



U.S Policy for Agricultural Adjustment

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Content of the Paper

- **Brief review of U.S. agricultural and other policies and their relationship to adjustment in the sector**
- **Outline of an “active” adjustment policy for U.S. agriculture that would address:**
 - **Compensation for reductions in asset values**
 - **Human capital issues**
 - **Persistent poverty**



Why have adjustment policies?

- **\$11-23 billion in direct payments; total commodity-based support of \$40-56 billion**
- **Aid the process of policy reform and trade policy liberalization**
- **The economic rationale:**
 - **Efficiency**
 - **Equity**
 - **Political economy**



US policies and agricultural adjustment

- **Little emphasis on facilitating economic adjustment in U.S. agricultural policies**
 - **Adjustment = supply control**
 - **Resettlement administration in the 1930s – farm structure improvements**
 - **Shift to direct payments and income support**
 - **Peanut quota buyout in 2002 Farm Act**



US policies and agricultural adjustment

- **More active approach in Trade Adjustment Assistance Programs**
 - **Primary emphasis on wage labor – supplementary unemployment payments, retraining, relocation**
 - **Limited provisions for firms**
 - **Specific provisions for agriculture in the current legislation – but the focus is on income support with weak adjustment provisions**



Designing an adjustment policy

- **Reduction in government support will create:**
 - **Income effects**
 - **Changes in factor use – labor reallocation and displacement**
 - **Changes in factor prices – land values**



Designing an adjustment policy

- **Potential policy response:**
 - **Income effects – safety net policy**
 - **Changes in labor use – human capital policies**
 - **Changes in asset values – compensation for reductions**



Asset value compensation

- A “rough” estimate of the capitalized value of existing support in 2002
 - \$109 billion using OECD and USDA data
 - Less than 10 percent of the value of US farmland
 - Slightly more than the \$103 billion of farm real estate debt
 - Roughly six times average annual direct payments in recent years
 - Slightly more than twice the average annual value of commodity support (total PSE, estimated by OECD)



Asset value compensation

- **Some issues if compensation is to be provided:**
 - **Much cropland is rented – many non-operator landlords are retired farmers or others formerly associated with agriculture**
 - **Compensation payments to landowners, but at what level and on what basis?**
 - **Need to link compensation to reduction in land rental rates?**



Human capital policies

- **Improved managerial skills for those remaining in agriculture:**
 - **Some current programs through Farm Service Agency and Risk Management Agency of USDA, but limited in scope**
 - **Analysis, though limited, suggests significant payoff to improvements in business competence**
- **Improved skills for off-farm employment for those remaining in farming**
- **Improved skills for those moving to alternative employment (cf. Trade Adjustment Assistance retraining/relocation programs)**



Human capital policies

- **Retirement planning assistance**
- **Network already in place through cooperative extension, but additional funding would be required to deliver programs**



Safety Net Policies

- **Who should be targeted?**
- **USDA data for 2000:**
 - **Average farm household income 109 percent of median U.S. household income**
 - **+90 percent of farm operator households had greater net worth than US household average**
 - **Average net worth of all farm households roughly \$514k**
- **Focus on persistent poverty – farm households with low incomes and low net worth in comparison to the average US household?**



Safety Net Policies

- **USDA data for 2002:**
 - **Roughly 130k farms or 6 percent of the total**
 - **38 percent are “limited resource”**
 - **Average government payments of \$2k**
 - **Farm household income of \$16k**
- **Total payments required to raise household income to \$30k = \$1.77 billion**



Conclusions

- **“Active” adjustment policy for U.S. agriculture in the context of the general reform of agricultural policy would focus on three areas:**
 - **Asset value reduction**
 - **Human capital issues**
 - **Persistent poverty**
- **Other policy objectives will need to be addressed, e.g., environmental – but not considered in the current paper**
- **The reorientation of existing U.S. agricultural policies – are we thinking the unthinkable?**