The Grand Bargain of U.S. Farm Policy: Yesterday, Today, and Tomorrow

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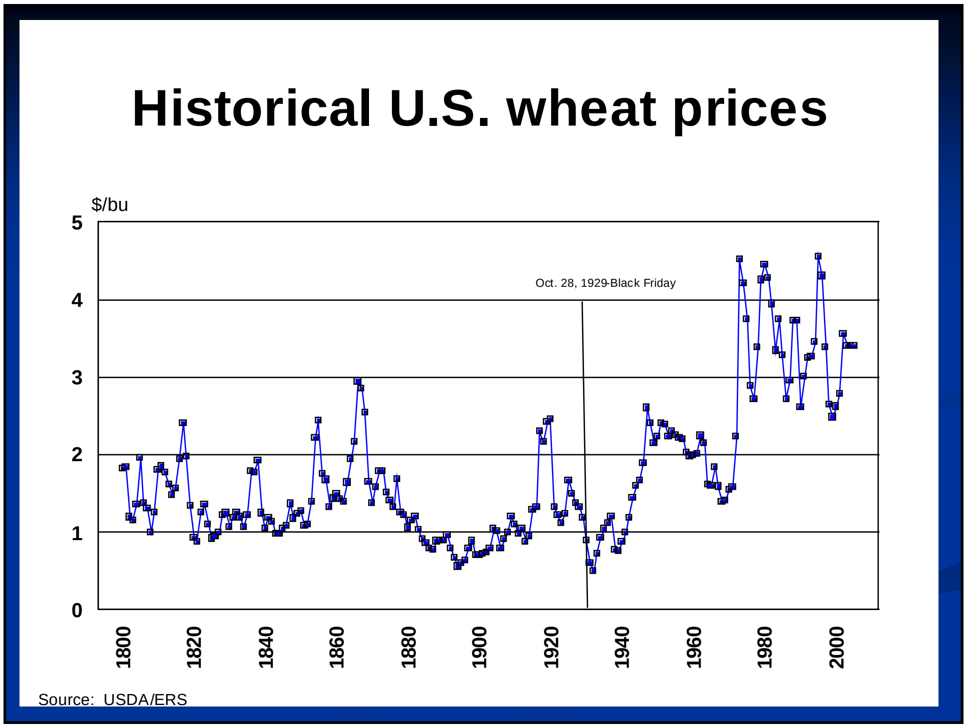
History of U.S. farm programs

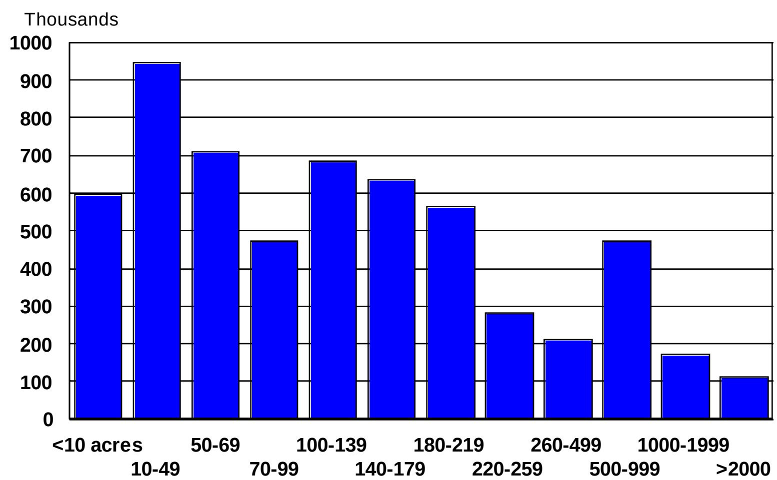
- U.S. farm programs have their roots in the Great Depression of the 1930's
- Net farm income per farmer averaged less than $500 annually between 1930-34
- Nominal crop prices lowest in the last 200 years
- This dire situation led to first Grand Bargain of farm policy (Version 1.0)
  - In exchange for providing income support to keep family farmers on the land, consumers received access to a safe and abundant food supply



1940's: The U.S. farm economy at a glance

- A total of 6.5 million farmers were recorded in the 1945 Census of Agriculture (5 percent of U.S. population)
- Only 13 percent of farmers reported having farms with more than 500 acres
- Between 70 and 90 percent of all farmers grew one or more of the major field crops, so were eligible for programs
- In 1930's and 1940's, more than 43 percent of U.S. population is rural, with many others with close ties to families still in the countryside

Farm size distribution, 1945

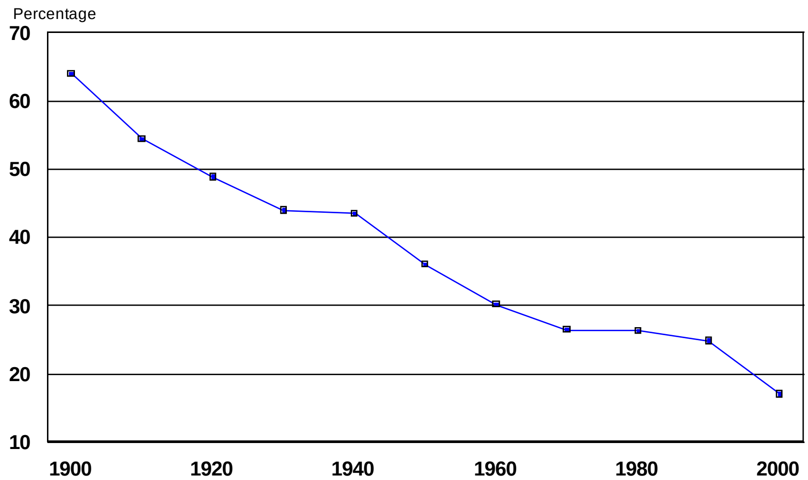


Source: Census of Agriculture

Early U.S. farm programs

- First farm legislation was Agricultural Adjustment Act of 1933. Its main features were:
  - Payments to farmers
  - Processing tax to raise revenue
  - Supply control to raise prices
  - Marketing orders for dairy and specialty crops
  - Non-recourse loans
  - Commodity storage
- Some features were ruled unconstitutional by Supreme Court, led to modifications in 1938 and 1939

Rural share of U.S. population



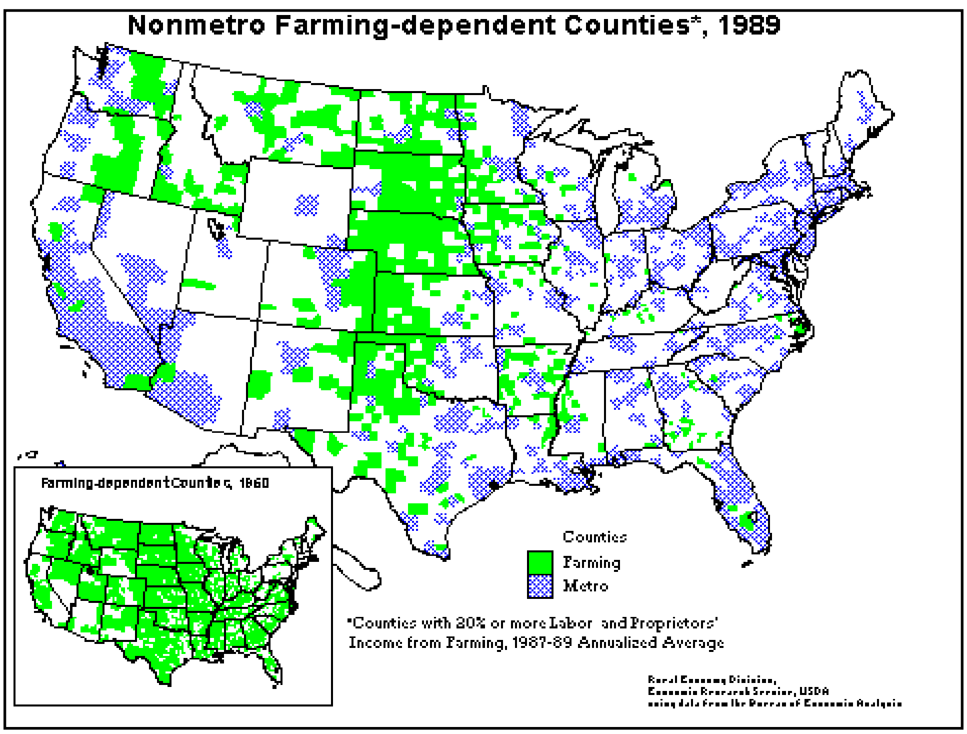
Source: U.S. Decenniel Census, 1900-2000

The Grand Bargain begins to fray

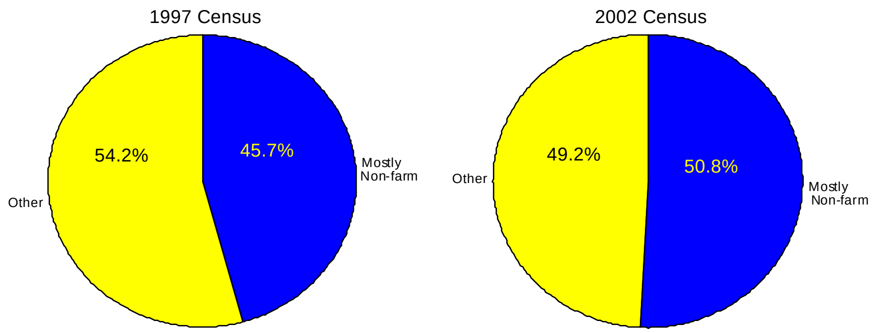
- By 1960, only 30 percent of U.S. population is rural
- In an effort to maintain Congressional support for farm bills, other programs are added to the legislative packages
  - Food stamp program (1961)
  - Conservation (land retirement) (1985)
  - Renewable energy (2002)
  - Specialty crops (2007?)

The changing environment for U.S. farm programs

- An increasing share of Americans (and their Congressional representatives) are detached from the land
- In 40 years, region of country where farming is economically important shrank to two-state wide strip between eastern Montana and west Texas
- Less than half of Congressional Districts had more than 1,500 farmers in 2002 (out of 600,000 average population in CD's)



Farm Share of U.S. Congressional Districts



Note: Mostly non-farm is defined as a District reporting fewer than 1,500 farmers in 1997 or 2002 Census of Agriculture

Current view of farm programs

- U.S. farm programs commonly questioned in urban newspapers
  - Series of Washington Post stories (July 2-3, 18) attacks inequities and apparent abuses of direct payments, LDP's, and livestock assistance programs
- In July, 2006, Ken Cook (Pres., EWG) challenges Larry Combest (former chair, House Ag) to debates on U.S. farm policy
- At 2005 G-8 summit in Scotland, President Bush pledged to rid U.S. of agricultural subsidies by 2010 if EU would do the same. Did not specify trade-distorting agricultural subsidies

2005: the farm economy at a glance

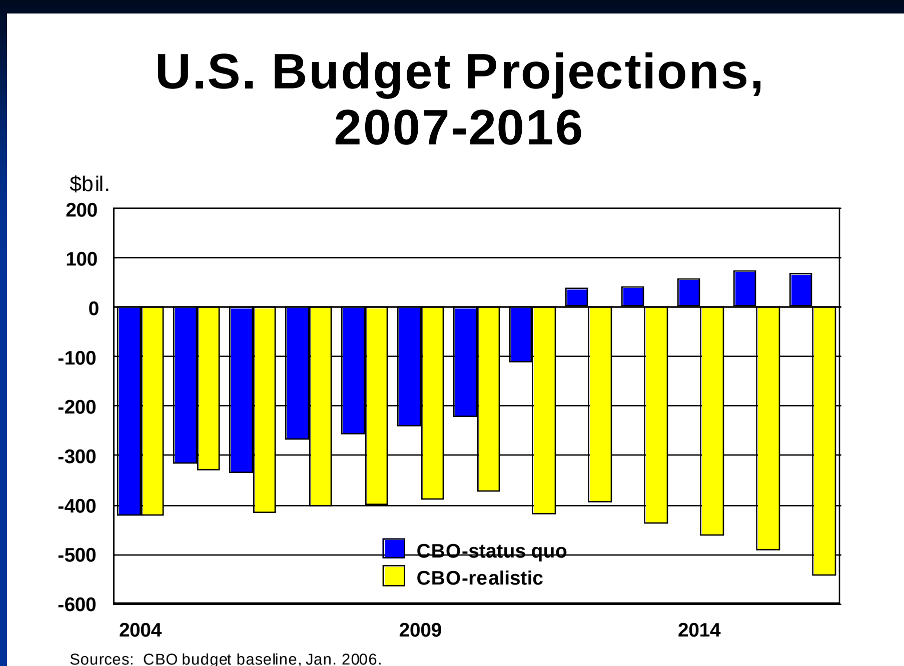
- 2.1 million farms reported in 2002 Census of Agriculture (less than 1 percent of U.S. population)
- 19 percent of farms were 500 acres or larger
- Greater specialization: about 25 percent of farms grow crops eligible for farm program payments
- 17 percent of U.S. population in non-metro counties in 2000 Census

Public perception of U.S. agriculture

- 2001 survey conducted for W.K. Kellogg Foundation
- Key findings:
  - General public has positive images of U.S. agriculture (self-reliance, safe environment)
  - Sees farms as being overtaken by urban sprawl, other challenges
  - Large-scale, corporate farms viewed negatively
  - Farm subsidy system seen as hindrance rather than help by disproportionately helping corporate farms

Potential turning point for U.S. farm policy in 2007 farm bill

- External factors that could lead to environment for significant change in U.S. farm policy in the next farm bill
  - Changing political and social landscape
  - Budget pressures—U.S. budget deficits projected in excess of $400 billion annually into the future
  - Successful WTO agreement would force changes in U.S. programs viewed as trade-distorting



If WTO Agreement reached

- Potential paths for change in U.S. farm programs
  - Maintain status quo (shrink existing programs within constraints)
  - Undertake modest reform (stick with direct farm support, shift to target revenue approach)
  - Significant reform (move increasingly away from direct farm support programs linked to commodity production, toward green box programs such as
    - Conservation
    - Rural development
    - Renewable energy
    - Agricultural research

Significant reform would represent Grand Bargain (Version 2.0)

- New tradeoff--
  - Taxpayers support farm income in non-trade distorting ways in exchange for farmers maintaining careful stewardship of natural environment, including increased provision of renewable energy to both reduce dependence on foreign oil and greenhouse gas emissions
- What is at stake?
  - Of 2.2 billion acres of land in United States, 938 million acres are held by farmers (cropland, pasture, private forest land)
- The vast majority of farmers want to take good care of their land, but sometimes they need financial assistance

Can such a new Grand Bargain work?

- Compelling though incomplete studies of existing conservation programs document significant public benefits
  - Conservation compliance requirements partially responsible for reduction in soil erosion
  - ERS studies on value of water quality improvements, hunting and recreation benefits from Conservation Reserve program

Local successful bargains: examples

- New York City—City's Dept. Environ. Protection provides funding for easements in watersheds west of city, conserving water quality for city residents
- CREP project in Pennsylvania, targets land in 20 counties for CRP to improve water quality in Chesapeake Bay
- USDA distance learning program—In 2003, grants of $8.9 million to fund 27 telemedicine projects, improving service in 190 rural medical facilities

Concluding remarks

- If WTO agreement not completed by end of 2006, movement toward Grand Bargain (Version 2.0) will be slowed
- Clear preference of U.S. farm groups will be for extension of most provisions of 2002 farm bill
- Over time, farm policy has tended to be evolutionary in nature, rather than revolutionary. It has taken us more than 70 years to get to this point, so it might take us more than one farm bill to get to Grand Bargain (Version 2.0)