Perspectives on Farm Policy Reform

Julian M. Alston and Daniel A Sumner

Department of Agricultural and Resource Economics
University of California, Davis

Western Agricultural Economics Association
Annual Meeting, Anchorage, Alaska
June 28-30, 2006
Reform? Reform?
Are things not bad enough already?

Attributed to Justice John Astbury, 1926
Chronological Landmarks

- 1994 – Uruguay Round Agreement on Agriculture (URAA)
- 1996 – Federal Agricultural Improvement and Reform (FAIR) Act
- 2002 – Farm Security and Rural Investment (FSRI) Act
- 2007 – New Farm Bill
Outline

• Recent history of farm commodity policies
• Current status and prospects
• Effects of farm subsidies on Western agriculture
• Policy reform in Australia and New Zealand
• Facilitating policy reform
## Main Provisions of URAA

<table>
<thead>
<tr>
<th>Negotiated Change</th>
<th>Implementation Period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Access</strong></td>
<td></td>
</tr>
<tr>
<td>Average tariff cuts, all ag. products</td>
<td>-36</td>
</tr>
<tr>
<td>Minimum tariff cuts per tariff line</td>
<td>-15</td>
</tr>
<tr>
<td><strong>Aggregate Support</strong></td>
<td></td>
</tr>
<tr>
<td>Total cuts in AMS</td>
<td>-20</td>
</tr>
<tr>
<td><strong>Export Subsidies</strong></td>
<td></td>
</tr>
<tr>
<td>Value cut by product</td>
<td>-36</td>
</tr>
<tr>
<td>Volume cut by product</td>
<td>-21</td>
</tr>
</tbody>
</table>
Farm Bill Policies

• 1996 FAIR Act
  – eliminated annual set-asides and crop price supports
  – replaced deficiency payments with “direct payments”
  – continued marketing loan payments

• Ad hoc supplement to direct payments
  – 50 % in 1998
  – 100% in 1999-2001

• 2002 FSRI Act
  – converted ad hoc payments to countercyclical payments
  – continued direct payments
  – extended both to additional crops, including soybeans
  – introduced updating of program base acreage and yields
Program Crop Revenue under 2002 Farm Bill

Government payments vary in share of total revenue

Target Price

- CCP
  - Not required to currently produce program crop to get these payments

Loan Rate

- Fixed payments

Market Price

- MLG/LDP
  - Paid per unit of production

Market Receipts

(Based on a figure from Joe Outlaw Texas A&M)
WTO panel and appellate body ruled that U.S.

- Step 2 subsidies entail GATT illegal
  - domestic content subsidies
  - export subsidies

- Export credit guarantees = illegal export subsidies

- Marketing loan and CCP programs
  - depressed world prices resulting in
  - serious prejudice to interests of Brazilian cotton growers

- Support includes direct payments & crop insurance
  - are these “amber box” and part of AMS?
  - has U.S. exceeded AMS limits?
Doha Round WTO Negotiations

• Current framework implies
  – Elimination of all export subsidies including
    • credit subsidies
    • STE subsidies
    • commercial substitute food aid
  – Substantial reductions in domestic subsidies
    • new blue box (smaller cuts for “almost” green box programs)
  – Substantial expansion in access
    • reductions in tariffs
    • expansion of TRQs
    • exceptions for sensitive products (U.S. sugar? Korean rice?)

• If no consensus on parameters by June 30?
Farm Support in OECD Countries

[Total US$ 280 billion in 2004]
(Source OECD Stefan Tangermann)
PSEs by Commodity
EU and US, 2004

PSE (%)
EU
US

- Wheat
- Maize
- Other Grains
- Rice
- Oilseeds
- Sugar
- Milk
- Beef/Veal
- Pig meat
- Poultry
- Eggs
- Total
Current Status and Prospects

• Strong support for status quo

• Forces for change
  – Budget deficit
  – Environmental groups
  – Publicity about beneficiaries
  – Growers of non-program crops
  – Doha round
  – URAA rules and WTO rulings
  – Economic evidence
Western Agriculture Shares of U.S. Value of Production, 2004

Non Western

- Major Horticulture: 50%
- Program Crops: 29%
- Dairy: 11%
- Other Livestock and Crops: 10%

Total: $179.3 billion

Western

- Major Horticulture: 44%
- Program Crops: 33%
- Dairy: 16%
- Other Livestock and Crops: 7%

Total: $69.9 billion
Subsidies Harm Unsubsidized Producers

• Directly through competition for
  – resources
  – consumers

• Indirectly because they
  – consume public funds
  – consume attention of policymakers
  – slow increases in market access
Policy Reform in Australia and NZ

[Line graph showing the percentage of Policy Reform (PSE) in OECD, New Zealand, and Australia over the years from 1986 to 2004p.]
Key Ingredients of Reforms

• Systematic, economy-wide approach
  – Driven by financial crisis in NZ
  – Part of general industrial policy in Australia

• Transparency institutions
  – Australia’s Industries Assistance Commission

• Adjustment assistance
  – Australia’s Rural Adjustment Scheme

• Compensation
Facilitating Policy Reform

- Systematic, economy-wide approach
- Transparency institutions
- Adjustment assistance
- Compensation
Conclusion

• Pressures for policy change from
  – Budget deficit
  – WTO (both Doha and URAA)
  – Environmental groups
  – “Other” agricultural interests

• Institutional innovations may help
  – Transparency institutions
  – Adjustment assistance
  – Buy-outs