U.S Farm Policy: A-Bomb or a bomb?

Professor David Trechter
Muresk Institute of Agriculture

Topics to be covered:

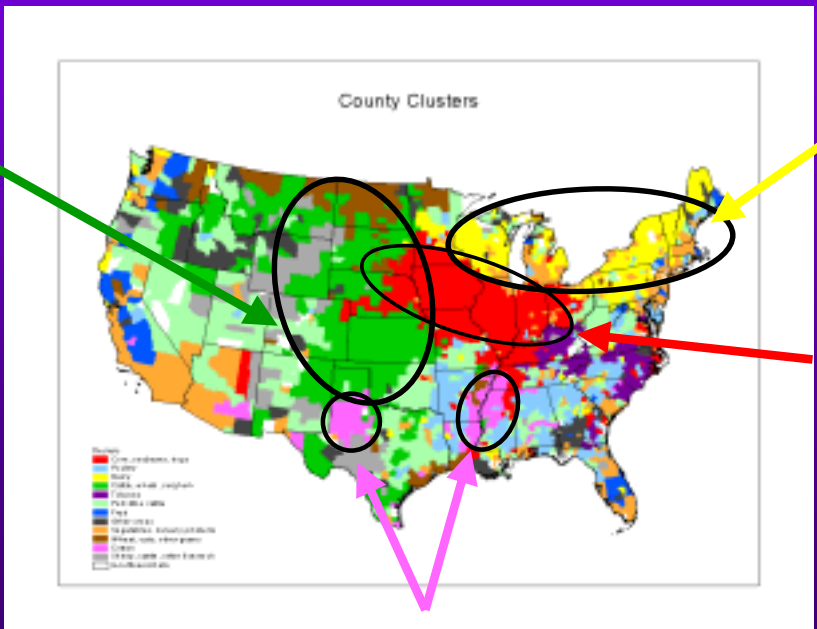
- Key farm characteristics in US
- The 2002 Farm Bill
  - The political setting
  - Amount to be spent
  - Summary of key provisions
- Implications of the 2002 Farm Bill
  - For Australian farmers
  - For American farmers

Key farm characteristics in US

Key farm characteristics in US

Key agricultural production regions in US

Wheat and Cattle



Dairy

Corn, Soybeans & Hogs

Cotton

Key farm characteristics in US

- The US has approximately 2.1 million “farms”
- USDA categories:
  - **Limited resource** (sales<US$100,000, assets< US$150,000, operator income< US$20,000) = 7% of farms
  - **Retirement residences** = 14% of farms
  - **Lifestyle** (principal occupation off-farm) = 40% of farms
  - **Farming-occupation, low sales** (sales < US$100,000, principal occupation = farming) = 20% of farms
  - **Farming-occupation, high sales** (sales between US$100,000 - US$250,000, principal occupation = farming) = 8% of farms

Small ↑

Large ↓

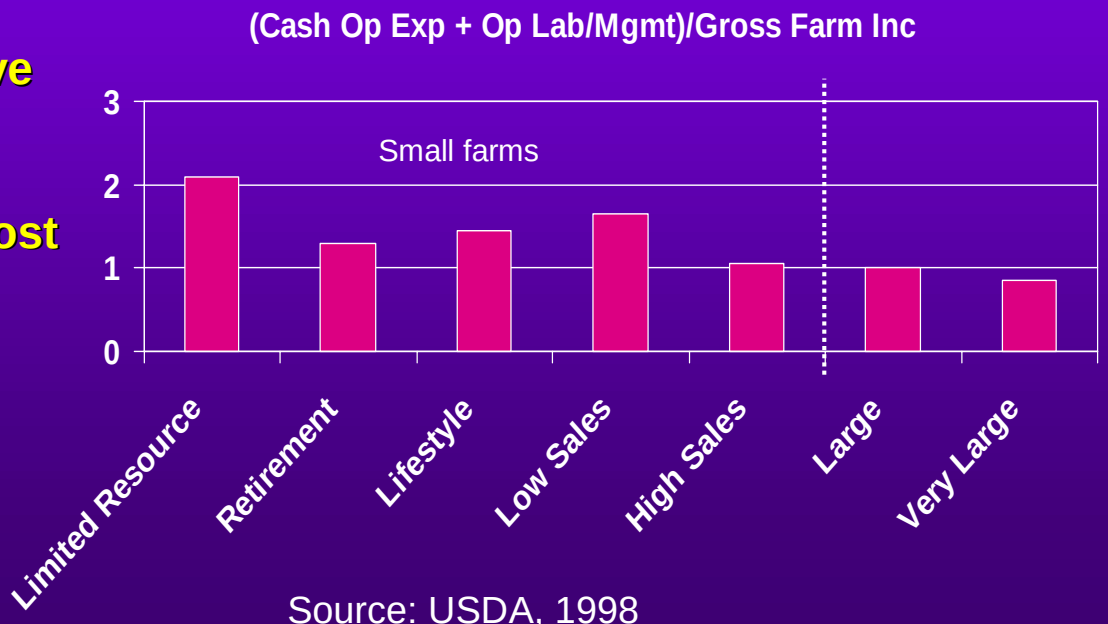
  - **Large family farms** (sales between US$250,000 and US$500,000) = 4% of farms
  - **Very Large family farms** (sales > US$500,000) = 3% of farms
  - **Nonfamily farms** = 2% of farms

Small farms (sales less than US$250,000) in the US

- **make up 91% of all farms**
- **own 68% of all farmland**
- **Produce only 34% of total value of farm production (66% produced by the 9% of large, very large and nonfamily farms)**

Small farms (sales less than US$250,000) in the US tend to be unprofitable

Ratio above 1 means farms in category lost money on average



Source: USDA, 1998

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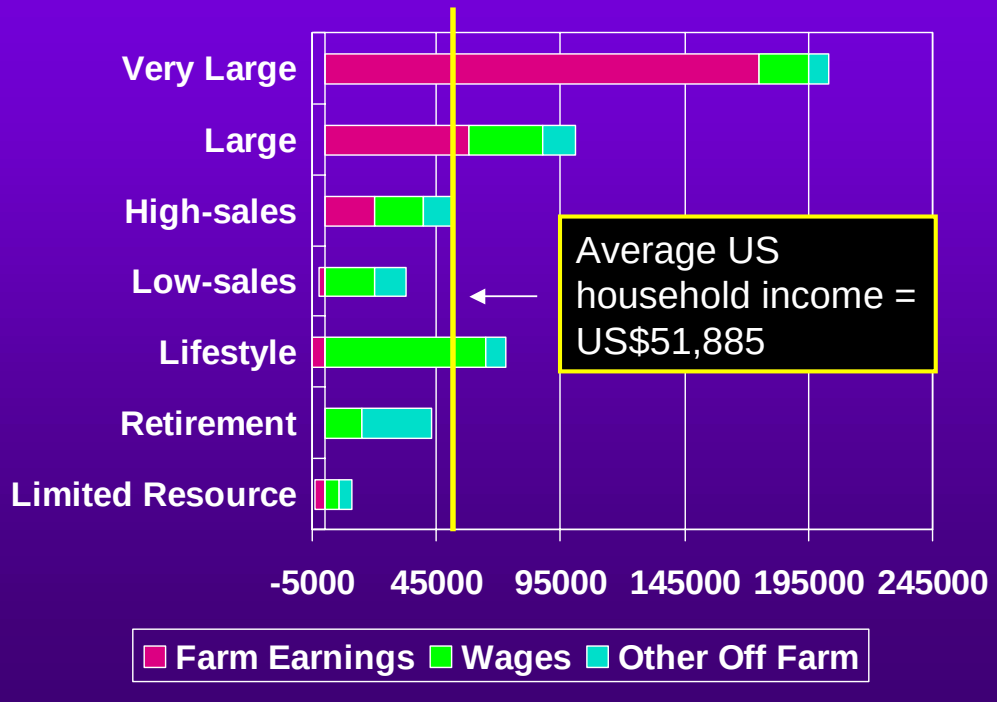
Farm household income compared to average US household



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- Key farm characteristics in US
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  - Amount to be spent
  - Summary of key provisions

The 2002 Farm Bill – the political setting

- Federal structure gives disproportionate power to small states via the Senate
  - Democratic Senate leadership = Daschle (SD), Reid (NV), Dorgon (ND)
  - Republican Senate Leadership = Lott (MS), Nichols (OK), Santorum (PA) and Craig (ID)
  - No one from California, New York, Florida, Illinois, Texas

The 2002 Farm Bill – the political setting

- Committee structure gives disproportionate power to agriculture
  - Incumbency
  - Seniority

The 2002 Farm Bill – the political setting

- Farmers' political clout
  - A high percentage vote
  - They are "swing" voters
    - Democrats control Senate by 1 vote (out of 100)
    - Republicans control House by 6 votes (out of 435)
  - They have a powerful lobby
    - (Dr. Lopez - $1 = $2,000)

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The 2002 Farm Bill – the political setting

- Agriculture also benefits by being "small"
  - Farm support payments in 2001 = $22.4 billion (3rd highest amount ever)
  - Total US federal government outlays = $1.863.9 billion
    - Ag, therefore, is 1.2% of overall budget
  - In 2001, US had budget surplus of $127.1 billion

The 2002 Farm Bill – the political setting

- The US has a Eurocentric farm policy
  - Politicians focued on EC (and Japan)
    - PSE for Australia = 4, for the US = 20, for the EC 35 and for Japan 50
    - Analogy to Cold War with Soviet Union
  - Impact of US farm policy on our friends in the southern hemisphere is not widely considered
    - Short-term pain for long-term gain

The 2002 Farm Bill – the amount to be spent

2002 Farm Bill Outlay Projections								
	2001	2002	2003	2004	2005	2006	2007	Total
	ACTUAL	----------		--- PROJECTION			----------	2002/07
Commodity Support Programs								
March 2002 Baseline	22,299	14,898	12,174	10,177	8,788	7,913	7,387	61,337
2002 Farm Bill		965	7,166	8,030	7,779	7,157	6,492	37,587
Total		15,863	19,340	18,207	16,567	15,070	13,879	98,924
Trade Programs								
March 2002 Baseline	-2,192	-137	-121	-91	-103	-96	-84	-632
2002 Farm Bill		23	95	91	90	92	141	532
Total		-114	-26	0	-13	-4	57	-100
Conservation Programs								
March 2002 Baseline	1,944	2,123	2,029	2,029	2,007	2,037	2,038	12,263
2002 Farm Bill		706	1,088	1,541	1,896	1,999	1,968	9,198
Total		2,829	3,117	3,570	3,903	4,036	4,006	21,461
Total Outlays								
March 2002 Baseline	22,051	16,884	14,082	12,115	10,692	9,854	9,341	72,968
2002 Farm Bill		1,694	8,349	9,662	9,765	9,248	8,601	47,317
Total		18,578	22,431	21,777	20,457	19,102	17,942	120,285

Farm Bill increased spending by 50%

Conservation programs nearly doubled

The 2002 Farm Bill – the amount to be spent

- **Key Points**
  - Bill covers 2002-2007
  - 2002 Farm Bill will result in considerably higher subsidies for US farmers (about one-third over baseline)
  - Considerable additional spending for conservation programs (Conservation Reserve Program, Environmental Quality Initiative Program, etc.)
  - Spending on export subsidies expands (MAP, EEP, PL480)

The 2002 Farm Bill – summary of key provisions

- Focus on commodity program
- Support program available for
  - Feed grains (corn, sorghum, barley, oats)
  - Food grains (wheat and rice)
  - Oilseeds (soybeans, other)
  - Cotton
  - Dairy

2002 farm legislation – summary of key provisions

- 3 classes of payments (except for dairy)
  - Direct payments (“decoupled” income support)
  - Marketing loans (price support)
  - Countercyclical payments (“coupled” income support)

2002 farm legislation – summary of key provisions

Payment rates for 2002 in A$/Ton (A$1=US$.57)

Commodity	Direct	Floor	Target
Wheat	33	180	248
Corn	19	136	179
Sorghum	24	136	175
Barley	19	151	178
Oats	3	153	159
Cotton	257	2,007	2,794
Rice	91	251	405
Soybeans	28	322	373
Other Oilseeds	31	371	378

2002 farm legislation – summary of key provisions

- Program rules
  - Payment acres = 85% of 1998-2001 ave plantings
  - Program yield = 1995 ave yield
  - Payment limits
    - Direct payment = $40,000
    - Countercyclical = $65,000
    - Marketing loan = $75,000
    - 1 full payment + 2 half payments

2002 farm legislation – summary of key provisions

Wheat Example - Assumptions

- US$0.57 = A$1.00
- 500 hectares of wheat produced
- 1995 yield = 1.75 tons/hectare
- Actual 2002 yield = 2.00 tons/hectare
- 2002 market price = $180/ton

2002 farm legislation – summary of key provisions

Wheat Example #1

- Revenue from market = 500 HA * A$180/T * 2T/HA = A$180,000
- Direct payment = A$33/T * 1.75T/HA *(500 * .85)HA = A$24,879
- Countercyclical = (A$248/T – A$180/T) * 1.75 T/HA * (500*.85)HA = A$50,801
- Total = A$255,680 (70% mkt/30% govt)
  - Ave Price = A$231/T

2002 farm legislation – summary of key provisions

Wheat Example #2 (Market price = A$220/T)

- Revenue from market = 500 HA * A$220/T * 2T/HA = A$220,000
- Direct payment = A$33/T * 1.75T/HA *(500 * .85)HA = A$24,879
- Countercyclical = (A$248/T – A$220/T) * 1.75 T/HA * (500*.85)HA = A$21,051
- Total = A$265,930 (83% mkt/17% govt)
  - Ave Price = A$241/T

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Implications of US Farm Bill – for Aussie Farmers

- U.S. production will expand (at margin)
  - US farmers face less risk & higher returns
  - Production intensity & extent increase
- World prices will be lower than they otherwise would be
- Export subsidies will displace some Aussie exports
- Australia should be angry but . . .

Implications of US Farm Bill – for Aussie Farmers

- Farm bill may be more of an irritant than a death sentence
  - Consider conditions in Aussie ag in 2001 and 2000
- USDA wheat outlook
  - US wheat production expected to be lowest since 1978
  - US wheat acreage lowest since 1917
  - 40% of US wheat crop rated poor or very poor

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Implications of US Farm Bill – for Aussie Farmers

- Demand side factors critical
  - If exchange rate is A$1.00=US$0.70
    - Support price = A$147/t
    - Target price = A$202/t
    - US wheat would be very competitive
  - Income growth in third world
    - 98 of next 100 babies will be born in LDC
    - 40% of human population lives within 5,000 K of Perth

Implications of US Farm Bill – for Yank Farmers

The Budget Problem

- 1996 Farm Bill written during period of budget surpluses (ideological bill)
- Budget deficits in excess of US$130 billion/year expected over next three years
- With low ag prices, expenditures will be high
  - Ag will become budget cutting target (policy uncertainty)

Implications of US Farm Bill – for Yank Farmers

The Capitalization Problem

- Ag land price based on expected future stream of income
- Farm Bill raises expected income from ag land, so its price increases
- Implications
  - Barrier to entry for new/younger farmers
  - Land price revaluation if/when subsidies decline

Implications of US Farm Bill – for Yank Farmers

The WTO Problem

- **Starting with the Uruguay Round, agriculture brought under WTO rules**
- **US farm policy needs to conform to WTO rules concerning acceptable levels of public support**

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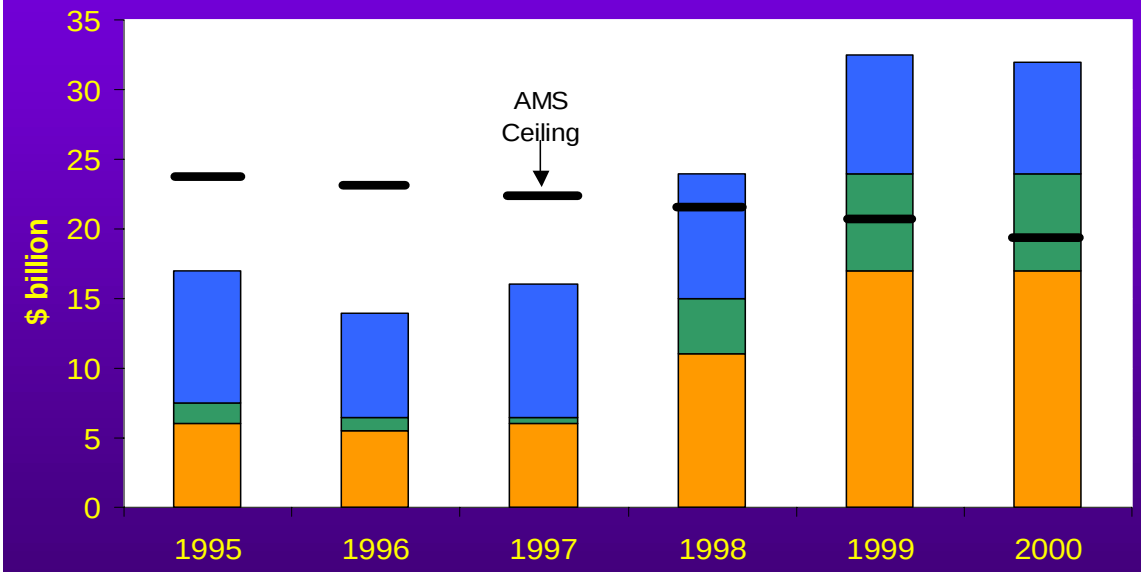
Calculating public support for WTO

- WTO called for reduction in aggregate measure of support (AMS) of 20% by 2000, from the average AMS during 1986-1988 period
- In calculating AMS, separated policies into “amber, green and blue” boxes
- Goal is to have primarily “green box” policies

Amber, Green and Blue Boxes

- Amber box = MOST trade distorting
  - Price supports
  - Export subsidies
- Blue box = Modestly trade distorting (not included in AMS calculation)
  - Supply controls
- Green box = Minimally trade distorting (not included in AMS calculation) = support from gov’t (not consumers), no market price support, no or minimal production impact
  - Decoupled income supports
  - Environmental payments

US AMS reported to WTO, 1995-2000



Source: Nelson, Frederick J. "Aligning U.S. Farm Policy With World Trade Commitments." Agricultural Outlook, ERS, USDA. January-February 2002

Implications of US Farm Bill – for Yank Farmers

The WTO Problem

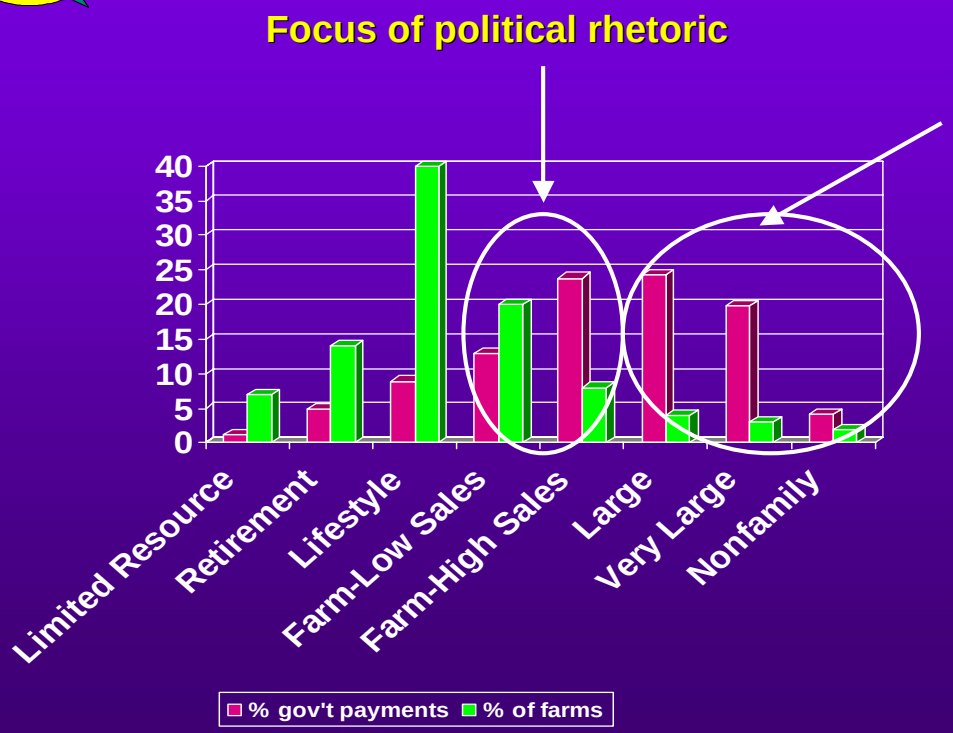
- **Under 1996 Farm Bill, US farm subsidies (amber box) approached the AMS ceiling, driven by price support subsidies**
- **2002 farm bill, with higher support prices and target price (countercyclical payment), will likely cause WTO difficulties**
  - **Driven by price**

Implications of US Farm Bill – for Yank Farmers

The Targeting Problem

- Structure of programs means they will fail to accomplish goal of "maintaining the family farm"

Where do current farm benefits go?



Recall that large and very large farms had household incomes more than double the average for US households

Top three groups (9% of farms) capture about 50% of benefits

Implications of US Farm Bill – for Yank Farmers

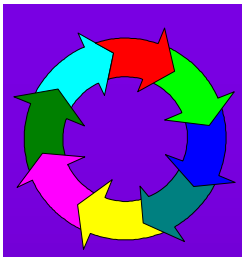
The "Multifunctionality" Problem

- The key coalition for farm legislation used to be rural areas and inner cities
  - Rural areas wanted farm programs
  - Inner cities wanted food stamps
- New coalition should between rural areas and suburbia, which is now the dominant political power
  - Rural areas want farm programs
  - Suburbia wants environmental, food safety and aesthetic benefits
  - This bill offers little on these topics

Conclusions

- The 2002 Farm Bill will
  - Spend a lot of money (badly)
  - It will irritate our friends
  - It will have adverse long-term implications for US farmers
- It is not an A-Bomb for Aussie farmers
- 2 reasons why I'm not worried about Aussie farmers . . .


SHEEP
CLOSE GATE
PLEASE.



Comments/Discussion

Contact information

<david.d.trechter@uwrf.edu>