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Global Agricultural Subsidies Near $500b, Favoring Large-Scale Producers

Government intervention in agricultural markets is growing around the world, benefiting large-scale industrial farming, hurting poor countries and limiting crop diversity.

By Carey L. Biron @clbtea | *March 22, 2014*

A Thai official takes photograph of rice sacks during an inspection of rice stockpile at a warehouse in Pathum Thani province, central Thailand. Thai government said last week that it will pay farmers 12,000 baht ($389) per ton of rice, compared to the current price of 15,000 baht ($486), to reduce the losses from the 2011-12 subsidy program. The changes were in response to public criticism of the $4.4 billion loss incurred by the subsidy program, a flagship policy of Prime Minister Yingluck Shinawatra's government to win support from Thai farmers. (AP/Apichart Weerawong)

WASHINGTON — Government interventions in agricultural markets are continuing to grow internationally, despite widespread acknowledgement that these practices tend to be biased in favor of industrial-scale production, undercutting smaller producers and poor economies while often exerting negative impacts on the environment.

Farmers in the world's top 21 food-producing countries, responsible for nearly 80 percent of global agricultural markets, received about $486 billion in public support in 2012, the most recent year for which data is available. Further, nearly all of these were industrialized countries, with two-thirds constituting the membership of the Organization for Economic Cooperation and Development, a grouping of rich countries that includes the United States and which put out the data.

The OECD has reported that after declining to historic lows in recent years, agricultural subsidies are now rising again, currently accounting for 19 percent of output across all of the group's membership. These figures are much higher in some countries, with Norway, Switzerland, Japan and Korea all supporting more than 50 percent of agricultural output (U.S. support stands at around 7 percent). China, meanwhile, outweighs much of the rest of the world in total payments to farmers, offering some $165 billion a year.

According to new research from the Worldwatch Institute, a think tank here, the developed countries of Asia, Europe and North America make up 94 percent of all subsidies worldwide.

"Subsidies handicap Third World countries by allowing the industrial world to put a lot of money into their own sectors. Even though the comparative advantage should be for the developing world, subsidies handicap poor countries in terms of imports versus exports," Grant Potter, the new report's author and a development associate at Worldwatch, told MintPress News.

"Between 2002 and 2008, the world's Least Developed Countries saw food imports jump from $9 billion to $24 billion per year. The more subsidies are used in the developed world, the less the developing countries are able to create a native agriculture system that can compete with low prices."

No safety nets

The OECD has long recognized the negative impacts that can arise from long-term state intervention in the farm sector. In its most recent analysis on the trends in agricultural subsidies, looking at the 2012 data in particular, the OECD warned that the issue should "receive more attention."

"Further de-linking of farm support and production is necessary. Even where a large share of support is now delinked from production, payments tend to be based on past entitlements or on farm area, and as a result favour the largest farms," the OECD noted in the report released late last year. "There is considerable scope to re-orient spending towards specific goals such as those related to low incomes, rural community well-being and environmental sustainability."

Government interventions in the agricultural sector can take many forms. The three most common involve payments made directly to farmers, broader state-backed insurance programs in case of crop failure and various means of artificially inflating crop market prices. While none of these approaches are inherently negative, the OECD has suggested that much of a subsidy's broader impact is based on how smartly it is tailored.

Certainly, the idea that state monies are propping up, or even favoring, the largest farms runs directly contrary to a central rationale offered by governments for such interventions: that they are protecting small-scale farmers. Yet Worldwatch noted that this justification is belied by the way in which the most common subsidies are structured.

"Subsidies like direct payments and crop insurance are criticized as not being safety nets for poor farmers, as is their stated purpose, but rather a way for wealthy farmers to get richer," Potter's report, released last week, stated. "The direct payment policy of the [European Union] … is distributed by the hectare – so that farmers who own or rent more land receive greater financial benefits."

In the name of food security, the subsidy system will often urge farmers to grow a few particularly widely used commodities. But in so doing, government support could be inadvertently, but directly exacerbating agriculture-related environmental problems.

"By predominantly funding a few staple crops for the largest farms, subsidies support industrial-scale operations," according to the Worldwatch report. "These factory farms tend to lack crop diversity, which over time saps the soil of nutrients and in turn requires substantial use of artificial chemical inputs like fertilizers and pesticides."

Perhaps most importantly, subsidies don't appear to be effective in achieving the broader aim of stabilizing food prices.

"It's pretty ironic but, during the major food crisis in 2008, subsides were maintained at their current levels and food prices shot up regardless, almost as if they two aren't correlated at all," Potter said.

"Even weirder, farmers made record profits that year — after all, in addition to receiving government funds, food prices were also going up. In this sense, this practice is distorting the economics of agriculture. You want to keep food prices low, but subsidies aren't working in that way."

U.S. consolidation

The U.S. just came to the end of a renewed round of debate over its own agricultural subsidies. Temporary agreement at the end of last year allowed Congress to finalize a contentious new legislative package for the country's agricultural sector. Colloquially known as the farm bill, this massive piece of legislation ended up cutting longstanding direct payments to U.S. farmers totaling some $5 billion a year.

This move has been lauded by both critics of this approach as well as fiscally-minded legislators. Yet the farm bill negotiators simultaneously chose to expand the federal government's crop-insurance program to around $9 billion a year. These supports would kick in following crop failure or if prices fall below a certain threshold.

While Worldwatch's Potter said this change was likely made due to longstanding criticism of direct payments, he cautioned that the incentives are still weighted toward larger farmers. "Roughly the same people are still getting this money," he said. (President Barack Obama's recently released budget proposal for the upcoming fiscal year would trim this program in multiple ways.)

Analysts have further pointed out that, like many other agricultural subsidies, the U.S. crop-insurance program is poorly structured. In part, it provides weak or even dangerous guidance for farmers in choosing which and how much of a crop to grow. Indeed, farmers can often make better profits from insurance returns following a failed crop than they can in a normal year, potentially leading to overproduction.

Further, in the past U.S. crop insurance has been tilted in favor of industrial-scale operations. In 2012, the Environmental Working Group, a watchdog group here, examined more than a million Department of Agriculture documents, obtained through Freedom of Information Act requests, relating to crop insurance.

EWG researchers found that insurance benefits "are concentrated in the hands of a small number of large farming operations," with the bottom 80 percent of policyholders — almost 400,000 farmers — receiving only around $5,000 in 2011. A tiny fraction of the largest operations, however, were found to have received between $100,000 and $1 million per operation. Indeed, two dozen received even more than that, though none of the names of these operators have been released.

"The eye-opening analysis shows crop insurance is not only very expensive, but also very, very generous to large and highly profitable farm businesses," Craig Cox, EWG's senior vice president of agriculture and natural resources, said at the time. "Now the public needs to know who they are."

Meanwhile, U.S. agriculture continues to see a striking consolidation in ownership. An estimated 400 million acres of farmland in the U.S. will likely change hands over the coming two decades as older farmers retire, even as new evidence indicates this land is being strongly pursued by private equity investors.

A report published last month by the Oakland Institute, a California-based watchdog group, tracked rising interest from some of the financial industry's largest players, including bank subsidiaries (the Swiss UBS Agrivest), pension funds (the U.S. TIAA-CREF) and other private equity interests (such as HAIG, a subsidiary of Canada's largest insurance group).

"As farmland ownership concentrates in the hands of fewer owners, we have seen a decline in the vitality of rural economies, job opportunities and wealth creation on the ground," Severine von Tscharner Fleming, a farmer and co-founder of the Agrarian Trust, a group that helps new farmers access land, told MintPress.

"If the farm bill were doing what we wanted it to, it would be aligned to our collective best interest: pointing agricultural practice in the direction of diversity and increased regional resilience, and welcoming a variety of scales of farming. At the moment, that's not what's happening."

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