

# **U.S. Agricultural Policy in 2004: Ripe for Reform, Repackaging, or Routine?**

**Kitty Smith  
Economic Research Service, USDA**

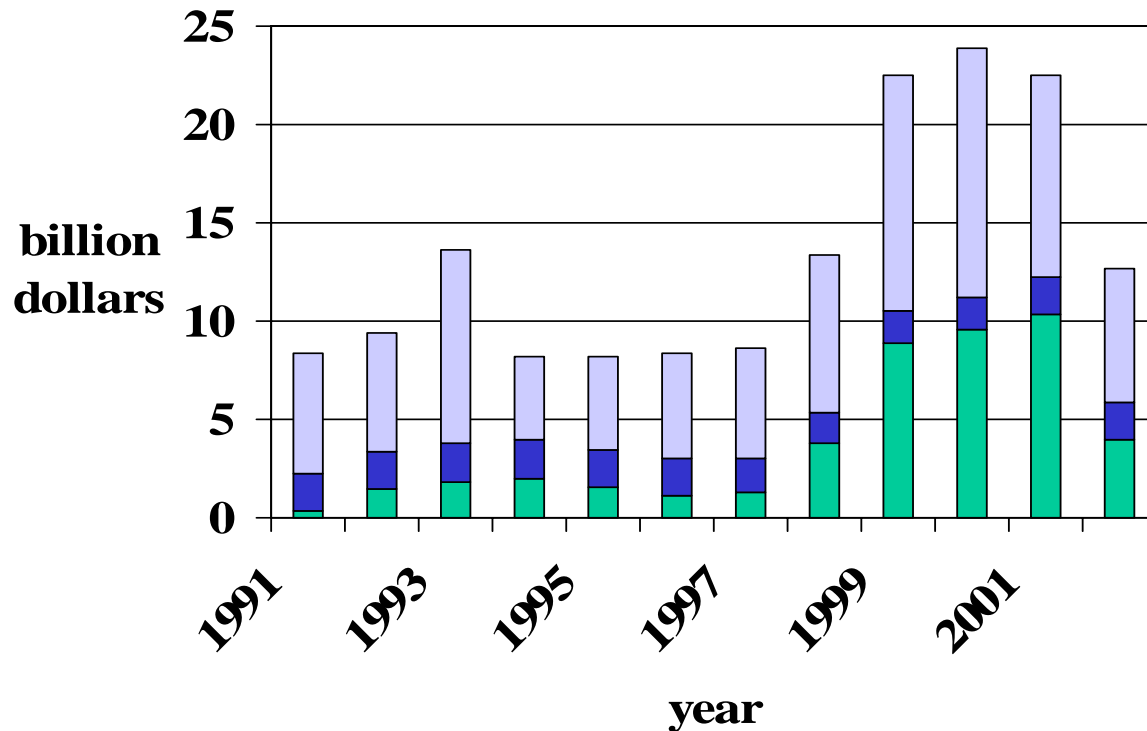


# Factor 1

**A Tight Federal Budget  
and High Agricultural  
Spending Levels**



# Federal government payments to farmers



**■ Disaster, Emergency & Ad hoc** **■ Conservation**  
**■ Traditional Commodity**



## Factor 1: A Tight Federal Budget and High Agricultural Spending Levels

- Budget constraints stimulate thinking about policy/program alternatives

But...

- Agriculture a small part of overall budget
- Taxpayers not an influential interest group
- Longstanding reform has to be able to survive periods of budget surplus as well as deficit

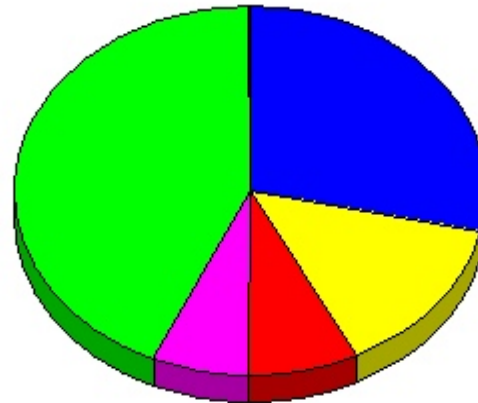


# Factor 2

## WTO Challenges



## Total U.S. Exports of Merchandise to Brazil=\$11.2 billion in 2003



[ 28.6% ]	84--NUCLEAR REACTORS, BOILERS, MACHINERY ETC.; PARTS
[ 14.0% ]	85--ELECTRIC MACHINERY ETC; SOUND EQUIP; TV EQUIP; PTS
[ 07.6% ]	29--ORGANIC CHEMICALS
[ 06.6% ]	88--AIRCRAFT, SPACECRAFT, AND PARTS THEREOF
[ 43.3% ]	All Others

**Also exported \$1.7 billion in private services**



## **Factor 3**

# **Valuing Environmental Quality**



## Valuing Environmental Quality

- If green payments compete with commodity program payments under a tight budget, adds extra stress to maintaining *status quo*
- If *status quo* is retained, satisfying CSP stakeholders would increase budget exposure.



**May force the question of how  
values compare:**

**Farm Fundamentalism**

**versus**

**Agri-environmental Quality**

**... and who cares about each set of values**



**Factor 4**

**Farmland Values**



# Farmland Values

- In the short run, farmland owners stand to lose substantially if farm program payments are *decapitalized* from land value.

*And a large portion of farmland owners are NOT farm operators.*

- In the longer run, lower farmland prices and rents make U.S. production more competitive.



# Factor 5

## Diversification in Agriculture

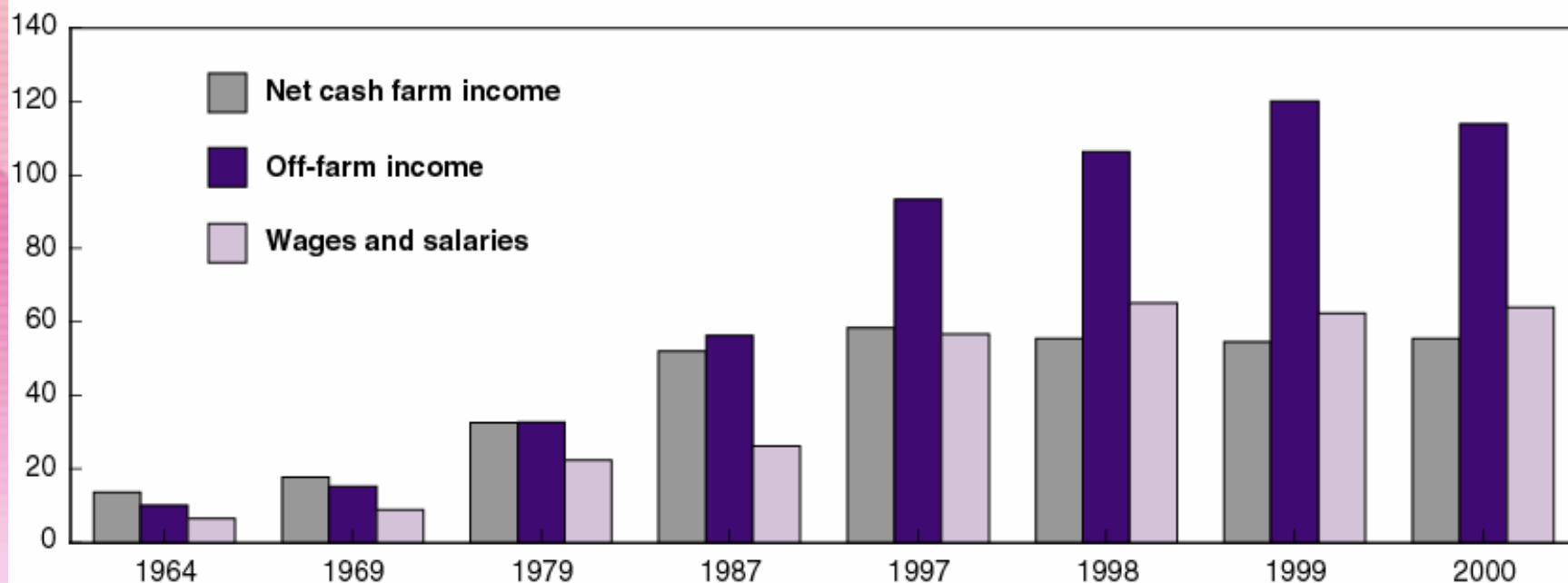


Figure 11

### Farm sector net cash income and income of farm households from off-farm sources

*The increase in farm household earnings has been driven by the increase in off-farm earnings.*

\$ billion



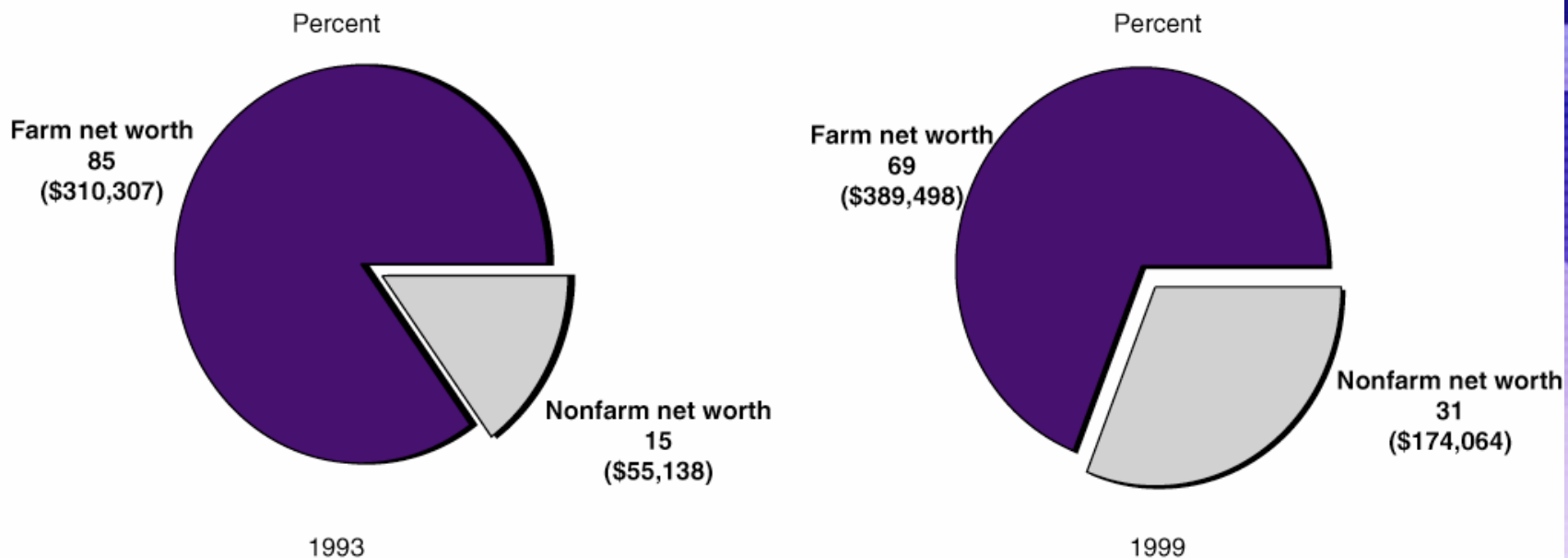
Source: Census of Agriculture, 1964-1997, and Agricultural Resource Management Survey (ARMS), 1998-2000.



Figure 9

### Sources and share of farm household wealth, 1993 and 1999

*Most operator households derive the majority of their wealth from farms assets; however, the share of nonfarm net worth has increased of late.*

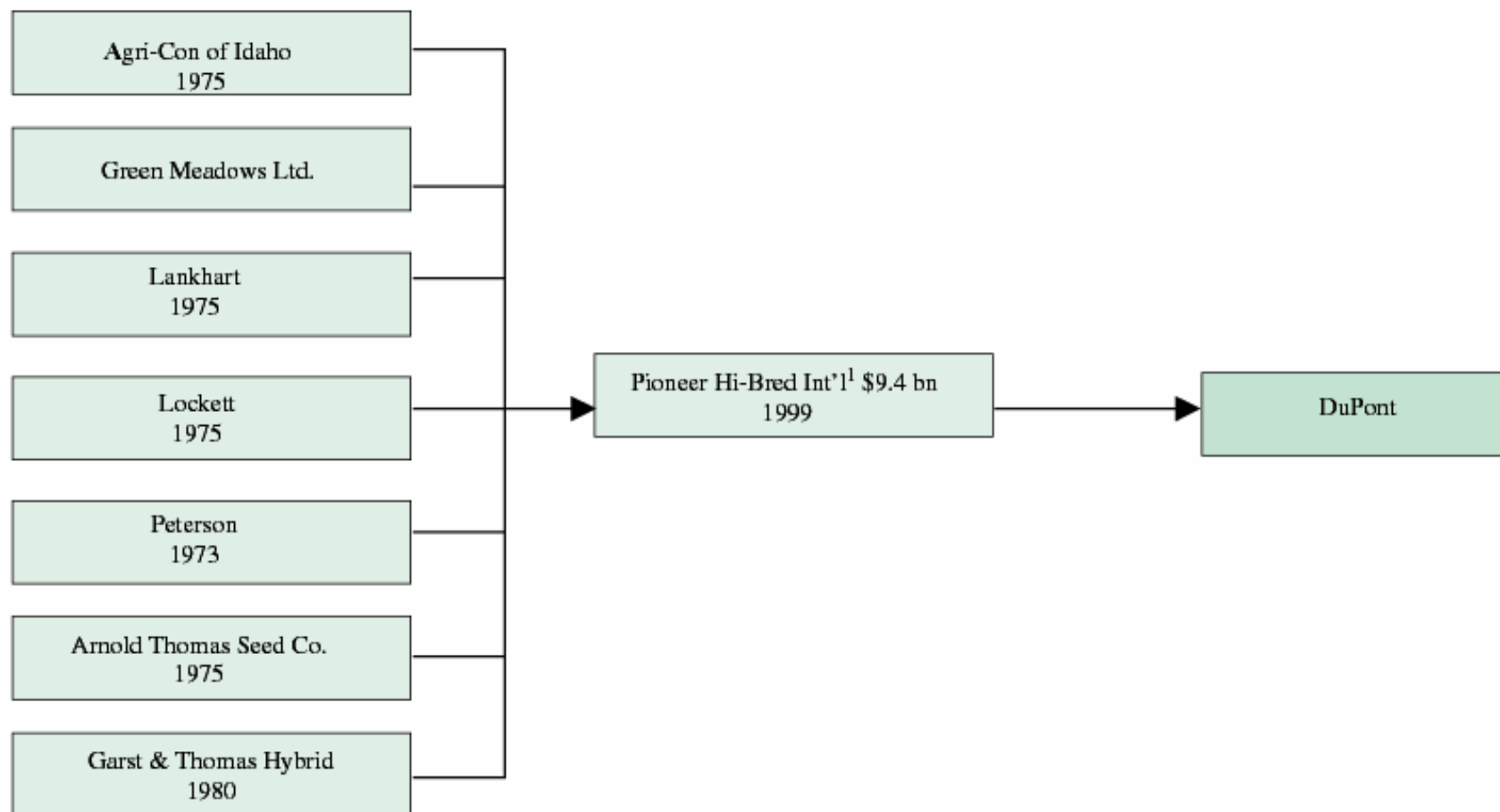


Source: USDA, Economic Research Service, Agricultural Resource Management Study (ARMS) survey, 1993 and 1999.



Figure A-2

## Evolution of Pioneer/Dupont



bn = billion.

<sup>1</sup>Dupont bought 20 percent of Pioneer in August 1997 and bought the remaining 80 percent in October 1999. As a DuPont company, Pioneer continues to operate under the Pioneer name from its headquarters in Des Moines, Iowa.

Sources: Butler and Marion, 1985, p. 87; Joly and Lemarie, 1999; Leibenluft, 1981, p. 116; and Seedquest, 1999.



*"Supplier diversity is a key priority for many of our customers...Cargill is also committed to supplier diversity because it enhances our ability to provide distinctive value for our customers."*

**Warren Staley**  
Chairman and CEO, Cargill



Because farming-related income and wealth are *relatively* less important to farm households and the industries that depend on farm production...

... retention of traditional farm program payments has a *relatively* lower value to traditional stakeholders.



## Pro reform

- Federal budget
- WTO-induced backlash
- Constrained green payments
- Long run land price declines
- Reduced reliance on agriculture

## Pro status quo

- Invisibility of agr. Spending
- New groups of stakeholders, and “payment envy”
- Short run land price declines



*"People who love soft methods and hate iniquity forget this, ... that reform consists in taking a bone from a dog."*

**John Jay Chapman**  
**"Practical Agitation," 1898**



## Size of Stakeholding Group

