Photos: USDA/NRCS

Devolution

of Farm Programs Could Broaden States' Role in Ag Policy

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U.S. farms vary greatly in size, specialty, and household characteristics. U.S. regions differ markedly in natural resource endowments. And States themselves are widely divergent in terms of their preferences as to how funds from agricultural programs should be spent. Given this diversity, can the delivery of agricultural programs be better tailored to distinct State and local circumstances? Devolution, or the transfer to States of Federal funds and/or control of those funds, is one way of adapting national policies to suit local preferences more closely and of recognizing that program delivery costs can vary geographically.

Gene Alexander and Gary Kramer, USDA/NRCS

Devolution is not a new idea. Education is a classic example. Decisionmakers at the local level—in county governments and school boards—control the distribution and use of Federal funds, under broad mandates from the U.S. Department of Education. A recent example is the 1996 bipartisan "welfare reform" legislation, which transferred financial resources and authority for Federal income assistance to the States. Within the context of agricultural policy, and especially with respect to conservation programs, USDA has already provided States with latitude in designing and delivering programs to meet their particular requirements, as has been the case with EQIP, the Environmental Quality Incentives Program.

In an international setting, European Union (EU) reforms of its Common Agricultural Policy (CAP) move in the direction of devolving farm and especially rural development policy to member states. According to a July 2004 policy directive from the European Commission, member states will be given more freedom in implementing their programs through simplified rules, eligibility conditions, and financial management arrangements. This European example may be particularly instructive because of growing similarities between the EU and the U.S. in shared goals for sustainable, competitive agriculture and a healthy rural economy (see box, "U.S. and EU Agricultural Policies Now Bear Similarities").

Devolution is worth considering whenever it has the potential to make program delivery more cost effective and to better satisfy citizens.

As much as a third of current USDA spending could provide the financial basis for further devolution from Federal to State control. Representing about $22 billion annually, this candidate funding is now associated mainly with commodity and natural resource programs. Although these funds could be transferred to States based on the existing, commodity-based distribution, alternative distribution mechanisms could be designed to better address local environmental or rural development preferences. Federal policymakers would continue to provide direction on broad policy aims.

Devolution is worth considering whenever it has the potential to make program delivery more cost effective and to better satisfy citizens. When preferences and implementation costs vary across the country, devolution may enable States to better respond to local circumstances. Improvements may be possible because a central agency administering a program at the national level may lack the information needed to accommodate State-level differences. Political pressures may dictate that a central government provide a more uniform level of services, even when local communities would prefer lower or higher levels of services. Another source of gain from devolution can arise from large differences in costs across local areas. For example, costs of cleaning up a groundwater aquifer may differ among jurisdictions, depending on geology and the source of the contamination. So, even if preferences for clean water were identical, economic

U.S. and EU Agricultural Policies Now Bear Similarities

The 2003-2004 comprehensive reform of the EU Common Agricultural Policy (CAP) alters the way support is provided to producers of arable crops (grains, oilseeds, and protein crops), rice, nuts, potatoes for starch, dried fodder, beef, sheep, milk, tobacco, cotton, olive oil, and hops. All other commodity regimes—such as fruit and vegetables, potatoes, and sugar—remain unchanged, although reform of the sugar program has been proposed.

Main features of the reform agreement include:

- Beginning in 2005, a direct income, or single-farm, payment based on historical payments for arable crops, rice, beef, and sheep will replace existing payments (mainly compensatory and livestock headage payments) that are tied to current production of commodities. Under an earlier reform, dairy producers will receive a direct payment in partial compensation for dairy support price cuts beginning in 2004. The dairy payment will be included in the single-farm payment in 2007. Support for producers of cotton, tobacco, olive oil, and hops will be partially converted to the single-farm payment.
- To minimize risk of land abandonment, member states may opt to retain support coupled to production of arable crops and beef for some proportion of direct payments. The maximum proportion of payments that may remain coupled to production varies by commodity.

considerations may lead different jurisdictions to choose different methods to clean up the site.

U.S. Farms Diverse in Resources and Economic Activity . . .

ERS has documented U.S. agriculture's diversity with respect to farm business and household structure and across a number of dimensions that characterize the natural resource base and rural economies. The ERS farm typology documents variation across farms with respect to financial size and household goals. The nine farm resource regions devised by ERS are based on geographic specialization in the production of farm commodities, which derives from variation in underlying climate, soil, water, topography, and other factors. For example, the Northern Great Plains, which specializes in wheat and cattle, has the largest farms in terms of acreage and the smallest farm population. The Eastern Uplands, with cattle, tobacco, and poultry farms, has more small farms than any region.

At the county level, ERS classifies all U.S. counties according to discrete categories of economic dependence on agriculture and seven overlapping policy-relevant themes (housing stress, low education, low employment, persistent poverty, population loss, nonmetro recreation, and retirement destination). These classifications provide a picture of diversity across regions, States, and counties. Low-education counties, for example, predominate in the rural South, while recreation counties predominate in the rural West.

. . . And in Preferences and Goals

While the ERS classifications focus on environmental, demographic, and economic factors, intangible differences across States are in play too. Preferences and goals are articulated in States' own explanations of the aims of their departments of agriculture. Differences in State funding levels for the same program or in tax policies could also indicate a State's agricultural and rural agenda. A sampling of Midwestern States' goals for their agriculture departments reflects these differing aims.

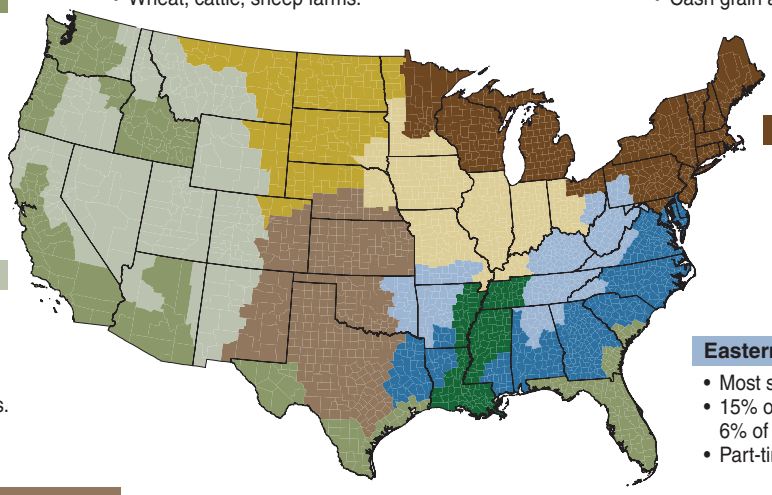
The goals of the Iowa Department of Agriculture are focused on farming and farmers and include increasing Iowa's domestic and foreign market share, developing and encouraging agricultural education, and preserving Iowa's soil. The Missouri Department of Agriculture has a broader mandate. According to its strategic plan, the department values a prosperous agricultural economy, preservation and enhancement of its environment and agricultural resources, but also consumer confidence in a quality product at a fair price and opportunities for personal growth, professional development, and organizational advancement for farmers. The Kansas Department of Agriculture, by contrast, emphasizes its regulatory role in ensuring food safety and environmental quality.

Based on their differing perspectives, States may look for different emphases in policy or in the mix of programs they would provide if given additional flexibility by devolution. For example, some States may place more importance on environmental issues and, therefore, may want to set aside more agricultural land than possible under the existing Federal Conservation Reserve Program. Some States may have many farms experiencing financial difficulties with little opportunity for recovery. These States may choose to invest in job training and education for farmers to help them move from farming to other

- The reform expands a program ("modulation") established in 2000 that allowed member states to reduce payments for larger farms and use the savings to fund rural development programs. All member states will be required to implement such programs.
- Support will be available to help farmers adapt to environmental, animal and plant, health, animal welfare, and occupational safety standards. Support will also be provided to defray the cost associated with improving the welfare of farm animals.
- Producer payments will be contingent on compliance with environmental, food safety, and animal health and welfare standards.
- Farmers are not required to produce any crop, and will have increased flexibility regarding what they can produce, with the exception of explicitly excluded products (perennial crops, fruits and vegetables, or crops for which they receive payments under certain sectors that have not yet been reformed or for which there are restrictions on new plantings).

The new features adopted in this agreement bear many similarities to U.S. commodity programs, particularly in two areas: emphasis on income support decoupled from current production and focus on the interactions between agriculture and the environment. Both U.S. policy and the new EU policy feature—for a group of commodities—direct payments based on historical payment levels and not linked to current production. The EU also joins the United States in providing farmers with greater production flexibility. Both systems increase the policy focus on protecting the environment through programs on working lands. In addition, cross-compliance, which requires producers to comply with environmental regulations and standards to receive direct payments and has been required in the United States for some time, would now be mandatory in the EU. Finally, both the U.S. and EU continue to maintain commodity-specific income support—the EU through its partial retention of coupled payments and the United States through the marketing loan program.

ERS farm resource regions reflect geographic specialization in agricultural production



Northern Great Plains
- Largest farms and smallest population.
- 5% of farms, 6% of production value, 17% of cropland.
- Wheat, cattle, sheep farms.

Heartland
- Most farms (22%), highest value of production (23%), and most cropland (27%).
- Cash grain and cattle farms.

Fruitful Rim
- Largest share of large and very large family farms and nonfamily farms.
- 10% of farms, 22% of production value, 8% of cropland.
- Fruit, vegetable, nursery, and cotton farms.

Northern Crescent
- Most populous region.
- 15% of farms, 15% of value of production, 9% of cropland.
- Dairy, general crop, and cash grain farms.

Basin and Range
- Largest share of nonfamily farms, smallest share of U.S. cropland.
- 4% of farms, 4% of value of production, 4% of cropland.
- Cattle, wheat, and sorghum farms.

Eastern Uplands
- Most small farms of any region.
- 15% of farms, 5% of production value, and 6% of cropland.
- Part-time cattle, tobacco, and poultry farms.

Prairie Gateway
- Second in wheat, oat, barley, rice, and cotton production.
- 13% of farms, 12% of production value, 17% of cropland.
- Cattle, wheat, sorghum, cotton, and rice farms.

Mississippi Portal
- Higher proportions of both small and larger farms than elsewhere.
- 5% of farms, 4% of value, 5% of cropland.
- Cotton, rice, poultry, and hog farms.

Southern Seaboard
- Mix of small and larger farms.
- 11% of farms, 9% of production value, 6% of cropland.
- Part-time cattle, general field crop, and poultry farms.

professions. Conversely, other States may view farm distress as temporary and design subsidies to help farmers weather short-term financial problems. Existing county administrative offices could support delivery of this kind of program.

Still a Role for National Policies and Programs

Despite evidence of heterogeneity in preferences across States, some policies are better maintained at the national level. Macroeconomic policies, such as monetary policy and defense spending, are typically more effective as Federal mandates. International trade agreements that affect broad portions of the economy are best negotiated and enforced at the Federal level. In agriculture, such national consistency would be necessary to ensure compliance with trade agreements that prohibit use of certain kinds of market-distorting policy instruments. Establishing regulations to safeguard human health and to protect environmental quality are usually national responsibilities, in order to ensure consistent levels of protection regardless of political boundaries. In addition, programs that provide fiscal stability or that redistribute income usually require the deeper pockets of the Federal Treasury.

But would devolution undermine national farm policy goals such as income stability for farmers and the economy or food security? Probably not. Programs that allocated payments based on production of supported commodities might once have had broad stabilizing effects. This is not the case today given the relatively small number of U.S. farmers and the relatively small share of farming in the national economy. Stabilization of farmers' incomes can be addressed through Federal programs but also by private means, such as forward pricing, crop yield or revenue insurance, futures, and options. And, in contrast to the 1930s when the programs were initiated, commodity programs have little redistributive effect, as the bulk of payments go to farm households with incomes above the U.S. nonfarm average. Food security for the U.S. no longer depends exclusively on domestic production, which means that national commodity policies are not the only determinant of whether Americans have enough to eat.

With these considerations, which USDA programs might be candidates for devolution to the State level? USDA's budget outlays were about $75 billion in fiscal year 2003. Of this total, $45 billion was allotted to food and nutrition assistance programs and the Forest Service, programs that will not be considered here because their size (in terms of dollars and/or personnel) makes them deserving of separate treatment and because they are less directly related to farm, rural

development, and agri-environmental goals. In addition, USDA funding for food safety, animal and plant health protection, and interstate and international market regulation will not be considered candidates, nor will research spending on Federal intramural activities aimed at national problem solving or information gathering. These programs represented nearly $6 billion of USDA outlays in fiscal 2003. Another $2 billion in spending through direct research and technical assistance grants is already deemed to be devolved. The remaining $22 billion of USDA's 2003 outlays for domestic commodity and natural resource programs are candidates for devolution to the States.

Potentially, then, "devolvable" Federal programs represent about a third of annual USDA spending. What might devolution look like? One option would transfer program authority, but not financial resources, to States. Another might transfer authority and require States to match Federal funds. A third would give States the authority to design and administer their own programs and divide up the Federal funds, allowing States to augment Federal contributions with State spending. This last option, block grants without a matching requirement, would likely be most palatable to States.

Devolution would not *mean the Federal Government had lost interest in the broad aims of farm, rural development, and natural resource policy.*

Three Possibilities for Allocating Federal Funds

As the devil is always in the details, the next question concerns how Federal funds are distributed across States. Allocations could be made based on the current distribution, as the EU CAP reform has done. While this might represent the political path of least resistance, it is worthwhile to consider alternatives. Devolution would *not* mean the Federal Government had lost interest in the broad aims of farm, rural development, and natural resource policy.

Federal decisionmakers might decide to distribute resources in a way that emphasizes environmental or economic development goals rather than commodity production. In that case, a second option might be a more equal distribution among States based on a formula derived from the Hatch Act, which divides Federal funding for agricultural research among the agricultural experiment stations in the States and U.S. territories. The formula is intended to recognize variation across States in the importance of farming and rural communities. A quarter of the research funds is divided equally among the States, about half is allocated based on the shares of a State's population in rural areas and living on farms, and another quarter goes to States according to their participation in multi-State, multidisciplinary projects.

A third method for distributing Federal commodity and natural resource funds might be via means testing or an allocation based on the needs of farmers as defined by their income levels, similar to other income assistance programs. Distribution of such "safety net" funding could be determined by figuring the

Natural resource endowments vary widely across States, as do preferences in farm and environmental policies.

Fly fisherman on Holston River in Tennessee.

Jeff Vanuga, USDA/NRCS

Hawaiian farmer harvesting taro, which is used to make poi, a Hawaiian staple.

USDA/NRCS

amount required to raise each farm household's income above the poverty line. Thus, the distribution of funds would depend on the number of farm households in a State that met this income assistance criterion. Any distribution rule ought to consider the relevance of the current definition of a farm (one with sales over $1,000 annually) to policy goals.

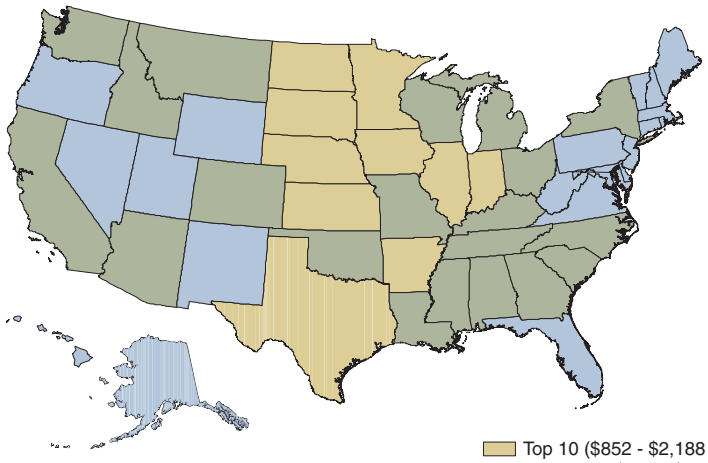
Where Would Funds Flow?

How would funding by State vary with each distribution rule? For each rule, ERS researchers identified the 10 States that would receive the most funding, the middle 20, and the 20 States receiving the least funding. Texas and Iowa are among the five largest recipients under all three distribution rules. Under the current distribution rule, the 10 largest recipients, mainly Great Plains and Heartland States, receive about two-thirds of the $22 billion identified as potentially devolvable spending. Using the Hatch Act rule, States with relatively large farm and rural populations, such as North Carolina, Pennsylvania, Ohio, and Illinois, would garner the most payments, with about one-third of the $22 billion going to the top 10 States. Using a farm safety net rule would send half the money to the top 10 States, which include States such as Kentucky, Missouri, California, and Tennessee with relatively large numbers of farms and, as it happens, relatively larger numbers of poorer farm households.

Comparing the distributions under the three rules illustrates some important points about any potential devolution. First, devolution by any block grant scheme makes the distribution of Federal support much more transparent than when it is determined by individual commodity, rural development, or national resource program requirements. Such transparency did not likely provide much new information in the EU, where the distribution of CAP funds had been scrutinized over many years. In the U.S., the dis-

Different distribution rules could be used to allocate Federal funds to States

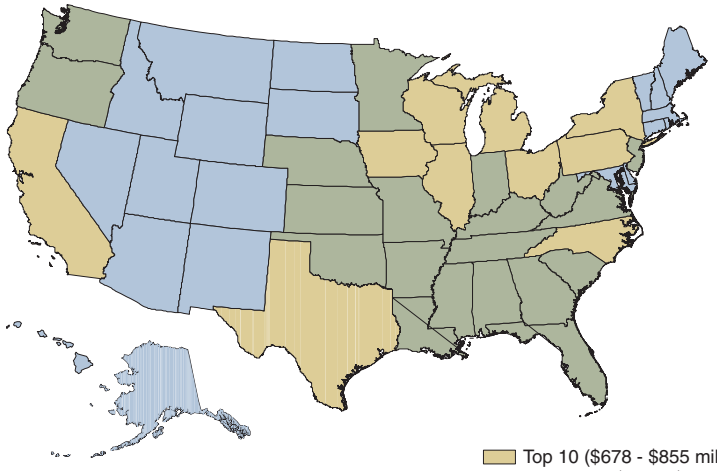
Current rule



Source: ERS calculation from actual distribution of calendar year 1999 payments by USDA's Farm Service Agency.

Top 10 ($852 - $2,188 mil.)
Middle 20 ($122 - $786 mil.)
Bottom 20 ($1 - $121 mil.)

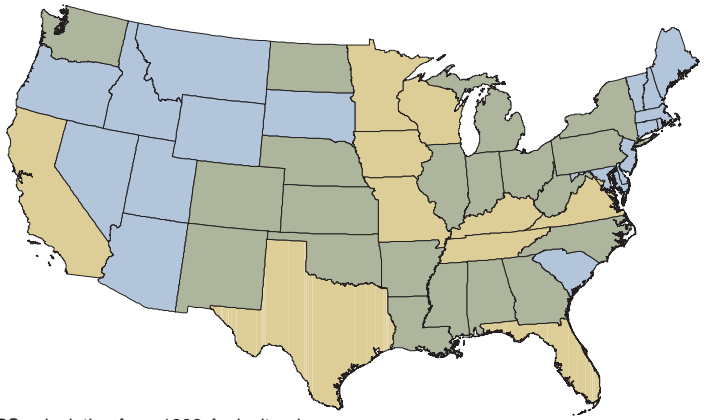
Hatch Act rule



Source: ERS calculation from 1999 State allocation of Hatch funds.

Top 10 ($678 - $855 mil.)
Middle 20 ($350 - $669 mil.)
Bottom 20 ($131 - $344 mil.)

Safety net rule



Source: ERS calculation from 1999 Agricultural Resource Management Survey (ARMS) data.

Note: ARMS covers the 48 contiguous States.

Top 10 ($772 - $2,337 mil.)
Middle 20 ($301 - $766 mil.)
Bottom 20 ($2 - $300 mil.)

tribution of USDA funds to States is not transparent to the average American. Second, both the Hatch Act and the safety net options move the funding distribution away from large commodity producers and toward smaller farmers and greater numbers of rural people. Any time that the benefits of public policy are directed away from one group and toward others, debate can be expected.

Ultimately, the extent to which devolution of Federal programs would produce more highly valued outcomes at lower costs is an empirical question. Some States may make unwise choices or suffer from administrative inefficiencies. Nonetheless, States—like the Federal Government—would be held accountable for achieving the intended outcomes of their programs. But the tremendous diversity across States with respect to policy preferences and farm, rural, and natural resource circumstances suggests that more tailored farm programs could be more efficient. How Federal payments are allocated to States would be important as an expression of national goals, and would, of course, determine the scale of a State's program.

Devolution would not introduce a new concept into USDA programs, but it could further the degree to which States have discretion over the use of Federal funds. Several USDA program agencies have already devolved programs to the extent permissible under existing legislation and have developed different approaches to devolution that address local preferences. For example, the notion of empowering local decisionmaking is embodied in the Farm Service Agency County Executive Committees, which date back to the 1930s. These locally elected committees are responsible for making national farm programs fit the needs and situations faced by local farmers. A more recent example from the 2002 farm bill is the Farm and Ranch Land Protection Program, which provides matching funds to help local governments and entities purchase development rights to keep productive farm and ranch land in agricultural uses. Further devolution might well focus on the $22 billion in USDA programs that have not been similarly tailored to local requirements.

As ERS analysis shows, farm characteristics, natural resource endowments, and rural economies vary widely across States, as do preferences for farm, food, environmental, and rural development policies. These circumstances indicate that further devolution may result in gains in efficiency and citizen well-being, but the potential for improvement must be studied more closely. A changing policy agenda and the prospect of trade liberalization and policy reform suggest such an analysis might be more than a strictly academic exercise. AW

This article is drawn from . . .

A Consideration of the Devolution of Federal Agricultural Policy, by Craig Gundersen, Betsey Kuhn, Susan Offutt, and Mitchell Morehart, AER-836, USDA/ERS, November 2004, available at: www.ers.usda.gov/publications/aer836/

U.S.-EU Food and Agriculture Comparisons, by Mary Anne Normile and Susan Leetmaa, Coordinators, WRS04-04, USDA/ERS, January 2004, available at: www.ers.usda.gov/publications/wrs0404/

ERS Briefing Room on Farm Policy, Farm Households, and the Rural Economy, available at: www.ers.usda.gov/briefing/adjustments/

Different regions specialize in different types of agricultural production, depending on the climate, soil, water, topography, and other factors.

Irrigation systems in New Mexico reduce evaporation of water.

Gary Kramer, USDA/NRCS

Cattle graze on well-managed rangeland in Arizona.

Tim McCabe, USDA/NRCS