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R STREET POLICY STUDY NO. 200
July 2020

AGRICULTURAL POLICY FOR THE 21ST CENTURY

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INTRODUCTION

The United States is one of the largest agriculture producers in the world. In fact, agriculture is so abundant in the United States farmers and ranchers are able to export about 20 percent of what they produce for foreign consumption.[1] Much of the nation's dominance in international agriculture markets is due to technological advantages, but all is not well with American agricultural policy.

The last few years have been challenging for America's farmers and ranchers. In January 2017, President Trump's first official act was to withdraw the United States from the Trans-Pacific Partnership (TPP), a promising agreement with Pacific Rim nations negotiated by the Obama administration.[2] If implemented, the TPP would have opened up notoriously closed agriculture markets to American farmers and ranchers. A year later, the administration levied "national security" tariffs on imported steel from virtually every country in the world, including long-standing allies. Likewise, the president began a two-year trade war with China over Beijing's allegedly unfair and burdensome trade policy practices. The consequences of the president's moves were entirely predictable as foreign retaliation fell heavily on American agriculture and exports fell.[3]

In response, President Trump directed the United States Department of Agriculture (USDA) to provide about $28 billion in additional aid to beleaguered American agriculture producers who saw their foreign market access erode due to retaliatory tariffs.[4] As a result, the USDA dusted off a New Deal-era program, the Commodity Credit Corporation (CCC), to facilitate payments to farmers. Yet, recent research shows that certain politically favored farmers received payments well in excess of their actual losses.[5] Likewise, much of the aid was directed to wealthy, well-connected corporate farms rather than small, needier ones.[6]

In January 2020, the United States and China signed a détente in their ongoing trade war. Among other pledges, the deal requires China to purchase $32 billion worth of

1. Press Office, "Fact Sheet on 2019 National Trade Estimate: Fighting to Open Foreign Markets to American Agriculture," Office of the U.S. Trade Representative, March 2019. https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2019/march/fact-sheet-2019-national-trade-estimat-1.

2. Peter Baker, "Trump Abandons Trans-Pacific Partnership, Obama's Signature Trade Deal," *The New York Times*, Jan. 23, 2017. https://www.nytimes.com/2017/01/23/us/politics/tpp-trump-trade-nafta.html.

3. See, e.g., Clark Packard, "The Fallouts of Bailouts," *R Street Policy Study* No. 176, July 2019. https://www.rstreet.org/2019/07/02/the-fallouts-of-bailouts; Menzie Chinn and Bill Plumley, "What is the Toll of Trade Wars on U.S. Agriculture?", *Econofact*, Jan. 15, 2020. https://econofact.org/what-is-the-toll-of-trade-wars-on-u-s-agriculture.

4. Dan Charles, "Farmers Got Billions From Taxpayers In 2019, And Hardly Anyone Objected," NPR, Dec. 31, 2019. https://www.npr.org/sections/the-salt/2019/12/31/790261705/farmers-got-billions-from-taxpayers-in-2019-and-hardly-anyone-objected.

5. Joseph P. Janzen and Nathan P. Hendricks, "Are Farmers Made Whole by Trade Aid?", *Applied Economic Perspectives and Policy* 42:2 (June 2020), pp. 205-26. https://onlinelibrary.wiley.com/doi/full/10.1002/aepp.13045.

6. Andrew Van Dam and Laris Karklis, "With Trump's farm bailout came surprising profits, but little help for the neediest," *The Washington Post*, Dec. 30, 2019. https://www.washingtonpost.com/business/2019/12/21/after-miserable-farm-sector-still-came-out-ahead-thanks-government-assistance/?arc404=true.

agricultural products over the next two years.[7] This was welcome news to farmers and ranchers, but it is unclear what—if anything—the trade war has accomplished. After all, it is unlikely that China will make any structural changes to its economy as the United States demanded.[8] The tariffs have also exacted a heavy toll on the U.S. economy, and no matter how many times the president claims otherwise, American consumers—not Chinese exporters—are paying them.[9] Even after the temporary trade truce with Beijing, the average tariffs on imports from China are between six and seven times higher than when the trade war began.[10] Moreover, a recent study from the New York Federal Reserve found that American firms lost $1.7 trillion in market capitalization from lower investment growth as a result of the trade war.[11] Likewise, in order to meet the purchase targets mandated under the terms of the agreement, Beijing is relying on state-owned enterprises.[12] This is the exact opposite of a stated U.S. goal to nudge Chinese firms to operate on more market-oriented terms.

Now, on the heels of the tit-for-tat between Washington and Beijing, the world is reeling from the outbreak of COVID-19. In mid-March 2020, President Trump and the Centers for Disease Control (CDC) urged Americans to avoid restaurants in response to the pandemic and—not surprisingly—demand for agricultural products plummeted.[13] In response, Congress authorized $14 million more in additional subsidies.[14] Further, a recent study found that in 2020 between 50 and 75 percent of net farm income this year will come from domestic subsidies.[15]

Likewise, *The New York Time*s recently noted: "With food processors unable to shift easily to the right market, farmers have been forced to euthanize tens of thousands of hogs, dump fresh milk into lagoons and plow ripening vegetables into the ground."[16] Even still, the USDA was slow to respond to COVID-19. Indeed, there is a glut of agriculture that is rotting in warehouses even though demand at food banks has increased by about 70 percent.[17] In an attempt to mitigate this problem, in April the USDA announced a $19 billion package "with $3 billion set aside to buy excess food," but even then, federal officials acknowledged that such a process would take at least several weeks, meaning that much food would nevertheless be wasted in the meantime.[18]

However, even before the recent shocks to the system, it was obvious that the status quo was broken, particularly our farm subsidy system. Accordingly, the present study will explain the problems with the farm safety net and make policy recommendations to design a more economically and environmentally sustainable subsidy system.

MAJOR AGRICULTURAL SUBSIDY PROGRAMS

In addition to the recent subsidies under the CCC to mitigate the damage wrought by the Trump administration's trade wars and the outbreak of COVID-19, the United States showers generous agricultural subsidies on wealthy farms through its crop insurance program, Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs. Farmers are eligible for both crop insurance and either ARC or PLC. The following sections briefly outline each of these programs, how they function and known issues in their administration.

Crop Insurance

Run by the Risk Management Agency within the USDA, the federal crop insurance program is the largest, most expensive component of the farm safety net. First enacted by Congress in 1938, the program covers more than 100 crops and provides "more than $100 billion of insurance protection [...] on about 238 million acres," which is 86 percent of all insur-

7. "What's in the U.S.-China Phase 1 trade deal," *Reuters*, Jan. 15, 2020. https://www.reuters.com/article/us-usa-trade-china-details-factbox/whats-in-the-us-china-phase-1-trade-deal-idUSKBN1ZE2IF.

8. Nathaniel Taplin, "Trump's Trade Deal With China Is Another Coronavirus Victim," *The Wall Street Journal*, April 30, 2020. https://www.wsj.com/articles/trumps-trade-deal-with-china-is-another-coronavirus-victim-11588245539.

9. Jeanna Smialek and Ana Swanson, "American Consumers, Not China, Are Paying for Trump's Tariffs," *The New York Times*, Jan. 6, 2020. https://www.nytimes.com/2020/01/06/business/economy/trade-war-tariffs.html.

10. Chad P. Bown, "US-China Trade War Tariffs: An Up-to-Date Chart," Peterson Institute for International Economics, Feb. 14, 2020. https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart.

11. Mary Amiti et al., "The Effect of the U.S.-China Trade War on U.S. Investment," The New York Federal Reserve Bank, May 2020. https://libertystreeteconomics.newyorkfed.org/2020/05/the-investment-cost-of-the-us-china-trade-war.html.

12. Chad P. Bown and Mary E. Lovely, "Trump's phase one deal relies on China's state-owned enterprises," Peterson Institute for International Economics, March 3, 2020. https://www.piie.com/blogs/trade-and-investment-policy-watch/trumps-phase-one-deal-relies-chinas-state-owned-enterprises.

13. See, e.g., Helena Bottemiller Evich, "USDA let millions of pounds of food rot while food-bank demand soared," *Politico*, April 26, 2020. https://www.politico.com/news/2020/04/26/food-banks-coronavirus-agriculture-usda-207215; Sharon LaFraniere, "Farmers Get Billions in Virus Aid, and Democrats are Wary," *The New York Times*, June 7, 2020. https://www.nytimes.com/2020/06/07/us/politics/virus-trump-aid-farmers.html?smid=tw-share.

14. LaFraniere. https://www.nytimes.com/2020/06/07/us/politics/virus-trump-aid-farmers.html?smid=tw-share.

15. Josh Sewell, "Planting Permanent Subsidies in Response to COVID-19," Taxpayers for Common Sense, June 16, 2020, p. 2. https://www.taxpayer.net/wp-content/uploads/2020/06/TCS-Agriculture-Planting-Permanent-Subsidies-COVID19-June-2020.pdf.

16. LaFraniere. https://www.nytimes.com/2020/06/07/us/politics/virus-trump-aid-farmers.html?smid=tw-share.

17. Bottemiller Evich. https://www.politico.com/news/2020/04/26/food-banks-coronavirus-agriculture-usda-207215.

18. Ibid.

ance-protected planted acres of crops across the country.[19] That number is up from 26.6 million acres, or 12 percent of eligible acres in 1980 as the eligible crops expanded from 28 to more than 100 today.[20] Taxpayers provide about 62 percent of the insurance premium for the crop insurance program on average and farmers choose from policies offered by 16 private insurance companies.[21] Each year, the crop insurance program costs taxpayers about an average of $8 billion.[22]

The reason for this exorbitant price tag is that farmers can opt into one of three crop insurance plan types: yield protection, which insures a percentage of the farm's yield-per-acre at a recent average market price; revenue protection, which insures a percentage of expected revenue-per-acre at a recent market price; and revenue protection with a harvest price option, which insures a percentage of revenue-per-acre either at a recent market price (as in the revenue protection model) or at the price at time of harvest—whichever is higher.

Because of these lavish coverage options, farms participating in the harvest price option can, at times, receive payouts that are even larger than their estimated losses.[23] In other words, the program covers both farmers' yields and their revenues. As a result, "taxpayers are on the hook both in years of drought and natural disasters and in years of bountiful harvests, which have the effect of depressing market prices and reducing farm revenue."[24]

The problems do not end there. Between 2000 and 2016, "producers received about $65 billion more in claim payments than they paid in premiums."[25] According to the Environmental Working Group's Farm Subsidy Database: "The top 10 percent of subsidy recipients collected 77 percent of farm subsidies between 1995 and 2016, even though annual farm household income for very large commercial farms tops $1.1 million."[26] Meanwhile, the top 1 percent of recipients "received 26 percent of all subsidies, or $1.7 million per recipient."[27] In other words, the crop insurance program is largely a corporate welfare system that benefits very large agribusinesses, not small farmers.

ARC

ARC was established in the 2014 farm bill and reauthorized by the 2018 farm bill. There are 22 covered commodities under the program including wheat, corn, peanuts and soy.[28] As the Cato Institute's Chris Edwards notes: "The program pays subsidies to farmers if their revenue per acre, or alternately their county's revenue per acre, falls below a benchmark or guaranteed level."[29] The payouts are subject to a $125,000 per person per year limit.[30]

PLC

PLC was also established in the 2014 farm bill, reauthorized in the 2018 version and applies to the same set of commodities as ARC. The program pays subsidies "when the effective rate of a covered commodity is less" than the reference price set by Congress for that commodity.[31] The most recent farm bill in 2018, "added an escalator provision that could potentially raise a covered commodity's effective reference price to as much as 115 percent of the statutory PLC reference price."[32] Like ARC, PLC payments are limited to $125,000 per person per year.[33]

DAMAGE TO TAXPAYERS

The United States' fiscal outlook is daunting, and our farm safety net is increasingly unaffordable. In late 2018, Congress passed and President Trump signed the Agriculture Improvement Act, also known as the farm bill.[34] Over a 10 year budget window—between 2019 and 2028—the Congressional Budget Office projects the bill will cost taxpayers

19. *Federal Crop Insurance: Program Overview for the 115th Congress*, Congressional Research Service, May 10, 2018. https://www.everycrsreport.com/files/20180510_R45193_c94c4792ac1cba12047bb4080d2e8633ea3acfa8.pdf.

20. Ibid.

21. Chris Edwards, "Agriculture Subsidies," Downsizing the Federal Government, April 18, 2018. https://www.downsizinggovernment.org/agriculture/subsidies.

22. *Federal Crop Insurance: Program Overview for the 115th Congress*, p. 5.

23. Caroline Kitchens, "Making Farm Supports a Safety Net Again," *R Street Institute Policy Study* No. 92, April 2017, p. 2. https://www.rstreet.org/wp-content/uploads/2017/04/92.pdf.

24. Ibid.

25. Congressional Budget Office, "Options to Reduce the Budgetary Costs of the Federal Crop Insurance Program," United States Congress, December 2017, p. 2. https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53375-federalcropinsuranceprogram.pdf.

26. Jared Hayes, "Federal Lawmakers Harvest $15 Million in Farm Subsidies," Environmental Working Group, Dec. 7, 2017. https://www.ewg.org/agmag/2017/11/federal-lawmakers-harvest-15-million-farm-subsidies.

27. Alex Formuzis, "Farm Subsidy Database Updated with Latest USDA Payment Data," Environmental Working Group, Nov. 2, 2017. https://www.ewg.org/release/ewg-mega-farms-reap-billions-taxpayers-farm-subsidies.

28. Farm Service Agency, "Agriculture Risk Coverage (ARC) & Price Loss Coverage (PLC) Fact Sheet," U.S. Dept. of Agriculture, August 2019. https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/2019/arc-plc_overview_fact_sheet-aug_2019.pdf.

29. Chris Edwards, "Agriculture Subsidies," Downsizing the Federal Government, April 18, 2018. https://www.downsizinggovernment.org/agriculture/subsidies.

30. Randy Schnepf, *2018 Farm Bill Primer: ARC and PLC Support Programs*, Congressional Research Service, April 3, 2019, p. 2. https://crsreports.congress.gov/product/pdf/IF/IF11161.

31. Farm Service Agency. https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/2019/arc-plc_overview_fact_sheet-aug_2019.pdf.

32. *2018 Farm Bill Primer*, p. 1. https://crsreports.congress.gov/product/pdf/IF/IF11161.

33. Ibid., p. 2.

34. H.R. 2, Agriculture Improvement Act of 2018, 115th Congress.

nearly $900 billion.[35] The legislation made no substantive changes to the farm safety net. Likewise, as mentioned, the Trump administration directed the USDA to provide nearly $30 billion in aid to farmers affected by retaliatory tariffs and plans to spend more as a result of the pandemic.

In the spring of 2020, as COVID-19 spread across the country, businesses were forced to shutter and demand for goods and services rapidly declined. As a result, unemployment dramatically increased. To combat the pandemic and the resulting economic slowdown, Congress took a number of aggressive measures to shore up the economy. To date, the federal response has totaled nearly $2.8 trillion and could increase if the pandemic worsens and Congress takes additional steps.[36] As a result, the Congressional Budget Office (CBO) is projecting a federal deficit of $3.7 trillion in fiscal year 2020 and a $2.1 trillion deficit in fiscal year 2021.[37] As the CBO notes: "At 17.9 percent of Gross Domestic Product (GDP), the 2020 deficit would be the largest since 1945," as World War II was winding down.[38] This is an unprecedented peacetime fiscal deficit.

A massive deficit over the next several years would dramatically increase the federal debt. If current fiscal policies are maintained and the economic conditions in the country are consistent with the CBO's projections, "the federal debt held by the public would grow to 108 percent of GDP by the end of fiscal year 2021, up from 79 percent at the end of fiscal year 2019 [...] [T]hat percentage in 2021 would be the highest in U.S. history."[39]

As investors have looked for safe assets in these unprecedented times, the bond market has financed the federal government's COVID-19 response at relatively low rates. Nevertheless, the long-term fiscal projections are daunting.

In its 2019 "Long-Term Budget Outlook," prior to the deficit-financed response to COVID-19, the CBO painted a bleak picture. Assuming there are no major changes to federal spending programs, the baseline projected by the CBO showed debt increasing as a share of GDP from 78 percent in 2019 to 144 percent by 2049.[40] Much of the spending is driven by major outlays for Social Security and healthcare programs like Medicare and Medicaid.

A dramatically increasing debt-to-GDP ratio poses significant problems for the United States. First, rising debt could crowd out private investment. As the CBO explains: "When the government borrows, it borrows from people and businesses whose savings would otherwise finance private investment in productive capital, such as factories and computers."[41] Next, it would increase interest payments on the debt, meaning the share of the federal budget spent on servicing the debt would increase. As a result, that money could not go toward expanding government services or reducing taxes. In addition, the CBO notes: "[B]ecause foreign investors hold a significant portion of Treasury securities, the increase in outlays represents an increase in payments to foreign investors and thus a reduction in domestic income relative to total U.S. economic output."[42]

That's not all. A rising debt-to-GDP ratio risks a future fiscal crisis as investors demand higher interest rates to compensate for a decline in the government's fiscal position. A fiscal crisis could quickly become a financial crisis, which could spread around the globe. On this point, the CBO explains:

> In a fiscal crisis, dramatic increases in Treasury rates would reduce the market value of outstanding government securities, and the resulting losses incurred by holders of those securities—including mutual funds, pension funds, insurance companies, and banks—could be large enough to cause some financial institutions to fail. A fiscal crisis could thus lead to a financial crisis. Because the United States plays a central role in the international financial system, such a crisis could spread globally.[43]

Ultimately, the United States would have to dramatically increase taxes or sharply reduce spending on major programs like Medicare, Social Security and national defense.

If the United States begins to make sensible tax and spending changes soon, the national debt will become easier to manage. Significant reductions in spending for Social Security, Medicare and national defense coupled with huge tax increases will make the United States poorer and lead to a lower standard of living. Alternatively, we can take responsible steps toward trimming the debt by making common

35. Congressional Budget Office, "Direct Spending and Revenue Effects of the Conference Agreement for H.R. 2, the Agriculture Improvement Act of 2018," United States Congress, Dec. 11, 2018. https://www.cbo.gov/system/files/2018-12/hr2conf_0.pdf.

36. Jordain Carney, "Five fights for Congress's fifth coronavirus bill," *The Hill*, April 27, 2020. https://thehill.com/homenews/senate/494591-five-fights-for-congress-fifth-coronavirus-bill.

37. Presentation of Phillip L. Swagel, "CBO's Current Economics Projections and a Preliminary Look at the Federal Deficits and Debt for 2020 and 2021," House Committee on the Budget, April 28, 2020, p. 5. https://www.cbo.gov/system/files/2020-04/56344-CBO-presentation.pdf.

38. Ibid.

39. Ibid., p. 6.

40. Congressional Budget Office, "The 2019 Long-Term Budget Outlook," United States Congress, June 2019, p. 5. https://www.cbo.gov/system/files/2019-06/55331-LTBO-2.pdf.

41. Ibid., p. 9.

42. Ibid., p. 12.

43. Ibid., p. 13.

sense changes to the farm safety net. A 2015 study from the Government Accountability Office (GAO) found that curbing crop insurance for the wealthiest recipients would save money for the federal government and have little impact on the program.[44] The United States is facing a fiscal tsunami for myriad reasons. However, we can avoid harsh policy changes over the long run with smart policy changes today.

ENVIRONMENTAL DAMAGE

The U.S. farm safety net is not only costly for taxpayers, it damages the environment—especially wetlands—as pesticides and fertilizers end up in America's rivers and other waterways.[45] A 2018 study found that domestic farm subsidies, "have led to more soil erosion, plowing up native grasslands and draining wetlands, water pollution and unnecessary costs for downstream users."[46] That same study notes: "crop insurance subsidies increased the rate at which wetlands were drained and converted to crop production: from 1992 to 1997, income guarantee subsidies were responsible for a fifth of the net loss of non-Federal wetlands."[47] Additionally, a 2003 report concludes that: "agriculture is the biggest source of pollutants for rivers and lakes in the United States."[48]

As Taxpayers for Common Sense (TCS) argues:

> It is no surprise that the most heavily subsidized crops—corn, cotton, soybeans, and wheat—are the most widely produced crops. But these crops also happen to be the most input-intensive. USDA researchers found that 'roughly two-thirds of all fertilizer nutrients are spread on [fields planted to these four crops].[49]

But it is not just subsidies for these crops that damage water quality.

Take the Florida Everglades, for example. A large portion of the phosphorus pollution in the Everglades comes from sugar cane farms, therefore, our complex mixture of domestic subsidies and trade protection for sugar cane leads to substantially damaging outcomes for that region.[50] Meanwhile, canals that divert phosphorus away from the Everglades contribute to the toxic algae blooms that kill wildlife and temporarily shutter public beaches.[51] This is just one prominent example of how our subsidies lead to overproduction and damage the environment.

TRADE DISTORTIONS

In addition to hurting taxpayers and the environment, our domestic farm subsidies distort international trade and hinder efforts to significantly open foreign markets to America's farmers and ranchers. As Scott Lincicome notes: "Non-market financial support for specific farm commodities, as well as broader government support for agriculture through programs like crop insurance, can artificially depress U.S. prices and thus make foreign exporters uncompetitive in the U.S. market."[52]

Stalled Liberalization and Damage to Developing Countries

The United States is the largest economy in the world. Despite the fact that it is a wealthy, developed nation, it is fairly protectionist about agriculture, particularly in its use of subsidies. The prospect for future multilateral trade liberalization is bleak in part because of the nation's inability to discipline farm subsidies.

By providing overly generous subsidies, which are non-tariff trade barriers, the United States incentivizes overproduction of certain crops. This puts downward pressure on prices globally and allows the United States to unfairly undercut global competition. This hurts farmers in developing countries.[53]

The production and trade of cotton is a perfect example of how U.S. subsidies hurt the global poor. It is estimated that "a typical small cotton farm in Africa would have gained more than $100 per year if the U.S. programs had not depressed cotton prices."[54] In 2003, Brazil challenged U.S. cotton sub-

44. "Crop Insurance: Reducing Subsidies for Highest Income Participants Could Save Federal Dollars with Minimal Effect on the Program," U.S. Government Accountability Office, March 2015. https://www.gao.gov/assets/670/669062.pdf.

45. Edwards. https://www.downsizinggovernment.org/agriculture/subsidies.

46. Josh Sewell, "Impact of U.S. Agriculture Subsidies on Water Quality," Taxpayers for Common Sense. April 28, 2018, p. 3.

47. Ibid.

48. John Humphreys et al., "Greening farm subsidies: The next step in removing perverse farm subsidies," Center for International Economics, 2003, p. 20.

49. "Impact of U.S. Agriculture Subsidies on Water Quality," p. 3.

50. Kerry Jackson, "Big Sugar's Assault on the Everglades," *InsideSources*, June 5, 2017. https://www.insidesources.com/big-sugars-assault-everglades.

51. Clark Packard, "Florida would benefit from pairing back sugar program," *Sarasota Herald Tribune*, April 17, 2018. https://www.heraldtribune.com/opinion/20180417/packard-florida-would-benefit-from-paring-back-sugar-program.

52. Scott Lincicome, "Promoting Free Trade in Agriculture," The Heritage Foundation, July 11, 2019, p. 7. https://www.heritage.org/trade/report/promoting-free-trade-agriculture.

53. Marcelo Ostria, "How U.S. Agriculture Subsidies Harm the Environment, Taxpayers and the Poor," National Center for Policy Analysis, Aug. 7, 2013, p. 2. http://www.ncpathinktank.org/pdfs/ib126.pdf.

54. Daniel A. Sumner, "Picking on the Poor: How U.S. Agricultural Policy Hurts the Developing World," American Enterprise Institute, July 11, 2011, p. 2. https://www.aei.org/wp-content/uploads/2011/11/-picking-on-the-poor-how-us-agricultural-policy-hurts-the-developing-world_15192995761.pdf.

sidies as inconsistent with the WTO's Subsidies and Countervailing Measures Agreement (SCM), and argued that they were depressing global prices unfairly.[55] After a lengthy litigation process, Brazil prevailed in the case. Rather than removing the offending measures, the United States continued with its WTO-inconsistent measures and paid Brazil $300 million in damages in order to subsidize U.S. cotton producers. Eventually the two sides settled in 2014.[56]

Likewise, the WTO's negotiating forum has been stagnant since the collapse of the Doha Development Round. Shortly after the terrorist attacks on Sept. 11, 2001, the Doha Development Round was launched at the behest of the United States, and developing nations agreed in a show of solidarity.[57] Eventually the Doha Development Round broke down over the United States' and European Union's—the two wealthiest WTO members—refusals to meaningfully curb agricultural subsidies.[58] Likewise, India was reluctant to agree to curb its ability to impose temporary tariffs on surges of agricultural imports.[59] In other words, agriculture issues were largely blamed for the negotiating impasse and the Doha Development Round was officially declared over in 2015.[60] This marked the first time that a major, multilateral trade round failed under the auspices of the General Agreement on Tariffs and Trade (GATT) and its successor, the WTO.

WTO Violations

Likewise, our subsidy regime potentially runs afoul of our commitments at the WTO. In particular, recent trade mitigation payments may violate its Agreement on Agriculture (AoA) and SCM Agreement.

Under the AoA, countries "determine whether their policies for any given year are potentially trade-distorting, how to calculate the costs of any distortion and how to report those costs to the WTO in a public and transparent manner."[61] Subsidies under AoA are classified using a traffic light analogy. Green box subsidies "are minimally" or non-trade distorting and are not subject to any spending limits;" amber box subsidies are programs "that are the most trade-distorting programs and are subject to strict aggregate spending limits;" blue box subsidies are "market distorting but production-limiting" and are not subject to strict spending limits. Finally, there are de minimis exemptions that are "sufficiently small (less than 5 percent of the value of production)—relative to either the value of a specific product or total production—to be deemed benign."[62]

The United States committed to keeping amber box subsidies under $19.1 billion a year.[63] Crop insurance premium subsidies count toward the $19.1 billion amber box subsidy cap, and since 2014, premium subsidy payments have averaged $6.2 billion.[64] As the Congressional Research Service explains:

> By basing ARC and PLC on historical acres rather than current planted acres (i.e., current crop choices), the payments are partially decoupled, and the USDA notified them as non-product specific. As a result, ARC and PLC payments have been excluded from counting against amber box spending limits in the WTO since their origin in 2014 under the non-product-specific de minimis exclusion.[65]

More troubling are the recent trade mitigation payments under the CCC. Those payments are broken up into three categories: the Market Facilitation Program, which "provides direct payments to producers of certain USDA-specified commodities;" the Food Purchase and Distribution Program, which is "intended to purchase unexpected surpluses of affected commodities" in order to distribute to, for example, food banks; and the Agricultural Trade Promotion program, which "provides funding to assign in developing new export markets for affected U.S. farm products."[66] The bulk of the trade mitigation subsidies flows through the Market Facilitation Program.[67]

There is a lag in notifying the WTO about agricultural subsidies. In the fall of 2020, the United States will have to notify the WTO about its 2018 subsidies. There are legitimate questions about whether the recent Market Facilitation Program are amber box subsidies and thus count against the United States' $19.1 billion limit. If they do, when coupled with the $6.2 billion worth of crop insurance premium subsidies, the

55. Randy Schnepf, *Brazil's WTO Case Against the U.S. Cotton Program*, Congressional Research Service, June 21, 2011, p. 5. https://fas.org/sgp/crs/row/RL32571.pdf.

56. Gary Clyde Hufbauer, "A Good Deal Settles the Brazil Cotton Dispute," Peterson Institute for International Economics, Oct. 2, 2014. https://www.piie.com/blogs/trade-investment-policy-watch/good-deal-settles-brazil-cotton-dispute.

57. Douglas A. Irwin, *Clashing Over Commerce: A History of US Trade Policy* (University of Chicago Press, 2017), p. 674.

58. Ibid., p. 675.

59. Ibid., p. 676.

60. Ibid.

61. Randy Schnepf, *WTO Disciplines on U.S. Domestic Support for Agriculture*, Congressional Research Service, June 3, 2019, p. 1. https://fas.org/sgp/crs/misc/IF10983.pdf.

62. Ibid., p. 1.

63. Randy Schnepf, *U.S. Farm Support: Compliance with WTO Commitments*, Congressional Research Service, Oct. 4, 2019, p. 1. https://crsreports.congress.gov/product/pdf/R/R45940.

64. Ibid.

65. Ibid, p. 6.

66. Ibid., p. 9.

67. "The Fallouts of Bailouts," p. 4. https://www.rstreet.org/2019/07/02/the-fallouts-of-bailouts.

United States would exceed its $19.1 billion commitment, which would open the country up to dispute settlement proceedings and potentially more tariffs on American exports.

Even if the U.S. subsidies are compliant with the AoA, they could run afoul of the SCM. The SCM disciplines domestic subsidies for products that "spill over into international markets."[68] If WTO member countries believe domestic subsidies distort trade, they could challenge the subsidies in a dispute settlement proceeding and potentially open the United States to more tariffs if the offending measures are not withdrawn after a negative decision.

POLICY RECOMMENDATIONS

American taxpayers, the environment—including water quality—and our trade relations would all improve if policymakers in the United States made meaningful cuts to our domestic agriculture subsidies.

Eliminate tariffs and cut subsidies

As a preliminary matter, the United States should eliminate its recently enacted tariffs on imported steel, aluminum and products from China. If the United States removed these tariffs, which have been an economic disaster for the country, our trading partners would remove their retaliatory tariffs. As a result, the trade mitigation payments made by CCC could be wound down, which would save taxpayers money and improve environmental outcomes. Getting back to the pre-trade war status quo is a good first step, but it is not sufficient.

As this paper has explained, the safety net is a bloated mess that provides large subsidies to major corporate farms, but provides little assistance to the neediest farmers. In the past, R Street has suggested a number of concrete options to pare back farm subsidies, including a $30,000-$50,000 per farm annual limit on crop insurance premium subsidies; means testing subsidies so that high-income individuals and farms do not receive disproportionate subsidies; and prohibiting farms from "double-dipping" by "claiming indemnities from both crop insurance and the new Price Loss Coverage/Agricultural Risk Coverage" programs that cover the same losses.[69] These measures are all preferable to the status quo.

Expand international trade

The fundamental tradeoff for American farmers and ranchers is this: fewer domestic subsidies for more market access abroad. The potential gains from liberalization of agriculture trade are enormous. In 2006, the CBO estimated that: "[I]f all policies worldwide that distort agricultural trade were phased out [...] the likely total annual economic benefit to the world by 2015 would be roughly $50 billion to $185 billion."[70]

By imposing tighter limits on domestic agriculture subsidies, the United States could jumpstart multilateral trade liberalization negotiations at the WTO. As the world's largest economy, curbing agriculture subsidies is the largest bargaining chip the United States has. Other countries would be much more inclined to liberalize their own agriculture markets if the United States were willing to do the same.

Short of multilateral talks at the WTO, the United States should rejoin the TPP to reach Pacific Rim markets. The TPP eliminated some tariff rate quotas on a number of agricultural products and prohibited all members from providing export subsidies.[71] Likewise, the European Union and post-Brexit United Kingdom offer opportunities for American agricultural exporters. Similarly, American consumers would also benefit from agreements that eliminate tariffs, curb subsidies and ferret out other non-tariff barriers.

CONCLUSION

The current farm safety net is full of misaligned incentives that are costly for taxpayers and lead to overproduction, which damages the environment while hurting our ability to open foreign markets for more American products. By making smart policy choices today that responsibly curb agriculture subsidies, we can begin to rectify our fiscal outlook, improve water quality and the environment more broadly and reach closed, foreign markets. Policymakers should seize the opportunity.

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