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

Agriculture's share of GDP has fallen
Evolving setting for farm policy

Farm earnings have become less important in rural economies
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

Farm household income by typology, 2003

- Income from farming
- Income from off-farm sources
- Total income

Average U.S. household income $59,067
Evolving setting for farm policy

Export value relative to market cash receipts

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

Wheat stocks

- Free Stocks
- Farmer Owned Reserve (FOR)
- Commodity Credit Corporation (CCC)

Million tons

- 1975
- 1980
- 1985
- 1990
- 1995
- 2000

0
10
20
30
40
50
60
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

- Commercial: 51% of payments, but 9% of farms
- Intermediate: 25% of payments; 31% of farms
- Rural residence: 18% of payments, but 66% of farms

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

1933 Agricultural Adjustment Act
- price support/supply control

1938 AAA
- nonrecourse loans

1949 Agricultural Act
- “permanent legislation”

1954 Agricultural Act
- flexible price supports

1973 Agriculture and Consumer Protection Act
- target prices and deficiency payments
Evolving approach to farm policy

- **1981 Act**
  - high loan rates

- **1985 Food Security Act**
  - marketing loan provisions

- **1990 Farm Act**
  - partial decoupling

- **1996 “Freedom to Farm”**
  - end of supply control

- **2002 Farm Act**
  - circuit-breaker

- **Uruguay Round**

- **Doha Agenda**