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# ECONOMICS COMMENTATOR

South Dakota State University

No. 484

March 21, 2007



## **Time for Change in U.S. Farm Policy: Fundamental Reform Emphasizing Institutions Based on Agriculture's 'Multifunctionality'?**

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*"By settled belief I mean the arrival at a point in time in the consideration of possible action that individuals or groups can finally and honestly declare, "this seems the better thing to do at this time." When we can say to ourselves (or to our colleagues in the parliaments, the legislature, administrative agencies, or the court chambers) that we have reached a decision, it means that our settled deliberations have given us a new coherent belief. And, again, a belief is that upon which we are prepared to act. In effect, we have now found sufficient reason(s) to alter specific institutional arrangements in the interest of—for the purpose of—modifying particular economic outcomes in the future." (Daniel W. Bromley, Sufficient Reason: Volitional Pragmatism and the Meaning of Economic Institutions, Princeton University Press, 2006, p. 27)*

The previous issue (No. 483) in this *Commentator* series was focused on Federal farm policy *reform* proposals coming out of two competing visions for U.S. agriculture. Organizations representing a *global competitiveness vision* have recommended that major policy changes be incorporated in the 2007 farm bill, as have organizations representing a *sustainable agriculture vision*. Organizations representing both visions have emphasized the need for reforms in the commodity payment programs. The current commodity payment programs have their origins in President Franklin Roosevelt's 'New Deal', a collection of 1930s-era economic and social programs designed to alleviate suffering and induce economic recovery from the Great Depression. The New Deal programs for agriculture and other sectors of the economy represented a fundamental shift in beliefs—away from nearly complete reliance on markets and toward an activist role of government in

establishing institutions to stabilize and improve economic conditions. British economist John Maynard Keynes pioneered the change in thinking within the economics profession, culminating with publication of his famous book The General Theory of Employment, Interest, and Money in 1936. At least as important, however, was a shift in the belief system of the body-politic about the roles of government institutions. This shift in beliefs had already occurred among many farmers, since agriculture had been in an economically depressed state throughout much of the 1920s following the decline of commodity prices after World War I. As Daniel Bromley emphasizes in his recent book, Sufficient Reason, a shift in thinking within an academic discipline such as economics is not sufficient by itself to bring about major institutional change in democratic societies. There must also be a change in the beliefs of a sufficient number of citizens and policy makers.

The belief system that formed the basis of Roosevelt's New Deal economic programs largely prevailed into the 1960s. However, beginning in the 1970s, the *global competitiveness vision* for U.S. agriculture began to take root, and the belief that farm policies should be based on this vision has gained strength in the decades since. However, the competing *sustainable agriculture vision*—with roots in the New Deal government activist philosophy, but with a broader ecological perspective—began to take shape in the 1980s, and the belief that policies should be based on this vision also has gained strength over time. As I noted in the previous *Commentator* article, the sustainable agriculture vision increasingly resembles the *multifunctionality* view of agriculture that has dominated thinking behind recent reforms in the European Union's Common Agricultural Policy (CAP).

It is too soon to declare that a major portion of the American body-politic now has a "settled belief" that farm and food policy should be based on the European-style *multifunctionality* perspective on agriculture. However, there is a growing sense that the current U.S. farm policy structure is "broken" and some totally new direction is needed, which I discuss in the first part of this article. Then I discuss how the 2007 farm bill could

embody fundamental changes to reflect a multifunctionality perspective. Finally, I suggest a path that could help ease the economic transition from 70 years of Federal farm programs dominated by *commodity payments* to a food and farm program based on *multifunctionality*.

### **The preconditions for a change in our settled beliefs**

Data on the distribution of Federal farm program payments released since the mid-1990s by the nonprofit Environmental Working Group (EWG) have had an enormous impact on dialogue and perceptions about U.S. farm policy. According to the EWG's most recent data compilation and summary ([www.ewg.org](http://www.ewg.org)), nearly \$165 billion was spent on USDA commodity, disaster, and conservation payments from 1995 through 2005. Of that, approximately \$120 billion (73 percent) went to just 10 percent of those receiving farm subsidies during that period. The EWG's on-line data base has allowed citizens, news media, and policy analysts, for the first time, to see how much money has been received by each individual farm or business entity. Staggering payments have been revealed for some recipients at the high end of the distribution. One farm corporation is listed as having received \$541 million in payments during the 11-year period ending in 2005. The EWG's periodic data releases have provided a continuous stream of insights that have fueled farm bill debates.

At the international level, there has been a rising chorus of criticism of U.S. and European Union (EU) agricultural policies in the context of World Trade Organization (WTO) negotiations. A few economists have called attention for quite some time to the uneven playing field developing country farmers face in world markets flooded with commodities that are highly subsidized in numerous ways by the U.S. and the EU. Policy spokespersons for developing countries, as well as many non-governmental organizations (NGOs), have also voiced this concern in recent years. The issue was brought to a head at WTO meetings in Cancun, Mexico in the summer of 2003, when a number of developing countries and some developed countries that have eliminated most of their commodity-type subsidies blocked efforts by the U.S. to force developing countries to reduce their tariffs and other restrictions on imported agricultural goods. The WTO talks effectively collapsed at that time, before being resurrected in 2004 and then collapsing again in the summer of 2006—in part because of continued concerns about the impacts of U.S. and EU farm policies on developing countries.

Major U.S. news media entities have publicized the dysfunctional features of U.S. farm policies from time to

time over the years. However, concerns seemed to come to a head in 2006 with articles and critical columns on U.S. farm policies appearing in newspapers across the U.S. (including in-depth series' in the Washington Post and the Atlanta Journal-Constitution). These articles and columns drew attention to the kind of farm payment distribution data that the EWG has released over the years and to the international impacts of U.S. commodity payment programs. They reflected a growing sense of outrage in circles outside the agricultural establishment. If there is continued reporting and editorializing of this sort, we could see a *settled belief* in the body-politic calling for quite different policies—possibly ones based on agriculture's *multifunctionality*.

### **Food and farm policies based on agriculture's multifunctionality**

Three major interrelated sets of reforms are needed in order to reshape the institutions of U.S. food and farm policy to emphasize agriculture's *multifunctionality*: (1) over time, phase out the existing commodity payment structure consisting of *direct payments*, *marketing assistance benefits*, and *counter-cyclical payments*; (2) provide risk protection to farmers only through some combination of revenue insurance and farmer savings accounts, with the government-subsidized element limited to the equivalent of 'moderate-sized' family farms; and (3) shift savings from the phasing out of commodity payment programs to agri-environmental and rural development programs. Groups representing both the *global competitiveness vision* and the *sustainable agriculture vision* have offered various proposals that can be drawn upon to provide detailed structure and process in each of these three sets of reforms. In addition, the USDA should reestablish some type of grain reserve program—possibly one patterned at least in part after earlier 'farmer-owned reserve' programs—that would provide a modest degree of price stability and contribution to world food security. However, it is crucial that such a reserve not be viewed or managed as a 'price support' program. In other words, it must not be managed with the intent of trying to maintain grain prices above average market levels. Farmers would be expected to avail themselves of revenue insurance and farmer savings accounts for their government-assisted risk protection. There are various futures market and contracting mechanisms in the private sector that farmers can use for additional risk protection. Moreover, if revenue insurance and farmer savings account institutions are to have any credibility and chance of success, Congress must resist the recurring political urge to appropriate farm disaster funds.

For these reforms to truly transform U.S. policy into a set of institutions that provides desired balance among agriculture's environmental, social, and food, fiber, and energy functions, it is crucial that most of the funds that would otherwise have been spent on commodity programs be moved into agri-environmental programs, including agri-environmental programs with rural development dimensions. The agri-environmental program best able to effectively absorb major new infusions of money is the Conservation Security Program (CSP). However, the program must be operated very differently than it was in the first three years (2004-2006) of its operation. It is quite clear that the original Congressional intent when the CSP was included in the 2002 Federal farm bill was that all farmers in the U.S. would be 'entitled' to be eligible to participate. Contrary to that Congressional intent, only farmers in designated watersheds across the country have been eligible to participate in the first three signups; different watersheds have been designated each time, and the USDA plan has been to continue to rotate to new watersheds each signup period. Moreover, and also contrary to Congressional intent, there has been a quasi-competitive bid process (through the use of 'enrollment categories and subcategories') for farmers within the designated watersheds to obtain CSP contracts. These and other limitations on participation have been largely budget driven. Although \$6 billion was authorized for the CSP for the time period 2002-2011, only about \$500 million was actually made available for the enrollments through 2006. Administrative capacity limitations within the USDA's Natural Resources Conservation Service (NRCS), which administers the CSP, have probably also influenced the decision to rotate signups by watershed. As a consequence of these constraints, after three years of signups, there are fewer than 20,000 CSP contracts in a nation of 2.1 million farms. Those long-term contracts obligate over \$2 billion of CSP funds.

A recent Congressional Budget Office (CBO) estimate indicates that if current funding caps were removed from the CSP the program would cost about \$3.6 billion per year. This is equivalent to less than one-third the average annual spending (\$11.7 billion) on commodity programs during 2002-2005. If the CSP were broadened to more explicitly include the kind of rural development functions that are included in some agri-environmental programs in the EU, the program could effectively utilize considerably more than the CBO estimate. Many rural development programs, particularly ones oriented primarily to physical infrastructure such as rural water and transportation structures, are best left outside the CSP. Enhancement of rural landscape, however, often serves both environmental and rural development

objectives by making rural areas more attractive for new residents and for rural agro-based tourism. The CSP could be a more truly *multifunctional* agri-environmental program if a rural component were added to the components that presently emphasize environmental objectives. Also, it is extremely important that CSP incentives place high priority on *ecological biodiversity*, including diversity of crop and livestock systems.

Shifting funds from commodity programs to agri-environmental programs makes sense if the body-politic's belief system rests on a *multifunctionality* perspective, but would that resolve outstanding WTO issues concerning the international impacts of U.S. farm payments? There are a number of complex economic and legal arguments about the conditions necessary for agri-environmental payments to properly fit in the WTO's 'green box', the category of supports considered to be nondistorting or only minimally distorting of trade. (For brief discussions, see the sources listed at the end of this article by Dobbs and by Dobbs and Pretty.) Some policy analysts challenge the underlying assumptions of the 'green box' itself, however. French economist Jacques Berthelot has argued in his writing for several years that nearly everything that U.S. and EU negotiators want to put in the 'green box', including agri-environmental payments, impact production and, therefore, world prices. The U.S.'s *direct payments* and the EU's new *single farm payments* (both types of fixed payments that supposedly are 'decoupled' from current production), as well as agri-environmental payments and government sponsored agricultural research, all influence countries' agricultural production capacities, in Berthelot's view. These are all types of payments that countries such as the U.S. can better afford than can most developing countries. Simply moving most payments from 'coupled' commodity payments to fixed and agri-environmental payments will not necessarily satisfy charges of 'dumping' by developing countries. The arguments along these lines by Berthelot and others suggest that very fundamental issues about food security and environmental protection must be rethought in the WTO framework. For example, the U.S. openly subsidizes corn-based ethanol production and places a heavy tariff on imported ethanol, all in the name of 'energy security'. How is that different from developing countries using tariffs to protect their food production capacities or the EU wanting to provide sufficient import protection to maintain agricultural landscapes?

### **A policy reform path**

The kinds of policy reform outlined in this article would need to be phased in. This is necessary from the perspectives of both political acceptance and economic

stability. The shift of funds from commodity programs to agri-environmental programs could be phased in over a 5 to 10-year period. However, if this is going to happen starting with the 2007 farm bill, the transition path must be clearly spelled out in the legislation and implemented accordingly by the USDA. Vague references to this or that happening after some date several years down the road, or after some future WTO settlement, will simply imply more stalling and continuing to leave reform to future elected officials.

The U.S. might borrow and build on one transition approach being used in the EU. Under the 2003 CAP reforms, many of the formerly 'coupled' commodity payments were folded into more 'decoupled' *single farm payments* in 2005 and 2006 (though individual EU member countries have some latitude in how much decoupling they do). At the same time, funds available for rural development and agri-environmental programs in the EU are being increased by reducing single farm and other direct payments in phases. (In CAP terminology, 'agri-environmental' programs are under the broader 'rural development' umbrella.) Individual member countries are allowed to retain at least 80 percent of these 'modulation' funds to allocate to rural development and agri-environmental programs within their own borders. The analogy in the U.S. would be for a portion of the funds shifted each year from 'commodity program' payments that would otherwise have gone to farmers in individual States being reallocated to Federal agri-environmental programs in those same States. For example, suppose farmers in a particular State normally receive 6 percent of the nation's commodity payments. In each year that a given amount of commodity program dollars are shifted to agri-environmental programs, a fixed proportion—say half of that 6 percent, or 3 percent—could be used to

augment CSP-funding within that State. This would not leave individual farmers unaffected, but it would help cushion the overall economic impacts within the various States. In fact, to make the transition even more politically acceptable in States where farmers are especially dependent on commodity payments, the entire proportion (6 percent, in this example) could be directed back to each respective State during the transition period. This kind of provision violates many economists' definition of *economic efficiency*, but institutional change is almost never solely about economic efficiency anyway.

#### **For additional information, see:**

Berthelot, Jacques. 2006 (November). "EU and US Cheatings on Agriculture Can Kill Doha Round and Impose Food Sovereignty." Introductory keynote to the roundtable, **Indian Social Forum: WTO-End of the Road?** New Delhi, India. [For this and other papers by Berthelot, go to: <http://solidarite.asso.fr/home/Agriculture06.php> .]

Dobbs, Thomas L. 2006 (September). "Working Lands Agri-environmental Policy Options and Issues for the Next United States Farm Bill." Economics Staff Paper 2006-3, South Dakota State University. Brookings, SD. [<http://econ.sdstate.edu/Research/Dobbs-StaffPaper2006-3.pdf>]

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