Subsidies complicate farmers plight in growing trade war

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As China tangles with the President Trump over trade, North Carolina growers fear a collapse in demand, and say that even Trump's proposed $12 billion boost in farm subsidies won't stanch the billions they would bleed in a prolonged trade war.

"When things are rough, they are just rough," said Larry Wooten, president of the N.C. Farm Bureau. "We want trade, not aid, but at the same time, we're in it and we can't stop that."

There's one other problem with the proposed subsidy: Government programs already exist to protect farmers, said Daren Bakst, Heritage Foundation senior research fellow.

"This aid to the farmers seems to almost forget the fact that we have subsidies," said Bakst, a former researcher at the John Locke Foundation. "The programs literally exist to assist them if the revenue goes down. If the price of soybeans go below a certain price, a payment is triggered."

Agriculture and agricultural products were, as of 2016, an $84 billion industry in North Carolina.

The government has been subsidizing farmers since the Great Depression and the droughts of the 1930s ravaged agriculture. The early programs, which stabilized prices by paying farmers not to farm, were meant as a temporary measure, but the programs have only evolved over the decades instead of going extinct.

Today, three programs exist to give farmers a safety net, but critics say that net more closely resembles a "layer cake" of subsidies that could cost taxpayers $20 billion a year, according to a study by the Cato Institute.

By far the most important program is crop insurance subsidies, in which taxpayers foot more than half of the cost of insurance premiums for some farmers. This program alone has cost $83 billion since 1995, not including the payments to crop insurance companies, according to the Environmental Working Group.

Congress created the other two programs in 2014 to replace the controversial direct payment system. Farmers now choose between Price Loss Coverage that pays farmers if prices drop below a federally set floor price, and the Agricultural Risk Coverage that uses county averages to guarantee a certain revenue.

“I think there is a myth that we help farmers when they experience a big loss and are in real need, like a drought or a natural disaster,” Bakst said. “But the reality is that most of the programs that exist today help farmers meet certain revenue targets and isolate them from competing in the market.”

Almost all of that money goes to the biggest farms in the United States. The aid is tethered to the acreage and crops farmed, so the largest producers receive the largest subsidies.

“The fundamental flaw in the way we subsidize farms and farmers is that these payments go to people regardless of need,” said Craig Cox, senior vice president of Agriculture and Natural Resources at EWG. “The bigger you are, the more money you get. That’s been an issue in the farm subsidy world for forever.”

In North Carolina, Uncle Sam doled out more than $8 million to just one farm, while the next 15 farms got more than $5 million each since 1995. That’s not counting crop insurance payments, which are far less transparent but far more substantial, the EWG says.

“I don’t know that it is necessarily this brilliant scheme to help out the richest producers, I just think that is what has happened and that is the way the system works,” Bakst said. “They are not helping with risk, they are just a massive wealth transfer.”

Farmers disagree. They say that without crop insurance they could never get a loan to put crops in the ground because of the risk associated with farming.

“The direct parallel is that the one percentage of Americans pay the majority of taxes. It’s the same in principle,” said John Fleming, president of the Soybean Producers Association. “The larger scale operations are producing more, they are making larger capital investments and hiring more people, and they have much more exposure than somebody who is farming on $100,000 a year.”

Most farms in America aren’t receiving subsidies. Only six commodities qualify for federal help, and so 94 percent of the payments went to crops that only account for 28 percent of agricultural receipts since 2014, according to the Congressional Research Service.

The White House has not disclosed details about how the $12 billion will be distributed.

“I suspect they may do it the way they have done it in the past,” Cox said. “If that is the case, the same problems with the current subsidy programs will be inherent in whatever these bonus programs will be.”

Cox was also skeptical that the farm subsidies would be a one-time payment.

“Well, they are claiming it is a one-time payment, but we’re heard that before,” Cox said. “These subsidy programs have a way of sticking around.”

But if the subsidies don’t last, the loss of trade from a prolonged trade war might. It took years for U.S. farmers to enter foreign markets, but trade deals could collapse within months.

“I don’t like to hear to you say the word subsidy,” Wooten said. “For years, our farmers have been working, and our farmers would rather get our money out of the marketplace and not out of the mailbox in the form of a government payment.”

Industries have already started wrangling over who deserves federal tariff relief, sparking concerns that more federal bailouts might be forthcoming. Maine Democrats are demanding aid for fisheries, and in North Carolina, even agriculture interests are divided.

The proposed subsidies don’t include tobacco farms, which is the state’s top cash crop. The tobacco industry relies heavily on China. That country has more smokers than there are U.S. citizens, and North Carolina growers exported $156 million in leaf tobacco to China in 2017.

For the state’s tobacco farmers, the trade war has felt like “shark week,” as growers scramble to hold onto their Chinese customers, said Tobacco Growers Association of N.C. Executive Vice President Graham Boyd.

“They are all very anxious and concerned about the economic impact of potential erosion of demand,” Boyd said. “It’s not selling something at a lesser price, it’s not selling anything at all. … There is a serious risk that the Chinese customer might not return to U.S. market, even if all the tariffs went away.”