

# ***The box we're in ...***

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# Overview

- Commodity-based programs
- Other countries' experience
- Outlook for US farm policy

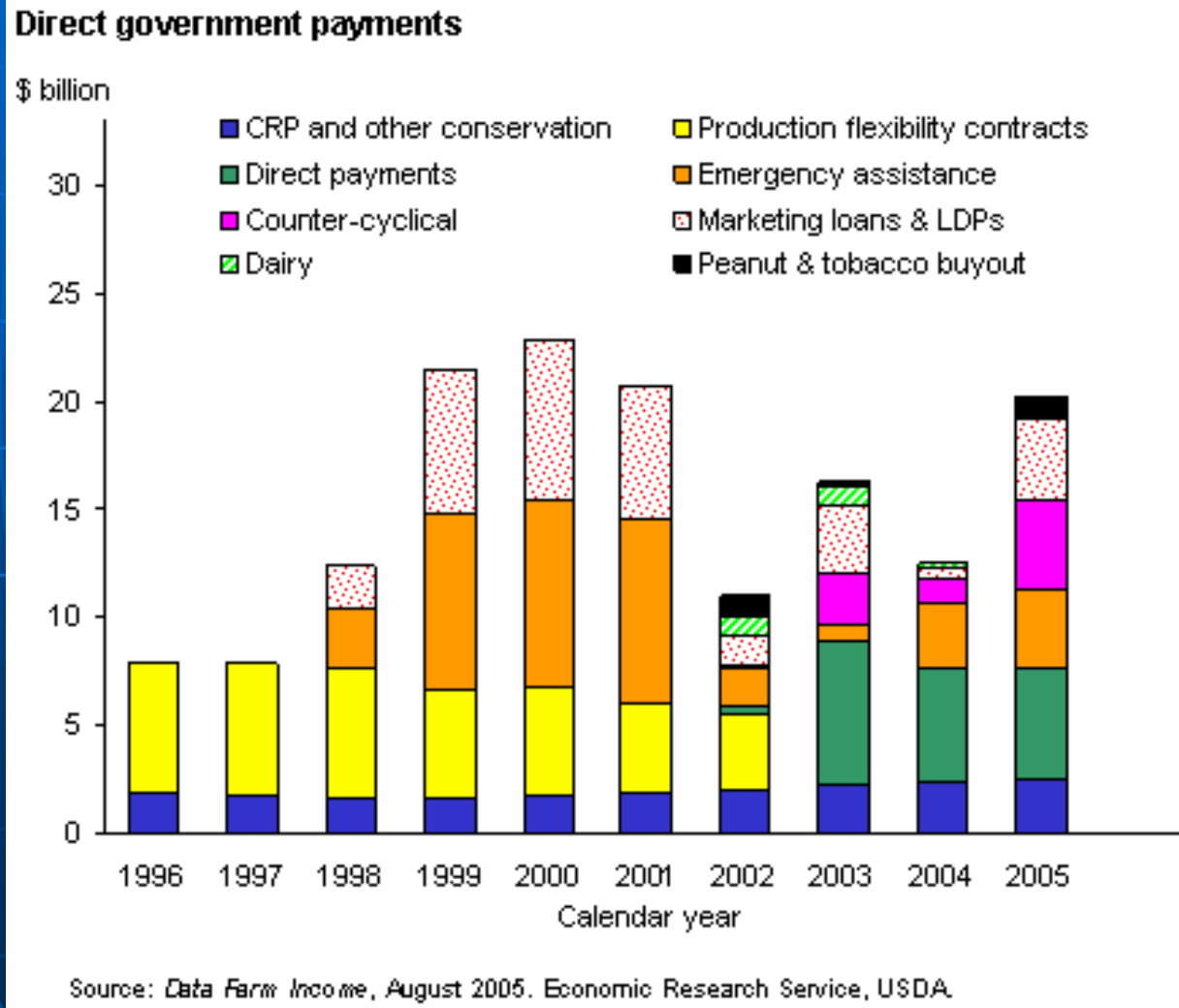


# *How did we get here?*

- 1996 Farm Bill
  - Decoupled payments (AMTA/PFC)
  - Planting flexibility
- 1998-2001
  - MLA payments
- 2002 Farm Bill
  - Counter-cyclical payments
  - Base updating



# Government payments



# *A continuum of payments*

Program	Potential for distortion	WTO treatment
Fixed direct payments	Low - decoupled	Green*
Counter-cyclical payments	? –partially decoupled	? –not yet notified
Marketing loan benefits	High – fully coupled	Amber

# *Limits on trade-distorting support*

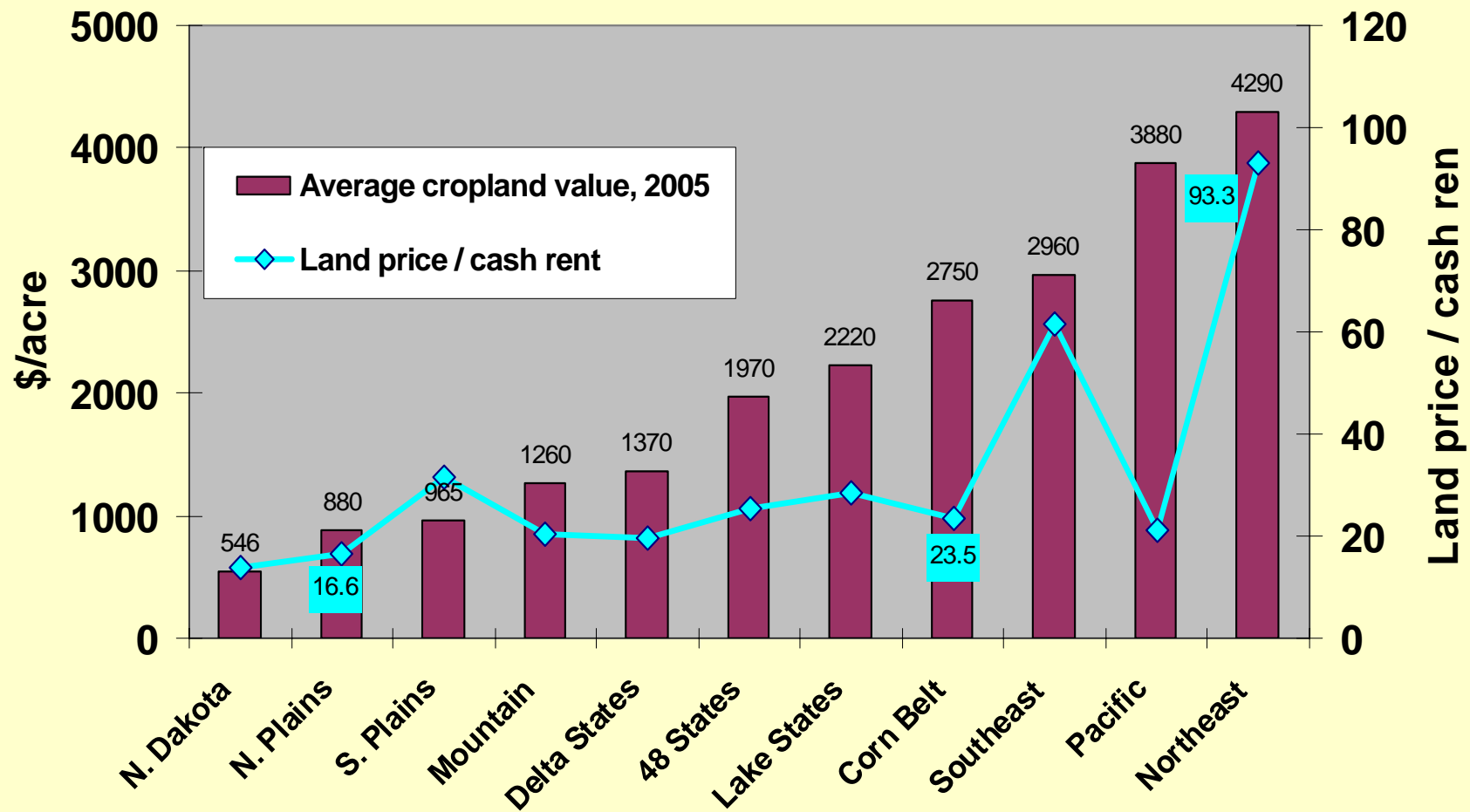
- AMS limits have encouraged shift to green-box payments
- Brazil cotton case: planting restrictions not consistent with 'green-box'
- Doha: size of boxes, criteria subject to negotiation

# *Unintended effects ...*

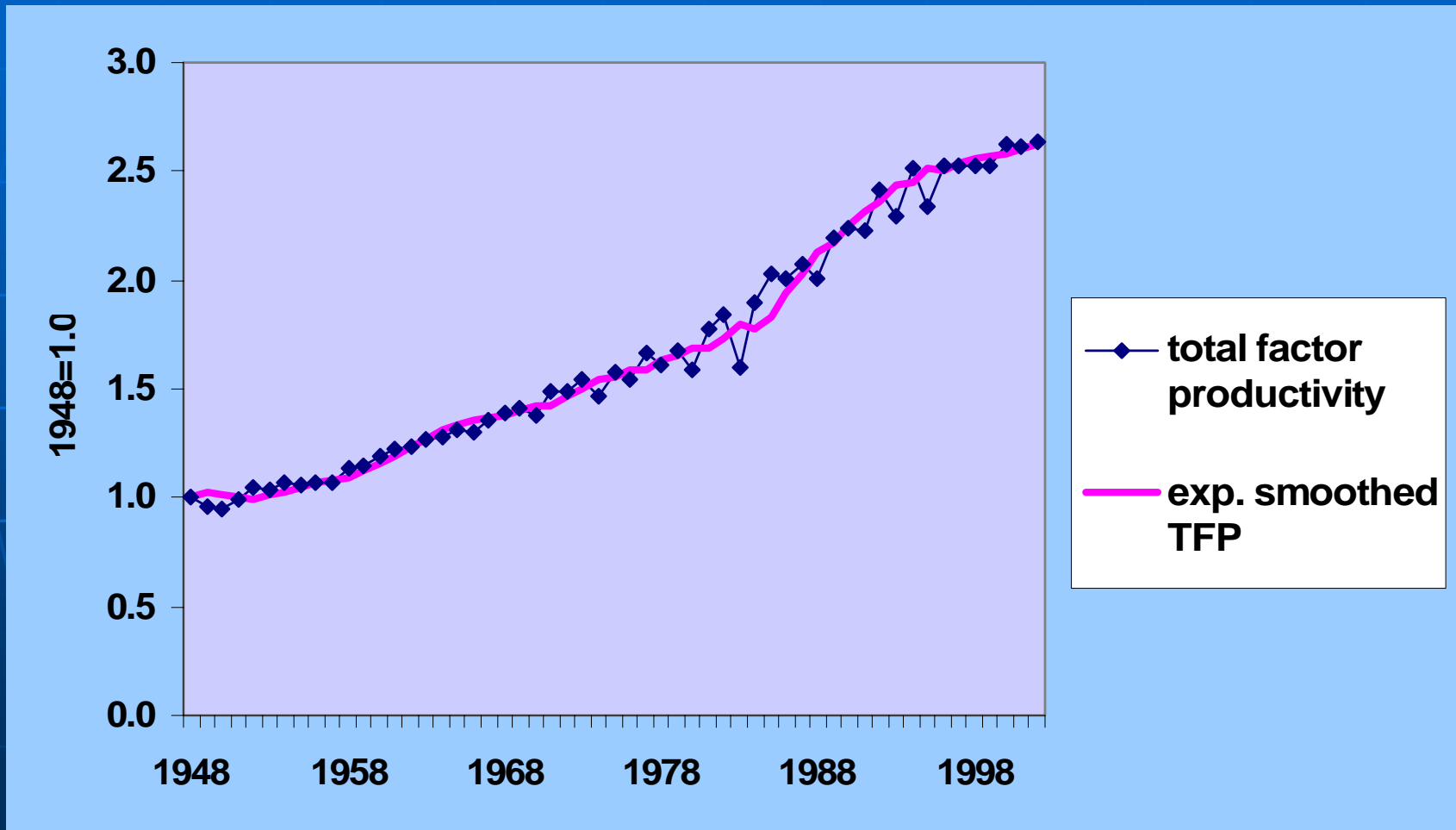


- Subsidies capitalized into land values
- Do payments accelerate structural change?
- Do they affect our competitiveness?

# Cropland values, 2005

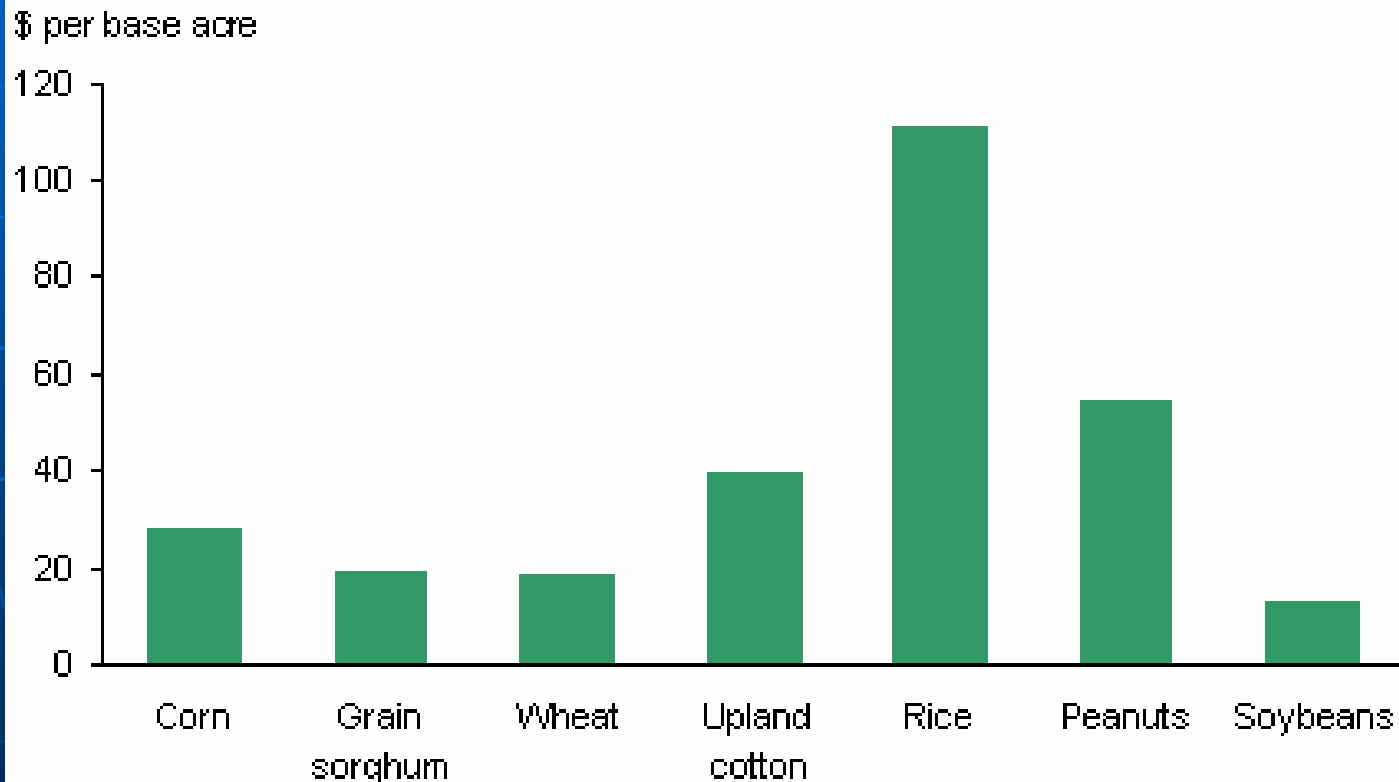


# Productivity growth in US agricultural sector



# *Distribution of payments – by commodity*

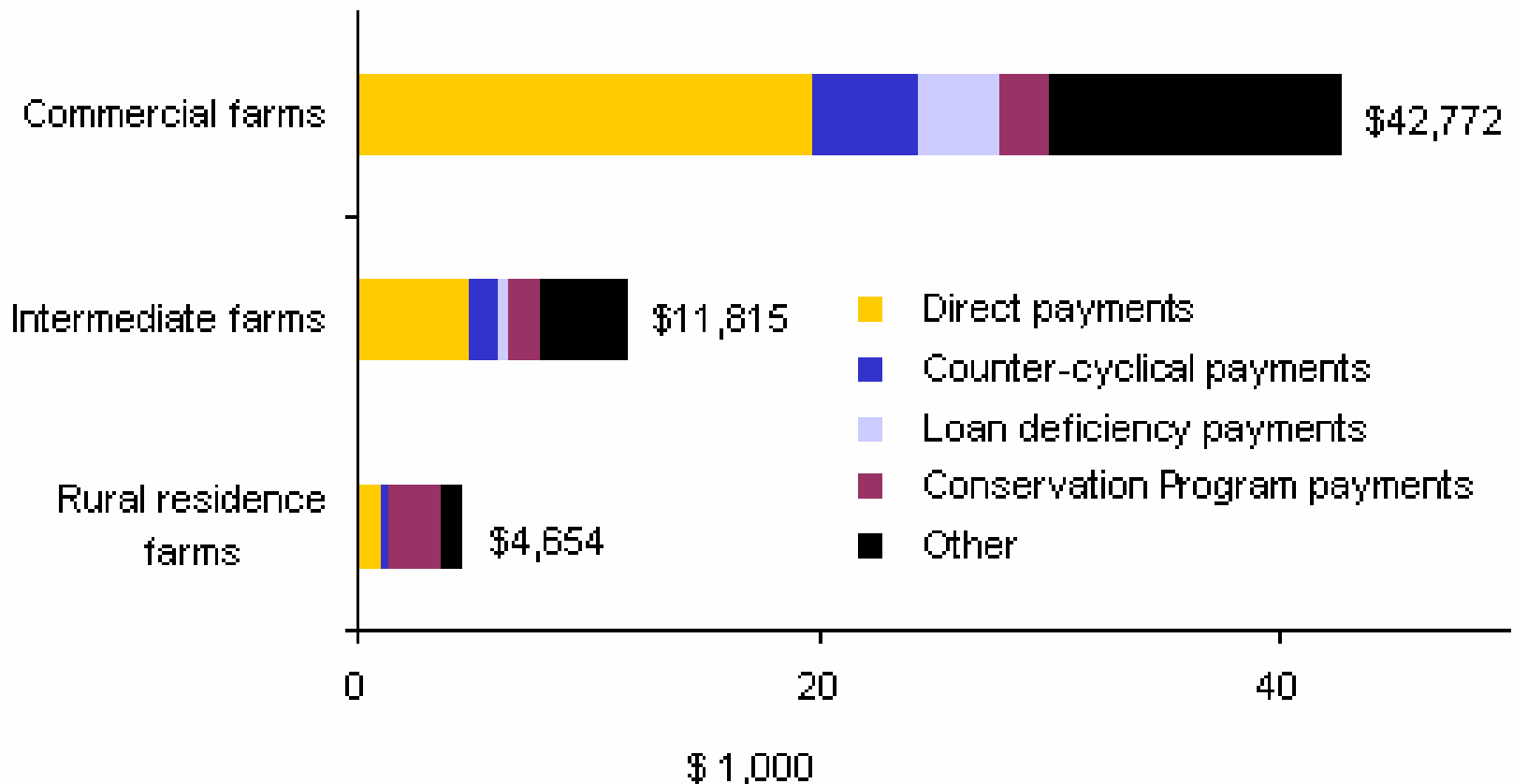
**Direct payments per base acre, crop year 2004/05**



Source: *USDA, CCC Budget, February 2005.*

# Distribution by farm size

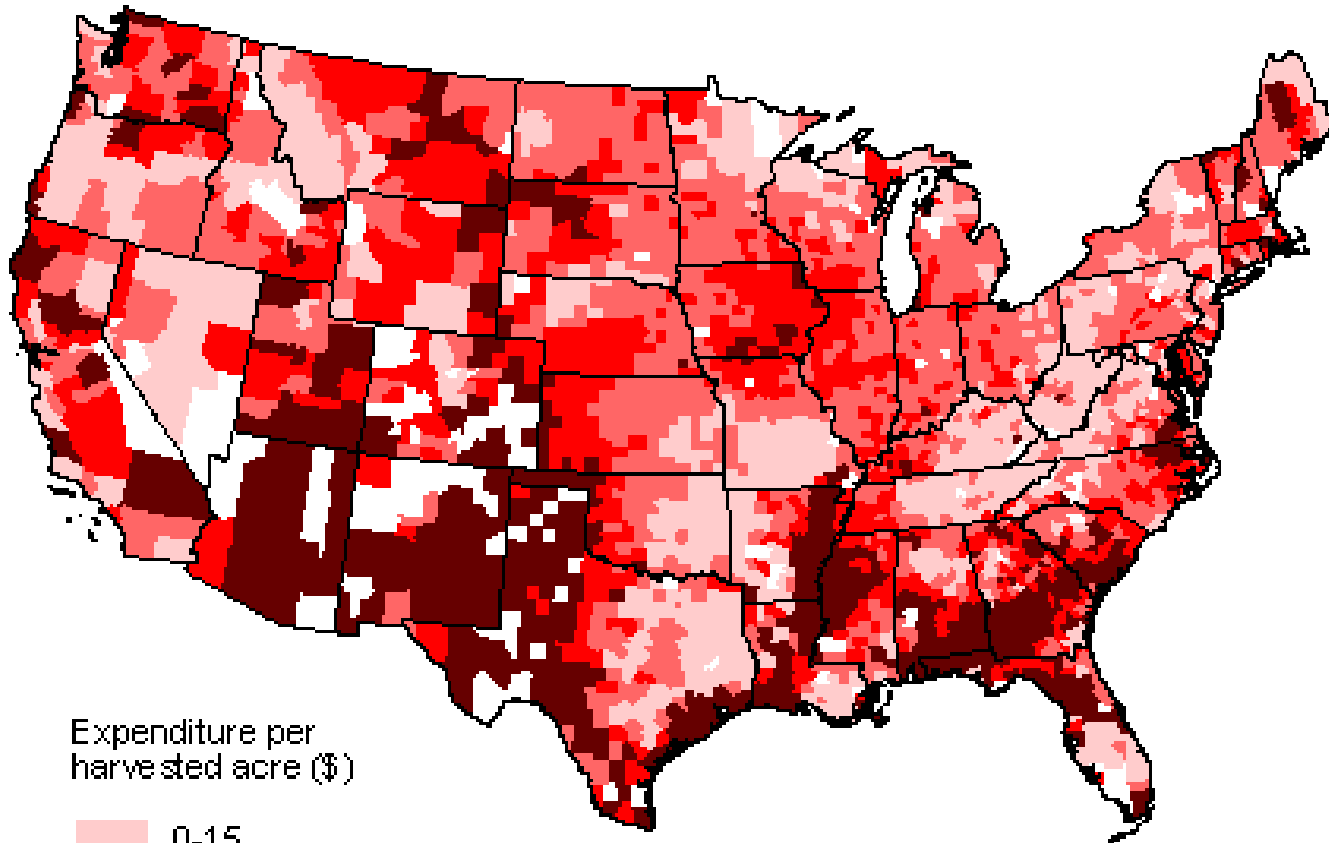
Average government payments by typology group for farms that received payments in 2003



Source: 2003 US DA *Agricultural Resource Management Study*.  
Economic Research Service, USDA.

# *Distribution by region*

Distribution of commodity payments per harvested acre



Expenditure per  
harvested acre (\$)

- 0-15
- 15-30
- 30-50
- > 50
- No data

# *Policy reforms in other countries*



- Canada – CAIS (2004)
- EU – CAP reform (2003-04)
- New Zealand – cold turkey (1984)

# *Canada: income stabilization*

- Previous policies:
  - Net Income Stabilization Accounts (NISA) 1992-
  - Agriculture Income Disaster Assistance (AIDA) 1998-99
  - Canadian Farm Income Program (CFIP) 2000-03
- Canadian Agricultural Income Stabilization (CAIS) 2004 –
  - Replaced NISA and CFIP



# Canada (2)

- CAIS:
  - combines income stabilization & disaster assistance
  - Fully subsidized whole-farm insurance
- How it works:
  - Farmer selects level of protection, makes fully refundable deposit
    - Deposits used to replace lost income
    - If not used, rolled over to next year
  - Deposit entitles farmer to government assistance in case of income loss



# Canada (3)

- Payments made when claim-year margin falls below reference
- Government contribution increases with size of loss

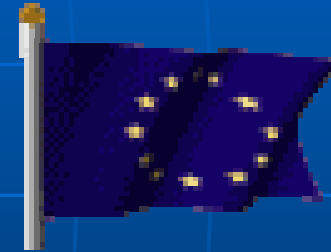
Loss	Cost shares: Gov't / producer
First 15%	50-50
15-30%	70-30
> 30%	80-20

## *Canada (4)*

- Program does not depend on accumulation of account balances
- During 1<sup>st</sup> two years of participation, farmers can deposit 1/3 of required cost share
- Effective coverage in 1<sup>st</sup> year, and for back-to-back disasters

# *EU CAP reform*

- 2003-04 reforms motivated by
  - Ag negotiations in WTO
  - Budgetary costs, enlargement
  - Consumer, environmental concerns



# *EU CAP reform (2)*

- Major features:
  - Single farm payments
  - Cross-compliance
  - Rural development programs
  - Control of market-support budget expenditures



# *EU CAP reform (3)*

- Single farm payment
  - Direct income payment based on historical entitlement
  - Replaces most arable crop payments
  - Extends decoupling – reduces role of commodity support



# *EU CAP reform (4)*

## ■ Compliance

- Producers receiving SFP comply with:
  - Mandatory set-aside;
  - Food safety and food quality assurances;
  - Animal health and welfare standards;
  - Environmental standards;
  - And keep land in “good agricultural condition”
- Funding available to help compliance with some regulations

# *New Zealand: Full liberalization*

- 1984 : reforms in agric. sector—on top of big macro reforms
- Price supports eliminated over 2 years
- Most other assistance phased out by 1990s



Year	1983	1987	1994
PSE	35%	9%	2%

# ***New Zealand (2)***

- Sizable adjustments:
  - Drop in farmland values (bottoming out after 3-7 years)
  - Drop in agricultural credit
  - Changes in output mix, farm structure, employment
- Government aid programs



# *New Zealand (3)*

- Trends in total factor productivity:

Period	Annual growth
1976-84	1%
1984-90	2%
1990-97	2.3%

# ***New Zealand (4)***

- Some lessons:
  - Adjustments not instantaneous—and far from painless
  - Reforms hit youngest farmers hardest (those with lower equities)
  - Shifts in output, changes in asset values helped to restore profitability, growth

Source: Rae, Nixon, and Latimore, "Adjustment to Agricultural Policy Reform – Issues and Lessons from the New Zealand Experience"

# *Outlook for US farm policy*

- Scenario 1: **marginal changes**
  - Preserve current instruments
  - Cost containment through lower loan rates, payment limitations
  - May preclude WTO agreement

# *US policy outlook (2)*

- Scenario 2: **Comprehensive reform**
  - Full decoupling, buyouts
  - Green payments
  - New safety net program
  - Facilitates WTO agreement?

# *US policy outlook (3)*

- Other approaches:
  - Return to supply management?
  - Policy devolution (to states)
  - Others?



# *Evaluating alternatives ...*

- Budget implications
- WTO compliance
- Distribution of payments
- Market orientation
- Competitiveness
- Wealth effects



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