The Agricultural Market Transition Act (AMTA) title of the 1996 FAIR Act is a novel departure in farm policy. Its fixed payments, no acreage set-asides, and avoidance of CCC commodity stockpiles provide a possible means of transition to a market-based agriculture that would not require governmental intervention to prop up the agricultural economy. Some now argue that the FAIR Act has failed, on the grounds that the federal government has spent too much, while at the same time this spending is not effectively targeted at situations and people where help is most needed. This paper lays out my assessment of the welfare economics of AMTA and two related elements of recent farm commodity policy, the marketing loan program and federal crop insurance.

The welfare economics applied is standard benefit-cost analysis, which attempts to assess the gains and losses to all the economic interests involved, and takes as a choice criterion the sum of the gains and losses. With commodity programs the sum is often negative, which means the programs impose a cost, called in the literature the social cost, efficiency loss, or deadweight loss. The larger the deadweight loss, the less desirable the program, other things equal. But a program may have desired ends over and above efficiency, for example income redistribution to people who are economically distressed. In such a case, the efficiency loss can be taken as the price we pay as a society in order to achieve the income redistributitional end.

Outlines of Pros and Cons of Current Policies Compared to Alternatives

AMTA

Pros:

(1) The program has, as advertised, allowed farmers more freedom to farm, and resulted in production choices more attuned to market conditions than the old deficiency payment and set-aside approach had done. Since 1996 we have seen about 10 million acres go out of wheat and at the same time about a 12 million acre increase in soybean acreage, reflecting in part the end of restraints on incentives that the former programs had created.

(2) The payments have provided needed financial assistance to farmers.

(3) The payments themselves have been largely non-distorting, in that whether a farmer uses more or less inputs, switches acreage among program crops, or leaves land fallow makes no

difference in the amount of payments received. That is to say, the FAIR Act has generated less deadweight loss to our economy than previous agricultural programs.

Cons:

(1) The payments have not been targeted to situations where they are most needed, either in terms of most depressed commodities or lowest-price years, nor have they been targeted to farmers who are most at economic risk.

(2) In response to farm distress when prices fell in 1998, 1999, and 2000, market loss assistance payments were made to supplement contracted payments, but these, too, were not directed at states or farmers where problems were greatest.

(3) The receipt of market loss assistance payments for the last three years, and their gradual expansion to cover additional crops, have led to an expectation, extending almost to a sense of entitlement, that payments at the higher levels should continue.

Marketing Loans

The marketing loan program was not created by the FAIR Act, but the lower prices of recent years, together with the decisions of the Executive Branch to maintain loan rates at the maximum levels the 1996 Act permitted, have made loan deficiency payments a large budget item.

Pros:

(1) With loan rates set at their legislated maximum, and the administration of the loan deficiency payment program generating expected market returns to farmers that exceed loan rates by 10 to 15 percent, a safety net is provided that pays farmers more the lower are market prices.

(2) By making loan deficiency payments in lieu of CCC acquisition of stocks, the program avoids the costly stockholding that plagued past price support policies and led to export subsidies and sales at losses.

(3) The lower market prices caused by marketing loans mean lower world market prices and thus discourage production abroad.

Cons:

(1) The loan program is overriding market signals. The market mechanism is thus missing that permitted the hog prices, for example, to recover without government intervention after the extraordinarily low prices of 1998 and 1999.

(2) Moreover, because production is encouraged, and prices reduced, some of the funds spent do not accrue to the benefit of producers but rather are transferred to buyers of commodities
consumers and agribusiness). [So this is a “con” from the viewpoint of some market participants but not others.]

(3) LDPs are even more heavily weighted toward large commercial producers than are AMTA payments. [So this is a pro from the large-producer viewpoint.]

Crop Insurance and Disaster Assistance Programs

Attempts to forestall the need for *ad hoc* disaster assistance by having farmers buy crop insurance are, of course, not new with the FAIR Act. New since 1996 are unprecedented levels of subsidy for crop insurance and expansions to cover economic hazards as well.

Pros:

(1) Some protection of producers from production risks is provided.

(2) Recent reforms have made indemnity payments come closer to being covered by premium revenues (including subsidies).

Cons:

(1) The budgetary costs of crop insurance are expected to be in the neighborhood of $3 billion annually as of the 2001 programs.

(2) The programs still have not attained sufficient coverage to forestall the need for *ad hoc* disaster assistance.

(3) The subsidies for those who participate are becoming large enough to significantly affect farmers’ production decisions. In particular, there is an incentive that cannot be ignored to grow crops in more drought-prone and otherwise less favorably situated areas.

Policy Options for the Situation in 2001 and Beyond

What alternatives make sense to consider in formulating the next farm bill? One tempting possibility might be to save outlays by scrapping the Freedom to Farm approach, and re-introducing acreage set-asides and payments that fluctuate inversely with commodity prices. The idea would be to drive up commodity prices, thereby reducing loan deficiency payments, and to make direct payments more responsive to market conditions. The approach is essentially a rebirth of the target price/deficiency payment programs of 1973-1996, in a streamlined form.

Pros:

(1) Higher market prices can be obtained and thereby farm income can be supported for a smaller budget outlay.

(2) Appropriately chosen acreage reductions can be price-stabilizing.
(3) Payments that rise when market prices fall provide a more consistent income stabilizing mechanism for farm income than ad hoc market loss assistance payments.

Cons:

(1) The cost of farm income support is shifted to consumers and other buyers of commodities.

(2) Idled land creates costs for landowners (who for example still have to pay mortgage payment on idled land they financed by borrowing or otherwise have to give up the opportunity returns that could have been earned by using or renting out the land). So a given sum of additional revenue created for farmers is more valuable to them if not accompanied by acreage reduction requirements.

(3) Production is encouraged in other countries to replace the output that the U.S. cuts back – not a serious short-run problem but it is in the long run where investment in agriculture is encouraged by an expectation that the U.S. will act to hold up the market in low-price years.

**Benefit-Cost Analysis**

Listing pros and cons is not sufficient to guide policy choice: one must somehow assess what they add up to. One billion-dollar cons more than offsets 100 million-dollar pros. I proceed by using gains and losses estimated in an admittedly imperfect supply-demand model of the commodity markets. It is imperfect because information about supply and demand parameters is uncertain, and because some pros and cons of policies do not lend themselves to supply-demand representation.

A supply-demand representation of AMTA and marketing loan programs for grains and cotton is illustrated in Figure 1. AMTA programs maintain remnants of the CCC loan programs that formerly supported market prices through governmental willingness to take delivery of commodities at the “loan rate” price. Ever since the costly CCC stock build-ups of the early 1980s, these programs have been administered in such a way that CCC would not acquire stocks of commodities and would not support the season-average market price (although they might support the harvest-season price). The primary mechanism is marketing loans, under which the farmer is paid the loan-level price and is then free to sell at the market price, and which has evolved in the 1990s into loan deficiency payments (LDPs). The prices received by farmers under the FAIR Act, when LDPs are being made as in 1997-2000, have been less than the target price guarantee of pre-1996 programs (albeit LDPs are made on a larger quantity). This situation is shown with farm price supported at \( P' \) in Figure 1. The LDP program is essentially a classical production subsidy, with its price support generating output of \( Q_1 \), which clears the market at price \( P_1 \). The program generates producer gains of \( P' - P_e \), buyers’ gains of \( P_e - c P_1 \), and taxpayer costs of \( P' - c P_1 \), which add up to a deadweight loss of the vertically hatched area \( b - c - e \).

AMTA provides “production flexibility payments,” set to give each producer a pro-rata share of the payments they received or would have received under the pre-1996 deficiency
payment program if they had participated. Once a farmer has signed up, payments accrue each year until 2002 in a pre-scheduled amount regardless of what the farmer does in planting decisions, and regardless of market prices. But in 1998, 1999, and 2000 AMTA payments were augmented by 50 percent, 100 percent, and 100 percent, respectively, in emergency market loss assistance payments. I will assume AMTA payments are no more distorting of farmers’ production decisions than deficiency payments were under the pre-1996 programs. The payments cost taxpayers a dollar for every dollar delivered to farmers and do not cause production to increase. Therefore they do not result in any further deadweight loss in addition to the triangle generated by the loan program.

Now compare a supply management program calibrated to achieve a market price equal to the loan rate (for ease of comparison), using the mechanisms of the pre-1996 program, a deficiency payment with acreage reduction required in order for a producer to be eligible for the payments. A target price, \( P_T \), was guaranteed on a U.S. average basis. This was accomplished by paying deficiency payments equal to the difference between the target price and the U.S. average market price received by farmers during the marketing season, or part of it. In order to discourage overproduction in response to the target price, and to save budgetary outlays (especially under the 1990 legislation which introduced a 15 percent nonpayment base), deficiency payments were paid on a limited quantity of output. Moreover, in years when commodity stocks had become large (or threatened to become large), the Secretary of Agriculture was empowered, and in some circumstances required, to impose an annual Acreage Reduction Program. Payments were made only on a “program yield” established for each farm, so that a farmer could not increase payments by, for example, applying additional fertilizer.

Those provisions resulted in a close approximation to a non-distorting payment system in which deficiency payments were received on a pre-established quantity, shown as \( Q' \) in Figure 1. A farm could increase its program crop acreage through base-building over a five-year period, so the market supply curve under the program was not perfectly inelastic at \( Q' \) but this effect is not accounted for in the diagram. The market demand curve \( D \) intersects \( S' \) to determine the market price \( P' \) under the constraints of the program. If there had been no program, the market would have cleared at \( P_e \) where \( D \) and the unconstrained supply curve \( S \) intersect. The gains to producers are measured by the area \((P_T-P'\)*Q') minus the costs of the idled ARP acreage (essentially its rental value, the opportunity cost of not using the land, plus required weed control and conservation costs minus the subsequent productivity gain from fallowing). Costs to taxpayers are \((P_T-P'\)*Q') and costs to commodity buyers are the quadrilateral whose vertices are \( P' \) a e \( P_e \). The deadweight loss is the sum of those three components, area a d e, plus the opportunity cost of idled land, measured by \((Q_c-Q')\)*k*\( P_e \), where \( k \) is the share of costs accounted for by the rental value of cropland (which is foregone not only by farmers but by society). Both components of deadweight loss are shown as horizontally hatched areas in Figure 1.

\[1\] The parenthetical point refers to the fact that the 1985 and 1990 Farm Bills’ stated criteria for acreage reduction percentages were based on USDA’s projected carryover stocks for the harvest period that followed the winter period in which required ARPs were announced. The projection could be mistaken. The last ARP for corn, for example, was a 7.5 percent reduction for the 1995 crop based on a projection of supplies that would likely be price depressing in the absence of the ARP. But 1995 turned out to be a high-price, excess demand year in which prices rose to unsustainable heights and the ostensibly stabilizing ARP rules were in fact destabilizing.
Empirical analysis. Ten years ago I carried out a cost-benefit analysis of the main commodity programs of the late 1980s, with the results by commodity shown in Table 1. The estimate is that the 1987 programs generated $17.5 billion in gains to producers, at a cost of $22.5 billion to taxpayers and buyers of commodities. (The situation was roughly similar in 1986 and 1988 also.) The gains are estimates of producers’ surplus under the programs, at normal crop yields, compared to an estimate of producers’ surplus under a situation of no programs, with commodity prices that would clear the markets after adjustment to the no-program situation (see Gardner 1990 for details). The difference between the gains and losses is the deadweight loss, $5 billion annually. This is the sum of losses due to buyers and sellers responding to different prices and, most importantly, the opportunity cost of idled cropland under annual Acreage Reduction Programs. Although taxpayer costs and payments to producers varied considerably between different years of the late 1980s, the deadweight losses, our keystone of inefficiency, were in the neighborhood of the $5 billion average magnitude throughout these years.

Now consider the comparable programs of the late 1990s. An analytically difficult aspect of this exercise is determining, on the ex ante basis that determines production decisions, what the expected producer price is, including the subsidy (the LDP), that corresponds to price P’ in Figure 1. We can’t just compare the loan levels ($1.89 for corn, $2.58 for wheat, $5.26 for soybeans, and 51.92 cents per pound for cotton during 1998-2000) with average farm prices received. The main reason is that, as mentioned earlier, loan deficiency payments and marketing loan gains have provided average revenues per bushel to producers that exceed the loan rate in each of the last three years, so farmers can be expected to count on this in making their planting decisions. Following are data for the 1999 crops, with all data in $ per bushel, except cotton which is in cents per pound:

<table>
<thead>
<tr>
<th>Crop</th>
<th>Average farm price</th>
<th>Ave. marketing loan benefit</th>
<th>Ave. farmer revenue</th>
<th>Percentage price wedge</th>
</tr>
</thead>
<tbody>
<tr>
<td>corn</td>
<td>1.80</td>
<td>0.25</td>
<td>2.05</td>
<td>14</td>
</tr>
<tr>
<td>soybeans</td>
<td>4.65</td>
<td>0.87</td>
<td>5.52</td>
<td>19</td>
</tr>
<tr>
<td>wheat</td>
<td>2.50</td>
<td>0.41</td>
<td>2.91</td>
<td>16</td>
</tr>
<tr>
<td>cotton</td>
<td>44.9</td>
<td>19.0</td>
<td>63.9</td>
<td>42</td>
</tr>
</tbody>
</table>

These calculations indicate farmers growing corn can on average expect to receive 8 percent more than the loan rate, for soybeans 5 percent, for wheat 13 percent, and for cotton 23 percent. The price wedge between producer price received and buyer price paid is even larger, because farm-level market prices are less than the loan rates. The percentage price wedges, calculated as

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2 The marketing loan benefit is loan deficiency payments plus market gain on quantities placed under loan as reported in “Loan Deficiency Payment and Price Support Cumulative Activity” available on USDA’s FSA website [http://www.fsa.usda.gov/](http://www.fsa.usda.gov/). The average benefit per unit output is calculated as loan benefits divided by total production of each crop in 1999 as estimated by USDA. This counts in the average a zero benefit for quantities that did not participate in the loan program. The average benefit for those who did participate is slightly higher.
price differences divided by the average farm price paid as estimated by USDA, are shown in the right-hand column.

Econometrically-based estimates of the effects of the FAIR Act’s marketing loan provisions have been made by Westcott and Price (2000). They remove price wedges attributable to LDPs and other marketing loan provisions as of 1998 (slightly smaller than the price wedges shown above) and then simulate the effects for each commodity in the FAPSIM model that USDA uses for its baseline commodity market projections to 2005. This model embodies a complete set of commodity supply and demand elasticities and cross-elasticities, with baseline projections of yields and export demand (so it is not a comparative statics exercise like my 1980s calculations but rather an application of comparative dynamics). Taking a snapshot of their results for 2000, i.e., two years after the loan program is taken away, they estimate the following percentage changes in prices and quantities attributable to the program:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Producer price</td>
</tr>
<tr>
<td>Wheat</td>
<td>12</td>
</tr>
<tr>
<td>Corn-Soybeans</td>
<td>15</td>
</tr>
<tr>
<td>Cotton</td>
<td>25</td>
</tr>
</tbody>
</table>

That is, if we did not have the loan program (or had permitted loan rates to fall sufficiently that loan deficiency payments were zero) in 2000 we would have had 2.5 percent, 1.5 percent, and 10 percent less wheat, corn-soybeans, and cotton, respectively, than we actually are observing. (One could alternatively say that, assuming the 50 percent slippage that appears roughly applicable to past set-asides, eliminating the loan program would have been roughly equivalent to an acreage reduction program for 2000 that idled 5 percent, 3 percent, and 20 percent of the respectively acreages of these commodities.)

The resulting gains and losses to producers and consumers/taxpayers4 are as shown in Table 1 for grains and cotton in 2000. From the viewpoint of the goal of efficiency in our agricultural economy, these gains and losses are not the main issue. The main issue is the difference between the gains and losses. In the time-honored metaphor of economic

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3 The cotton figures are Westcott-Price estimates only for quantity. I estimate producer price based on a supply elasticity of 0.5 and demand elasticity of –2/3.
4 Taxpayers and buyers are aggregated. Taxpayer costs are the production flexibility, market loss, and loan deficiency payments. Administrative costs of several hundred million dollars are not included. Taxpayer costs are larger than the amounts shown in table 1 because buyers actually gain. The amount they gain is determined by the price declines shown above of 3 percent for grains and 8 percent for cotton. I call these “buyer” gains rather than the more usual term “consumer” gains because some of these gains will be captured by livestock producers, processors, exporters, foreign consumers, and others in the marketing chain who are not U.S. final consumers. (We could also say that the “producer” gains are more precisely landowner gains, and are chiefly evident in the fact that cash rental rates for cropland have not declined despite three years of low market prices.)
Table 1. Gains and Losses from Commodity Programs: 1987 and 1999

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains and Oilseeds</td>
<td>11.8</td>
<td>-14.6</td>
<td>15.5</td>
<td>-15.6</td>
</tr>
<tr>
<td>Cotton</td>
<td>0.9</td>
<td>-1.5</td>
<td>1.8</td>
<td>-1.9</td>
</tr>
<tr>
<td>Sugar</td>
<td>2.7</td>
<td>-3.1</td>
<td>1.1</td>
<td>-1.7</td>
</tr>
<tr>
<td>Dairy</td>
<td>1.3</td>
<td>-2.6</td>
<td>0.2</td>
<td>-0.2</td>
</tr>
<tr>
<td>Tobacco, Peanuts, Wool</td>
<td>0.8</td>
<td>-0.7</td>
<td>0.6</td>
<td>-0.6</td>
</tr>
<tr>
<td>Total</td>
<td>17.5</td>
<td>-22.5</td>
<td>19.2</td>
<td>-20.0</td>
</tr>
</tbody>
</table>

**Deadweight losses**

- 1987: -2.8
- 1999-2000: -0.8


**Price support program, not including marketing orders. Marketing orders have been estimated to have increased the average price of milk 2 to 5 percent as of about 1980, and to have had substantial deadweight losses of about $100 million annually because of pricing milk for fluid use higher than milk used in manufactured dairy products (see review in AAEA 1986). Despite reform efforts in the 1990 and 1996 farm legislation, there does not appear to have been sufficient change in the operation of marketing orders to alter these estimates significantly, so the assessment of current relative to pre-1996 programs is unchanged.

***Wool program, costing about $100 million annually was eliminated in 1993.

redistribution as slicing up a pie, purely as an economist I am less interested in who gets the biggest slices as in how much of the pie ends inedibly spilled on the floor as a result of the pie reslicing.

In a landmark in the annals of the economics of “applied pie slicing,” Harberger (1964) derived a remarkably simple formula for multimarket deadweight losses resulting from a set of tax/subsidy rates in each market, which incorporates the effects of all own- and cross-price elasticities of supply and demand that requires data only for the subsidy rates and the resulting changes in quantities. Expressed in percentage change terms, the formula is (equation 4’ of Harberger 1964, p. 70):

\[
DW = 0.5 \sum S_i \%\Delta X_i V_i
\]

where DW is the deadweight loss, the \( S_i \) are subsidy rates, the \( \%\Delta X_i \) are the changes in output that result from the whole set of subsidies, and the \( V_i \) are the market values of the commodities in billion dollars. Using the Westcott-Price quantity data and the 1999-crop price wedges above, the estimate for wheat, corn-soybeans, and cotton is:
%DW = .5 ( .16*.025*6 + .16*.015*22 + .42*.10*4) = $0.12 billion.

Thus the annual deadweight loss is estimated at $120 million.

With respect to sugar and dairy: (1) GAO (2000) recently revisited the sugar program and estimated it generated $1.1 billion in gains to producers in 1998 at a cost to consumers and taxpayers of $1.7 billion. This is primarily a matter of a larger deadweight loss for sugar than for grains because the price wedge (as of 1998) is about 100 percent of the no-program price rather than 20 percent as was used for the grains, and because of the value of import quotas, which transfer about $400 million from U.S. buyers of sugar to foreign sugar suppliers who obtain the quotas. (2) The dairy program has been substantially scaled back in the 1990s. In 1998 and 1999 it spent an average of about $400 million on dairy products for price support. Assuming this is equivalent to a production subsidy and that supply and demand elasticities are about equal, it would have generated $200 million annually for producers at a cost of slightly more than $200 million to consumers/taxpayers, with deadweight losses of less than $10 million (and so lost to rounding in summing gains and losses).

Table 1 sums up the preceding calculations, permitting a rough comparison between pre-1990 and post-1996 policies during relatively low-price periods. Despite talk of the disappearing safety net under the FAIR Act, producers received more support in 1999-2000 than they did in 1987. The 1999-2000 calculations omit crop insurance subsidies, which were substantially larger in 1999-2000 than in 1987. On the other hand, the calculations also omit export subsidies, which were more costly in 1987.

Economists’ first order of normative business, in the traditional view which I share, is efficiency not redistribution, and on this score the 1999-2000 calculations indicate an almost $4 billion gain in 1999-2000 over 1987, a quite remarkable improvement. Is this believable? The reasons for reduction in deadweight loss are: (1) demise of the acreage reduction program, which was idling from 20 percent (corn) to 35 percent (rice) of participating producers’ acreage bases in 1987 – giving a deadweight loss rectangle of over $2 billion; (2) the dairy program has lower price support activity and is no longer losing value in stored commodities and dairy herd buyouts as was occurring in 1987; (3) the sugar program has greater deadweight losses now mainly because its effect in raising corn prices in 1987 cut the costs of the corn program, an effect we would still see today on loan deficiency payments except that GAO estimates the sugar program no longer has an appreciable price-supporting effect on corn sweeteners. These estimates are all shaky, but nonetheless a substantial reduction in deadweight losses remains my final answer because of the absence now of supply management through idled resources. If we handled current market conditions the way it was done in the pre-1996 programs, we would be idling in

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5 The GAO sugar analysis pre-dates USDA’s purchase, in June 2000, of $54 million worth of refined sugar, and subsequent announcement of a sugar Payment-in-Kind Program under which beet growers would have the option of plowing up and not harvesting part of the 2000 sugar beet crop in exchange for rights to the government-held sugar that had been acquired. This loss of the value of the planted crop will give a substantial boost to the deadweight cost of the sugar program, but nonetheless the acreage involved will be far less than under the grain programs of the 1980s.
the neighborhood of 30 million acres. At an average rental value of $70 per acre (the U.S. average in USDA-NASS 2000), this would cost our economy $2.1 billion annually.

There are four matters that require further discussion and analysis.

First, the calculations address supply and demand responses to changes in expected or year-average prices. An objection to the FAIR Act is that it permits variability in commodity prices that could be damped by appropriate commodity storage policies and/or supply management through acreage limitations when stocks become large. With respect to commodity storage policies, after many policy experiments in government storage and subsidies to private storage, attempts to stabilize prices through these measures have been abandoned since 1985. Congress and USDA, with the support of farmers and economic considerations, have concluded that the costs have exceeded and could be expected to continue to exceed the benefits, both to farmers and to the economy generally. This is not to say that markets perform perfectly under the uncertainties that prevail in farm commodity markets; it is rather that painful experience indicates that politically feasible federal policies are too likely to be incapable of remedying such market failures as occur.

Second, it is worth recalling that the post-1996 experience has in fact generated flexibility in planted acreage in response to market signals that earlier programs did not, despite the flexibility provisions that had been introduced in the 1990 Farm Act. Since 1996, wheat area harvested has been reduced by 12 million acres, with a similar increase in oilseed acreage. These are adjustments that had been effectively suppressed under the pre-1996 target price regime, and as a result of the adjustments U.S. agriculture is now in a better position to respond to market demands in the future. Granted, the loan program still distorts commodity production as has been detailed above, but the magnitudes are less, and the distortions less firmly established, than was formerly the case.

Third, I have not emphasized the roughly $20 billion in annual budgetary outlays under the FAIR Act’s commodity programs because comparable outlays occurred in 1986-88. In comparing current programs with what might conceivably replace them, one should pay more attention to those outlays. But again from an economic viewpoint one should look at budget outlays as generators of deadweight loss (or conceivably gain if spent to correct market failures). Having already considered commodity supply-demand responses to LDP and AMTA payments, the remaining issue is the cost imposed upon the economy by the taxes imposed upon the nonfarm economy to pay these costs. The large literature on the marginal social costs of government finance suggests that an additional dollar raised through the U.S. tax system generates from $0.15 to $0.25 in deadweight losses due to resource misallocation. Thus $20 billion spent on commodity programs, if returned to taxpayers, would increase U.S. GDP by about (0.2*20) = $4 billion annually. Economists typically do not incorporate such calculations in agricultural policy analysis, because it may not be appropriate to assume that $20 billion, if not spent on farm programs, would be returned to taxpayers. Still, these cost considerations should not be ignored.

Fourth, I have counted foreign and domestic gains and losses equally with domestic ones. It might be worth considering what happens when we give equal weight to all domestic interests,
but no weight to foreigners’ interests (a nationalistic view). This was already done in the GAO analysis of the sugar program, where the value of sugar quotas created for foreign suppliers who get access to the U.S. market under import quotas is counted as part of the deadweight loss of the sugar program in Table 1. There are several aspects of foreign interests in the AMTA-crop programs.

(1) Some of the gains due to lower prices caused by overproduction in response to marketing loans go to foreign grain buyers. Subtracting those gains would increase the deadweight loss of the FAIR Act by about $600 million (assuming $2 billion in lower market revenues and 30 percent of all grains exported).

(2) Under supply management, some of the costs of higher market prices are likewise paid by foreign buyers. (The U.S. is essentially exercising its monopoly power in the world market.) Subtracting these costs would reduce the deadweight loss of the acreage idling approach by about $600 million.

(3) The other side of the foreign buyer point is that foreign producers of grain are harmed by the current loan deficiency payment approach, which drives down the prices they receive; and these foreign producers would be helped by the higher prices that U.S. acreage reduction would generate. In fact, the general view of foreign governments is not to thank us for the lower prices that the loan deficiency payments create for their buyers, but rather to castigate us for the lower prices that their producers receive. So much so that several countries, notably in Europe and the Cairns Group of agricultural exporters, are quite upset with the current U.S. policy regime. Why does this matter? One way is how it plays into the next round of agricultural trade negotiations in the WTO. Is it better to go into those negotiations as a country that has behaved “well” and not disrupted other countries’ attempts to support their producers, or is it better to go into the negotiations as a “bad guy” who is pushing down world prices? The usual line of reasoning is that the latter is better strategically, because then you have something to negotiate away in exchange for a change in other countries’ trade-restricting policies; whereas if you have already been good you cannot obtain benefits by committing to be better. I agree with this reasoning, which supports the FAIR Act approach as against a return to supply management.

Concluding Comments

In short, while I would not say that the FAIR Act has been a sterling example of policy at its finest, I do say that it is an improvement over what we had before, and it would be a serious mistake to go back to former policies.

Another option for reducing budget outlays from levels of the last two years would be simply to limit AMTA payments to the originally contracted amounts and not supplement them with market loss payments for the 2001 crops and beyond. Although commodity prices are likely to remain low this year, the idea that the U.S. farm economy is in a state of financial crisis that requires such payments is overdrawn. The best evidence of this is that cropland rental rates and prices continue to rise. It is true that some farms are in deep financial trouble. The problem with market loss assistance payments in this respect is that the vast bulk of them go to farms that are not in financial trouble, and the sums that do go to farms in financial trouble are generally not
sufficient to restore them to solvency. The preferable forward-looking approach in my opinion is to focus federal spending on policies that have reaped the greatest rewards for our nation, including food consumers as well as producers, policies which have helped make the United States the world’s leader in agriculture and food production. These include continuing efforts in research, technology development, and technical education. I believe it is important to maintain these efforts, and to continue to turn these investments towards remedies for market failures, for example protecting water quality, and to keep supporting biotechnology development. It is especially important to make progress on international agreements to reduce protectionism in this and other areas of agricultural trade. A key practical step in this last area is Congressional granting of fast-track negotiating authority to the President. These policies can be supplemented with market-oriented safety net policies having only modest subsidies, and financial assistance targeted at people in trouble without locking them into losing farm enterprises – that is, broad-based rural development policies. However, such policies have not been precisely formulated, much less given the benefit-cost scrutiny they would need to become serious competitors in the farm policy game.

**References**


Figure 1. Pre-1996 and AMTA Comparison