Can Traditional Approaches to Agricultural Policy Meet Domestic and International Policy Goals?

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Over the last 70 years…

- Farm policy goals have changed
- The agricultural sector has changed
- Policy instruments have changed
- The international context has changed

Evolving goals of farm policy

Traditional domestic goals—

- Stabilize commodity prices to stabilize agricultural sector and overall economy
- Protect farm income to strengthen farm purchasing power and assure abundant food supply at “reasonable” prices
- Encourage soil conservation

Evolving goals of farm policy

New goals added in 1960s/70s—

- Protect the independent family farm
- Provide access to food for the needy
- Address economic needs of rural areas
- Broader environmental protection
- Consumer food safety & quality concerns

Evolving goals of farm policy

Stakeholders with conflicting objectives complicate identification of farm policy goals—

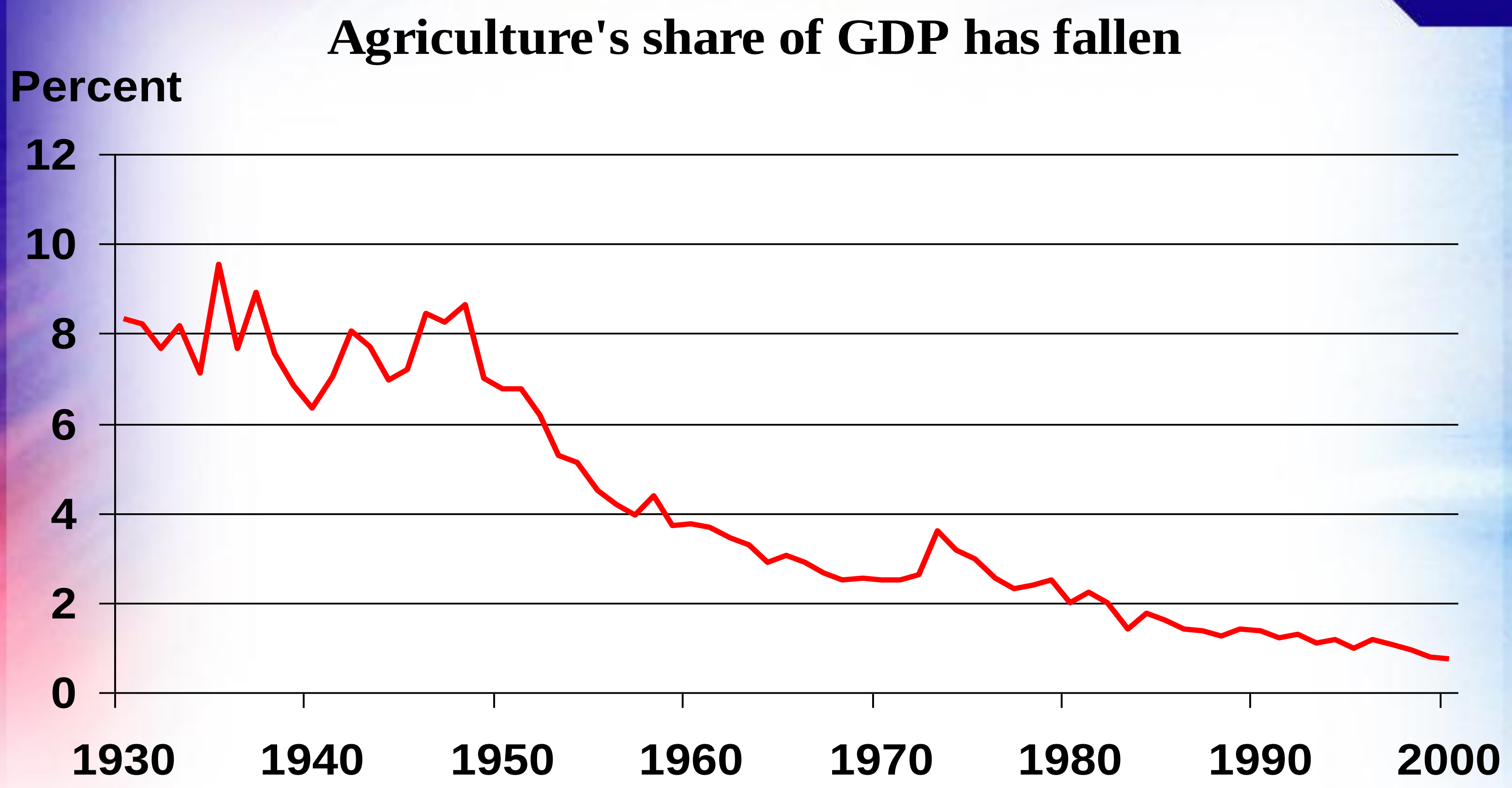
- Small family farms
- Large family farms
- Agribusinesses
- Taxpayers
- Consumers
- Environmental groups
- Rural communities
- Social welfare advocates

Evolving goals of farm policy

International goals—

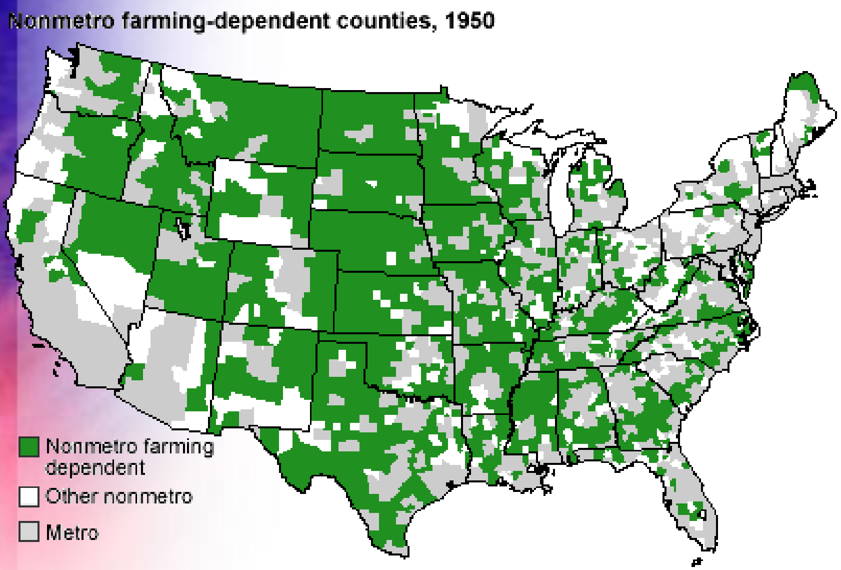
- Reduction of barriers to open trade among nations
  - 1947-1993 agriculture not included
  - 1994 agriculture brought under trade disciplines
- Doha Development Agenda and recent dispute settlements add new challenges

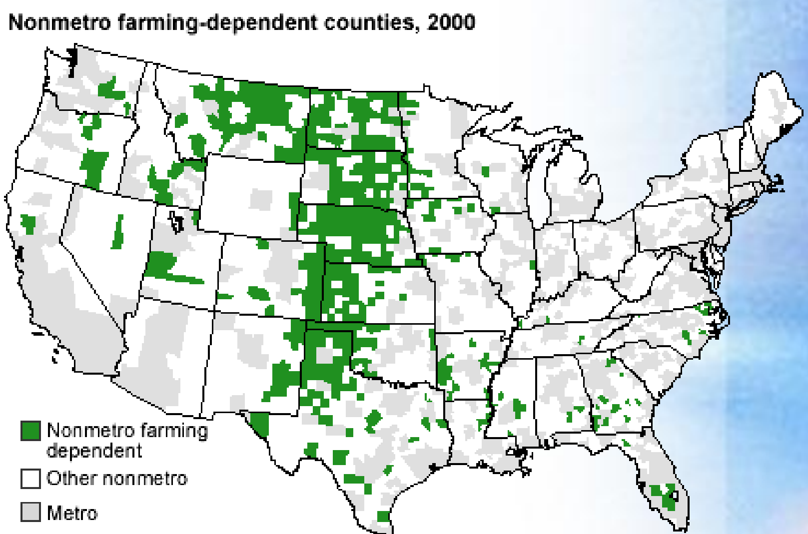
Evolving setting for farm policy



Evolving setting for farm policy

Farm earnings have become less important in rural economies





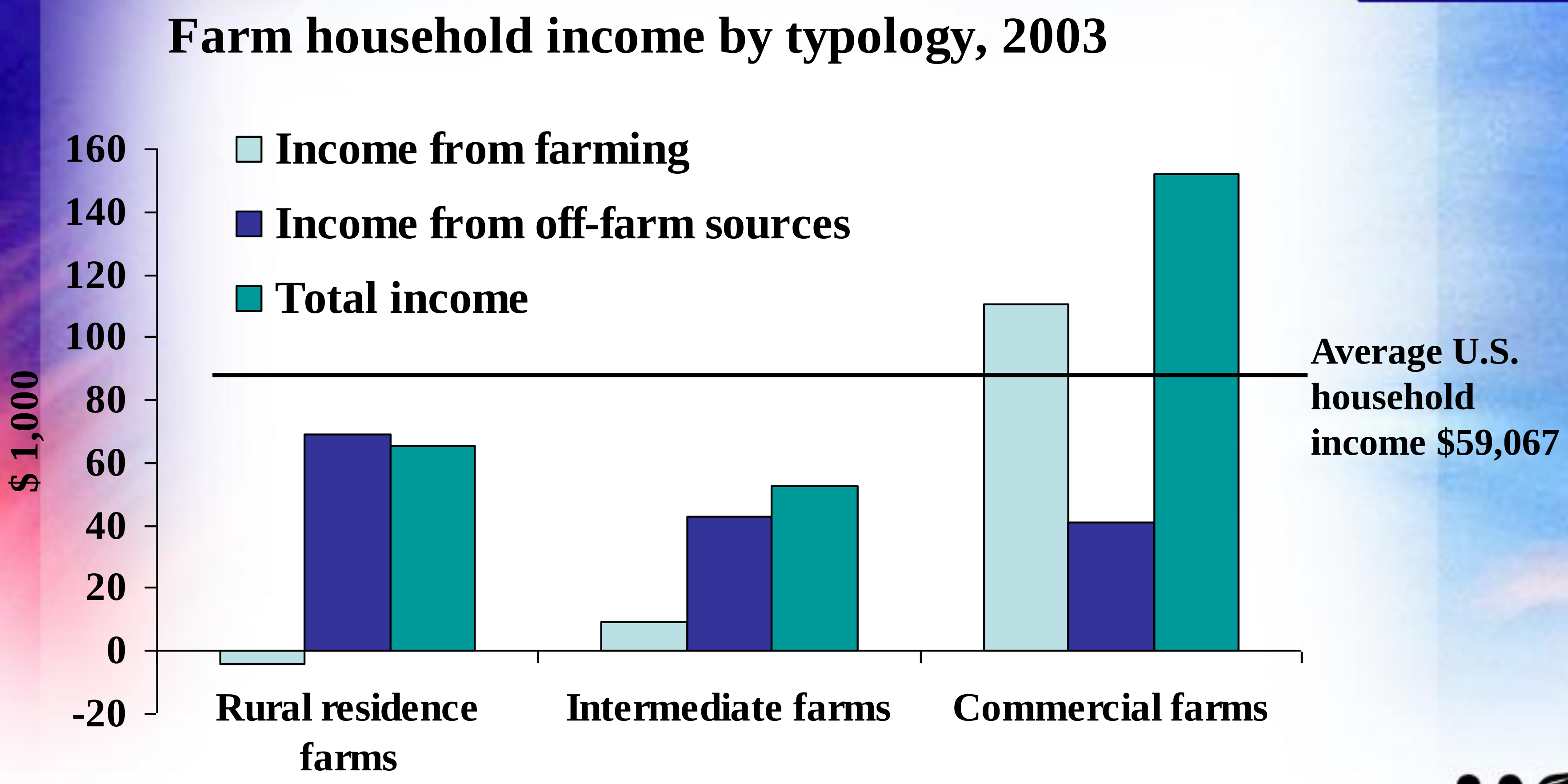
Source: Farming-dependent counties are defined by ERS. Metro/nonmetro status is based on the Office of Management and Budget (OMB) June 2003 classification.

Evolving setting for farm policy

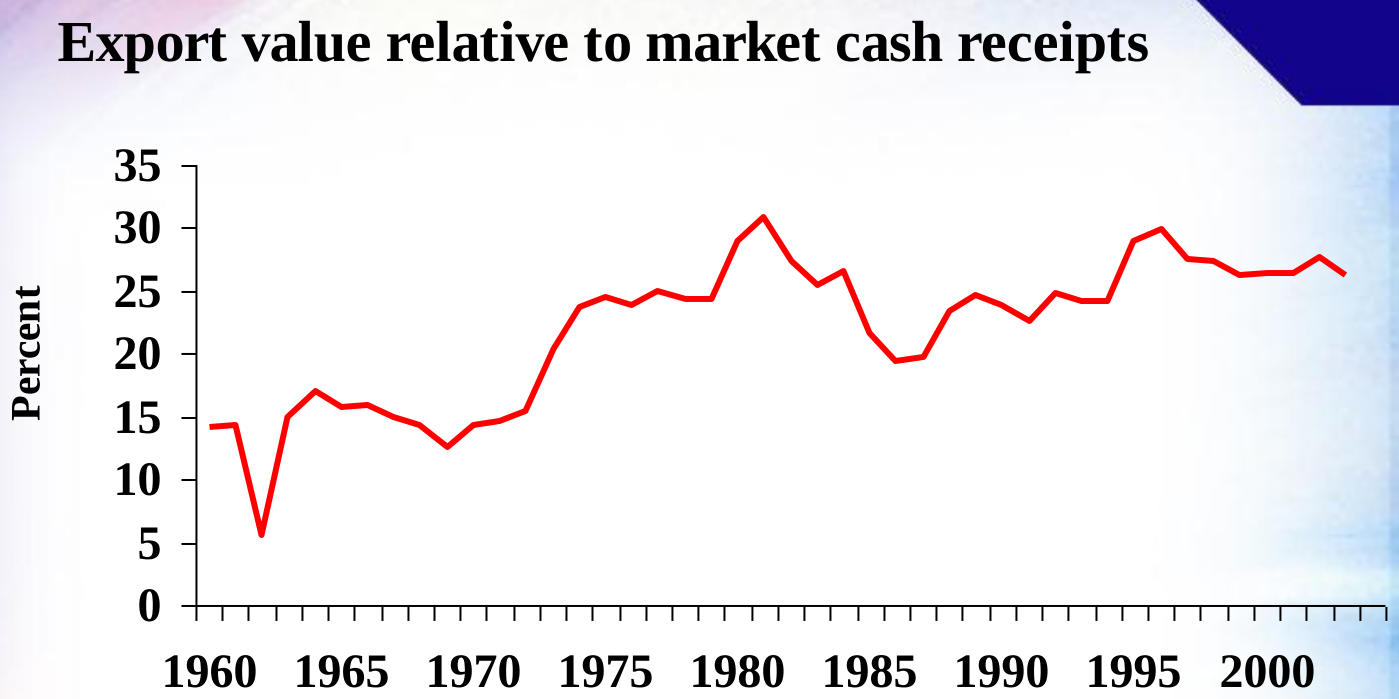
1930-2000

- Farm population—30 million to 3 million
- Labor force in farm work—21% to 2%
- Number of farms—6 million to 2 million
- Specialization—avg 5 commodities per farm to 1 commodity per farm

Evolving setting for farm policy



Evolving setting for farm policy



Source: *USDA Agricultural Baseline Projections to 2013*, February 2004.
Economic Research Service, USDA.

Evolving approach to farm policy

- Changing context affects policy
  - Who is served
  - What is needed
  - What tools can be used

- 1930s—emergency policies serve 25% of population and majority of rural communities directly

Evolving approach to farm policy

- 1960s/70s—productivity increases, falling farm population, more rural diversity require policy changes to reduce surpluses, reach broader population

- 1980s/90s—increasing globalization, continued urbanization requires policy changes to address new market orientation, environmental and consumer concerns, and new trade disciplines

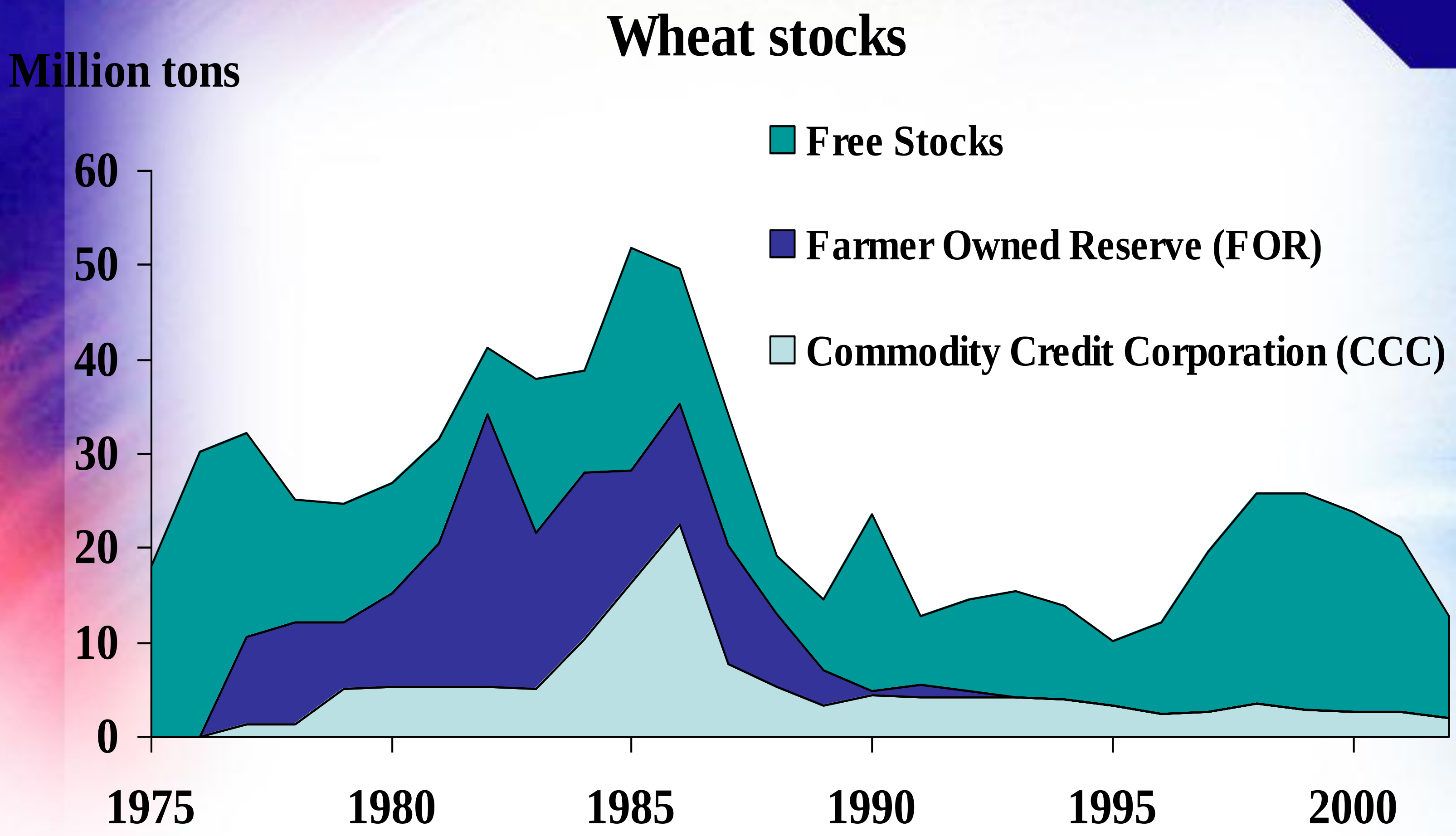
Lessons of farm policy

- Price supports are two-edged sword:
  - increase farm incomes, but
  - require border supply controls that distort international trade
  - require domestic supply controls that may lead to price-depressing stockholding

Lessons of farm policy

- Most price support policies altered to income support beginning 1960s/70s
  - Price support—producer price supported by higher market prices
  - Income support—producer price supported by direct government payment

Lessons of farm policy



Lessons of farm policy

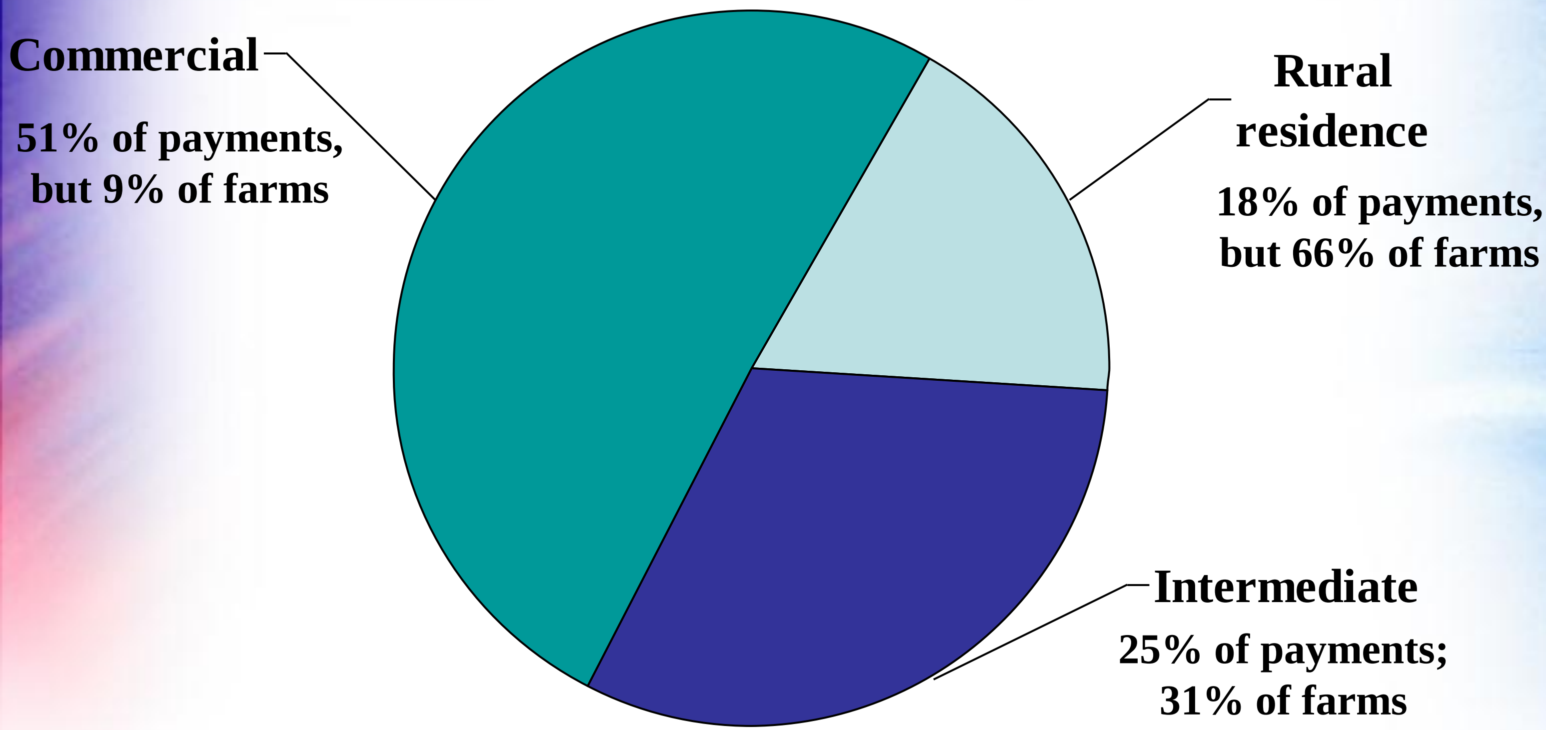
- The coupled-decoupled continuum of support:
  - Coupled programs—program benefits directly linked to production decisions or market conditions
  - Decoupled programs—program benefits linked to historical or other characteristics of producer/farm, expect smaller influence on production decisions

Unresolved issues

- Fixed loan rates of coupled marketing loan program cannot adjust to market conditions, encourages production when market would not
- Price support programs continue for dairy and sugar, with expected border control and supply management problems

Unresolved issues

Largest farms receive the greatest share of direct government payments



Source: USDA/ERS, 2003 ARMS

Unresolved issues

- Many payments ultimately benefit nonfarm landlords, some outside rural communities
  - 59% of PFC acreage (1999) was leased, mostly from nonfarming landlords
  - Payment benefits pass through to landlords through higher rents and other changes in contract provisions

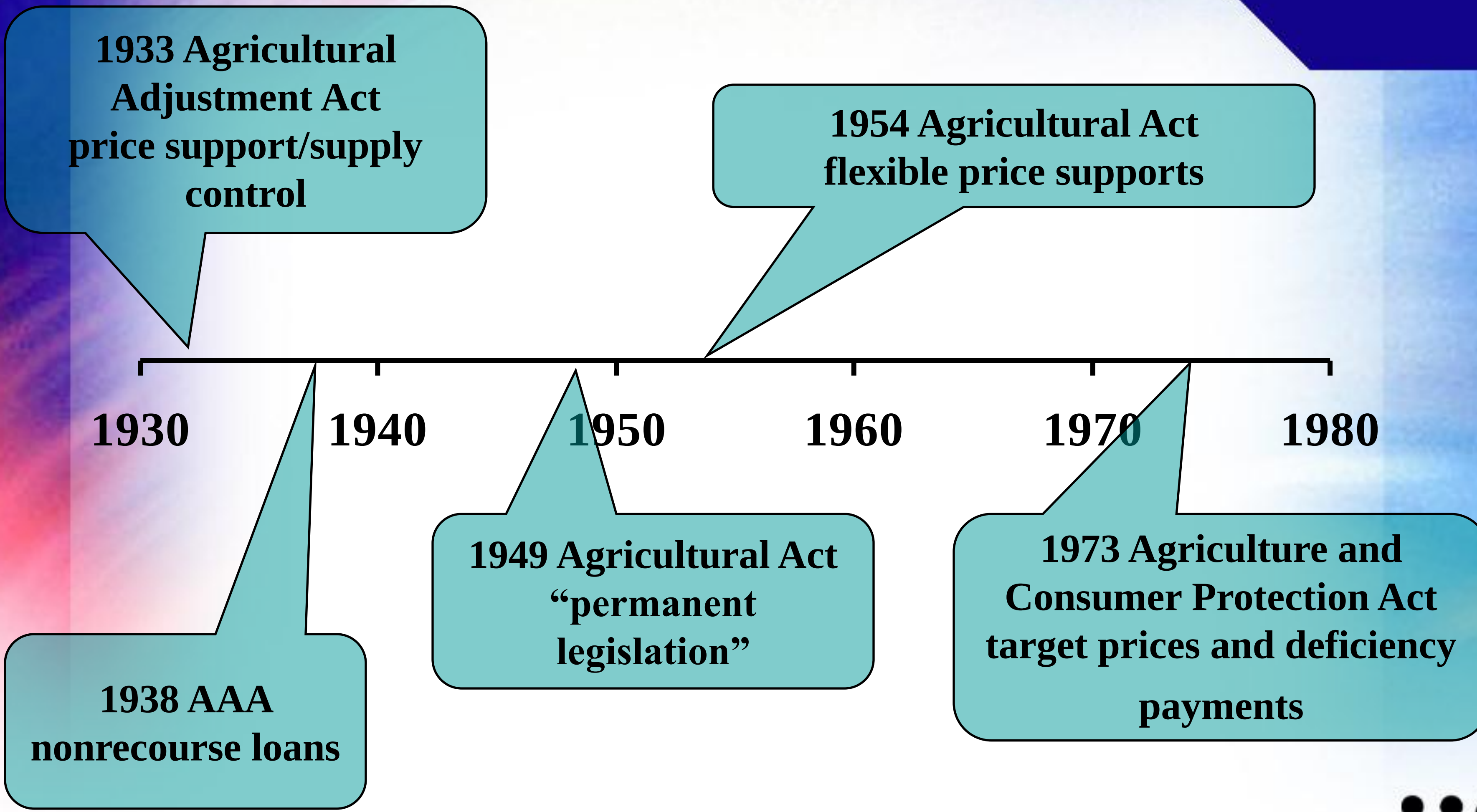
Unresolved issues

- Commodity programs influence farmland values
  - ERS research estimated $60 billion (25%) added to farmland values in 2000
- Impact of continuing WTO negotiations, regional trade agreements, dispute settlements on U.S. farm policy

Concluding thoughts

- A disconnect seems to exist between the design of traditional programs and the current reality of the agricultural sector
- Policy has adapted to challenges over the last 70 years, but will this strategy be adequate to address 21st century challenges?

Evolving approach to farm policy



Evolving approach to farm policy