The Freeman Lecture on agriculture, food and the rural economy begins the examination in Minnesota of the policy linkages between international obligations the U.S. has accepted for the 21st century and the economic obligations of the federal government to its citizens that include community development, freedom from hunger, and a sustainable environment. Nowhere in American society is this linkage as inextricably entwined as in agriculture and the rural economy.

For much of the 20th century the American farmer was the economic mainstay of the rural community, and for most of that century the economic condition of American agriculture has been a major policy responsibility of the federal government. Federal policy in agriculture relies on income transfer as a basic mechanism, including the use of production subsidies to raise incomes of farmers and shelter agricultures from market forces. In addition, the federal government financed services ranging from delivery of mail, electrical power, phone service, continuing education, scientific research, low cost housing, water and sewer systems, and countless other activities to support rural societies.

Hovering constantly over subsidy policy has been the question of how best to insure that production choices remain the decision of farmers as they react to market conditions. The question may be phrased in different ways depending on political philosophies, but the core objective is to insure that farmgate sales rather than taxpayers generate most of the income of farmers, an assurance that agriculture will continue as an enterprise in the rural economy.

Orville L. Freeman while Secretary of Agriculture introduced major changes in federal policy designed to strengthen and broaden the entrepreneurial base in rural America. Most significantly, he proposed supply management as a long-term policy alternative to production subsidies. Farmers could rely on market forces to support farm income by limiting the effect of excess supply, or surpluses, on farm income. Unmanaged surplus is a force of cataclysmic power, as awesome and destructive as shortages. Unmanaged production may send farm prices plunging nearly to zero, destroying the farmer, while shortages can impose hunger on the poor and middle class, tearing apart civil society.

Farmers, goaded by agribusiness in the 1960s, rejected the discipline required for supply management policies. Congress opted for production subsidies, the budget limits of which were never tested. As science and technology gave U.S. farmers an awesome ability to increase production, the agribusiness industries that arose to supply the chemicals, fertilizer, machinery and pesticides required in production became more dependent on production subsidies than farmers1. In fact, farmers were replaceable and the rural community became expendable, as any visit to rural America will attest. The rapid disappearance over the past 40 years of farmers and  

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1 Most farmers earn more from off-farm jobs than farming to stay on the farm.
farm families has not been fast enough for some academic experts, however. Harvard agribusiness professor David Bell lamented in a September speech to Crop Life Canada that “there are too many farmers.”

The income flow from agriculture was indispensable to rural credit and to agribusiness. Agribusiness lobbying helped ensure the regular growth of farm subsidies, albeit modified to eliminate the troublesome problem of farm surpluses by dumping them on world markets. Federal subsidies for agriculture are estimated at $44.5 billion a year currently, including over $20 billion in cash payments alone for several production subsidy programs. Subsidy payments for 2005 are rising, and are rapidly approaching $26 billion, the highest on record.

Globalization recast the role of subsidies, however, changing the power equation. How? Subsidies became the Achilles heel of U.S. farm policy. In 1994 Congress authorized the Uruguay Round trade agreement, including a measure to create and empower the World Trade Organization (WTO) to settle trade disputes through economic sanctions. The U.S. and the EU demanded and got a Peace Clause in the Agreement on Agriculture (AoA) prohibiting for 10 years any trade challenges to farm subsidies. The protection from litigation is extended in no other WTO agreement and puts the AoA in jurisprudential conflict with other WTO agreements, especially the Agreement on Subsidies and Countervailing measures.

The U.S. and the EU, the latter spending $140 billion yearly on farm subsidies, promised that vigorous steps would be taken during this standstill period on litigation to open markets for agricultural exports from developing countries and that farm subsidies would be reduced. The promises were never kept, confirming a belief among developing countries that the U.S. cannot be trusted, that promises are easily made but unenforceable.

With the end of the Peace Clause in sight, Brazil in 2002 filed complaints in the WTO dispute settlement body asking compensation for export earning losses caused by the U.S. cotton program and the EU sugar program, both of which delivered substantial cash subsidies to growers. The U.S. program was especially burdensome for cotton farmers around the world, including Brazilian growers, since the U.S. also paid cash to exporters on every bale of U.S. cotton as an additional incentive to ship U.S. cotton abroad. In September 2004, the WTO upheld Brazil’s complaint, declaring that the gaggle of cotton subsidies violated the provisions of the WTO agreement and ordering the U.S. to halt the subsidies by July 2005.

Subsidy programs for cotton alone include payments to domestic mills and exporters to use U.S. cotton, marketing loan program payments, production flexibility program payments, counter-cyclical payments (when average annual market prices fall below minimum target levels set by Congress), and crop insurance payments.
Brazil has indicated that it will delay any action to impose the trade sanctions authorized by the WTO — i.e., raising tariffs on U.S. imports, for example — until after the Doha round negotiations on farm trade measures in Hong Kong in December. Although the U.S. has offered new proposals to reduce farm subsidies as an incentive move the Hong Kong negotiations forward, Brazil and other developing countries have rejected key provisions, especially several that Congressional leaders say are not negotiable. Pessimism hangs over the Hong Kong negotiations for a number of reasons, including the sense among some observers that the U.S. proposal is intended to embarrass the EU as much as to seek a consensus on how to move farm trade negotiations forward. Chief Indian negotiator Kamal Nath, for example, describes the U.S. proposal as a “post-dated check” in agriculture for which the U.S. is demanding immediate payment in far more lucrative concessions in non-agricultural goods and services. Anticipating failure in Hong Kong, negotiators are now lowering expectations by suggesting that negotiations on agriculture trade are unlikely to be considered until early in 2006, if then.

The political tension over production subsidies, exacerbated by the determination of Brazil to remake global farm policy until now defined by the U.S., is consuming all the political oxygen in the debate and discussion of the 2007 farm bill. Almost no attention is being given to other farm policy options, such as supply management, or the features of alternative income transfer measures that will revitalize a rural economy and society where agriculture no longer sustains the rural community. The need to examine the long-term corrosive effect of subsidies that contributes to the dysfunctional features of American agriculture is lost in the overwhelming attention on production subsidies and the fear that the Brazil’s WTO success in cotton and sugar will invite other challenges to rice, corn, dairy and other subsidized crops.

Prominent among these distortions is the decline in diversified farming systems in Minnesota and the rise of factory style systems of hog production and dairying that generate toxic environmental pollution of air and of rivers, streams, lakes and groundwater. Environmental health hazards are manageable within the internal dynamics of diversified systems but are unmanageable in factory style farming. Corn and other feed grains are essential to both growing hogs and maintaining dairy herds, but subsidizing grain production that drives market prices to below cost of production gives unfair competitive advantage to factory systems. A diversified farmer who grows most or all the grain fed to hogs or dairy cows must factor in feed costs that are higher than market prices. The factory farm corporation, however, that buys feed at subsidized prices lower than if the grain were grown on site has little incentive to do otherwise. The diversified farmer, who receives a minimal or no subsidy, disperses the animal waste on cropland as an established feature of managing a diversified farming system. These and other practices eliminate the prospect of an ecological disaster that arises when manure and urine from thousands of animals are concentrated in mountains of manure and lagoons of waste on factory farms. In effect, subsidizing feed production creates unanticipated environmental costs that are shifted to the larger community.

The unintended effect is a warning to reformers and to policymakers. The unique nature of
Agriculture and the unforgiving economics of food can lead both the reformer and politician into cul-de-sacs, hidden dangers and a belief that farm policy is an expertise of patching patches. Eliminating production subsidies will reduce the farm population, but not farm output. Reducing the number of farmers will not reduce land in production but will increase the size of farms. Eliminating farmers has not reduced the cost of farm subsidies which has grown steadily. Transferring income to fewer but larger farms will not strengthen but instead weakens the rural economy while rewarding concentration in agribusinesses. Ending subsidies without other measures to strengthen farm income will lower land values and weaken the rural credit system since subsidies are capitalized into land values.

Eliminating or reducing income transfer payments to agriculture does not eliminate the need for income transfers to the rural community but increases the relevance and pressure for transfer payments to create a new rural community. While hurricane Katrina demonstrated the extent of the infrastructure neglect in the great urban centers of the U.S., no less has a century long economic storm in rural America exposed rural citizens to conditions defined by lack of jobs, low incomes, often inferior medical and health care and a shortage of creative opportunity. Rebuilding the capacity of both urban centers and rural communities to support and sustain a cohesive, caring society defines national goals for massive investments in the public good in the 21st century.

The controversy over farm production subsidies, however, has become a Gordian knot blocking consideration of long-term policies to insure stable farm income and more balanced use of subsidies as features to manage production. These include major public investments that would trade production incentives for environmental practices to conserve the soil and protect fresh water supplies of rivers, streams and lakes. They include substantial support for infrastructure investments to build water and sewage systems in rural communities, promoting healthy living conditions while also expanding job opportunities for rural workers and attracting new residents. They include subsidies for medical services, including health insurance, a financial burden for farmers and a major barrier to job creation in rural communities where access to health care is a business expense that employers cannot afford as a job benefit for employees.

Cutting the Gordian knot is inevitable and unavoidable. Globalization and the awakening hunger of Brazilian farmers for global markets have seen to that sooner than later. The Freeman Lecture on Globalization and U.S. Farm Policy begins the inquiry in Minnesota of the policy questions that Congress will address in 2006 to formulate a new U.S. farm policy in 2007, the first in which the rural community will think locally but act globally.

The Freeman Lecture will feature two speakers. The lecture will be delivered by Pedro de Camargo Neto, the former Secretary for Agricultural Trade in the Brazil Ministry of Agriculture who developed the strategy and arguments for the WTO challenge to U.S. cotton subsidies. A luncheon will feature Daryll E. Ray, Director of the Agricultural Policy Analysis Center at the University of Tennessee. Professor Ray is one of the few agricultural economists who predicted the 1996 and 2002 farm legislation would fail to strengthen farm income, and is recognized as an
expert in supply management policy. Also featured in the lecture program is a panel representing members of the Minnesota Congressional delegation who serve on the Agriculture committees of the U.S. Senate and House of Representatives.