FARM POLICY
• Historically, agriculture has been highly protected in many countries, including U.S.
  • Main reasons advanced for supporting domestic farmers:
    1. Risk reduction
       ➢ Shield farmers from weather and world price volatility
    2. Food security
       ➢ Ensure country’s food supply
    3. Rural society
       ➢ Stimulate rural economy
       ➢ Promote rural development

FARM POLICY
Policies to Support Farm Income

FARM POLICY
• Evolution of U.S. farm and rural sector
  Both the U.S. farm population and rural population have declined as a share of the nation’s overall population
  Percent
  Year
  Farm share of total population
  Rural share of total population

Source: Data calculated by authors from various sources. Unlike using data from Census of Agriculture, Census of Population, and Census of the United States.
FARM POLICY

• Evolution of U.S. farm and rural sector

As the number of farms declined, their average size increased.


FARM POLICY

• Evolution of U.S. farm and rural sector

As farms have become more capitalized, the number of commodities produced per farm has decreased.

<table>
<thead>
<tr>
<th>Year</th>
<th>Commodities per Farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>5</td>
</tr>
<tr>
<td>1950</td>
<td>3</td>
</tr>
<tr>
<td>1970</td>
<td>2</td>
</tr>
<tr>
<td>2000</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: The average number of commodities per farm is a simple average of the number of commodities produced on the farm and the number of farms. The number of commodities produced is the total number of commodities produced on farms. The average number of commodities per farm is calculated by dividing the total number of commodities produced on farms by the total number of farms. Economic Research Service, USDA, using data from Census of Agriculture.

FARM POLICY

• Evolution of U.S. farm and rural sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Off-farm income/worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>30 percent of farmers worked off farm for an average of 100 days</td>
</tr>
<tr>
<td>1945</td>
<td>27 percent of farmers worked off farm</td>
</tr>
<tr>
<td>1970</td>
<td>54 percent of households had off-farm income</td>
</tr>
<tr>
<td>2002</td>
<td>99 percent of households had off-farm income</td>
</tr>
</tbody>
</table>

Sources: Compiled by Economic Research Service, USDA, using data from Census of Agriculture and Census of the United States.
FARM POLICY

- Evolution of U.S. farm and rural sector

1920s:
- Farm incomes greatly depressed by large drop in output prices after World War I
- Bills debated (but not enacted) in Congress to provide relief to farmers based on two-tier market
  - Set domestic prices at "fair" levels
  - Unsold output purchased by government and sold abroad at going world prices
- Agricultural Marketing Act passed in 1929
  - Emphasis on "orderly marketing"
    - Encouraged storage and orderly marketing throughout the year
    - Provided loan-storage programs
FARM POLICY

- Evolution of U.S. farm policy
  - 1920s:
  - Farm exports begin to fall as wartime demand disappears with World War I’s end

  ![Graph showing export quantity index over time.]

  Note: Standard techniques were used to splice together four series using different base years
  from late year to early 1930. Data not available before 1925.

  Source: Export quantity index, Agricultural Statistics, USDA, various issues.

- 1930s:
  - Farm incomes greatly reduced by slide in output prices starting in 1930
  - Agricultural Adjustment Acts (1933, 1938), Soil Conservation and Domestic Allotment Act (1936), Agricultural Marketing Agreement Act (1937)
    - Forerunners of current farm programs
  - Favored supply control to achieve “fair” prices
    - Acreage controls, import and marketing quotas, soil conservation programs
  - Favored “orderly marketing”
    - Marketing orders and agreements
    - Created Commodity Credit Corporation (CCC) to make storage and support prices through government purchase and storage activities

- 1930s:
  - The New Deal helps boost farm prices, but World War II proves to be a bigger stimulus

  ![Graph showing cotton and wheat prices over time.]

  Source: Agricultural Statistics, USDA, 1946.
FARM POLICY

- Evolution of U.S. farm policy
  - 1940-52:
    - Large increase in U.S. farm prices and incomes
      - Resources and output diverted to support World War II, Marshall Plan, and Korean War
    - Consumers faced wartime food rationing and price controls
    - Farm programs established in 1933-38 continued with minor modifications

FARM POLICY

- Evolution of U.S. farm policy
  - 1950s and 1960s
    - Great expansion in productive capacity due to scientific and technological revolution in agriculture
    - Downward pressure on prices due to enhanced productive capacity

FARM POLICY

- Evolution of U.S. farm policy
  - 1950s and 1960s
    - Previous farm programs continued and strengthened
      - Agricultural Trade Development and Assistance Act (1954) (P.L. 480)
        - “Food for peace program”: Subsidized exports of surplus commodities to needy countries
      - Soil Bank program of 1956
        - Authorized government to rent cropland from farmers and withdraw it from production (20% of U.S. cropland were idled by 1972)
    - Food Stamp Act of 1964
      - Instituted national antipoverty program
FARM POLICY

• Evolution of U.S. farm policy – 1970s
  - Turbulent period for U.S. agriculture
    » Prices and farm income increased due to large expansion in worldwide demand
    » Increased world population and incomes, and devaluation of U.S. dollar relative to other currencies
    » Enhanced outlook triggered a large supply response
      » Planted acres increased by 47 million between 1969 and 1978
      » Increase in quantity supplied led to depressed prices and farm incomes by the end of the decade

• 1970 Agriculture Act
  - First inclusion of a title for Rural Development in a farm bill Continuation of previous farm programs

• 1972 Rural Development Act
  - Offered broad range of services, loans, and technical guidance to rural communities adjusting to change

• 1977 Food and Agriculture Act
  - First inclusion of a title for Food Stamps and other commodity distribution programs in a farm bill
  - Continuation of previous farm programs

• 1980s
  - Two opposing views on early 1970s experience:
    1. Early 1970s were an example of how well unregulated markets could work
    2. Early 1970s situation was unique and unsustainable
  - Food and Agriculture Acts (1981, 1985)
    - Compromise between two views
      » More market orientation: Flexible price supports, less government purchase and storage, greater reliance on direct subsidies to farmers
      » Government intervention to improve balance between supply and demand: Acreage controls, selective reductions in support prices, export subsidies
FARM POLICY

• Evolution of U.S. farm policy
  – 1980s
    • Food and Agriculture Acts (1981, 1985)
      – New programs
        » Conservation Reserve Program (CRP) paid farmers to put cropland into a 10-year reserve
        » Export Enhancement Program (EEP) subsidized exports
        » Payment-in-Kind Program (PIK) paid farmers for set asides with certificates to claim government stocks
        » Marketing loans encouraged farmers to sell crops at market prices rather than deliver them as payments for loans

FARM POLICY

• Evolution of U.S. farm policy
  – 1990s
    • Federal Agricultural Improvement and Reform (FAIR) Act of 1996
      – “Decoupled Payments”
        » Removed linkage between farm income support payments and farm prices by issuing “Production Flexibility Contracts” to participating farmers
        » Declining support payments over 1996-2002 period
      – Ended supply controls, giving farmers flexibility regarding crop choices
      – Loan Deficiency Payments (LDP) replaced non-recourse commodity loans
      – Promotion of export market development, especially for higher value-added products
      – More emphasis on conservation

FARM POLICY

• Shifting emphasis in U.S. farm-related programs

![Graph showing Production Flexibility Contracts vs. Total Payments from 1980 to 2002.](chart.png)

Legend:
- Production Flexibility Contracts
- Total payments

Source: Farm Income Reports, USDA
FARM POLICY

• Evolution of U.S. farm policy
  – Agricultural and Risk Protection Act of 2000
    • Provided an additional $8.2 billion for insurance premium subsidies for 2001-05

FARM POLICY

• Evolution of U.S. farm policy
  – Agricultural and Risk Protection Act of 2000

FARM POLICY

• Evolution of U.S. farm policy
  – Agricultural and Risk Protection Act of 2000
FARM POLICY

- Evolution of U.S. farm policy
  - Agricultural and Risk Protection Act of 2000
  - Extends market-oriented reforms of 1996 FAIR Act
    - Continues planting flexibility and decoupled payments based on historical production
  - Introduces Countercyclical Payments
    - Triggered when current prices fall below target level, but amount paid based on historical production
  - Three types of farm income support programs
    - Decoupled Payments
    - Countercyclical Payments
    - Marketing loans

- Evolution of U.S. farm policy
  - Farm Security and Rural Investment Act of 2002
    - All programs are expanded
    - New working-lands conservation payments through Conservation Security Program
  - Rural development
    - New programs and increased funding for rural areas
  - Trade
    - Expanded support to promote export market development, especially for higher value-added products
**FARM POLICY**

- Shifting emphasis in U.S. farm-related programs

The 2002 Farm Act has authorized substantially increased conservation funding, particularly for working lands programs.

![Graph showing funding changes](chart.png)

Source: Office of Budget and Policy Analysis, USDA, and the Congressional Budget Office.

**FARM POLICY**

- Shifting emphasis in U.S. farm-related programs

![Diagram showing policies](diagram.png)

**FARM POLICY**

- Shifting emphasis in U.S. farm-related programs

![Chart showing income support](chart_income_support.png)

FARM POLICY

- Shifting emphasis in U.S. farm-related programs

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<tbody>
<tr>
<td>Food and nutrition</td>
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<td>Conservation payments</td>
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<td>Payments to producers</td>
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</tbody>
</table>

Government payments shift toward food, nutrition, and conservation programs

Millions of U.S. dollars (nominal)