The governments that belong to the Organisation for Economic Co-operation and Development (OECD) gave $311 billion in subsidies to their agricultural sectors in 2001 (the last year for which data are available), which was down from $329 billion (in 2001 dollars) in 2000.1 (See Figure 1.) Three quarters of these subsidies went directly to farmers, while the remainder supported food welfare, agricultural research, and government agriculture departments.2

Governments subsidize farmers in two main ways: through direct payments (based on production, acreage, or head of cattle, for example) and through price supports for various commodities. Although politicians generally argue that these subsidies provide a social safety net for rural communities and assure domestic food security, the way in which subsidies are distributed can actually undermine rural areas.

Moreover, economists argue that these payments distort production and trade, since they encourage farmers to produce more than the market demands. At the same time, the least distorting payments—those targeted at poorer farmers or payments to encourage farmers to improve their environmental performance—remain just 1 and 3 percent of support in OECD nations, respectively.3

On average, farmers in OECD nations received 31 percent of their income from government subsidies in 2001, compared with 38 percent in the mid-1980s.4 But the share varies widely—from 4 percent in Australia and just 1 percent in New Zealand, which eliminated almost all farm subsidies in the 1980s, to 60 percent or more in Iceland, Japan, South Korea, Norway, and Switzerland.5 In the European Union (EU), farm payments account for 35 percent of farm income, compared with roughly 20 percent in Canada, Mexico, and the United States.6

The average OECD farmer received $12,000 in farm payments in 2001, ranging from a high of $35,000 in Norway to under $1,000 in Mexico, Poland, and Slovakia.7 This measure is misleading, however, since in all countries the distribution is highly skewed toward the largest producers.8 Because they are tied to production, the payments also tilt the table toward the largest and wealthiest farmers, putting smaller, family farmers at a competitive disadvantage.9 A 1995 analysis showed that the largest 25 percent of farms in the European Union got nearly 90 percent of total support.10 And the largest 10 percent of U.S. farms are due to receive two thirds of the estimated $125 billion in farm payments distributed over the next decade.11

Several nations have recently adjusted their agricultural policies to try to help small or disadvantaged farmers more.12 For instance, Hungary increased per acre payments for small farmers, while keeping them the same for larger farms, and Turkey now gives payments on a maximum of 20 acres.13

Because most farm subsidies are tied to the production of a handful of commodities—such as corn, soybeans, and beef—the payments help encourage farms that are low in diversity and high in agrochemical use, and they inhibit the adoption of resource-conserving practices. Farmers interested in diversifying out of the few crops that receive support lose a significant source of income.14 A study of cropping patterns in South Dakota over the past half-century found that federal subsidies that gave disproportionate support to corn, wheat, and soybeans encouraged less diverse fields and fewer rotations.15

Governments give other types of subsidies to agriculture—for irrigation water, fuel, and agrochemicals—beyond the payments included in the $311-billion OECD estimate. The U.S. government provides an estimated $5 billion in irrigation subsidies each year.16 One analysis estimated that agriculture costs $250 billion more in annual subsidies worldwide in the form of soil erosion, pesticide pollution, and other “externalities” that farmers do not have to pay for.17

Instead of making payments to farmers directly, many nations support farmers indirectly by purchasing food to distribute to poor consumers at reduced prices through welfare programs, for instance, or school meals. The United States spent $34 billion on domestic food assistance in 2001.18 In 2001, India spent...
High Farm Subsidies Persist

$2.8 billion on subsidies used to buy food for government ration shops and public storage, in addition to $1.8 billion on fertilizer subsidies given to farmers and fertilizer makers.\textsuperscript{19}

Even poorer nations have some subsidies, although none on the scale of the United States, Europe, and Japan. In 2001, Mexico paid farmers $6.5 billion in subsidies, and the government recently proposed a $10.25-billion subsidy package for 2003, partly to help farmers cope with subsidized U.S. crops.\textsuperscript{20} In late 2002, in an effort to reduce herd sizes in the face of a regional drought, Namibia approved a program that would give farmers a $1.25 subsidy for each cow slaughtered—but this compares with $30–166 per cow in the European Union.\textsuperscript{21}

Citizens finance farm subsidies not only through their taxes but also when price supports inflate food prices. In 2001, consumers in OECD nations paid roughly $137 billion more for food as a result of support for agriculture (lower than the $245 billion in the mid-1980s and $152 billion in 2000).\textsuperscript{22}

Ironically, while subsidies can push food costs up domestically, nations and food exporters can dump the subsidized commodity on the world market and drive prices down, squashing local production in foreign nations.\textsuperscript{23} Recent studies estimate that subsidies pull the price of U.S. and European crop exports to 20–50 percent below the cost of production, exerting substantial downward pressure on world market prices.\textsuperscript{24} Beyond payments to farmers, the EU spent about $3 billion in 2001 on export subsidies (to reduce the price of exported goods and make them more competitive on the world market), and the United States spent roughly as much on export credit guarantees (to help foreign nations buy American farm goods).\textsuperscript{25}

Despite the rhetoric about reducing subsidies as part of World Trade Organization negotiations on agriculture and in order to make farming “respond more to market signals,” most OECD nations have made only minor adjustments to their farm subsidies.\textsuperscript{26} In the United States, the 2002 Farm Bill will actually increase farm payments above previous levels.\textsuperscript{27} In Europe, where farm subsidies make up half of the EU budget, governments appear to be gradually reducing farm subsidies per country in order to improve the environmental performance of agriculture and as part of the expansion of the Union.\textsuperscript{28}

France is considering shifting 20 percent of all farm payments toward rural development and ecological farming programs in coming years.\textsuperscript{29} France and Germany, the two biggest recipients of EU farm aid, will receive less aid over the next five years in order to finance payments to 10 new members starting in 2004.\textsuperscript{30} And high-ranking Cabinet ministers in the U.K. government recently called for Common Agricultural Policy reform as a way to reduce the burden on taxpayers, improve the environmental performance of farms, and lower the damage to farm economies in developing countries.\textsuperscript{31}
Notes

HIGH FARM SUBSIDIES PERSIST (pages 96–97)

2. Ibid., p. 158.
3. Ibid., pp. 23, 32.
5. Ibid.
6. Ibid.
7. Ibid., p. 164.
10. OECD, op. cit. note 8, p. 18.
12. OECD, op. cit. note 1, p. 17.
13. Ibid., p. 17.
17. Ibid., pp. 46–47.
18. OECD, op. cit. note 1, p. 150.
20. Figure of $6.5 billion from OECD, op. cit. note 1, p.