Freedom to Farm: Lessons from New Zealand

By Paul Best

Farmers in New Zealand thrive without the subsidies, tax incentives, tariffs, and other measures that distort the agriculture industry worldwide. US lawmakers should take note as the Farm Bill's expiration nears.

Debate will heat up in the coming months over the Farm Bill, a gargantuan piece of legislation renewed every five years that determines everything from food assistance for low-income Americans to the numerous programs that support the agriculture industry.

Subsidies, tariffs, and other protectionist policies have long aided American agriculture, though this is not a uniquely American phenomenon. Governments around the world shell out roughly $630 billion a year for their domestic agriculture industries, a level of spending that has roiled markets, trade negotiations, and policy debates for decades.

One exception to this trend—and an example that lawmakers in the United States should heed as the Farm Bill's expiration nears—is New Zealand, which abruptly cut all subsidies to farmers in 1984.

The Kiwi Way

In the '60s and '70s, New Zealand's government implemented a bevy of subsidies, price supports, tax incentives, and other distortionary measures for agriculture, along with tariffs and other protectionist policies to prop up domestic producers. Farmers derived about 40 percent of their income from government support by the early 1980s. The agriculture industry stagnated as a result.

In a 2017 policy review, New Zealand's Ministry for Primary Industries detailed the many unintended consequences of insulating agriculture from market forces. Farmers misallocated resources and made decisions based off maximizing subsidy revenue instead of adjusting to consumer preferences and other market signals. Environmentally harmful practices were normalized as farmers brought highly erodible ground into production that wouldn't make sense to farm without aid programs. Subsidies were capitalized into land prices, locking out younger and beginning farmers trying to break into the industry. Productivity flatlined as farmers had no incentive to innovate.

Facing a budget crisis, New Zealand's government slashed government spending across the board in 1984, eliminating almost

New Zealand farmers received subsidy payments per head of sheep in the early 1980s, leading to a "skinny sheep" era characterized by overstocking and other inefficiencies. After those subsidies were cut, sheep numbers more than halved, but farmers still produced just as much meat due to increased productivity.

all subsidies for the agriculture industry while also reducing tariffs and other protectionist policies.

"I don't think they had a vision of eliminating subsidies producing an innovative, dynamic industry. It was a matter of necessity for New Zealand. We were going broke. The subsidies were costing the economy so much. And it wasn't just agriculture—we had protectionism across the board in so many other industries," Lockwood Smith, a lifelong farmer who spent three decades as a member of the New Zealand Parliament, told the Cato Institute in a policy investigation published earlier this year. "The New Zealand economy was absolutely stagnating."

The reforms immediately saved taxpayer dollars, but agriculture productivity also shot up as farmers streamlined their operations, reduced their use of subsidized fertilizers, and shifted production to meet demands from the market.

Perhaps the best example of subsidization's distortionary effects lies in New Zealand's "skinny sheep" era, which

North Dakota farmer Gabe Brown cut himself off from all subsidies several years ago—a decision that he partly credits for the success of his 5,000-acre farm.

refers to the explosion of flock numbers to over 70 million sheep in the early to mid-1980s. Because subsidies were based off the raw number of sheep in a flock, farmers were incentivized to have "excessively high stock numbers and a 'slash and burn' mentality," according to a report prepared for the Ministry for Primary Industries.

Flock numbers immediately started to decline after subsidies were cut, with just 26 million sheep in New Zealand today. Despite that, production and meat exports have remained steady, owing to improvements in breeding for larger carcasses, increased lambing percentages (lambs born per ewe), better farm management, and other productivity increases.

"The efficiency of our sheep industry doubled," said Gavin Forrest, who worked on his family's farm in New Zealand in the 1980s before leaving to take a job with the advocacy organization Federated Farmers. "The number of animals you have on a property is not necessarily a determination of how efficient and how much you've produced. You can have too many animals."

A Century of Subsidies

Agriculture subsidies have shifted over time in the United States. The government's first interventions in the industry in the 1920s were followed by the original Farm Bill in 1933, the New Deal–era Agricultural Adjustment Act, which paid farmers to take land out of production in order to reduce the food supply and increase commodity prices. Various subsidies and price support programs followed over the decades, with the government making direct payments to farmers starting in the 1990s. In 2014, direct payments were replaced by the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) programs, which distribute

funds to farmers based on the difference between an average reference price and the market price for a commodity.

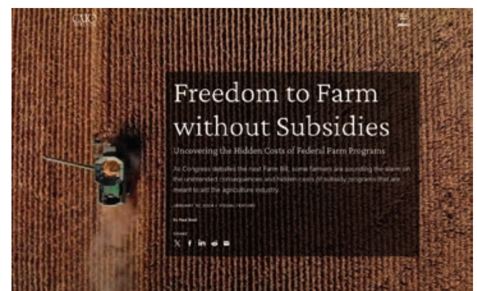
Subsidized crop insurance is now the largest aid program, at a cost of $17.3 billion in 2022. The government pays about 62 percent of the premiums for plans that farmers purchase from private insurance companies, amounting to a record $11.6 billion in 2022. The remaining costs come from the government's share of underwriting losses and payments that the government makes to insurance companies to administer the program.

Unlike ARC and PLC, crop insurance subsidies have no annual payment limits, allowing aid to accrue to the largest farms. A Government Accountability Office report last year found that only 1 percent of policyholders received about 22 percent of all premium subsidies.

In Cato's policy investigation earlier this year, farmers shared complaints about crop insurance subsidies and other aid programs that are similar to the problems New Zealand was facing four decades ago. Subsidies distort planting decisions by incentivizing farmers to grow a select few crops for which there is readily available insurance. The environment suffers as farmers expand operations on erodible ground that wouldn't make sense to farm without subsidized insurance policies. While farmers in the United States are affected by agriculture subsidies, they are even more pernicious for farmers in developing countries who cannot compete with artificially low prices. US cotton subsidies, for instance, decreased world cotton prices by about 12 percent in the mid-2000s, hurting the incomes of cotton producers in West Africa and other developing regions.

With the Farm Bill expiring later this year, lawmakers have the chance to rethink the billions of dollars doled out annually to farmers. New Zealand showed that it's possible to have a thriving agriculture industry without government intervention. And some Americans, such as North Dakota farmer Gabe Brown, already thrive while abstaining from all subsidy programs.

"My safety net is the resiliency built into my soil. My safety net is the health of the operation. My safety net is the fact that I don't rely on only one or two commodities to make my income. We have 17 different enterprises on our ranch now," Brown, who phased out all subsidies on his 5,000-acre farm about a decade ago, previously told the Cato Institute. "So I'm resilient—our ranch is resilient—because of the diversity and because of the health of the ecosystem. That's very liberating. It's a good feeling." ✦



Scan the QR code to the left with your phone's camera to view the visual feature "Freedom to Farm without Subsidies."