

Agriculture Trade Policy: *RESPONDING TO A MOVING TARGET*

There are growing doubts about the long-term sustainability of current agricultural policies in developed countries given domestic budgetary pressures and trade liberalization. The principal aims of this research project funded by USDA's ERS were to examine:

1. The nature and scale of economic adjustment at the farm level that would be required if price and income supports were eliminated;
2. Factors affecting the ability of farmers to adjust to the new policy environment;
3. Policy measures that could be used to facilitate the adjustment process.

Key Issues in the Adjustment Process

The agricultural sector is being constantly subjected to economic pressures that require adjustments in production and marketing methods, the size and scale of operations, and the allocation of resources (land, labor and capital) managed by farm households.

The agriculture industry is already making adjustments for changing technology and demands for agricultural products. Significant reform in agricultural policies adds additional pressures for adjustment.

Farm households adapt in various ways to these pressures. In the short and medium term, many reallocate resources used on the farm or between farm and non-farm activities. In the longer term, the drive for increased efficiency tends to reduce labor employed in agriculture and restructuring leads to a smaller number of larger commercial farms.



An examination of case studies of policy reform leads to a number of conclusions. Studies show that the farmers' capacity to adapt to policy reform is generally underestimated; adaptation is easier if factor markets, particularly for land, function efficiently. In addition, the quality of education is critical in the adjustment process; and aid for business restructuring, compensation for income losses or reductions in asset values can play an important role in the adjustment process.

Policies to facilitate the adjustment process

An analysis of past experience demonstrates that measures to assist adjustment must have clear objectives. Key policy directions are:

- Removal of barriers to the efficient functioning of land markets, particularly constraints on the sale or rental of farmland;
- Development of educational programs, particularly those that build up transferable skills for farm households, in the key areas of business management and entrepreneurship;
- Provision of compensation based on income reductions or reductions in asset values, free of any requirements to remain in farming or to occupy land, and of limited duration.

Such policies are in line with the Green Box provisions of the WTO Agreement on agriculture, since they are not linked to future production or prices of agricultural products. They are also compatible with minimally-distorting policies for the provision of environmental goods by agriculture and with rural development policies.

An examination of adjustment policy options for US agriculture exhibits that few components of current US agricultural policies are designed to facilitate economic adjustment. Limited provisions in current trade legislation focus on direct payments, but nothing focuses on improving competitiveness. Using data for 2002, the estimated capitalized value of current US farm programs was \$109 billion – roughly 10 percent of the total value of US farmland. A series of annual payments of roughly \$15 billion over seven years would be sufficient to compensate landowners for the elimination of price and income support programs. Finally, continued income support for US farms that have both low incomes and low wealth (those that can be defined to be in persistent poverty) would cost roughly \$1.8 billion per year. Training programs in farm business management operated through Federal agencies (such as FSA) and state extension services have been shown to have high returns. These programs could be strengthened to aid the adjustment process and to help address poverty issues in US farming.

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