

Chapter 15c –Farm Subsidies, Tariffs

- F. **Farm Subsidies:** fees paid to farmers by the government for two types of reasons – 1) Support Price Policy (or price floor, 2) Uncultivated field policy - farmers paid not to produce for environmental reasons or to keep crop prices high.
1. Support Price Policy (put in place during the Great Depression, but never halted after prosperity returned)
 - a. Ex. Gov't promises \$6 per bushel price for wheat. Even if market price falls to \$4 gov't still pays \$6.
 - b. Result: US wheat farmers produce far more wheat than the world market requires or will pay for.
 - c. Taxpayers pay for heavily subsidized protection so farmers tend to move away from the private sector. In times of great price fall, corn, soybean and wheat farmers can profit doubly if enrolled both in *ACRE* and *crop insurance*. Tax payers seem not to reap any measureable benefit. See extended quote by Bruce Babcock, Iowa St. Univ. p.528.
 - d. Result – US Gov't has huge stores of unneeded wheat, for ex., that it then *dumps* on the world market at a very low price taking a loss in the sale and *artificially depressing* the world market price for wheat. This causes poor wheat farmers in other countries to lose money because their own crops are now devalued due to the market surplus.
 - e. Winners: Wheat farmers (in the U.S.) which oftentimes consists of: (info below provided by Cato institute, see pp. 529-30)
 - (1) Households whose avg. income is 7.5% above the national US average income in 2002 -\$61,307. (in other words, not poor)
 - (2) Commercial Farms get about half of subsidies. Avg. household income = \$118,450 in 2000, and received an average subsidy of \$43,379.
 - (3) Fortune 500 Companies
 - (4) Members of Congress
 - (5) Millionaires such as Ted Turner
 - (6) Other wealthy recipients were the Westvaco Corporation, Chevron, John Hancock Mutual Life Insurance, DuPont, and Caterpillar—hardly struggling family farms
 - f. Winners: people who prefer to eat wheat in other countries and bakers in other countries who use wheat in their products (artificial price drop is a bonus).
 - g. Losers: US Taxpayer
 - h. Losers: Americans who like to eat produce other than wheat: The wheat support price has artificially *reduced the supply of the other commodities* below what the market would normally produce, and that simply drives up the price of these other commodities to some degree. (Farmers choose not to produce commodities other than wheat)
 - i. Losers: Wheat farmers in other countries. Wheat is artificially devalued due to US *dumping* stores at low prices.
 - j. Political reasons? Two Senators per state regardless of population and the farm lobby (Senators vote for each other's support price policy to keep their own support price policy for their state's product).
 2. Uncultivated Fields Policy - paying farmers *not* to produce certain kinds of crops but to leave fields uncultivated
 - a. Purpose: Keep prices high for farmers producing certain crops in the US, or environmental protection.
 - b. Winners: Farmers who are paid to do nothing and farmers who enjoy higher prices for their crops due to short supply
 - c. Losers: the rest of the nation and the world, who have less of that crop and higher prices for what they can still buy.
 - d. Supporters say this is necessary to keep prices from dropping to a point where US farmers would go out of business.
 - e. Counter point: the purpose of government is to support the good of the nation in general. How can it make a nation better off when it spends money to get *less* of something? It makes the nation poorer, not richer overall.
 - f. Normal forces of supply and demand should be allowed to determine the price for a crop and the amount produced.
 - g. Some individuals receive subsidies because they purchased land that was *previously* used for farming. These individuals include millionaire landowners, foreign speculators and absentee landlords, as well as farmers. (See Washington Post article extended quote on p. 532.)
 - h. In 2005 alone, when pretax farm profits were at a near-record \$72 billion, the federal government handed out more than \$25 billion in aid, almost 50 percent more than the amount it pays to families receiving welfare. (See Washington Post article quote, p.532).
 - i. Final argument in favor of farm subsidies: National Security – protection of domestic food production.

j. Counter point: argument is overstated.

- (1) American farmers are the most productive farmers in the world (each American farmer feeds an average of 143 people, up from 19 people in 1940)
- (2) Domestic shipping is much cheaper than importing foreign foods.
- (3) If foreign competition and lower prices began to bring about a great decline in the percentage of food produced in the United States, new programs could be introduced to retain some agriculture here *if* that became necessary, though it seems unlikely.

G. Tariffs: tax or fee imposed on goods when they enter or leave a country. Our focus will be on tariffs for entry.

1. Example: \$80 U.S.-made tire vs. \$60 Chinese-made tire + \$20 tariff imposed for sale in U.S.
 - a. Principle of Comparative Advantage: all countries will always have some things that they can manufacture advantageously and for profit.
 - b. Tire manufacturers & labor unions say unfair for Chinese to be able to sell so cheaply & pressure Gov't to impose tariffs. Ex: \$20 tariff imposed on \$60 Chinese tire = \$80 tire.
 - c. Many have paid to benefit the few. Tire workers & plant owners benefit, but American economy does not.
 - d. 9/14/09 – Obama increased Chinese tire tariff to 35%. See quote from Roy Littlefield, p.534
2. Tariffs on Chinese imports often result in retaliatory tariffs on American goods being imported into China.
3. The US Gov't gets its revenue on tariffs, ultimately, from American consumer. – an invisible tax.
4. Tariffs take away freedom of American consumers to spend money as they wish.
5. Gov'ts should seek to reduce and eventually eliminate tariffs to bring lower prices and more freedom (Rom. 13:4).
6. Value of Free trade agreements (Canada-U.S. Free Trade Agreement of 1987, NAFTA).
7. WTO promotion of low tariffs / freer trade and Doha Round negotiations.
 - a. Agricultural subsidies paid by U.S. and European Union seen as “protectionist.”
8. More protectionist policies since Dems gained majority in Congress in 2006. – supported by anti-free trade unions.
 - a. Other countries (Canada, EU, etc.) are engaging in Free Trade agreements; the U.S. is a party to only 5 of 64 world-wide trade pacts since 2005.
 - b. My view: countries should move to abolish tariffs in imports; this would equal more freedom.
9. When are tariffs valid? When protecting national security, cultural values, or generally when *protecting something the nation thinks to be important*. Not to protect special workers or industries.

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