corn, rice, and sorghum highlights reasons behind the claimed injustices. Liz Stuart states: “Corn is the world’s most widely used animal feed and the U.S. is its number one producer and exporter” (Stuart, 2005, p. 15). More specifically, data shows that the U.S. accounts for more than 40 percent of global corn productions and 60 percent of its exports. A little bit of knowledge of the agriculture business will show you that corn is a product that runs cheap. In fact, many farmers do not bother trying to produce it because the market is saturated. The nature of the crop is such that it is extremely resistant to many types of weather. As a result, many farmers produce corn, leaving little room for profit. Stuart claims that so many farmers continue to produce this crop because of the huge subsidies paid by the US Department of Agriculture (USDA) regardless of how much corn is produced. She accurately contends that without these subsidies, a large proportion of U.S.
production would be terribly unprofitable. Data released by the USDA shows that the average corn farmer has lost about $230 for each planted acre of corn over the past five years, this amounts to almost $20 billion in losses for the corn sector as a whole. Initially this data would suggest that U.S. farmers need to cut production of corn in order to make money, and increase the market price of corn. Fortunately for U.S. corn farmers, they do not have to cut production because they receive more than enough to make up for the discrepancy. Government subsidies have given corn farmers over $25 billion over a five year period. Data for 2004 shows that the government handed out $8 billion in subsidies allowing U.S. production of corn to reach the highest levels on record, with plantings being the highest in 20 years (Stuart, 2005, p. 15). This shows that U.S. production of corn is expanding regardless of low prices and market losses.

Stuart and economic analysis show that, U.S. production and exports of corn would be lower and world corn prices would be higher if subsidies were banned. If U.S. farmers, no longer find it profitable to produce a product, then they will be forced to diversify and reduce production. Estimates show that without subsidies, U.S.’s production of corn in 2004 would have declined by 15 per cent, exports would have dramatically reduced and world prices would have increased by 7 per cent (Stuart, 2005, 15). One can deduce that this would have had significant impacts to the global corn market. Corn producers around the world would gain about $4 billion from higher prices and Stuart claims that countries would “…benefit from increased market opportunities worth as much as $6.1 billion a year” (Stuart, 2005, p. 15). It should be said that this data is estimated costs and benefits. The U.S. did not reduce its corn subsidies so it is difficult to precisely measure the effects on the world
economy if prices would have been reduced. Other circumstances may have occurred to increase or decrease the global benefit. With this said, it is difficult to undermine the claim that world farmers would have benefited in some tangible way to decreased subsidies.

Corn is not the only crop that has a large amount of trade distorting subsidies tied to it; Stuart provides data for both rice and sorghum as well. Depending on what year you look at, the U.S. is either the third or fourth largest exporter of rice in the world and it is the largest exporter of sorghum in the world. As one could guess, the dominant trade position obtained by the United States is through subsidies. In relation to rice, in the past five years, U.S. rice has been subsidized at an average annual rate of 99 percent, equal in absolute terms to $1.2 billion a year (Stuart, 2006, p. 17). These subsidies are necessary to cover the costs of production and according to the USDA, the average cost of producing rice has exceeded market revenue every year for the past 24 years. Stuart shows that since 2000 alone, U.S. rice farmers have accumulated $4 billion in market losses. A study done by economists at Iowa State University and the University of Missouri-Columbia performed a detailed simulation of the effects of total liberalization of agricultural trade and they found that the USA’s production of rice decreased by more than 40 per cent once subsidies were done away with. In addition, exports disappeared and the United States became a significant net importer of rice. Authors, Lee and Sumner attribute this drastic change to the removal of domestic support (Lee and Sumner, 2005).

Similar to corn and rice, sorghum has obvious trade distorting subsidies. The USDA reports that the average sorghum farmer has not made a market-based profit
since 1979 without the help of government subsidies. Stuart claims that farmers would have lost over $500 on each acre planted if subsidies were not implemented. Related to the consequences of other crops, subsidy induced overproduction causes sorghum prices to fall worldwide which inevitably harms producers in countries where governments cannot give such strong subsidy support. Mexico is one such country because most of our exports travel to Mexico. However, Mexico is not alone, other farmers in other countries are adversely affected such as those in Kenya and South Africa. Stuart states: “If a removal of U.S. sorghum subsidies led to a 5 per cent increase in world prices, sorghum farmers around the world would earn an extra $200 million in market revenue. If U.S. exports declined by 50 per cent, sorghum farmers and exporters in other countries would benefit from market opportunities with as much as $280 million” (Stuart, 2005, p. 9).

Stuart’s analysis and the emphasis on potential law suits countries could bring against the United States was spawned by the Cotton case in 2002. At this time Brazil submitted formal complaints against the U.S. cotton subsidies to the WTO. To summarize the issue, Brazil claimed that U.S. subsidies on cotton violated a variety of WTO agreements and therefore demanded that the U.S. dramatically reduce these subsidies to alleviate Brazilian farming troubles. After a considerable debating period, the WTO finally recognized the validity of Brazilian claims and ordered the U.S. to eliminate illegal subsidies in order ensure the livelihood of Brazilian farmers. The World Trade Organization also stated that if the United States does not comply with their rulings, they will sanction Brazilian retaliation against the US. The WTO took
this action based on specific data supporting the detrimental effects of cotton subsidies on African farmers.

In addition to this; Benin, Mali, Chad, and Burkina Faso (known as the C4) proposed further restrictions on subsidies for not only the U.S. but other countries during the WTO Doha Round negotiations. They proposed that action should be taken to completely eliminate cotton subsidies and requested financial compensation until cotton subsidies are eliminated. The National Center for Policy Analysis (NCPA) gives convincing data to show how farmers are negatively impacted. Max Borders, a researcher at the NCPA claims: “American cotton subsidies cost sub-Saharan Africa $302 million in 2001-2002 alone…specifically, West Africa’s Burkina Faso lost 1 percent of its GDP, and export earnings declined 12 percent due to competition from subsidized U.S. cotton. The US gives approximately $3.4 billion a year in subsidies to 25,000 cotton farmers; this is more than the entire GDP of Burkina Faso. Mali’s GDP fell 1.7 percent and export earning dropped 8 percent and Benin lost 1.4 percent of its GDP and 9 percent of export earnings. This is occurring in countries where millions of people depend on cotton production (NCPA, 2006, p. 2). The International Cotton Advisory committee estimates that ending U.S. cotton subsidies would raise world prices by 26 percent or 11 cents per pound. The results: Burkina Faso would gain $28 million in export revenues; Benin would gain $33 million in export revenues; Mali would gain $43 million in export revenues (NCPA, 2006, 2). Many people are certain that would price would go up and as a result, in 2004 the WTO panel ruled that the majority of US cotton subsidies were illegal. The US tried to appeal this decision but was overruled. These revenues would arguably
help to stabilize the developing countries, reduce their dependence on foreign aid, and significantly improve the quality of life for their citizens.

A point that has not yet been touched on is the aid we give to countries like Africa. There is such a large push in the US for individuals to give money to Africa countries, yet we are essentially taking all the aid we give back by having subsidies. If Africa took in just 1% more in world trade, it would earn $70 billion more each year. This comes out to be three times more than it now receives in aid. This is shown by look at Burkina Faso. They received $10 million in aid from the US but lost $13.7 million in cotton export earnings. A country does not sustain itself by having money handed to them. Once citizens begin to take pride in their jobs they will be intrinsically motivated. If we do not allow them to engage in trade they are likely to never get out of the poverty they are in (Griffiths, 2007, p 40).

The ability for other countries to bring cases against the U.S. is brought on by membership in the WTO. If the United States did not participate in this organization then there would be considerably less pressure from other countries to comply with wishes, in addition, if the United States decided not to act in accordance with other countries wishes, there would be no real consequences. One could envision a scenario where the United States was asked by a country like Benin to reduce its farm subsidies. There would be no real consequences that Benin could implement against the United States if they did not comply. An inevitable outcome of the United States participating in the WTO is that it faces a significant amount of pressure to comply with the WTO. If the U.S. does not comply, the international community can implement trade barriers. As a result, the United States is forced to liberalize its trade
while reducing its subsidies. As was previously stated, the international community will not stand for a country that attempts to free up trade yet supports its own trade distorting subsidies. All of the data shown supports the thesis that subsidies harm international markets, and countries abolished subsidies, the world market would be more equitable.

**Domestic Impacts of US Subsidies and Trade Barriers**

The above information predominantly deals with how subsidies affect the international community; specifically the theory that prices are depressed when rich countries like the United States partakes in subsidies. While this is a very important consequence of subsidies, trade liberalization has other positive impacts that are more specifically geared toward domestic impacts. Christopher Preble et al in their article “Six Reasons to Kill Farm Subsidies and Trade Barriers” provides an interesting analysis of other reasons the United States should abolish subsidies. The first reason and they argue the most convincing argument, is lower food prices for American families. Preble et al suggest that when the U.S. government enforces subsidies, they not only raise prices so that international farmers cannot compete, they also raise prices that negatively affect the American wallet. Preble states: “According to the Organization for Economic Co-operation and Development, the higher domestic food prices caused by U.S. farm programs transferred $16.2 billion from American consumers to domestic agricultural producers in 2004” (Preble et al, 2006, p. 1). One can get a better grasp on this by looking at how much more American consumers pay
for sugar than international consumers. The “federal sugar program” ensures that domestic producers take home 22.9 cents per pound of beet sugar and 18 cents for cane sugar. This is while the world spot price for raw cane sugar is about 10 cents per pound. The General Accounting Office estimated that Americans paid an extra $1.9 billion a year for sugar due to import quotas alone (Preble et al, 2006, p. 1).

As one could guess, sugar is not the exception. Preble et al state that American families pay more for their milk, butter, and cheese, due to the federal dairy price supports and trade barriers, and they pay more for peanuts, cotton, beef, and other common products. According to the U.S. international Trade Commission, between 2000 and 2002, the average domestic price of nonfat dry milk was 23 percent higher than the world price, cheese was 37 percent higher, and butter more than double. What are the effects of these prices? It seems that the farmers are inevitably pitted against the American consumer. If one lifted the protection on sugar and allowed American consumers to pay normal market prices for that sugar, farmers would suffer, yet other low income families would be left with cheaper candy, soft drinks, baked goods, and other products that contain sugar. Preble et al argue that the farm protections inevitably act as a regressive tax as higher prices in the grocery store negate the income support the government seeks to deliver through its social welfare programs (Preble et al, 2006, p. 2).

The trade-offs of each outcome negatively affect individual groups and more must be seen before one can assess whether or not continued trade liberalization would benefit United States peoples and its agriculture.
Another benefit of removing subsidies is the lower costs and increased exports for American companies. When government intervention raises the domestic price of products, it triggers a chain reaction that produces higher costs to companies further down the supply chain. A perfect example of this deals with the raw sugar prices mentioned above. The number of sugar refineries in the U.S. has dwindled from 23 to eight in the last two decades because the price of domestic raw sugar has doubled, forcing thousands of hard working citizens out of work (Preble et al, 2006, p. 2).

Equally important in this debate and a key point to note is that agricultural reform would not only benefit sectors that specifically deal with agriculture. If one believes in the goals set by the WTO (which the United States claims it does), that trade liberalization will greatly enhance the livelihood of world in all sectors, then they will also affirm that the only barrier standing between comprehensive trade liberalization is the domestic trade inequalities rich nations employ. WTO talks have completely centered around this topic with a group of 20 developing countries demanding that more serious farm reform be enacting before any other talks of trade liberalization continued. A successful Doha round of WTO negotiations would knock down trade barriers and liberalization of trade would be well on its way. A telling study performed by Drusilla Brown at Tufts University and Alan Deardorff and Robert Stern at the University of Michigan estimated that: “Even a one-third cut in tariffs on agriculture, industry, and services would boost annual global production by $613 billion, including $177 billion in the United States—or about $1,700 per American household” (Preble et al, 2006, p. 2) They suggest that some of the counties most competitive markets such as information technology, financial services and
others would likely increase their share of global markets if the Doha Round were successful. All of this however, is solely dependent on rich countries foregoing their obvious trade distorting subsidies and barriers.

Many would argue that if any progress is made at all, then the U.S. must take the first step. This idea creates considerable adversity because people fear the United States will throw out its ability to bargain once concessions of farm reform are so easily made. To that one must respond with the answer: the U.S. is the most influential country in the world and one could bet that if they genuinely pushed this agenda, other countries, particularly some in the European Union, would follow suit. This, along with the fact that the U.S. would be doing itself a huge favor in the long run, helps to convince many that the U.S. should take the lead in agricultural reform. With all of this, one must provide a word of caution. These issues are not so cut and dry, which is partially why America has restrained from going “all in” for liberalization. If the United States were to cut all of its trade distorting benefits before engaging and convincing other countries of the idea, it could prove detrimental to the nation. The country would be left with a struggling farm industry, desperately trying to compete with other countries that deliberately employ trade distortions, all without the help of the government. Then again, it may be enlightening for the U.S. to feel the effects of its own policies first hand.

What other benefits could be seen through agricultural reform? One of the most controversial issues of the past few years has centered on how much debt the government is in. The Office of Management and Budget estimates that taxpayers paid $26 billion in direct agricultural subsidies in fiscal year 2005 which happens to
be the biggest single-year subsidy bill since 1986. This is particularly relevant because it was nine years ago that Congress promised to phase out farm subsidies by 2003.

An argument that receives less attention than others is the impact subsidies have on the environment. This moves the discussion away from trade specific arguments; however it discusses the overall impact of subsidies. The trade distortions have encouraged practices that damage the environment by stimulating production on marginal land. This leads to an overuse of pesticides, fertilizers, and other chemicals. This causes runoff that pollutes rivers, lakes, and oceans. According to the World Resources Institute, agriculture is the biggest source of river and lake pollutants in the United States. The Environmental Protection Agency (EPA) performed a study and found that 72 percent of U.S. rivers and 56 percent of the lakes surveyed suffered from agriculture-related pollution. Runoff from the Midwest has produced “dead zones” in the Gulf of Mexico and even where chemicals are not used extensively, the constant plowing creates soil erosion that can build up silt in nearby rivers and downstream lakes. Preble cites the domestic sugar production as a prime case in harming the environment. He states that sugar production that is maintained in Florida sucks up water from the endangered Florida Everglades, while pumping back phosphorous content much above the acceptable level to maintain the surrounding ecosystem. What are the effects of this? Not only has it led to the hefty reduction of algae which supports bird and other animal life, but it has also resulted in Congress spending billions to repair the damage caused to the Everglades by the sugar industry. The U.S. is throwing its money away in more ways than one.
Due to this problem, more and more farmers are calling for reduced subsidies for food and increased subsidy money towards conservation. David Fier, a farmer in Southwest Minnesota has been able to use some money from subsidies to install grass buffers along waterways and plant thousands of trees. Initiatives like these help to protect the soil that grows food. In this sense, the U.S. is still supporting farmers so that they are able to grow better crops on better land, yet it does not drive down prices world wide (Steil, 2006, p. 1). Perhaps America could gradually reduce its food subsidies while still giving money to farmers for conservation purposes. This way, world prices are gradually fixed and farmers do not feel drastic impacts.

Another important point to make about why reducing subsidies helps domestic agriculture was alluded to above: reducing subsidies creates larger markets for U.S. farmers. Preble et al argue that federal farm programs actually work against the interests of many growers. Farmers, particularly those two-thirds who do not receive subsidies, pay a large price for lost export opportunities due to high trade barriers abroad. Data shows that the average foreign tariffs that AG exporters face are several times higher than the average tariffs on manufactured products. The World Bank estimates that if global barriers to farm trade were removed, worldwide farm exports would be “74 percent higher in 2015 than they would otherwise” (Preble et al, 2006, p. 4). Analysis shows that comprehensive reform would mean an additional $88 billion in annual U.S. farm exports by 2015 and an additional $28 billion in farm imports, for a net $60 billion surplus. This is not surprising since 95 percent of the world’s consumers live outside the United States and the United States is the largest exporter of agricultural products in the world (WTO). The WTO provides some
interesting comparisons of how much U.S. agriculture relies on overseas markets. They state: “Dollar for dollar the United States exports more corn than cosmetics, more wheat than coal, more bakery products than motorboats, and more fruits and vegetables than household appliances (Trade is Important to U.S. Agriculture, 2005, p.1). Furthermore, nearly half of the United States wheat and rice crops are exported; about one-third of soybean and meat production is shipped overseas; suppliers of high-value products have seen a jump in sales since the 1980’s with nearly 70 percent of U.S. cattle hides exported; and 67 percent of the almond crop is exported. The chart below gives an in-depth analysis of the percent of domestic production that is exported as an average in 2001-2003.
All these numbers speak to one thing: the United States is becoming ever more dependent on exporting agriculture. The Office of the United States Trade Representative states that one of every three U.S. acres is planted for export, and exports support 926 thousand jobs in the U.S. (*Trade Delivers Growth, Jobs, Prosperity and Security at Home*, 2006, p. 1). Exports create jobs, and they help to sustain agriculture. It is true, the immediate effects of reducing subsidies would be felt by farmers, however the longer term benefits would drastically increase the trading market for U.S. farmers, resulting in more exports and more profits.

When one looks at the aforementioned data, it is difficult to argue that reducing subsidies is a bad thing for both the domestic and international communities. It seems that while some forecasts may predict little change, majority consensus rests on real change for reduced subsidies. Even the United States government supports the idea. With this said, one must remain sensitive to the fact that in the short term farmers will struggle and programs need to be implemented to reduce some of the financial difficulties they will face as the United States complies with the WTO and increases trade liberalization.

**Case Studies**

One might think that there is a considerable difference between what scholars think about subsidies and how farmers may react to removing subsidies. As we have seen throughout this paper, the majority of scholars believe that farms subsidies are
bad for the United States and for world farmers. As U.S. farmers continue to get billions of dollars in aid every year, it pushes out smaller farmers internationally. If we understand that debate, then it would logically follow that the farmers receiving the money do not want to give up that money. Data tells us that though they may get lots of money every year in subsidies, farmers, in many cases, are losing more than they are getting so they need the money to sustain their business.

I had the chance to interview 4 farmers over the past few months to understand a little more about what farmers think on this topic. It should be noted that this was a very small case study and admittedly so, it is very difficult to make any large generalizations from my results. With that said however, I believe there are some important issues that can be addressed. I asked questions regarding their thoughts on the WTO, farms subsidies, their perceived effect on international farmers, domestic consequences, and if they thought they could survive without subsidies.

John\(^1\) has a bachelor’s degree in agriculture economics from Cornell University and a masters from Ohio State University in agriculture business management. He grew up on a farm and has been interested in the industry all his life. He is currently a full time farmer, primarily farming corn, soybeans, wheat, and some vegetables. He farms a total of 1,700 acres a year.

We began the discussion trying to think about how the government has progressed in how they give subsidies. John said that the government used to pay a farmer to not produce 15% of available acres. This was with the understanding that if you cut acreage, you cut production, driving down the price of product. The result

\(^1\) Name changed for privacy
was that farmers set aside the worst 15% of their crop. Per unit, that bumped up production because you generally could not do much with that crop anyway. Farmers made out great with this system because they would produce almost the same amount of produce while at the same time receiving money from the government. The program was completely ineffective, as production was not cut back much; farmers were given money in addition to the slightly lower production of normal crop they would have sold. They were able to concentrate more time on less acreage and sell just under normal crop tillage. This slightly increased price, so farmers made as much as they would have normally in addition to government subsidies. They were able to take the extra money and invest in their business which allowed it to grow and become more efficient. The direct outcome was that smaller farmers were pushed out of the system. Eventually the government came back and said that it was not good to control acreage and they briefly discussed removing subsidies. Instead they decided to pay based on amount of bushels you produced. Unfortunately, this still did not get rid of the inequities of the system. There are basic costs that it takes to set up and farm 100 acres of land. After that set up cost, it becomes more and more efficient to produce crop. Under the new and current system, the smaller farmers will work to make up some of that money they spend on production, but the larger farmers will actually work towards making a profit because if you produce more, you get more.

As discussion progressed, we started to touch on some of the domestic impacts of subsidies. He said that the grain industry has continually moved to be more efficient. As subsidy money comes into the larger farmers, they naturally have an edge when it comes to more machinery to produce grain more efficiently. As John put
it “we got bigger equipment because it was more efficient, so we had to have more land, so the smaller guys get pushed out. There is an economy of scale and there is a real size factor involved. You can’t stay the same because if you are not going forward you are going backward because everything else is going forward.” John was essentially saying that the smaller farmers have a more difficult time keeping up in the market these days because they are not receiving subsidies to make up for losses. As a result they are not able to buy equipment, and they inevitably get pushed out. John notes that this is an unfortunate outcome but it is unavoidable if the government wants to maintain adequate food production in the U.S. If the government tells the smaller farmer that they will get money, while the larger farmer does not, the large farmer goes out of business, drastically reducing crop in the U.S.

One common theme that came up in many of the interviews was whether or not farmers thought subsidies were ever going away. All the farmers said that they did not think they would ever go away. They all had the impression that the farmers had very powerful lobbyists working for their cause. One of the farmers mentioned that Iowa is the state of one of the first primaries. Every candidate wants to make sure they have a good showing in Iowa and it would be a disaster if someone ran on reducing subsidies.

There were two major arguments that farmers stated for keeping subsidies. The first was posed as a question: “does society want to have the land sit idle because it is not profitable to do anything with it?” From the farmer’s perspective, it would be sad to have all that land not be used because it could produce so much food. They would argue that while it is not profitable at this time, we do not want to rely too much on
international farmers. If the U.S. were to depend on other countries for its food
source, that gives other countries significant political clout over the United States. No
longer is the U.S. a completely independent country that is self sufficient. The
farmers believed that the American people would react poorly to this type of policy.

The other argument farmers made to keep subsidies was that it is a fact that
other countries do not have the same food restrictions the US puts on its foods. One
farmer gave the example of when grapes from Chile came over a few years ago
covered in a substance that was banned in the US. In addition to political clout other
countries would gain, they would also have the potential to harm our citizens because
of unsafe fertilizers and pesticides.

While farmers did agree that subsidies would never be going away, surprisingly
enough, they all said that as long as we got rid of all subsidies world-wide, they
would actually be in favor of such policy. The largest farmer I interviewed received
about $70,000 in subsidies a year. He stated to me:

“I don’t need the subsidies. If they were gradually removed, it would open up
my market and allow the price to increase. Yes some farmers would struggle, but, our
system is broken and subsidies are doing nothing to fix it” (New York Farmer).

This came as a pretty big surprise, but as stated, this farmer was not alone in the
belief. While many farmers were optimistic about the ability of the US to keep up
with world competition even if others did not cut subsidies, they believed it would be
a large strain on many farmers. One farmer state: “I think I could survive without
subsidies. There have been years when government subsidies have exceeded 100% of
my income.” The farmer went on to say that he had understood that he would not
make a substantial amount of money that year; however he decided to produce
knowing that the government would pay him what he might lose. Farmers generally
believed that it would be wise to cut subsidies to let the market do the work. Many of
the farmers stressed that it all comes down to comparative advantage. If we
completely eliminated sugar subsidies, there is no way sugar would be produced in
this country. The world price of sugar is so much cheaper because they us labor that
has almost no cost. They believed that this would wipe out the US sugar industry.
They then posed the question, “would this be bad.” Naturally we will have some
specific crops lose production because the U.S. does not have a comparative
advantage in those areas, but we would be more efficient and focus in on the crops
that we produced well.

Some of the farmers produced soy beans and they openly admit that Brazil will
soon be able to ship soy beans cheaper than they can. “You essentially have the
Amazon River VS the Mississippi. The sheer size of the Amazon gives Brazilians a
natural comparative advantage” (New York Farmer). Farmers realize this and I was
under the impression that they were still comfortable competing in other markets if
they could not compete in soy.

In conclusion, the farmers I interviewed tended to send a few mixed messages.
Every one of them told me that they could survive without subsidies. Yet they
mentioned that other farmers could not. In fact, one of them went as far as saying that
it would be a “blood bath” if subsidies were removed. There was a significant
disconnect between how subsidies hurt them to how it would harm others.
Additionally, when I pressed to understand why it would be so hard for other farmers
and not them, they found it difficult to come up with a sufficient answer. As we discussed subsidies in further detail, all of them agreed not only that they could survive without subsidies, but that we should remove them so that we could let the market work. This removal would have to come through a gradual plan of reduction, however all the farmers agreed that it was something that needed to be done.

I am unsure exactly why these seemingly contradictory ideas are so prevalent. There are two potential reasons that one can deduce. First, the farmers are consciously being misleading about their ability to sustain themselves without subsidies. One may due this because they are prideful of their farms and do not want to admit weaknesses. The second is that everyone is able to survive without subsidies and farmers are unwilling to come out and say it. Either way it seems that for the time being subsidies are here to stay.

**Do As I Say, Not As I Do**

At this time, it might be beneficial to take a brief look at the past decade and how subsidies have changed with pressure from the WTO. Before 1996, subsidy levels were set by a formula that triggered an increase when crop prices fell. In 1995, crop prices began to rise, so the federal government began to reduce payments. The Freedom to Farm Act was passed in 1996 with the goal of ending the price support program, replacing it with a declining fixed payment that was unrelated to market prices. The plan was to reduce payout from $5.6 billion in 1996 to $4 billion in 2002, and then disappear. Congress reversed this course in 1998 when crop prices began to decline. There was a lot of pressure to pass some sort of legislation to help farmers
sustain their high levels of productivity. In response, Congress passed an emergency supplemental bill that raised total farm subsidies to $12.4 billion. Handouts were given from 1999-2002 and these resulted in a total of $57 billion more than the Freedom to Farm Act of 1996 originally intended (Preble et al, 2006, p. 3).

In addition to the handouts given up until 2002, in 2002 the President George W. Bush signed a six year appropriation that revived the old price support program. The United States Department of Agriculture (USDA) states: “The 2002 Farm Bill provided a total of $176 billion in farm-related assistance, a 74-percent increase over the assistance the previous Farm Bill would have provided in the absence of any additional emergency assistance” (The U.S. WTO Agriculture Proposal, 2002, p. 3).

The process that led to the passage of this bill was quite complex and lengthy. The very first bill was introduced on September 10, 2001 and it was submitted by Rep. Larry Combest of Texas to the House of Representatives. This was after considerable pressure from farmers to increase subsidies for their farms. After that, the attacks on the World Trade Center occurred, so debate picked up again on the 19\textsuperscript{th} of September. This is particularly relevant because there was much criticism from House members that the bill was simply too expensive in a post 9/11 economy and it would lead to overproduction on land. To combat this, Rep. Ron Kind from Wisconsin introduced an amendment that would shift $19 billion to conservation measures so we would not have as much overproduction. Combest threatened to pull the bill if that amendment passed, which it did not. Then on October 5\textsuperscript{th}, the House version of the bill passed (H. R. 2646, July 2001).
The Senate first heard debate on December 14th after considerable pressure from what has been termed the “eggplant caucus”. This was a group of senators led by Patrick Leahy that wanted to push through the farm bill while seeking more equity in conservation. Other notables who served on this committee were Hillary Clinton, Charles Schumer and Harry Reid. After much lobbying and discussion, the senate passed a 5 year version of the bill on February 14th 2002 (S. 1731, 2002).

As one could imagine, there was much reconciling to be done between the House bill and the Senate bill. On March 19th, after about two weeks of closed door negotiations, the House agreed to set aside about $17 billion for conservation. On the 26th of April, the two chambers also agreed to set a cap on subsidies given to one person (not one business) at $360,000. The total expected cost was about $190 billion over the next ten years. May 13th marked the day that President Bush finally signed the “Farm Security and Rural Investment Act of 2002 into law (Congressional Report, 107, 2002).

As a direct result of the 2002 Farm Bull, the calendar year of 2005 reached record highs which ultimately led to tax payers shoveling out $55.5 billion from 2002-2005. Many argue that this type of funding needs to occur in order to save the smaller farmers who are struggling in business. Unfortunately two-thirds of American farmers don’t even receive subsidies with the top 10 percent of all subsidy recipients taking up 68 percent of the money. Those that are given this money are large agribusinesses and the richest family farmers. Even more surprising is that 5 percent of these companies take 55 percent of the funds (Preble et al, p. 3). Preble uses the example of Riceland Foods in Stuttgart, Arkansas, who happens to be the largest
single recipient of “farm welfare.” In 2003, they received $68.9 million in subsidies for producing rice, soybeans, wheat, and corn which is more than all the smaller farmers in Rhode Island, Hawaii, New Hampshire, Connecticut, Massachusetts, Maine, Nevada, Alaska, and New Jersey combined. The second largest recipient is also from Stuttgart, Arkansas: Producers Rice Mill. The problem is all of this funding is being given to farmers but there are no programs put in place to help farmers become independent of subsidies. As a result, nothing will ever change in the industry. The question must be asked, are taxpayer dollars being used to benefit as many Americans as possible, or are specific companies controlling the market in subsidies? One might suggest that $55.5 billion could be used for a greater good, such as restructuring the farm industry so that farmers will not be so damaged if subsidies are dramatically reduced to comply with the WTO.

Daryll Ray et al provide a similar thesis. Ray asserts that the 2002 Farm Bill essentially guarantees the continuation of low agricultural prices, resulting in compensation for American farmers for unsustainable prices through direct government payments. Ray assesses the 2002 Farm Bill in more detail and asks what the implications for farmers are as subsidies continue to raise. Based on the 2003 U.S. baseline for the agricultural sector provided by the Food and Agricultural Policy Research Institute (FAPRI), a simulation was formed to project the performance of the U.S. agricultural sector under the continuation of the “status quo” in U.S. farm policy (Ray et al, 2003, p. 33). Continuation of current trends show that acreage planted to the eight major crops will remain fairly constant, varying only about a half a million acres from 2003-2011. Likewise, the 2002 Farm Bill will also result in
relatively constant net farm incomes that would range between $46 billion to $53 billion. The primary reason for increases in net farm incomes is due to rising prices and larger government payments and conversely, lower net farm incomes that are seen later in the simulation are the results of a leveling of prices and reduced government payments. Since prices to not show any dramatic change throughout the period, it is natural that government payments continue to be a significant help to farm income. What implication does this have? It shows that the 2002 Farm Bill, absent any major unanticipated supply or demand shifts, will continue to place large budget restrictions on a government that literally cannot afford to support programs that drain budget dollars without fixing the problem. Ray accurately states it will “compensate US farmers for low prices…yet government subsidies will do little to relieve the economic stress in the U.S. agricultural sector and in rural areas in general” (Ray et al, 2003, p. 33). The bottom line is that the U.S. has a very expensive band-aid for a very big problem. All the while, it is offering little way of improving the economic welfare of farmers in developing countries whose “revenues are either threatened by low-priced imports, or whose revenues are curtailed by the woefully inadequate prices for their exports” (Ray et al, 2006, p. 34). Ray is essentially asserting that due to the 2002 Farm Bill which keeps large subsidies, domestic and world issues will remain in the same shambles they are in now.

When the U.S. was enacting the largest farm bill ever, it was also in negotiations with the WTO to remove world-wide subsidies. In 2002, the United States proposed legislation to do just that. The WTO reports that the United States proposes using a formula to limit all countries’ use of trade-distorting support to 5%
of the total value of agricultural production with reductions taking place over a 5 year time span. In addition, the U.S. proposes that WTO members agree on a specific date in which the elimination of all trade-distorting subsidies would be initiated (The U.S. WTO Agricultural Proposal, 2005, p. 3). This has been proposed due to the Doha Development Agenda that was agreed upon in March of 2003. During this, the United States and the other members of the WTO agreed on the importance of agricultural trade and they set ambitious agendas and timelines for the reform in agriculture. The new U.S. proposals are stated with this agenda in mind. The USDA states that they push trade liberalization because it benefits all countries. The reduction of subsidies increases world prices so developing farmers can compete and it also increases global trade exports by 30 percent (Trade is Important to U.S. Agriculture, 2005, p. 2). Some recent developments in the latest trade talk Doha round was that the US seemed to agree to eliminate subsidies by 2013. Additionally they offered least developed countries, “…free access to rich-countries’ markets for at least 97% of their goods” (Griffiths, 2007, p. 36). America also gave West Africa’s cotton producers hesitant pledges that it would reduce domestic cotton subsidies more quickly than other agricultural products.

As we have seen, the United States sets very different goals for itself. As mentioned above, the United States has done little to reduce the amount of subsidies it gives out in the past four years, if anything they have increased a great deal. According to the Office of Management and Budget (OMB) the President has just recently tried to set up a plan to reduce the subsidies that are given out in order to increase program savings. The OMB reports that farmers have experienced a strong
increase in income over the past three years with net farm income at $85.5 billion in 2004 (a record high), $83.2 billion in 2005 and forecasts suggest that U.S. agricultural exports are going to reach a record $64.5 billion in 2006. Nevertheless, the OMB notes that commodity subsidies are expected to continue to be significant—near record highs in 2005. Due to the growth of the agriculture industry, the Administration is proposing to make a few cuts to reduce agricultural spending; however these cuts are not even in the same ballpark as the cuts the US recommended for the WTO. Over a time span of 10 years, the OMB reports that the Administration would like to reduce all crop payments to farmers by five percent through calculating the cumulative effect of marketing loans, direct and counter-cyclical payments and the Milk Income Loss Compensation program. In all, total savings would be about $4.9 billion over 10 years. In addition they will require the dairy price support program to minimize expenditures saving $578 million over 10 years. They will also “reduce crop insurance premium subsidies for farmers and lower the amount paid to reimburse insurance companies for administrative costs. This would require all producers receiving direct crop payments to purchase crop insurance. The changes are expected to eliminate the need for ad hoc disaster assistance,” a total savings of $1.26 billion over 10 years (Focusing on the Nations Priorities, p 4). These are some examples of how spending will be decreased and one can see that the sweeping changes proposed to the WTO are hardly accounted for in this data.

Conclusion
The fact that the U. S. is not seriously pursuing the trade liberalization that it publicly supports, begs the question, how invested is the United States in removing subsidies? A partial answer may have been given at the latest round of trade talks in Geneva. Philip Clarke reports in “Farmers Weekly” that the USA’s inflexibility in negotiations grinds WTO talks to a halt. Clarke states: “The refusal of American negotiators to give any more ground on their domestic farm supports is being cited as the main reason for the collapse of crucial world trade talks in Geneva last weekend” (Clarke, 2006, p. 1). As referred to above, the talks in Geneva were a follow up to agreements that were made during the Doha Development and many were optimistic about the real implications negotiations during the Geneva round could hold.

Unfortunately, after 3 days of talks, WTO director general Pascal Lamy declared the talks in a crisis with the EU seeming to be one of the only countries willing to budge in negotiations. Peter Mandelson said that the EU markets were prepared to move closer to developing countries’ demand for a 52 percent average tariff cut compared to the 38 percent offered last October, however the US showed no flexibility in reducing its trade distorting domestic farm supports any further (Clarke, 2006, p. 1). This should come as a significant surprise due to the fact the U.S. was one of the strongest verbal supporters of these talks and suggested 2 years ago that talks move quickly.

The South African president, Thebo Mbeki recently criticized the U.S. and EU for engaging in “empty rhetoric.” Mbeki states that the U.S. says it will end farm subsidies but only if the EU does, so no real negotiations ever happen (Beattie, 2006, p. 1). In 2005 President Bush said that the U.S. would remove all subsidies if other
countries followed suit, however, they U.S. refuses to be proactive in any type of approach. The result is that the U.S. is widening its international rift in agriculture (Becker, 2002, p. 2). In one sense, it can be understood why the U.S. is dragging its feet for it is not easy to be the first country to implement real change. However, the USDA and OMB have released so much data that shows great benefits to U.S. agriculture, and as seen above, scholarly scholarship overwhelmingly supports the removal of subsidies, that it is slightly confusing as to why the United States does not buy into the approach.

Perhaps a reasonable guess relates to the early studies mentioned that oppose the removal of US subsidies. It may be that the U.S. government is wary of the removal of subsidies due to the uncertainty of export production increase and the rise of world prices. If those two factors do not increase as much as predicted (and predictions tend to be unreliable), then the U.S. farmers would be faced with a real crises. The industry would take a large hit, and many farmers would be put out of business. With this understanding, one can not claim that reducing subsidies is an easy task by any means. There are real implications to the drastic cuts that would be made to domestic farmers. In many ways, farmers often feel that their interests take a backseat to the broader WTO goals of trade liberalization because of the potential implications of reducing subsidies. Whatever decision is made, it is safe to say that no support system is beneficial if it does not fix the problem. Agriculture needs to be restructured in a way that farmers can begin to be more independent of subsidies so that problems can be fixed, subsidies can be reduced, and the world can benefit. There is strong evidence to support the thesis that subsidies hinder domestic and
international development and it is time for the United States to take serious steps to rectify the subsidy issue. If not, international farmers will continue to struggle in the face of U.S. subsidies. In addition, the U.S. agriculture business will remain in the crisis it is with small farmers being overrun by big corporations, and big corporations only competing because of the billions of dollars of subsidies the U.S. gives to them. Many argue that if subsidies are eliminated, in the long run, farmers will face more competition from international farmers, however, exports will increase drastically causing a large surplus. This action could make the U.S. farmers much more independent, save the U.S. government billions of dollars, and greatly benefit countries around the world as their farmers try and compete for their lives.
References


