Agricultural Policy Links to Farm Households and the Rural Economy
A Research and Policy Workshop

Sponsored by
The National Center for Food and Agricultural Policy
The Economic Research Service of the United States Department of Agriculture

A special thank-you to Senator Thad Cochran for providing the meeting room.

Hart Senate Office Building – Room 902

Agenda

8:00-8:30 Welcome and Check-in.

8:30-9:00 Agricultural Policy Links to Farm Households and the Rural Economy: An Introduction:

Susan Offutt, Administrator, Economic Research Service
Jill Long Thompson, CEO and Senior Fellow, National Center for Food and Agricultural Policy

9:00-10:00 The "Traditional" Approach to Agricultural Policy and Commodity Markets

Moderator: Neilson Conklin, Director, Markets and Trade Division, ERS
Ed Young and Paul Westcott, ERS
Perspectives from outside ERS:
- Allan Gray, Purdue University

10:00-10:15 Break

10:15-11:15 Assessing Farm Policy Effects on Farm Households

Moderator: Katherine Smith, Director, Resource Economics Division, ERS
Jim Johnson, Mitch Morehart, and Jeff Hopkins, ERS
Perspectives from outside ERS:
- Jill Findeis, Pennsylvania State University

11:15-12:15 Agricultural Policy and Rural Economy Linkages

Moderator: Leslie Whitener, Chief, Rural Economy Branch, ERS
David McGranahan and Patrick Sullivan, ERS
Perspectives from outside ERS:
- Andrew Isserman, University of Illinois
- Alton Thompson, North Carolina A&T State University

12:15-1:30 Lunch

1:30-2:00 Highlighting the Issue

Dale Moore, Chief of Staff to United States Secretary of Agriculture, Ann Veneman.

2:00-3:00 The Next Farm Bill

Howard (Chip) Conley, Economist, Committee on Agriculture, U.S. House of Representatives

3:00 Where Do We Go From Here?

Mark Drabenstott, Vice President, Federal Reserve Bank of Kansas City

Traditional Approaches to Agricultural Policy and Commodity Markets

Edwin Young and Paul Westcott
Agricultural Economists
Economic Research Service
U.S. Department of Agriculture

Abstract

More than seven decades of agricultural commodity policy experience have provided information on implications of policy for farmers and the agricultural sector. This presentation reviews some of the goals and effects of traditional approaches to farm policy.

An important goal of farm policy has been to provide an economic safety net for farmers. This typically meant supporting farm income through high prices. However, as the agricultural sector became an increasingly global marketplace such policies became less effective and more costly, leading to pressure for policy reforms. As a result, a sequence of changes in farm commodity policy over the past 20 years has made programs more market oriented. Program benefits to the sector have become less linked to production and prices (more "decoupled") and less distorting to agricultural markets.

The farm sector has also undergone structural change. In addition to becoming a more global market, agriculture has a smaller role in the economic well being of most rural communities than in the past. While the reforms in policy since the mid-1980s have responded to some of these changes in the sector, reforms may not fully reflect other structural changes.

One concern with farm commodity policy is the distribution of payments by size and type of farm household. Large farms receive the majority of payments. In 2001, for example, 52 percent of payments went to large commercial farms, but these operations represented only 10 percent of farms. Additionally, because much farmland is leased, a large share of program benefits may be passed on to landlords, some of whom live outside the rural community.

Many of today's farm commodity policies have evolved from their original design in response to outside forces. However, questions remain regarding whether payments to farmers based on current or past production can avoid concerns with distribution, capitalization, and pass through of benefits. It's not clear whether traditional agricultural commodity programs are the most appropriate policy instrument to effectively address today's farm household and rural community policy issues.

U.S. Agricultural Commodity Policy: Income Transfers or Income Stability?

Allan Gray
Agricultural Economics
Purdue University

Abstract

Few economists disagree that decoupled income transfers are likely less trade distorting than coupled income transfers. The thesis of this presentation, however, is that counter-cyclical, coupled or semi-coupled, policy mechanisms are an important component of developed countries' agricultural policies. Countries such as the US and EU are not likely to give up these mechanisms due to political pressures to protect producers from depressed markets; whether the need is perceived or real. This premise has implications for trade negotiations and domestic agricultural policy in the United States. Countries that perceive a need to protect their agricultural industry when economic conditions are less than desirable would need to be convinced that counter-cyclical measures are not necessary to support farm households as opposed to farm businesses. If these countries could be convinced of the efficacy of counter-cyclical measures in the well being of farm households then negotiations based on decoupled income transfers might have more political feasibility.

Recently developing countries have argued that even Green Box (decoupled) transfers can be trade distorting if they are large enough. The reality is that we do not have a solid empirical basis for judging the extent to which decoupled income transfers are really completely decoupled. From a domestic policy view, better understanding the role of counter-cyclical versus decoupled income transfers have on the decisions made by various farm household types is crucial to understanding the impacts on agricultural resource allocation, production, household well being, and rural communities. It is possible that the ability of farm households to adjust resources in response to volatility in the farm household's standard of living can be maintained by adjusting resources to compensate for losses on the farm. In these households, income variability isn't as important to household well being and decoupled income transfers would be a more efficient way of maintaining the wealth of farm households. If however, farm households are limited in their ability to adjust household resources in response to variations in farm income then targeted counter-cyclical mechanism may be the more politically feasible solution. In reality, there are likely both kinds of farm households and other in between. Understanding the needs of these diverse farm households and their ability to respond to farm income fluctuations may lead to alternative policy formulations. In the extreme, we may find that broader industrial policies that create more opportunities for farm households to allocate resources to off-farm activities maybe a more efficient means of supporting farm households.

Assessing Farm Policy Effects on Farm Households

Jeffrey Hopkins, Mitchell Morehart, James Johnson
Economic Research Service
U.S. Department of Agriculture

Abstract

Commodity price and income support programs were implemented in the 1930s to provide financial assistance to farms, farmers, and farm-dependent rural communities. At the time, key stimulus for legislative action was disparity between farm and nonfarm incomes. With some adjustments, the system enacted then continues today, although livelihood strategies have changed dramatically for farm households. For example, while all sources of income contribute to household well being, the driver behind the growth of farm household incomes over the modern era is off-farm income. Most contemporary farm households can attribute their relatively high levels of well being (measured by either average farm household income or wealth) to their ability to leverage household resources-including labor-across multiple markets. As a result, farm household well being is increasingly dependent on local nonfarm economic conditions.

The Farm Household-Firm Unit: Linkages to External Labor Markets and Why It Matters

Jill L. Findeis and Latika Bharadwaj
Pennsylvania State University

Abstract

Many of the fundamental questions of importance to farm policy today are strongly influenced by the farm household-firm as the key decision-making unit. Examples include whether to begin farming, to adjust the size of the farm operation, or to continue to engage in farming. Changes in the structure of the farm household-firm unit and in the strategies used by the farm household-firm unit to generate enough income to continue farming become important in this context.

It is clear that farm households in the U.S. as well as in many developed countries have changed in significant ways in the past three decades. Reflecting demographic trends widely observed in the general population, farm households have been affected by the aging of the population, higher levels of educational attainment, reduced fertility rates leading to smaller family sizes, significantly higher participation rates of working-age women in the labor force, and greater geographic mobility among grown children. Driven largely by changes in technology, these trends have the potential to importantly influence the most critical decisions that farm household-firms make.

Two of the most important changes influencing U.S. farm household-firms are 1) the significant extent to which farm households now depend on external (nonfarm) labor

markets for income, and 2) the importance of intergenerational relationships to farms. Based on the 2001 Penn State Survey of U.S. Farm Women, 57 percent of working-age farm men and 62 percent of working-age farm women were employed off the farm in 2000. These percentages represent significant increases in off-farm work participation among farm women in particular, since Rosenfeld's 1980 national study of farm households. Further, the prevalence of off-farm work among farm women is shown to be higher in those areas where distances between the farm and off-farm employment opportunities is greater – i.e., in the USDA's Heartland, Northern Great Plains, and Prairie Gateway regions. This trend, observed in most developed countries, has resulted in a convergence of farm and nonfarm household incomes over time. This trend has also resulted in more than half of farm households receiving benefits, such as health insurance, from employers. In addition, the strong intergenerational relationships within farm households combined with the increasing spatial mobility of children who have grown up on farms has contributed to a spatial dispersion of farm program payments. Today, involvement in farm decision-making, investment in the farm operation and the sharing farm income and wealth does not necessarily mean actually living on the farm.

Given this perspective, changes in policy should take into account the farm household-firm unit. The adjustments that farm household-firm units will make to policy reform, for example, will depend on the demographic characteristics of the farm household-firm unit and on the farm's location. Identification of significantly-vulnerable households' (SVH) and 'significantly-vulnerable places' (SVP) is important for differentiating those farm households who will find it very difficult to adjust to policy reform from those who are better able to adjust in the face of significant reform.

Farm Policy and Rural Community Development

David A McGranahan and Patrick J. Sullivan
Economic Research Service
U.S. Department of Agriculture

Abstract

A review of research on the impact of farm program payments suggests that they have generally had little effect on local population change. At best, these programs may slow the long-term adjustments of local communities to farm consolidation and technological change. At worst, they may speed up farm consolidation and weaken farm linkages to the local economy. Most research has assumed that local impacts of farm programs are primarily economic, affecting local communities by influencing farm sector and farm household purchases in the local economy. Farm programs may also affect the landscape and local environment, however, and there is growing evidence that landscape and environment play an important role not only in outdoor recreation (hunting, hiking, fishing), but not in the attraction of families to rural areas.

Agricultural Policy and Rural Economy Linkages: North Carolina as the Focal Point

Alton Thompson, Dean
School of Agriculture and Environmental Sciences
North Carolina A&T State University

Abstract

The purpose of this presentation is to discuss the linkages between agricultural policy and the rural economy. Given that price and income instability have traditionally driven policy, this presentation focuses on three agricultural policies aimed at market forces linked to the rural economy: the proposed tobacco buy-out program, farm subsidies and value added agriculture. Hopefully, successful passage and implementation of these policies and programs will allow farmers to continue to operate, make a profit and support other sectors of the rural economy.

Since there is a federal policy to discourage consumption of tobacco products, the farmers that I talked to feel there is little they can do to increase the demand for tobacco. Several quota bills, supported by tobacco farmers and cigarette manufacturers, were introduced into the 107th Congress and the 108th Congress to eliminate the current quota program and to compensate active producers and absentee quota owners for the lost value.

The tobacco industry has wide-ranging effects throughout the economy, affecting not only farms and manufacturers, but also wholesale businesses, local supply stores, warehouses, etc. These included companies in diverse sectors such as warehousing, paper, machine manufacturers and suppliers, transportation and legal services.

Maintaining family farms and stabilizing farm income have been two agricultural policy objectives. One of the drawbacks of the current policies is that payments are based on production rather than some other criteria. As a consequence, large farms and agribusiness, which as a result of economies of scale are also the most profitable farms, receive massive subsidies. This goal of maintaining family farms and stabilizing farm income might be achieved more effectively by targeting specific family farms that are vulnerable to failure.

The basic idea behind value-added agriculture is straightforward. A rural area is more likely to thrive-creating more revenue, more jobs, and more long-term stability-if its resources can be used to ship out finished products rather than raw materials. Each stage adds value to the original product, and strengthens the community's tax base.

Finally, effectively agricultural policies must recognize the diversity of the farm sector, including but not limited to, size, location, enterprise mix, and financial status.

Outlook for Farm Policy and the Next Farm Bill

Howard (Chip) Conley
Economist, Committee on Agriculture
U.S. House of Representatives

Abstract

The next farm bill will not be concerned with only meeting the expectations of traditional commodity producers. Pressures to control federal spending, comply with new trade agreements, and shift spending to conservation programs, as well as new demands from specialty crop producers will likely shape the next farm bill.

The U.S. Federal Budget has determined the outlook for farm policy since 1980. In years when Congress reduced budget deficits, farm program spending was cut; when surpluses prevailed, annual emergency market loss and crop loss assistance was available and significant funding increases were available to write the 2002 farm bill.

Deficits projected by the Congressional Budget Office, including permanent extension of current tax code provisions and estimates for war in Iraq and Afghanistan, exceed $4 trillion over the next 10 years. Compared to the House-passed budget for 2004-13, agriculture programs would have to be cut twelve times more than the $19 billion 10-year reduction in that budget, or $220 billion over ten years. This suggests a return to the continuing budget pressure on agriculture programs that occurred from 1981 to 1995.

Negotiations under the World Trade Organization (WTO) to reduce trade distorting agricultural subsidies will put pressure on domestic farm price and income support programs, especially consumers-supported commodities such as dairy and sugar. These two commodity programs account for about $5.5 billion of the annual aggregate measure of support (AMS). If negotiations are successful in reducing AMS by 40-50 percent, dairy and sugar will represent more than half of allowable AMS and that suggests significant changes in these programs if all commodities are to take proportional reductions. In addition, the WTO case brought by Brazil on the U.S. cotton program may also have implications for farm legislation.

Conservation programs are likely to receive increased funding in future farm bills as coalitions are built to pass farm legislation. Programs, such as the Environmental Quality Incentives Program, provide a means to mitigate increased cost to production agriculture of environmental compliance. Conservation programs also represent a potential avenue to stabilize rural economies if significant reductions are required under a WTO.

Fruit and vegetable producers have started to seek funding, including block grants to states, to address a wide array of needs from disease management, sanitary and phytosanitary trade barriers, and domestic and export market promotion. This is a constituency that may seek a larger share of spending in the next farm bill.

Agricultural Policy and the Rural Economy: Where Do We Go From Here?

Mark Drabenstott
Vice President & Director
Center for the Study of Rural America
Federal Reserve Bank of Kansas City

Abstract

There is widening agreement that agricultural policy is no longer a robust policy instrument to spur widespread growth in the rural economy. Yet despite the profound changes in the rural economy, agricultural policy remains the primary public policy for rural America. Where does rural policy go from here? There are four key mileposts in answering this basic question. *First, why have a rural policy?* The imperative for rural policy in the future will be a lot less about food and lot more about other things, including creating economic opportunity in all corners of the nation. *Second, what should rural policy do?* The overriding mission will be helping rural regions draw on technology, innovation, and entrepreneurs to build new sources of competitive advantage in global markets. This mission appears better understood by the vanguard of rural leaders forming new regional development efforts than many policy officials in Washington. *Third, who will provide the catalyst in innovating how rural regions form and execute new economic strategies (regional governance)?* The three principal candidates are higher education, government, and the private sector, including both business and philanthropic communities. *Finally, how can we craft a coherent rural policy, one that integrates all the various policies that affect rural regions?* Creating competitive advantage seems likely to be the capstone policy that brings new meaning to health, education, transportation and other policies that already affect rural regions. The growing number of new regional development efforts forming throughout rural America underscores both the need for new rural policy and its likely inevitability.