Insight

Compensating Farmers for the Trade War: The Commodity Credit Corporation

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The Trump Administration has announced a $12 billion package in assistance to farmers, notionally to offset foreign retaliation against U.S. tariffs. By authorizing these payments, the Trump Administration is effectively acknowledging the economic harm caused both by tariffs and the retaliation they invite.

The U.S. Department of Agriculture (USDA) announced the assistance after Canada, Mexico, China, and the European Union (EU) retaliated with proportional tariffs on U.S. exports. Among other things, the retaliation targets agricultural exports such as soybeans, grain, fruits, and nuts.

U.S. agriculture exports, defined by the North American Industry Classification System (NAICS) as either crop or animal production, totaled $70 billion in 2017.[1],[2] To justify the $12 billion subsidy, USDA must have assumed either a 17 percent retaliatory tariff from all U.S. trading partners or 25 percent retaliatory tariff from nations that have already engaged in retaliation.[3]

USDA announced that it would invoke its authorities under the Commodity Credit Corporation (CCC) to provide this assistance.[4] The CCC was established in 1933 and is the primary agency responsible for delivering the USDA's price support programs. The CCC accounts for a considerable share of existing federal agriculture support, but a one-time $12 billion expenditure from this account would exceed CCC outlays in any given year.[5] Based strictly on nominal costs, this $12 billion executive action would be the 18th costliest executive action since 2005, and the 2nd most costly executive action pursued by the Trump Administration.[6]

The administration's assistance package will be delivered through three pathways: the Market Facilitation Program, which will provide direct payments to farmers and producers of specific agricultural products (soybeans, sorghum, corn, wheat, cotton, dairy, and hogs); a Food Purchase and Distribution Program, which will purchase surplus of "affected" agricultural commodities; and a Trade Promotion Program charged with "developing new export markets for our farm products."

While the budgetary flows associated with these programs have not been released, the bulk of the expenditures appear to be direct payments to farmers, either simply through the Market Facilitation program or through the purchase of agricultural products.

The CCC's outlays are largely mandatory and are therefore not subject to the annual congressional appropriations process. Moreover, the CCC has up to $30 billion in borrowing authority with the Department of the Treasury to finance the programs under its charter. Accordingly, the Trump Administration has the authority to make these disbursements, which will reportedly begin reaching farmers by September.[7]

[1] https://www.census.gov/eos/www/naics/2017NAICS/2017_NAICS_Manual.pdf

[2] https://usatrade.census.gov/

[3] https://www.americanactionforum.org/daily-dish/robbing-peter-to-compensate-for-mugging-paul/

[4] https://www.usda.gov/media/press-releases/2018/07/24/usda-assists-farmers-impacted-unjustified-retaliation

[5] https://www.cbo.gov/system/files?file=2018-06/51317-2018-04-usda.pdf

[6] https://regrodeo.com/

[7] https://www.washingtonpost.com/business/economy/white-house-readies-plan-for-12-billion-in-emergency-aid-to-farmers-caught-in-trumps-escalating-trade-war/2018/07/24/7bec9af4-8f4d-11e8-b769-e3fff17f0689_story.html?utm_term=.1cd4af145a7c