



Why Budget Cutters Ignored Farm Subsidies

Gary Clyde Hufbauer notes that in all the efforts to slash spending, Congress ignored costly agriculture subsidies that make little sense at a time of rising food prices.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics with Gary Hufbauer, Senior Fellow here, to talk about one aspect of the budget battles. In all the conversation about cutting the budget, you didn't hear much about agricultural subsidies. How big are they now and how much of a budget factor are they?

Gary Hufbauer: Yes, you heard hardly anything either from the Republicans or the President. The current expenditure in 2010 will probably be between \$7 and \$9 billion. But as far as trade negotiations go, the U.S. has been so far unwilling to offer to cap them at anything less than \$15 billion. And of course, if you know anything about land prices in Nebraska or out in the Imperial Valley in California you know that we've never had so much prosperity. So why can't you cut this down to \$5 billion? It's amazing.

Steve Weisman: I'll ask a couple of deliberately naïve questions. They were scrambling to come up with a number that ended up at \$38 billion. There was more smoke and mirrors than usual. But why are we subsidizing farm production when farm prices are at a record high?

Gary Hufbauer: Yes, great. Just to say a word on smoke and mirrors: yes, the number was 38 billion; the real number is probably \$20 billion, so the other \$18 billion is smoke and mirrors. I guess both parties were looking to the 2012 election. And they reckoned that if they said something honest about agriculture and cutting the subsidies really sharply, they would lose important districts across the country.

Steve Weisman: I think there's also a state called Iowa.

Gary Hufbauer: And there's a state called Iowa. Now there has been a little more bravery about talking about cutting out ethanol subsidies. No, they actually talked about cutting out one: there was talk about cutting out the domestic ethanol subsidies. But nobody's brave enough to talk about cutting the very high import duty on ethanol from Brazil, which actually has some sense from a greenhouse warming standpoint. But the ethanol from Iowa makes no sense, in fact it adds to greenhouse warming. So the political arithmetic really colored the programs of both parties where you could have easily gotten \$5 billion of real money.

Steve Weisman: It's like both sides need to appeal to that farm belt vote. So they can then argue about which taxes to raise or which Social Security benefits to cut. But aren't we learning that farm subsidies are as sacrosanct as we thought?

Gary Hufbauer: It is discouraging that they're so sacrosanct when you think about other subsidies, which would be hard to cut out: merchant marines has been going on for a long time. There are a lot of subsidies in there--Tennessee Valley Authority—you go right across a whole list. And one has to suppose, since they went for the smoke and mirrors as you put it, that they carefully looked at these sacrosanct and said "no go."

Steve Weisman: If for some reason there was a move on agriculture subsidies, would that have an impact on the trade negotiations?

Gary Hufbauer: Oh, yes. If there's a sticking block that the U.S. could deal with, that's it right there. The Europeans are bad on subsidies, but we've gotten most of the bad press internationally. And it is just amazing at this time of record high farm prices that we can't cut this stuff out.

Steve Weisman: Gary, thanks very much.

Gary Hufbauer: Thank you.

