

Our crazy farm subsidies, explained

By [Amelia Urry](#) on Apr 20, 2015

Nearly every industrialized nation on Earth subsidizes agriculture to some extent. It's a way to make sure production stays high, and prices stay low. It's just a matter of figuring out how to make it work — and that's where things get tricky. Right now in the U.S., we subsidize certain crops pretty heavily. These are things that can be shipped and stored easily, and traded in international commodity markets.



But because of the way we manage our subsidies, we end up with [A LOT of corn](#). In 2010, U.S. farmers produced 32 percent of the world's corn supply on 84 million acres of farmland, raking in a cool \$63.9 billion. Most of that corn goes to non-“food” sources — either to feed livestock or to feed our cars, in the form of ethanol.

It's hard to say how good any of this is for our health, our economy, or the climate. So why do we spend so many taxpayer dollars on corn and not, say, organic brussels sprouts? And where do those subsidies come from anyway? To find out, we'll have to start at the beginning ...

Once upon a time, in a land far away (well, in lots of places, but for our purposes let's call it the early 20th century and here in the US of A), farms were having a hard time. That's sort of just what farms do: Sometimes they have very good years, other times they have very bad ones, and there's not a lot of room between the two. Economists call it the “Farm Problem” — you have inelastic demand (you need to eat how much you need to eat) faced with an inelastic supply (you grow how much you grow).

Let's say you, like so many American farmers, grow corn. (Why wouldn't you? It's a sturdy crop with a high yield after all.) During the good years, you can grow A LOT of corn ... but since everyone else is doing the same, there is so much of it on the market that the price crashes and you might have to sell your crop at a loss. And during the bad years, you might struggle to grow much at all ... so while the price goes up, you don't have a lot to sell.

The early 1800s brought boom times for U.S. farms: Pioneers moving west were snatching up new farmland and growing so much corn they hardly knew what to do with it. For one thing, they made whiskey — and lots of it — because it added value to cheap corn, and it was easy to transport and store. As a result, the average American man in the 1820s drank FIVE GALLONS of hard liquor a year (compared to less than a gallon today) with the attendant health and social problems you might expect. Meanwhile, farmers were over-planting the land they had, setting the stage for bad times to come.

Sure enough, those times came in the 1930s. Farm production had spiked in the previous decade, as American farms ramped up to feed war-ravaged Europe. The resulting grain glut drove the price of food so low that it was basically worthless. Plus, thanks to the Great Depression and the Dust Bowl, so many Americans were out

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of work that they couldn't afford even the dirt-cheap food available. To even out these kinds of wild ups and downs, the federal government decided to do something: Enter subsidies.

In an attempt to rebuild the economy in the wake of the Great Depression, the government convinced farmers to leave some of their land unplanted ("paid-land diversion") often by supporting a set minimum price that they would expect to earn from it ("minimum price supports"). But what began as a temporary stimulus measure gradually became into something much more permanent and unwieldy. Skip ahead through several decades of back-and-forth tinkering with the policy (see: "target prices," "price floors," "short crop," "deficiency payments") to the mid-90s, when we introduced something called "direct payments."

That's, uh, pretty much what it sounds like: Paying money. Directly. To farmers. These payments were given out to certain commodity farmers, based on the historic records of what their land could produce. They were paid out rain or shine, whether prices were high or low. Sometimes called "freedom to farm" payments, these were supposed to be a temporary measure to wean farmers off of subsidies, while letting them grow a handful of commodity crops *other* than corn.

But what started out as an attempt to lessen the government's influence on farming ended up strengthening it when prices dropped in the following years. By 2014, the U.S. was on target to spend \$972.9 billion on food and farm programs over the next decade. And while the majority of that goes to nutritional programs (food stamps) and some of it goes to land conservation measures — a LOT of it ends up as, you guessed it, corn.

In 2014, after much squabbling, Congress approved a new farm bill, more than two years after they were scheduled to. The main emphasis of the federal farm policy is now on subsidized "crop insurance." This sounds promising at first — "insurance" should come with a focus on minimizing risk, right? But actually, these insurance plans largely help guarantee that farmers can sell their crop above a certain price (Price Loss Coverage) or make a certain amount of revenue (Agricultural Risk Coverage), and do little to encourage, say, better drought-planning measures or a more diverse spread of crops.

And with the federal government spending over \$5 billion a year to subsidize these insurance premiums, all that corn (and soy and wheat) doesn't come cheap. The new farm bill does have some solid wins for sustainable food. Now diversified, mixed-crop farms can insure their whole operation without the hassle of buying insurance for a bunch of different crops and livestock separately. Organic farmers can also insure their crops at their actual value — which is just peachy, since organic peaches are worth a good deal more than their conventional brethren.

Since 1995, 75 percent of federal subsidies have gone to 10 percent of farms, the same consolidated group of commodity crop growers who will continue to eat up a disproportionate share of the subsidy pie under the new system, too. These payments fund a massive industrialized food system that takes its toll on our land and water, while our diets are full of all that extra corn, from our corn-fed burgers to our Halloween candy — and so are our cars.

Now picture the world we could live in if we subsidized the food that actually feeds people, and feeds local economies all the while. Just think! We could save money on healthcare and spend it paying for things we actually want, like well-managed land, cleaner water, a diversified localized economy, and some fresh, organic sweet corn. Imagine that happily ever after.

[HTTPS://GRIST.ORG/FOOD/OUR-CRAZY-FARM-SUBSIDIES-EXPLAINED/](https://grist.org/food/our-crazy-farm-subsidies-explained/)

Do Corn Subsidies Really Make Us Fat?

BY [TRACIE MCMILLAN](#)

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Paying farmers to grow commodity crops makes food cheap, but the issues of why we eat too much, and how to fix that, are complex.

Bad health can be linked to wheat, corn, dairy and meat—and a range of foods currently subsidized by the government. That was the catchy finding that researchers announced last week with a study showing a correlation between an increased consumption of subsidized foods and health problems like obesity and high cholesterol. But is it actually the farm subsidies that make people eat those foods?

To answer that question, you've got to understand three things: What kind of food we subsidize, how subsidies affect prices, and what incentives work to actually get people to eat better food.

Yes, Subsidized Food Can Be Unhealthy

First things first: Eating more of the foods that are subsidized *does* seem to set the stage for poor health. Using data that tracked what more than 10,000 Americans reported eating in a single day, researchers from the Centers for Disease Control and Prevention and other organizations calculated how much of people's diets were made up of subsidized foods. These include soybean, rice, sorghum, dairy, and meat, as well as corn and wheat. Much of those foods are processed: corn becomes sweet syrup, sorghum is fed to beef cattle, soybeans are turned into oil for French fries. Across the board, Americans eat a lot of them. About 56 percent of all calories consumed here come from subsidized foods, according to the researchers.

What researchers learned about the link between consumption of subsidized foods and health was striking, if not surprising: People whose diets contained more subsidized foods tended to have worse health than those whose diets contained less. The people who ate the most subsidized food had a 41 percent greater risk of belly fat, 37 percent high risk of obesity, 34 percent higher risk for elevated inflammation, and 14 percent higher risk of abnormal cholesterol. (American dietary recommendations suggest that about half our calories should come from fruits and vegetables, and that half our grain intake should be from whole, rather than processed, sources.)

That matters for the American pocketbook, say researchers. They put the cost of cardiometabolic diseases—a catchall term that includes diabetes, heartdisease and stroke—at \$150 billion a year. Indirect cost, say researchers, double the price tag to \$300 billion per year. But what the study does not show is the degree to which subsidies—and, in particular, the ones that are currently in place—actually persuade people to eat more of those foods. The researchers, by the way, admit this: "We cannot say [the link between subsidies and consumption] is causal from this study," says K.M. Vankat Narayan, a lead author.

So while there's an accepted correlation between low prices and increased purchases, nobody really knows how much farm subsidies matter when it comes to which foods people buy—and eat.

Here's How Subsidies Actually Work

If people think of agricultural subsidies at all, they probably think of what economists call "deficiency payments," or paying farmers for the crops they have grown, says Parke Wilde, an agricultural economist at Tufts University's Friedman School of Nutrition Science and Policy. Under that kind of subsidy, the government pays farmers extra when market prices are low, and they pay based on how much a farmer grew that year. The model emerged in part, says Wilde, because "the goal of subsidies is to raise farm income."

But while deficiency payments can help struggling farmers during a market slump, they also create a strong incentive for farmers to plant as much as possible, since they'll get paid whether they can sell it or not. This is the model that was pioneered by Secretary of Agriculture Earl Butz, who in the 1970s urged American farmers to

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plant “fencerow to fencerow,” says Wilde. And at that time, Americans were worried about scarcity and running out of food; growing as many calories as possible was a good thing.

So while deficiency-payment subsidies stabilize farmers’ incomes, they also lead to overproduction. That creates a surplus, which in turn depresses prices. And, that makes it even more likely that government will have to step in. “That particular subsidy design suppresses consumer prices,” says Wilde. (And, sustainable foodies, take note: “That’s the subsidy design that Michael Pollan has in mind in his book [*The Omnivore’s Dilemma*]” says Wilde.)

Other kinds of farm subsidies have far milder effects on consumer prices. The 2014 Farm Bill expanded crop insurance, and based deficiency payments not on a specific year’s production, but on historic yield. Although those subsidy designs can encourage production, the effect of each is much smaller than that of deficiency payments, says Wilde.

Indeed, in contemporary America, “the potential impact of the agricultural subsidies on consumption right now is inconsequential,” argues David Just, an agricultural and behavioral economist at Cornell University. Subsidies *for farmers* are unlikely to have much impact on consumer prices, adds Wilde, because farmers’ share of what we pay at the store is so little. On average, just 10 percent of consumer prices went to the farmer, according to the USDA Economic Research Service.

How Do You Change Eating Habits?

So if farm subsidies themselves don’t impact what people eat very much, what does? An emerging field of research suggests an interesting answer: Coupons.

While using taxes to discourage the purchase of junk food get a lot of attention—as Philly did last month for its soda tax—there’s a parallel field of policy dedicated to the idea of encouraging certain purchases by lowering prices. Paying farmers can be seen as subsidizing supply, while directly reducing consumer price is more like subsidizing demand. And that, says Just, is “much more effective...in terms of changing what people eat.”

What’s most effective of all, suggests research from the U.S. Department of Agriculture, is a variation on coupons—which policymakers have taken to calling “incentives”—rather than lower prices in general. A 2010 study there found that while lower prices could boost sales by 5 or 6 percent, coupons could boost sales by as much as 11 percent. Additional research suggested that a 10-percent subsidy would boost consumption by up to about 5 percent. Researchers suggested that this was because coupons not only dropped the price, but functioned as advertisement and information, too, reminding shopper to pick up fruits and vegetables.

More recently, Wilde and colleagues studied whether a program offering a 30 percent rebate for produce bought with SNAP benefits would change what people ate. And it did: People who got the rebate increased their fruit and vegetable consumption by about 25 percent, says Wilde. The study was published in the *American Journal of Clinical Nutrition*. While wealthy American may eat better than the poor, that’s a kind of splitting hairs, says Wilde. “The really notable thing about the United States,” he says, “is that nobody has a very healthy diet.”

[HTTPS://WWW.NATIONALGEOGRAPHIC.COM/PEOPLE-AND-CULTURE/FOOD/THE-PLATE/2016/07/ARE-CORN-SUBSIDIES-MAKING-US-FAT-/](https://www.nationalgeographic.com/people-and-culture/food/the-plate/2016/07/are-corn-subsidies-making-us-fat-/)

SUGARCANE ETHANOL OFFERS CLEAN, AFFORDABLE & SECURE ALTERNATIVE ENERGY

As Earth Day approaches and Americans seek out environmentally friendly energy sources, the Brazilian Sugarcane Industry Association (UNICA) today launched an expansive national awareness campaign to explain sugarcane ethanol's benefits.

UNICA's education campaign will include a new website, **SweeterAlternative.com**, online, print and radio advertising, new research and a high-profile partnership with the Indy Racing League.



"We hope the Sweeter Alternative campaign will help Americans understand how sugarcane ethanol is a clean and affordable renewable fuel that could help them save money at the pump, cut U.S. dependence on Middle East oil and improve the environment," said UNICA's Chief Representative in North America, Joel Velasco.

Sugarcane ethanol is a renewable fuel produced from sugarcane, which is grown in the United States, Brazil and more than 100 countries. Like other forms of ethanol, it can be added to gasoline and used in all American vehicles at blends up to 10 percent ethanol. The Sweeter Alternative education campaign will highlight three key benefits of sugarcane ethanol:

- **Energy Security.** Sugarcane ethanol is one more good option for diversifying energy supplies and improving U.S. energy security, so Americans are not reliant on any one source or country.
- **Economic.** Americans could save about a dollar per fill-up off the price of regular gasoline by expanding the use of sugarcane ethanol. At an average price of \$0.50 less per gallon than corn ethanol, sugarcane ethanol is one of the least expensive renewable fuels available.
- **Environmental.** Sugarcane ethanol cuts greenhouse gases by at least 60 percent compared to gasoline – better than any other biofuel widely produced today. The Environmental Protection Agency confirmed sugarcane ethanol's superior environmental performance earlier this year by designating it an "advanced renewable fuel." This important category of biofuels will make up 21 billion gallons of America's fuel supply by 2020, or about 15 percent of today's gasoline market. Most sugarcane ethanol is currently produced in Brazil, a South American country with a democratically elected government and a long-standing trade relationship with the United States. Brazil has replaced more than half of its gasoline needs with sugarcane ethanol – making gasoline the alternative fuel in that country. Many observers point to Brazil's experience as a case study for other nations seeking to expand the use of renewable fuels.

"Unfortunately, Americans cannot fully benefit from this clean, less expensive alternative while Congress continues to maintain trade barriers against imported ethanol," Velasco continued.

The U.S. government currently imposes a \$0.54-per-gallon tariff on ethanol from most foreign countries, making sugarcane ethanol practically unavailable in the United States. By contrast, imported oil enters America duty free. The 54-cent import tax on ethanol will expire at the end of this year.

Last week, Brazil took an important first step to build an open and global biofuels marketplace by eliminating its tariff on imported ethanol through the end of 2011. UNICA is asking the Brazilian government to make the tariff elimination permanent if Congress will do the same and drop the U.S. tax on imported ethanol.

"Consumers win when businesses have to compete in an open market, because competition produces higher quality products at lower costs. The same principle holds true for the renewable fuels market where competition will create a race to the future and generate better alternatives for consumers. Americans will benefit from having the sweeter alternative – sugarcane ethanol – available as an option at the pump," Velasco concluded.