

# Farm Policy in the Face of Change



The Council on Food, Agricultural and Resource Economics

## The Forecast: Changes Affecting Farm Policy

Just as agriculture keeps a watchful eye on the weather, always searching for clues pointing to a possible change – agriculture policymakers must also be prepared for changes in agriculture's economic environment – the external drivers that will affect the policy impacts. We need to understand these changes, anticipate them, and be ready to act upon them.

In its report, *The Risks of 'One Size Fits All' Farm Policy*, C-FARE examined the contextual considerations within agriculture that policy must take into account – considerations such as size and lay of the land, as well as the likely benefits from farm policy. In this companion report, we look at farm policy in the face of change – the external changes building on the horizon.

## Economics can help.

While economics cannot answer every question that must be addressed in the policy process, it can help with many. The answer to *Who should benefit from farm programs?* is subjective, depending on values. The answers, however, to *Who does or will benefit? Why? and How?* are right up the economists' alley. And those answers are critical in helping policymakers see to it that whoever *should* benefit, *does* benefit.

## Focus on the vertical.

To help policymakers better understand the changes shaping today's agriculture (many of them external to agriculture), this report summarizes recent findings in five key areas: environmental concerns, food consumption patterns, food safety, information demand, and trade and globalization. This *vertical* examination of changes above and below the farm level, complements the *horizontal* look at things like farm size, ownership, and operation offered in the first report.



# Key Changes Affecting Agriculture

## *Environmental concerns are becoming increasingly important.*

There was a time when what happened on the farm was of interest only to the farmer. What to grow and how to grow it was strictly the farmer's business. That time, however, has long since passed. Today, the people next door, the people downwind, the people downstream, and even the people a continent away have an interest—and are expressing that interest—in what happens on the farm. This is especially true when it comes to environmental matters.

People are rightly concerned with the quality and health of the environment. And farmers, the vast majority of whom are also concerned, are being asked and in many cases required to ensure that in growing our food and fiber they do not harm our air, water, and soil. "Efforts to protect the environment fall into two broad categories" according to Larry Libby, professor of Agricultural Economics at The Ohio State University. "The first seeks to protect and promote the non-farm 'goods' that farming provides. The second seeks to limit or even eliminate the *bads* that are a byproduct of some farming practices."

In economics, a *public good* is a good or service with benefits that people cannot be excluded from enjoying, regardless of who pays for the good. Farmland is seen in some cases as just such a good, offering relief—open space, plants, and animals—to the congestion and concrete of urban and suburban life. Because only one entity—the farmer—is responsible for maintaining the good while many—the public—enjoy it, problems can result.

To deal with such problems and preserve the public good that farmland provides, policymakers at all levels from federal to local have devised several approaches. Some provide financial incentives to the farmer for keeping the land in farming (for example, purchase of development rights and agricultural tax exemptions). Others (such as agricultural zoning and urban growth boundaries) limit a farmer's ability to develop the land.

As do most industries, farming yields its share of noxious byproducts. Animal waste, fertilizer, and pesticides can all contribute to air and/or water pollution. To limit or eliminate these *bads* policymakers have instituted a variety of regulations. Two of the more common pertain to the amount of noxious substances that farms can introduce into water bodies and the location of confined animal feeding operations.

Environmental concerns continue to become more and more important to farming, whether dealing with the environmental *goods* or *bads* associated with farming, and whether the method chosen is the carrot or the stick.

## *Food consumption patterns are evolving.*

Just as farmers must concern themselves with the air, water, and soil that agriculture affects, so too must they concern themselves with the stomachs that it fills. To a large degree, population—its size and its composition—determines food consumption (which determines the market for farm goods). Not surprisingly, both are changing.

In preliminary estimates for the year 2020, USDA's Economic Research Service (ERS) shows that per capita food consumption for all commodities will remain relatively flat. However, because total population will grow by 50 to 80 million, food consumption should, all else equal,

increase by 18 to 29 percent. As ERS's Jim Blaylock puts it, "More people, more stomachs, more food."

In addition to the population increasing in the next 20 years, the characteristics of the population also will change. By 2020, America is expected to be more ethnically diverse, older, even better educated, and wealthier. What will this mean for food consumption? More fruits, vegetables, fish, yogurt, and meals away from home. Less beef, pork, dairy, processed potatoes, and sugar. However, because of population increase, demand for these commodities still will increase, albeit less of an increase than if no demographic change occurred.

Of course, increases in food consumption will not always translate one-for-one into increased income for U.S. farmers. Indeed, Blaylock says that the farmer's share of the food dollar will continue to decline. He believes that commodity producers will be lucky to see a one percent annual growth rate in demand. To be successful, he says, producers will need to be entrepreneurial, targeting their efforts to meet changes in demand driven by increased income, population growth, and the aging of America, and they must continue to become more service oriented.

Looking at recent survey data, Kellyanne Conway, president of The Polling Company, says Americans are getting back to basics in their food consumption, rethinking simplicity and convenience. But, she adds, "Quality is king."

## Food safety is becoming a higher priority.

Related to environmental concerns and food consumption are issues of food safety. Through television, newspapers, radio, and the Internet, people have access to more information than ever before. Some of that information—about environmental ills; genetically modified crops; and now in the wake of September 11, bioterrorism—causes concern about the safety of the food we eat.

Unfortunately, the public's knowledge of such issues is typically not proportional to its access to information about them or its concerns over them. As Conway points out, the average American knows nothing about biotechnology, yet is asked in poll after poll to express an opinion on it. Still, whether the concerns are valid or not, they must be adequately addressed.

## Information demands are increasing.

Ironically, one of the means to addressing concerns over food safety—which are fueled in part by access to new information—is still more information. Obviously, this will require deft handling.

According to ERS's Neil Conklin, consumers increasingly want information about unobservable food product characteristics, such as labeling that says whether a product incorporates biotechnology or whether it meets organic certification. And through market and/or government channels, they will get it. The trick, according to Conklin, will be to meet the demand for information without creating a labeling system that exacerbates the already existing confusion.

Consumer demand for information is, in turn, creating demand among producers. Logically, they want information about the products that they are using in their products so that they can pass it along to consumers.

On another front, producers are demanding more information about contract terms with buyers. Understandably, they want to know if the terms they are agreeing to are standard across the industry. They

want to be able to compare their arrangements with those of other producers. Not surprisingly, buyers often do not want to share such information. Information is, after all, power. Thus, some types of market information are increasingly becoming private goods. At the same time, other types of market information (e.g., real time futures prices) are becoming public information, available directly from government sources rather than brokers or the press.

What all of this means is that there is a growing need for information that will help market participants—be they consumers, producers, or intermediaries—to adjust to market changes. However, Steve Sonka, professor at the University of Illinois, poses the critical question: can we evolve a system that allows us to trace all of the things that consumers and producers need to know and do it at a cost that is low enough to be practical?

## Trade and globalization are increasingly significant.

Although the domestic market for U.S. farm output is far larger than the export market, trade and globalization affect agriculture in increasingly significant ways.

First, the good news. David Blandford of Penn State University, projects that trade liberalization resulting from the current round of World Trade Organization negotiations would increase U.S. agricultural exports. Citing ERS estimates, he projects that the elimination of trade distortions would raise world agricultural prices by 12 percent, with 24 percent of the gains from expanded trade being captured by the United States.

### Food demand will increase due to population growth and demographic change.

Percent change, 2000 - 2020

Fruits	27%
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Fish	26%
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Vegetables	20%
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Sugar	16%
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Beef	15%
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Processed Potatoes	8%
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Now, the not-so-good news. According to Blandford, trade liberalization would generate a lot more competition in some commodity sectors, specifically dairy and sugar. Some high-cost producers could not compete in the more competitive economic environment. Furthermore, U.S. farm policies would be subject to greater discipline since we would have to balance our domestic objectives with our international trade obligations. All countries would face stricter limits on the subsidies that they pay to farmers, particularly subsidies—like price supports—that distort international competition.

Related to trade is the broader question of globalization. In recent years, according to Sonka, we have taken the benefits of globalization for granted and focused almost solely on its negative aspects. “Global economic growth, however, is critical to U.S. agriculture, and the assumption that globalization will continue and continue to fuel global economic growth is not necessarily a sound assumption.”

With the following quote from John Maynard Keynes, Sonka describes one possible scenario of the future—made more likely by the events of September 11. It is a very bleak one indeed.

“What an extraordinary episode in the economic progress of man. The resident of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect early delivery at his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world. What an extraordinary episode in the economic progress of man... that came to an end in August, 1914.”



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C-FARE is a non-profit and non-partisan professional organization working to bring the results of economics research to key public sector decision makers in the Administration and the Congress.

# Making Policy in the Face of Change

Dealing with these changes, whether at the farm level or the congressional level, is no easy task. Yet, deal with them we must. The first step—which we are addressing in this report—is to better understand the winds of change. The next step—dealing with that change—presents another set of challenges for the farmer and the policymaker alike. It also presents a challenge, and an opportunity, for the economist. After all, “farm policy is,” as Jasper Womach of the Congressional Research Service puts it, “driven by two forces: economics and politics.” It requires both the policymaker and the analyst.

Politics provides the answers to such questions as *Should policies employ market-based approaches or rely on governmental subsidies? Should benefits accrue to landowners? To large producers? To small farmers? Should the resulting system give producers the flexibility to produce as they see fit or seek to control what farmers plant and how much?* Economics, however, provides the “how to” once those political decisions are made. Indeed, you really cannot have one without the other.

The answers to these and other difficult questions will inevitably be colored by many considerations. Hopefully, sound, objective economic analysis will be one of them.



C-FARE would like to thank the following individuals for making our program a success.

Rich Allen – USDA-NASS – Organizer

Walt Armbruster – Farm Foundation

Nicole Ballenger – USDA-ERS – Organizer

Peter Barry – University of Illinois – Organizer

David Blandford – Penn State – Presenter

Jim Blaylock – ERS – Presenter

Neil Conklin – ERS – Presenter

Kellyanne Conway – The Polling Company – Presenter

Larry Libby – Ohio State – Presenter

Gene Nelson – Texas A&M University – Moderator

Tom Rowley – Writer

Peter Smith – USDA-NRCS – Organizer

Steve Sonka – University of Illinois – Presenter

Jasper Womach – Congressional Research Service – Presenter

### Financial Contributors

Farm Foundation

USDA-Cooperative State Research, Education, and Extension Service

USDA-Economic Research Service

USDA-National Agricultural Statistics Service

USDA-Natural Resources Conservation Service

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