



Key Issues for the Next Farm Bill: Is a Farm Program Buyout Possible?

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The Road to a WTO Doha Agreement...

... has been rocky:

- For developed countries, “dirty decoupling”
- and for developing countries, “defensive” versus “offensive” approaches

have constrained progress in the negotiations

A desirable negotiated outcome would be low subsidies and low protection

A Buyout of Farm Support Programs

This presentation puts forth a domestic policy option that would end farm subsidies by buying out farm support programs. A buyout could:

- **Provide enhanced transition support to farmers**
- **Provide long-term savings to taxpayers**
- **Pave the way for more substantial global agricultural trade liberalization**

Recent Buyouts

Divergent Policies Among Peanuts

Tobacco and Sugar

- Peanut quota buyout in the 2002 farm bill
- Tobacco quota and price support buyout (2004)
- Little reform of the sugar program

Value of the Peanut and Tobacco Buyouts

(per pound of quota, at 5% discount rate)

	Peanuts	Flue-cured	Burley
Ave Quota Rent (95-01)	\$0.037	\$0.47	\$0.41
		\$7.00 Tobacco Buyout	
Buyout Present Value	\$0.550	\$5.67	\$5.67
Infinite Annuity	\$0.026	\$0.27	\$0.27
Years at Average Rent	24	16	21
		\$10.00 Tobacco Buyout	
Buyout Present Value	--	\$8.11	\$8.11
Infinite Annuity	--	\$0.39	\$0.39
Years at Average Rent	--	34	56

Insights from Peanuts, Tobacco and Sugar

- **Narrowly defined benefits are easiest to buy out**
- **Onset of reform aligns with sharp contraction of past benefits**
- **Unique dimensions partly explain the more complete tobacco buyout**
- **Producers must support the reform**
- **Buyout compensation has been quite lucrative**
- **Buyouts may facilitate trade policy reform, but the peanut and tobacco buyouts benefit domestic not foreign producers**

Possible Buyouts of Farm Payments

	Fixed Direct Payments	Counter-cyclical Payments	
		Maximum	Projected Level
billion dollars (annual payments; present value at 5% discount rate)			
2002 Farm Bill (2002-07)	5.29; 28.20	7.30; 38.79	3.50; 18.30
10-Year Buyout of 25 Years Payments	9.66; 78.11	13.33; 108.06	6.40; 51.87
Infinite Annuity	3.73	5.15	2.47

Two Challenges Faced by a Buyout

- **Asking Congress to increase expenditures in the short run to achieve savings in the longer term**
- **Enforcing the buyout when the long term arrives**

If these obstacles can be overcome, a buyout might be a good deal for farmers, taxpayers and an improved world agricultural system