



IFPRI

# Feasibility of Farm Program Buyouts

David Orden

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21<sup>st</sup> Century Farm Policy: Challenges and  
Opportunities

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# Starting from a trade perspective...

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**The Road to a WTO Doha Round Agreement has been rocky:**

- For developed countries, continued subsidies
- and for developing countries, “offensive” versus “defensive” approaches

**have constrained progress in the Doha Round**

**A desirable negotiated outcome would be low subsidies and low protection**

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# Evolution of U.S. Farm Policy

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- **Policies that have proven feasible have been a slow cash out of past price support and supply control programs**
- **“Decoupling” is a component of the reforms and is accommodated in the WTO Agreements, but “dirty decoupling” is a two-edged sword allowing subsidies to continue**

# **A Buyout of Farm Support Programs**

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**This presentation examines 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 Small-Scale Buyouts

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## Divergent Policies Among U.S. Peanuts Tobacco and Sugar

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

# Value of the Peanut and Tobacco Buyouts

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

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

# Insights from Peanuts, Tobacco and Sugar

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- **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 Selected U.S. Farm Payments

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

# Possible Buyouts of Selected U.S. Farm Payments (cont.)

	<b>Marketing Loan Benefits</b>
	<b>billion dollars</b> (annual payments; present value at 5% discount rate)
<b>2002 Farm Bill (2002-2007)</b>	<b>2.97; 15.77</b>
<b>10-Year Buyout of 25 Years Payments</b>	<b>5.42; 43.94</b>
<b>Infinite Annuity</b>	<b>2.09</b>

# Summary of Costs of a Possible Buyout

## (10 year buyout of 25 years anticipated payments)

	<b>Fixed Direct Payments</b>	<b>Counter- cyclical Payments (projected level)</b>	<b>Marketing Loan Benefits</b>	<b>Total</b>
	<b>billion dollars</b>			
<b>Annual Cost (10 Years)</b>	<b>9.66</b>	<b>6.40</b>	<b>5.42</b>	<b>21.48</b>
<b>Present Value</b>	<b>78.31</b>	<b>51.87</b>	<b>43.95</b>	<b>174.13</b>
<b>Infinite Annuity</b>	<b>3.73</b>	<b>2.47</b>	<b>2.09</b>	<b>8.29</b>

# Alternative Buyout Costs

(10 year buyout of 15 years anticipated payments)

	Fixed Direct Payments	Counter-cyclical Payments (projected level)	Marketing Loan Benefits	Total
	billion dollars			
Annual Cost (10 Years)	7.11	4.71	3.99	15.81
Present Value	57.67	38.20	32.36	128.23
Infinite Annuity	2.75	1.82	1.54	6.11

# Alternative Buyout Costs

(5 year buyout of 15 years anticipated payments)

	<b>Fixed Direct Payments</b>	<b>Counter- cyclical Payments (projected level)</b>	<b>Marketing Loan Benefits</b>	<b>Total</b>
	<b>billion dollars</b>			
<b>Annual Cost (5 Years)</b>	<b>12.69</b>	<b>8.40</b>	<b>7.11</b>	<b>28.20</b>
<b>Present Value</b>	<b>57.67</b>	<b>38.20</b>	<b>32.36</b>	<b>128.23</b>
<b>Infinite Annuity</b>	<b>2.75</b>	<b>1.82</b>	<b>1.54</b>	<b>6.11</b>

# Challenges Faced by a Buyout

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- The more complete a buyout is, the more convincing, but also more costly
- 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**