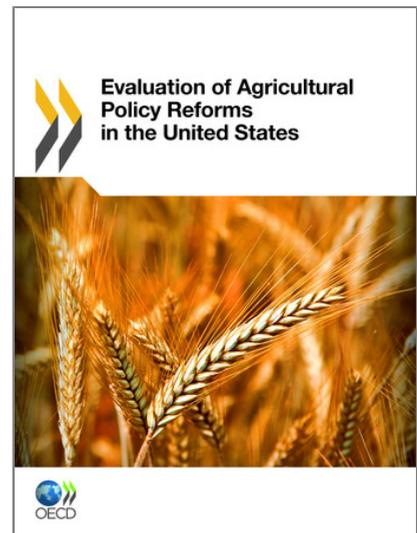


OECD *Multilingual Summaries*

Evaluation of Agricultural Policy Reforms in the United States

Summary in English



- The United States is one of the most important agricultural producers in the world. It has a very large domestic market and is the world's largest exporter of agricultural products. Indeed, the share of US agricultural production exported is more than double that of any other US industry and the trade surplus in agricultural products acts as an important stimulus to the US economy. Thus, US agricultural policies exert a strong influence on world agricultural markets.
- The United States maintains an array of agricultural policies with goals that range from the traditional objectives of stabilising agricultural production and supporting farm income to those that have more recently increased in importance, such as assuring adequate nutrition, securing food safety, encouraging environmental protection and facilitating rural development.
- This study analyses and evaluates US agricultural policies, focusing on the Food, Conservation, and Energy Act of 2008, in the context of developments in agricultural policy that have taken place in the United States since 1985. It looks closely at five US Farm Acts: the Food Security Act of 1985; the Food, Agriculture, Conservation, and Trade Act of 1990; the Federal Agriculture Improvement and Reform Act of 1996; the Farm Security and Rural Investment Act of 2002 (2002 Farm Act); and the Food, Conservation and Energy Act of 2008. This study also discusses several emerging issues and challenges for US agricultural policies, and offers key policy recommendations.

The United States is one of the most important producers of agricultural commodities in the world, and, in addition to possessing a very large domestic market, it is the world's largest exporter of agricultural products. Moreover, the share of US agricultural production exported is more than double that of any other US industry and the trade surplus in agricultural products acts as an important stimulus to the US economy.

Agricultural production has been increasing over time, while, at the same time, real producer prices have been falling due to a continued steady increase in the total factor productivity of agriculture. Because of the size of the agricultural sector, US agricultural policies exert a strong influence on world agricultural markets.

Since the mid-1980s, considerable adjustments have occurred in the number and size distribution of farms, and in the mix of inputs used by the farming sector. While over the long-term, the number of farms has been declining, in recent years there has been an increase of 4% (between 2007 and 2002). The structure of farming continues to shift towards fewer, larger operations producing the bulk of commodities, complemented by a growing number of smaller farms earning most of their income from off-farm sources.

The majority of farms in the United States today are still small farms (or "rural-residence farms"), producing only a small share of total agricultural output. The bulk of production is associated with intermediate and commercial farms – particularly the latter – which constitute a relatively small percentage of the total number of farms. In terms of support, the larger farms receive over half of the government's total commodity payments. Moreover, larger farms would also benefit most from price support for dairy and sugar.

In terms of levels of income and diversity of employment, farm households have become virtually indistinguishable from non-farm households. In 2008, 89% of the average farm household income was from off-farm sources. US farm households as a group no longer experience chronically low incomes in relation to non-farm households: the average farm household in the US today earns more than the average non-farm household – mainly due to income earned from off-farm sources. The widespread importance of off-farm income would suggest that the majority of farm households are much more affected by the impacts of events in the wider economy than by the impacts of farm-specific developments.

The United States' agricultural sector receives a relatively low level of support, both in terms of its size and in comparison with other OECD countries. Over the 2007-09 period, producer support in the US was the third-lowest in the OECD area, and less than half the OECD average. In addition, the reform process has been characterised by a significant shift towards less production- and trade-distorting forms of support. However, notwithstanding these achievements, ample scope remains for further advancing the market orientation of the agricultural sector.

The United States maintains an array of agricultural policies with goals that range from the traditional objectives of stabilising agricultural production and supporting farm income to those that have more recently increased in importance, such as assuring adequate nutrition, securing food safety, encouraging environmental protection and facilitating rural development.

Farm commodity programmes are an established part of the American agricultural landscape, with several of the present support programmes having their foundations in the 1930s. Most of the programmes now focus more directly on income transfers from taxpayers, rather than transfers from consumers through supply controls and price supports. But the main thrust of many programmes remains largely unchanged.

With the 1985 Farm Act, a gradual shift began – away from using production controls and price supports as the primary policy instrument – towards the increasing use of direct payments. The reforms were accelerated and strengthened in the 1996 Farm Act. This Act represented a radical departure from previous commodity programmes, as it fundamentally re-designed income support programmes by terminating target prices, price-based deficiency payments, discontinuing supply management programmes and stock accumulation by government for several sectors. The policy reforms envisaged under the Act were supplemented by various ad hoc emergency measures to compensate farmers for low commodity prices. These payments were institutionalised under the 2002 Farm Act – under which counter-cyclical payments were created – and continued under the 2008 Farm Act.

US commodity-specific programme support is directed towards a few major commodities (grains, oilseeds, cotton, sugar, pulses, dairy, sheep, wool, mohair and honey) which, together, constitute less than one-half of the value of total agricultural production. Farm programme crops (wheat, feed grains, oilseeds, rice, cotton, oilseeds and pulse

crops) are supported mainly through government budget outlays. The systems that have evolved to support producers of these crops have revolved around the government underwriting minimum prices, with returns from the market being supplemented by additional direct government payments, as well as payments based on past areas and yields, and not requiring production. The rules governing them have varied over time.

The US dairy and sugar sectors – both import-competing sectors – have traditionally been insulated from the world market by border measures designed to underpin high internal prices. Support policies for these sectors are very strongly entrenched and the fact that there have been no significant changes since 1985 has impeded US producers from adjusting to world market conditions. Although the policy regime is very complex for both sectors, it operates differently and consequently the degree of insulation from markets signals in these two sectors varies. While for dairy, market price support has been very variable over time, for sugar, it has been comparatively stable at relatively high levels.

Most other commodities, however, receive much less support, and wide disparities are also evident in the livestock sector: while the large beef, pig and poultry sectors receive little support, the dairy sector (which is also a very large sector) is highly supported.

Commodity support payments to farmers tend to exacerbate differences in incomes, rather than reduce disparities. Commodity support has often been justified on the grounds of addressing low farm incomes of farm households relative to non-farm households, benefitting, in particular, family farms in rural areas. However, empirical evidence would suggest that the main beneficiaries of these support payments are, in fact, farmers with an average household income well above that of the average US household.

In 2007, 40% of all farms received government payments. Of those, the 84% of farms with sales of less than USD 100 000 received 24% of programme crop payments, while the 3% of the largest farms (with sales of USD 1 000 000 or more) received 30%. Moreover, because of the design of the payments – which are either based on current production (e.g. marketing loan-related payments) or on area and yield bases – the bulk of the payments go to farmers with either large production levels or large base areas. On the other hand, environmental conservation payments follow a different pattern, with small farms benefiting proportionately more.

The preliminary analysis tends to suggest that, overall, the 2008 Farm Act offers little potential progress towards market orientation. Overall, while maintaining the support programmes for crops entrenched in the 2002 Farm Act, it provides additional avenues and scope for commodity-linked support – including greater potential support to the dairy and sugar sectors – even in situations where market prices are higher than has previously been the case.

The 2008 Farm Act generally continues the farm commodity price and income support framework of the 2002 Farm Act for farm programme crops (i.e. grains, oilseeds, rice and cotton), with certain modifications. It places continued emphasis on direct payments, counter-cyclical payments and marketing assistance loan programmes for the 2008-12 crop years, with adjustments to target prices and loan rates for certain commodities.

Moreover, the 2008 Farm Act does not make any major policy reforms to the dairy and sugar sectors, which continue to receive high price support. Among the many features of dairy policy, the Dairy Product Price Support Program and the Milk Income Loss Contract programmes – which were among the 2002 Farm Act programmes due to expire in 2007 – were re-authorised, with certain modifications, in the 2008 Farm Act. The Federal Milk Marketing Orders do not require periodic re-authorisation and import policies do not form part of the Farm Act. The Act maintains the Dairy Export Incentive Program, although the Export Enhancement Program is repealed.

The 2008 Farm Act also offers a new revenue support programme, the Average Crop Revenue Election programme; and replaces ad hoc natural disaster programmes. New provisions are introduced to address marketing and competitiveness of horticulture and livestock products. It also extends and expands many of the renewable energy programmes originally authorised in the 2002 Farm Act, including an extension of the tariff on ethanol imports. It also mandates more funding for virtually all agri-environmental programmes and expands the coverage of issues to be addressed, albeit without major alterations.

The fact that many policies are counter-cyclical to market prices means that support is inversely related to market prices. This would imply that the level of support to producers and the relative importance of the most production- and trade-distorting support could increase, should world commodity prices fall. Moreover, changing priorities – such as climate change, food security, enhancing competitiveness and efficiency – in tandem with budget problems as fiscal

consolidation gets under way, may call for a re-think of the cost-effectiveness of commodity programmes, which represent a very important share of overall spending and are concentrated on only a few sectors and a relatively small share of farms.

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