Briefing Rooms [ARCHIVE]

Farm Policy, Farm Households, and the Rural Economy

Contents:

- **Farm Policy, Farm Households, and the Rural Economy Briefing Room**
- Agricultural Policy Tools and Objectives
- Farm Households and Financial Well-Being
- Agricultural Policy and Rural America
- The Evolution of Noncommodity Policies

Overview

Existing U.S. farm programs have their origins in the 1930s, a period when the well being of U.S. farm households and rural communities were tightly linked. Although farms, farm households, and rural communities at the beginning of the 21st century are vastly different, commodity-based support programs continue to play a central role in U.S. agricultural policy. This raises questions about whether current policies most effectively target the needs of an evolving farm and rural economy.

Numerous questions arise about market responses to policy change, and about the appropriate role of federal programs to facilitate adjustment. What are the impacts of existing policies, how are they distributed, and how would they change if policies change? Would policy reform impose significant adjustment costs on large numbers of farm households and/or rural communities? This briefing room is designed to help fill this information gap and stimulate new thinking that contributes to the ongoing policy debate. ERS research casts a wide net—covering economic, environmental, rural household and community welfare, and institutional implications—and extends both upstream and downstream from the farmgate. More overview...

Features

Structure and Finances of U.S. Farms: Family Farm Report, 2007 Edition. This report presents comprehensive information on family and nonfamily farms and important trends in farming, operator household income, farm performance, and contracting. Most farms are family farms, and small family farms account for most farms but produce a modest share of farm output. Many farm households have a large net worth, reflecting the land-intensive nature of farming. A companion brochure summarizes the report's findings.

The 20th Century Transformation of U.S. Agriculture and Farm Policy. The structure of farms, farm households, and rural communities has evolved markedly over the last century. The report analyzes a wide range of historical data related to farm structure and provides perspective on the long-term forces that have helped shape agricultural and rural life. A review of some key policy developments also considers the extent to which farm policy design has or has not kept pace with the continuing transformation of American agriculture. See also Milestones in U.S. Farming and Farm Policy, an *Amber Waves* data feature based on this report.

Recommended Readings

Whole-Farm Approaches to a Safety Net. "Whole-farm revenue" programs have been proposed as a new form of income stabilization that would be available to all U.S. farms. This report looks at the risk management potential for such programs, which are not linked to production of particular commodities, and the obstacles to implementing such an approach.

Understanding U.S. Farm Exits. The rate at which U.S. farms go out of business, or exit farming, is about 9-10 percent per year, comparable to exit rates for nonfarm small businesses in the United States. The probability of exit is higher for recent entrants than for older, more established farms.

Enhanced Quality of Life for Rural Americans: At a Glance. A series of publications that summarize timely issues related to rural

America—such as poverty, education, employment, and housing.

See all recommended readings...

Recommended Data Products

State Facts Sheets. Information on population, employment, income, farm characteristics, and farm financial indicators for all 50 States.

Farm Program Acres. Users can download and map county-level farm program and planted acreage data for nine major program crops (corn, grain sorghum, barley, oats, wheat, rice, cotton, peanuts, and oilseeds).

Farm Program Data and Information. Data on various aspects of farm and commodity policy, such as farm program participation rates, Commodity Credit Corporation net outlays by commodity and function, and price support loan activity.

Rural Gallery. Up-to-date information on rural indicators, including population and demographics, employment and unemployment, income and poverty, housing, industry, rural credit and agricultural finance, and Federal funds to rural America.

Measuring Rurality: County Typology Codes. ERS classification of nonmetro counties by economic activity and policy types.

Farm Business and Household Survey Data: Customized Data Summaries from ARMS (the Agricultural Resource Management Survey). A web-based data delivery tool that provides information on farming practices, commodity production costs and returns, the economics of the farm business, the structure of American farming, and the characteristics of the American farm household.

Farm Income Data. Estimates of farm sector income for the United States and individual States.

Farm Balance Sheet Data. Estimates of farm business balance sheets—including asset, debt, and equity information—for the United States and individual States. The disaggregated balance sheets enable users to assess the status and trends of wealth within the farm sector.

Agricultural Resources and Environmental Indicators (AREI) Database and Mapping Tool. A web-based tool that provides flexible data access and the latest GIS mapping technologies for data on agricultural resources and environmental indicators.

Recent Research Developments

ERS/NCFAP Farm Policy and Rural Economy Workshops. Farm programs have an impact on farm households and rural communities as well as agricultural commodity markets. On June 24, 2005, the National Center for Food and Agricultural Policy (NCFAP) and ERS held a workshop to discuss alternative approaches to farm policy and their consequences for farm households and rural America. This follows up on a 2004 NCFAP/ERS workshop that addressed the interrelationships between farm policy and the well-being of farm households and rural communities.

In the United States and other countries, adjustment and change in the farm sector and rural economy is an ongoing process. Producers and rural communities must continually adapt to changing market conditions, whether the result of agricultural policies or broader economic developments such as technological innovations, shifting demand, or macroeconomic conditions. ERS is investigating the impacts of agricultural policy on commodity markets, prices, and farm income; linkages between the farm sector and the rural economy; and farm household financial well-being. Because each commodity sector, region or country, and farm household faces unique conditions, ERS is also researching the response of these groups to fundamental adjustments in farm policy and other factors shaping change in the agricultural sector. Contact: Erik Dohlman or Carolyn Dimitri.

Related Briefing Rooms

- Conservation Policy
- Farm and Commodity Policy
- Farm Household Economics and Well-Being
- Farm Income and Costs
- Farm Risk Management
- Farm Structure
- Macroeconomics and Agriculture
- Rural Development Strategies
- Rural Income, Poverty, and Welfare

- Rural Industry
- Rural Labor and Education

Related Links

USDA Farm Service Agency. Commodity program information.

U.S. House of Representatives, Committee on Agriculture. Farm legislation and legislative proposals.

U.S. Senate, Committee on Agriculture, Nutrition, and Forestry. Farm legislation and legislative proposals.

National Center for Food and Agricultural Policy. Research studies on biotechnology, pesticides, international trade and development, and farm and food policy.

Pennsylvania State University, International Agricultural Policy Reform and Adjustment Project. A research project on the reform of global agricultural and trade policies and adjustment in the food and agricultural sector.

Regional rural development research centers. Research and education programs to improve the well-being of rural people.

- North Central Regional Center for Rural Development, Iowa State University
- Northeast Regional Center for Rural Development, Pennsylvania State University
- Southern Rural Development Center, Mississippi State University
- Western Rural Development Center, Utah State University

For more information, contact: Stephen Vogel, Erik Dohlman, **or** Ashok Mishra

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Briefing Rooms [ARCHIVE]

Farm Policy, Farm Households, and the Rural Economy: Overview

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Existing U.S. farm programs have their origins in the 1930s, a period when the well being of U.S. farm households and rural communities were tightly linked. Although farms, farm households, and rural communities at the beginning of the 21st century are vastly different, commodity-based support programs continue to play a central role in U.S. agricultural policy. This raises questions about whether current policies most effectively target the needs of an evolving farm and rural economy.

In 1930, over 2,300 counties—more than three-fourths of all rural counties—depended on agriculture as their primary source of income. There were 30.4 million people living and working on 6.3 million farms. The rural farm population represented over half the rural population and a quarter of total U.S. population. However, improvements in agricultural technology and productivity over time mean that in the early 21st century, far fewer (and much larger) farms produce an ever-increasing amount of farm goods. In 2000, 3 million people lived and worked on 1.8 million active farms, and represented only 1 percent of total U.S. population. One-fifth of rural U.S. counties depended on agriculture as a significant source of income. Even in these farming counties, nonfarm sectors are major sources of employment. The drop in the number of farming-dependent counties reflects a dynamic and successful agricultural sector. The well-being of rural areas is no longer as dependent on agriculture, and farm policy is not synonymous with rural policy. ERS researchers are exploring new ways of informing stakeholders about the implications of agricultural policy reform in the 21st century.

Numerous questions arise about market responses to policy change, and about the appropriate role of federal programs to facilitate adjustment. What are the impacts of existing policies, how are they distributed, and how would they change if policies change? Would policy reform impose significant adjustment costs on large numbers of farm households and/or rural communities? This briefing room is designed to help fill this information gap and stimulate new thinking that contributes to the ongoing policy debate. ERS research casts a wide net—covering economic, environmental, rural household and community welfare, and institutional implications—and extends both upstream and downstream from the farmgate. For many, discussion of changes from current agricultural policy implies impending, perhaps costly, adjustments. ERS research helps lay the framework for assessing the implications of policy reform and analysis of policy adjustment options.

Commodity Policy

Policy changes introduced in the 1996 Farm Act and continued in the 2002 Farm Act marked a substantial change from previous legislation. The elimination of acreage reduction programs, the decoupling of some support from production decisions, and the introduction of nearly full planting flexibility considerably increased the market orientation of U.S. agriculture. At the same time, with nearly three-fifths of projected (non-nutrition) spending under the 2002 Farm Act targeted at income and price supports for staple crops and dairy products, traditional commodity-based revenue supports remain a centerpiece of U.S. agricultural policy.

However, substantial changes in the farm economy in recent decades—characterized by productivity improvements, the increasing size and wealth of average farm households, and the reduced importance of farm employment to the rural economy—have changed the context in which commodity policies operate. Moreover, the range and scope of alternative risk management tools have evolved considerably since the 1930s. Farmers have available to them a number of risk management strategies, including crop insurance, hedging with futures and options contracts, production and marketing contracts, and credit availability. As a result, it is important to understand both the motivation underlying current agricultural policies and the potential implications of policy changes. Lessons learned from previous U.S. commodity and trade policy changes, and from reforms throughout the world, can help enhance gains and avoid inefficient outcomes when designing new policy. ERS provides research to improve the understanding of the relationship between commodity policy reform and market adjustments.

For further details, see the chapter on agricultural policy tools and objectives.

Farm Households

Besides participating in a diverse array of agricultural enterprises, farm households have become increasingly integrated with the nonfarm economy especially in terms of participation in off-farm labor and off-farm investment markets. Data from 2002 indicate that average farm household income exceeded nonfarm household income by 14 percent, while average farm household wealth exceeded nonfarm household wealth by 90 percent. In addition to changing agricultural production patterns, policy reform can be expected to change participation in these off-farm labor and investment markets. Policy reform might also change the relative prices of the goods and services that farm households consume, as well as those goods and services that farm households produce and provide to others. ERS research examines the heterogeneous response that farm households have to policy reform, including changes in the types of goods and services a household prefers to consume and produce.

For further details, see the chapter on Farm Households and Financial Well-being.

Rural Economy

Agriculture in the United States has undergone structural change over the last five decades, as farm size has doubled and the number of farms has fallen by 60 percent. While agriculture is located throughout the Nation, those areas most dependent on agriculture, especially in the Midwest and Great Plains, will most likely bear the brunt of the adjustment costs of policy reform. Adjustment costs include those associated with capital and labor moving out of agriculture into nonfarm activities, population loss affecting the local tax base, new income and employment generating strategies to improve job opportunities, managing environmental factors, and the maintenance of rural public education and other local public services. ERS research addresses whether or not adjustment policies will conflict with, or complement, other strategies for rural development.

For further details, see the chapter on Agricultural Policy and Rural America.

For more information, contact: Erik Dohlman **(commodity policy),** Ashok Mishra **(farm households), or** Stephen Vogel **(rural economy)**

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Briefing Rooms [ARCHIVE]

Farm Policy, Farm Households, and the Rural Economy: Agricultural Policy Tools and Objectives

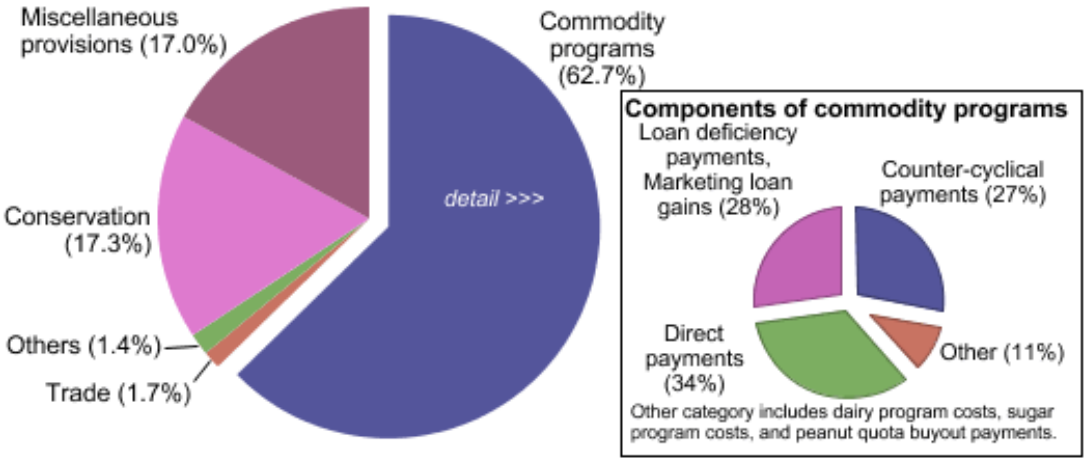
Programs aimed at supporting commodity prices and farm incomes have played a central role in U.S. agricultural policy since the 1930s. Although policy changes since the early 1980s have substantially increased the market orientation of U.S. agricultural policies, commodity programs are still often referred to as the heart of farm legislation. Under the 2002 Farm Act, commodity programs are projected to account for close to two-thirds of USDA spending outside of nutritional programs.

Contents:

- Farm Policy, Farm Households, and the Rural Economy Briefing Room
- **Agricultural Policy Tools and Objectives**
- Farm Households and Financial Well-Being
- Agricultural Policy and Rural America
- The Evolution of Noncommodity Policies

2002 Farm Act projected spending for non-nutritional programs, 2002-11

226.7 billion dollars



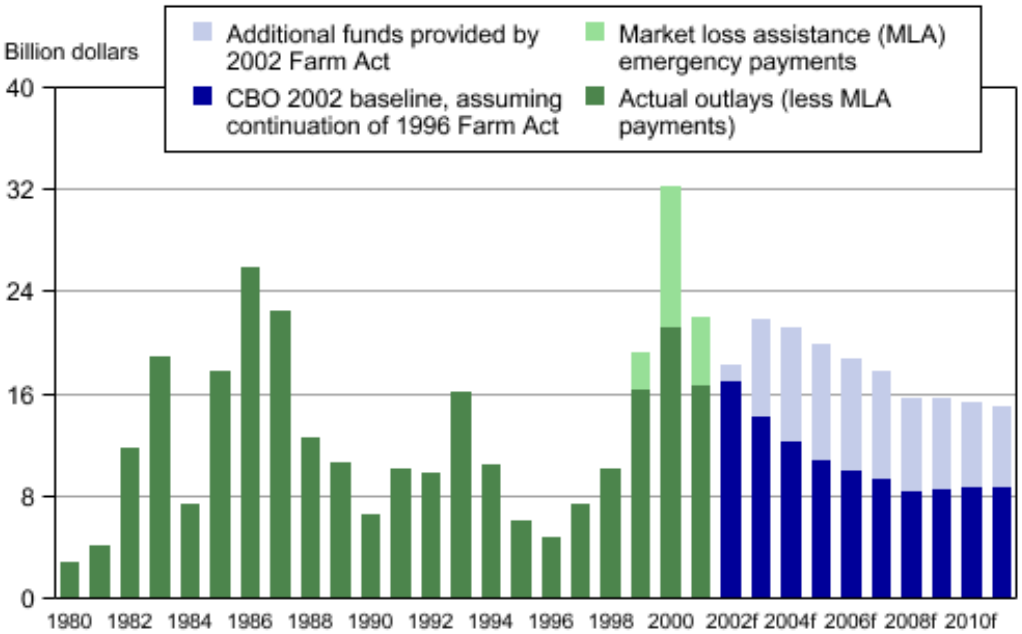
Note: Others include energy (0.18%), forestry (0.04%), research (0.69%) and rural development (0.45%).

Source: What were the estimated costs of the 2002 Farm Act in May 2002? http://www.ers.usda.gov/briefing/farmpolicy/questions/cost2002act.htm

2002 Farm Act projected spending for non-nutritional programs, 2002-11, 226.7 billion dollars	
Commodity programs	$142.07 (62.7%)
Conservation	$39.16 (17.3%)
Miscellaneous provisions	$38.52 (17.0%)
Trade	$3.78 (1.7%)
Others	$3.09 (1.4%)
Direct payments	$48.49 (34.1%)
Counter-cyclical payments	$38.71 (27.2%)
Loan deficiency/Marketing loan gains	$39.81 (28.0%)
Other	$15.06 (10.6%)

Based on initial estimates, commodity program spending levels were projected to be lower in 2002-11 than average spending during 1999-2001 (when emergency payments were high), but they are higher than levels that prevailed throughout most of the 1990s. During crop years 2002-04, program payments (marketing loan benefits and direct/countercyclical payments) for all eligible crops amounted to about $31 billion, or 15 percent of production value for those crops.

Commodity Credit Corporation (CCC) net outlays



Notes: f = forecast. The Commodity Credit Corporation (CCC) is a federally owned and operated corporation within the U.S. Department of Agriculture created to stabilize, support, and protect farm income and prices through loans, purchases, payments, and other operations. All money transactions for agricultural price and income support and related programs are handled through the CCC.

Source: CCC Budget and Congressional Budget Office (CBO) March 2002 forecasts. For more recent information on actual and projected CCC outlays stemming from the 2002 Farm Act, see http://www.ers.usda.gov/Briefing/FarmPolicy/gov-pay.htm.

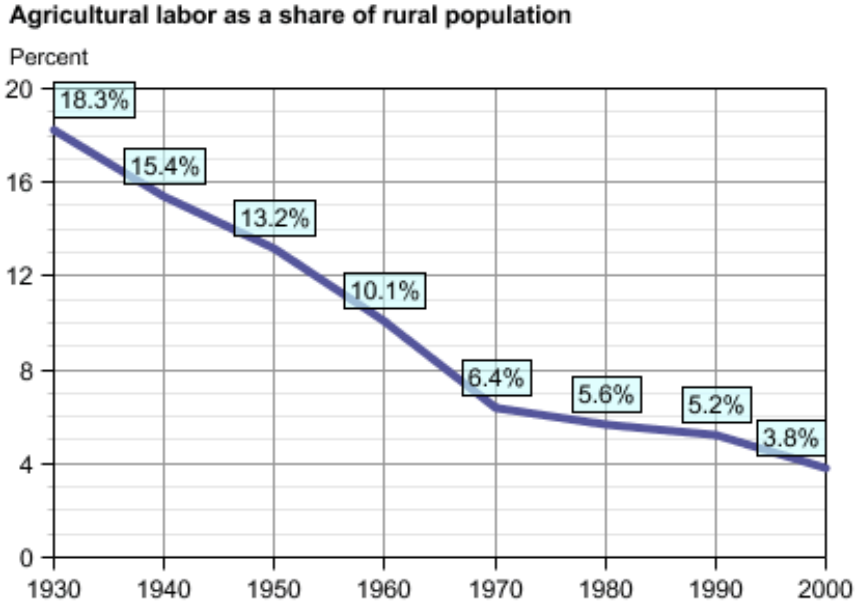
Commodity programs affect the income of farm households and the well-being of rural communities. However, U.S. commodity programs were initially conceived in an era when the financial circumstances of farm households and the importance of farming to rural communities—and the economy as a whole—were far different than today. In the 1930s and 1940s, for example, the per capita income of farmers was on average only half that of nonfarmers, and over 70 percent of all rural counties depended on agriculture as a primary source of income. Consequently, providing assistance to raise and stabilize farm income, often with payments directly linked to commodity production, had greater potential to benefit rural communities.

More recently, commodity policies have evolved to meet the changing needs of farm households and rural communities, as well as to meet new obligations under international agreements such as those reached under the World Trade Organization. What Is Meant by Decoupling? presents an overview of programs that have loosened the link between commodity production and

government payments. Although less distorting to production and trade than coupled program payments (such as marketing loan benefits), decoupled program payments still have potential economic impacts on farm households and rural areas. For example, government program payments, such as direct and countercyclical payments, are partially capitalized into land values and rental rates. This affects the wealth of farmland owners (increased land values), rental income of farmland owners (increased rental income) and producers' production costs (increased rental payments or costs to buy land).

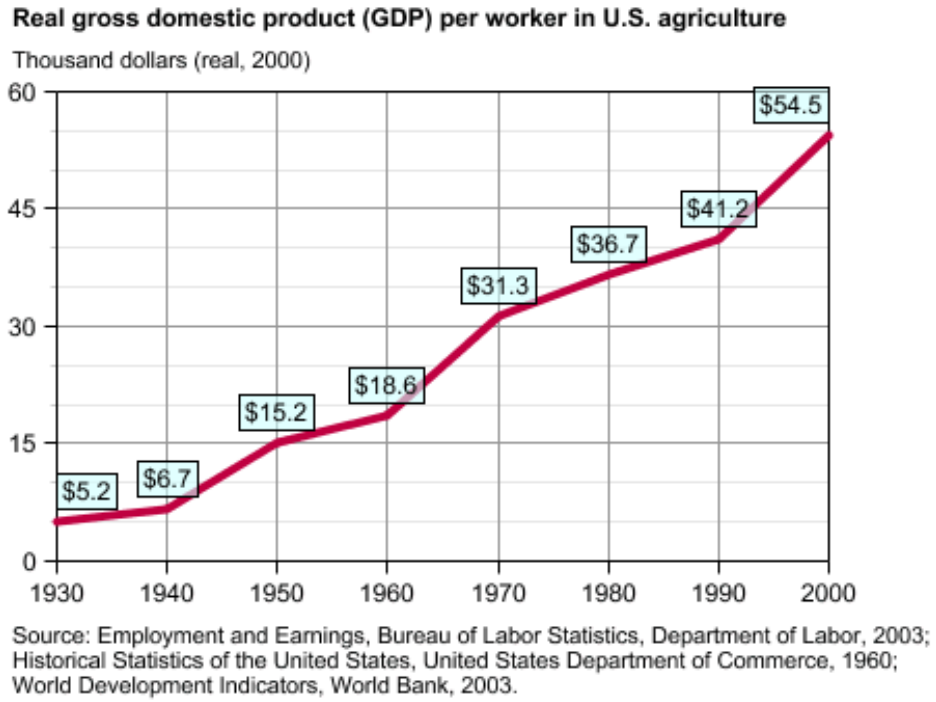
The Evolving Structure of Farms and the Rural Economy

In more recent decades, improvements in agricultural productivity, macroeconomic growth, a shift to a manufacturing- and service-oriented economy, increased opportunities for off-farm employment, and other factors have transformed U.S. agriculture, leading to farm consolidation and a shrinking of the farm sector relative to the overall U.S. economy. For example, farming now accounts for less than 1 percent of U.S. gross domestic product (GDP) and less than 2 percent of total employment, compared with 6.8 percent of GDP and 21 percent of employment in 1930. Even in rural areas, the share of agricultural labor in the rural population dropped from 18 percent in 1930 to less than 4 percent today. Farm earnings account for only about 3 percent of total earnings in rural areas.

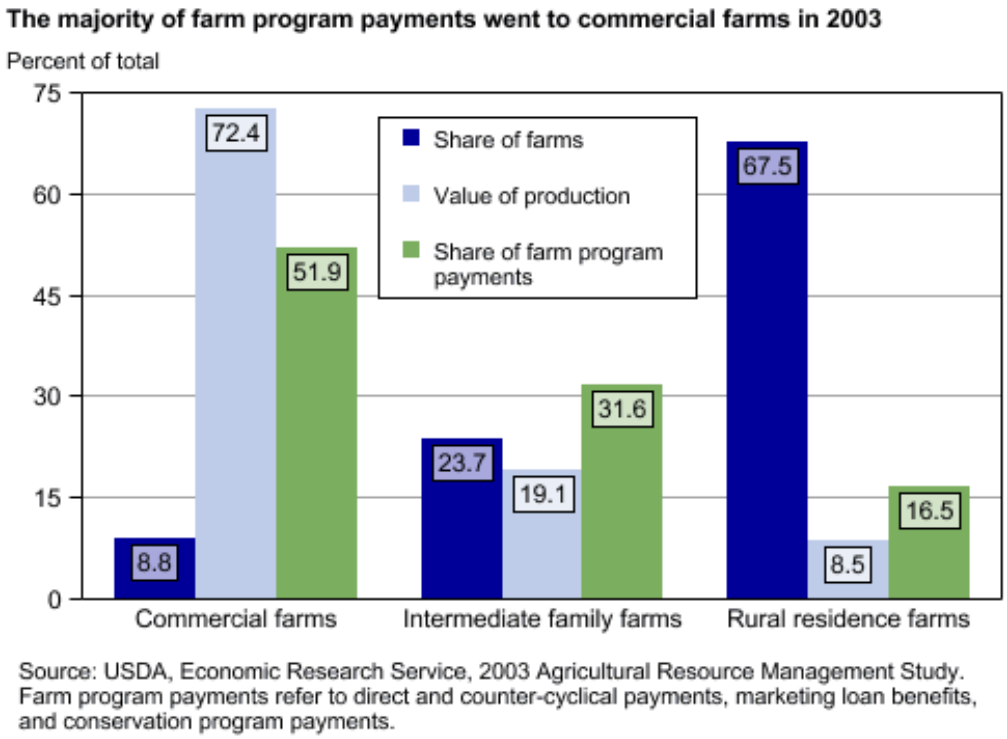


Source: Employment and Earnings, Bureau of Labor Statistics, Department of Labor, 2003; Historical Statistics of the United States, United States Department of Commerce, 1960; World Development Indicators, World Bank, 2003.

These changes in the farm economy also have corresponded with rising real (adjusted for inflation) incomes for agricultural workers. For example, technological advances—such as mechanization, improved seed varieties, and use of agricultural chemicals—have dramatically increased the productivity of U.S. farms. Reflecting these productivity gains, real GDP per worker in agriculture rose tenfold since 1930. In fact, the average income of farm operator households (from farm and nonfarm sources) has consistently exceeded the average income of all U.S. households since 1996.



Another important change in the farm economy has been the emergence of larger farms accounting for an ever greater share of agricultural production. The average farm size has increased about threefold since the 1930s. In 2003, small and intermediate family farms (those with sales less than $250,000) represented about 91 percent of all farms but less than 28 percent of the value of agricultural output. In contrast, commercial farms (family and corporate farms with sales larger than $250,000) represented nearly 9 percent of all farms, but were responsible for more than 72 percent of the total value of production.



Implications of Structural Change for Commodity Policy

Compared with the 1930s, U.S. farms have become larger and much more productive, but account for a much smaller share of total economic output. Furthermore, farm household incomes surpass the average for nonfarm households, as farm household members have become increasingly integrated into the off-farm labor force (see the chapter on Farm Households for further details). Together with other changes that have taken place in American agriculture, the increased dominance of production by

larger farms implies that policies designed to provide assistance to all farms are increasingly benefiting larger farms that produce program crops, despite payment limitations.

During the first 4 fiscal years of the 2002 Farm Act, farm program payments averaged $16 billion annually. According to ERS data, about 60 percent of all U.S. farms receive no government payments. (For more information on the characteristics of farms receiving government payments, see the Farms Receiving Government Payments chapter in the Farm Income and Costs Briefing Room.) In 2003, larger farm households (those with sales above $250,000) accounted for less than 9 percent of all farms but received 52 percent of total (commodity and conservation-related) payments, suggesting that even decoupled payments support the largest, most efficient operators (see Farm Payments: Decoupled Payments Increase Households' Well-Being, Not Production for more information).

Another issue is that a large part of commodity program payments may accrue to nonfarming landlords. Program payments—such as direct and countercyclical payments under the 2002 Farm Act—are paid to farm operators rather than farmland owners, but according to 1996 data (the last year for which base acreage tenure data are available), 59 percent of program acres were rented. Not all operators can therefore be considered as true beneficiaries of program payments, since competitive cropland rental markets work to pass through government payments from tenants to the owners of base acres. Knowledge about ownership patterns of program acres is incomplete, but data on ownership of all U.S. cropland show that only 35 percent of rented acres are rented from one active farmer to another, while 65 percent are rented from nonfarming landlords.

Although commodity programs serve as tools to protect farmers against income risk and uncertainty, it should also be recognized that the range and scope of alternative risk management tools have evolved considerably since the 1930s. Farmers have available to them a number of private (nongovernment) risk management strategies, including hedging with futures and options contracts, the use of production and marketing contracts, and credit availability. Government programs that address farm risk management have also played a larger role in U.S. farm policy in recent years. Over 200 million acres are now covered by crop insurance, with government insurance subsidies averaging about $2 billion annually.

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Briefing Rooms [ARCHIVE]

Farm Policy, Farm Households, and the Rural Economy: Agricultural Policy Tools and Objectives

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What Is Meant by Decoupling?

When commodity program payments are tied to current production or net returns, they can introduce market distortions by influencing planting decisions, overall production, and market prices. In contrast to such "coupled" programs, benefits from "decoupled" programs do not depend on the farmer's production choices, output levels, or market conditions. By severing the link between payments and production decisions, decoupled payments provide a way to support farm incomes that is less distorting to commodity markets.

Under the 1996 and 2002 Farm Acts, producers of selected field crops could qualify for fixed payments tied to historical plantings (base acres). These payments are considered "historical entitlements" that are unrelated to current production. For example, farmers with corn base acres do not need to grow corn in order to receive the payment, which is fixed by legislation. Indeed, they do not need to plant anything—although they have to keep base acres in approved agricultural use. (For more details on current U.S. commodity programs, see the Farm and Commodity Policy Briefing Room.)

- Is This a Step in the Right Direction?
- The Term "Decoupled" Has Been Used in Different Ways
- Background and Driving Forces
- U.S. Payments are Based on Historical Plantings of Specific Crops
- Distribution of Payments
- How Can Decoupled Payments Distort Production?
- Effects on the Farm Household
- Effects on the Farm Business
- Impacts on Farm Structure and Performance
- What Can We Conclude?

Is This a Step in The Right Direction?

For most of the 20th Century, U.S. commodity programs attempted to support farm incomes through interventions in commodity markets. Price supports, in combination with supply controls, were features of farm bills for at least a half century. (See Farm Program Effects on Agricultural Production: Coupled and Decoupled Payments for more information.) Two important drawbacks of this approach are:

- ***Inefficiency through market distortions***. By obscuring market signals, coupled programs can lead to economic inefficiency. That is, producers can supply too much, or too little, of specific commodities due to government programs.
- ***Variability in federal budget exposure***. When support to producers is linked to market prices, budgetary costs can vary significantly from year to year.

Decoupled programs can address both concerns. Numerous economic studies support the view that decoupled payments provide a

more efficient basis for income transfer and give rise to fewer market distortions than coupled programs. However, no programs are completely free of distortion, and there is growing interest in identifying and evaluating the effects of decoupled programs, such as those implemented under recent farm acts.

Economists have approached the topic from different directions, using different methodologies and assumptions in their analyses. Some studies have been based on producer surveys. Others have used theoretical models of farm-level decisions. Statistical analyses have focused on the effects of government payments on crop acreage, labor and investment, and land markets. Each approach has different strengths and weaknesses. Not surprisingly, published studies are not in full agreement about the net effects of decoupled payments on the U.S. agricultural sector. A Review of Empirical Studies of the Acreage and Production Response to U.S. Production Flexibility Contract Payments Under the FAIR Act and Related Payments under Supplementary Legislation presents an overview of many of the studies.

The Term "Decoupled" Has Been Used in Different Ways

One way refers to implementation criteria, as explained above. For example, a payment is considered decoupled if it does not depend on current production or market conditions. Another way is focused on the economic effects, or the degree to which these payments affect production. Used in this sense, "decoupled" is a matter of degree, since effects on production are possible for any form of producer support. Later sections of this chapter discuss how payments that are "decoupled" in terms of implementation criteria might still influence production and markets.

Some programs have been described as "partially decoupled." An example is the counter-cyclical payment **(CCP) program that was introduced in the 2002 Farm Act. Counter-cyclical payments are tied to historical base acres and fixed program yields. For this reason, individual producers cannot affect their counter-cyclical payments through current production decisions. However, counter-cyclical payments depend on market conditions: payments rise (up to a limit) in response to a lower national average price. The link to current prices means that counter-cyclical payments are not fully decoupled in terms of their implementation criteria.**

Background and Driving Forces

Changes in U.S. commodity programs. Fixed payments were introduced in the 1996 Farm Act, part of a package of reforms designed to improve the market orientation of U.S. commodity programs while limiting the cost to taxpayers. This was the culmination of policy reforms which began in the mid-1980s (see The 1996 Farm Act Increases Market Orientation and, for a longer term historical perspective, The 20th Century Transformation of U.S. Agriculture and Farm Policy). The 1996 Farm Act eliminated nearly all supply controls and planting restrictions for program crops and introduced fixed payments—called Production Flexibility Contract (PFC) payments—which promised farmers a known level of support without reference to current production or market prices.

Fixed payments were continued under the 2002 Farm Act (the Farm Security and Rural Investment Act of 2002). Two key changes in the program were to expand payment eligibility to include historical production of oilseeds and peanuts, and the option to update base acreage. (See the 2002 Farm Act Title I side-by-side comparison for program details).

Global reforms have played a role. International agreements have provided important motivation for decoupling in the United States and other countries. This is because subsidies to producers that are "minimally trade distorting" were exempted from the limits on domestic support negotiated under the Uruguay Round Agreement on Agriculture, although the interpretation of this criterion has been subject to much debate in both economic and legal terms.

International disciplines for domestic support remain under discussion. In the current Doha Round negotiations, developing countries have voiced concerns about decoupled forms of producer support. They question whether, given the size of program expenditures in developed countries, decoupled programs are truly minimally trade distorting. Interest has been heightened by a recent dispute before the World Trade Organization (WTO). In a case brought by Brazil against U.S. cotton subsidies, a WTO appellate body agreed that U.S. direct payments (and former PFC payments) did not meet established criteria for exempted (green box) support.

Decoupling is not limited to the United States. Recent reforms of the European Union's Common Agricultural Policy (CAP) have changed the basis for most producer supports in Europe, reducing the traditional emphasis on commodities in favor of single-farm payments and more spending on rural development. (See European Union Adopts Significant Farm Reform for additional details.) Mexico now provides some support to producers through fixed payments, similar in concept to those offered in the United States. In Canada, recent reforms have focused on stabilizing farm incomes without reference to specific commodities. (For more information on these policies, see Recent Agricultural Policy Reforms in North America.)

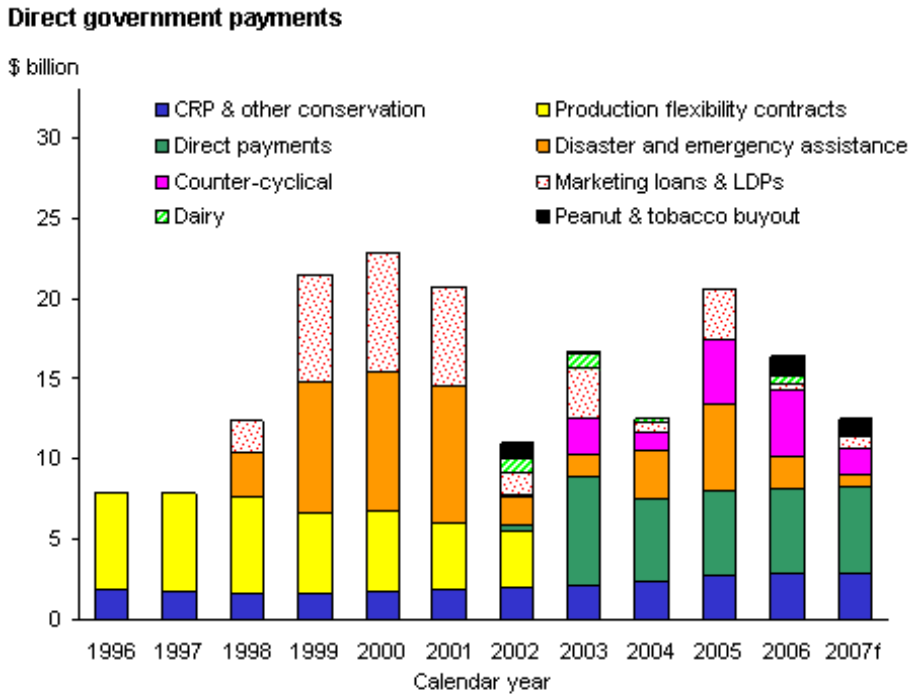
U.S. Payments are Based on Historical Plantings of Specific Crops

Decoupled payments for U.S. farmers are linked to base acres that reflect historical plantings of specific program crops as defined in legislation. Payments are made for wheat, corn, sorghum, barley, oats, rice, upland cotton, soybeans, peanuts, and minor oilseeds. (For details on specific commodities, see the Farm and Commodity Policy Briefing Room chapter on Government Payments and the Farm Sector.)

Producers have nearly complete planting flexibility (apart from restrictions on fruits and vegetables) without loss of program acreage or program benefits. Thus, current plantings are not constrained to a farmer's current allocation of base acres. Nationally, 2003 plantings to the program crops represented about 95 percent of total base acreage. On this basis, one could argue that plantings are linked to base acreage. On a crop-specific basis, however, the ratios of planted acres to base acres have varied substantially, indicating that a significant amount of base acreage is not planted to the specific crop to which the base acreage is associated. (See Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act for more information. The associated Farm Program Acres mapping tool contains maps showing the ratio of planted acres to base acres for corn, grain sorghum, barley, oats, wheat, rice, upland cotton, peanuts, and oilseeds.)

Distribution of Payments

Fixed payments—called direct payments under the 2002 Farm Act and PFC payments previously—have accounted for a substantial, but still variable, share of total government payments to U.S. producers in recent years. Decoupled payments declined somewhat over the course of the 1996 Farm Act, as determined by legislation, but the 2002 Farm Act raised expenditure levels on direct decoupled payments. They are projected at $5.3 billion per year during the 2002 Farm Act.



f=forecast
Source: USDA, Economic Research Service, Farm Income Data, http://www.ers.usda.gov/Data/FarmIncome/, February 2007.

The fixed nature of direct payments limits potential variation in expenditures, but despite the introduction of decoupled payments, total expenditures on producer supports have continued to fluctuate over time. Year-to-year fluctuations are driven mainly by programs that continue to be linked to market conditions. These include the counter-cyclical payments introduced under the 2002 Farm Act, as well as marketing loans and emergency assistance.

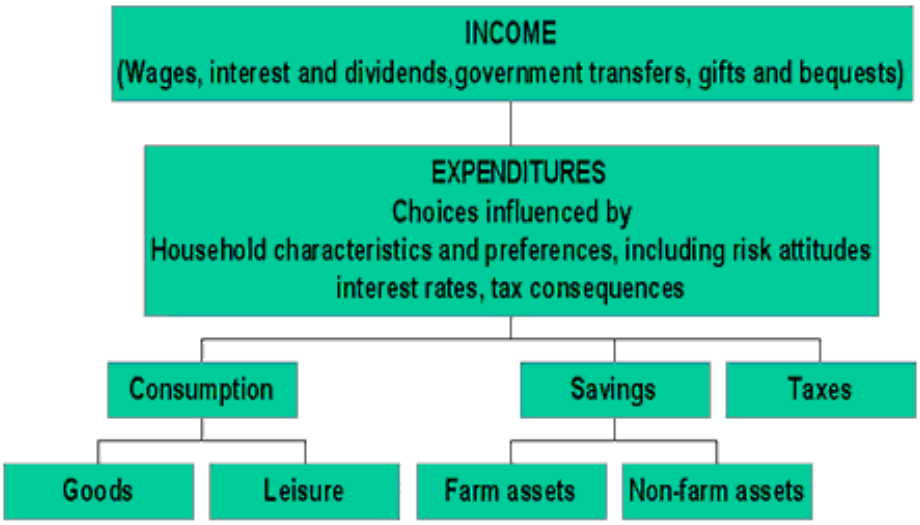
How Can Decoupled Payments Distort Production?

Although decoupled payments are designed to be less distorting than traditional commodity-based programs, it is conceivable that they could affect production decisions. This might occur for a variety of reasons, which are best understood in the context of broader impacts on farm-household decision making (see Decoupled Payments as Income Transfers and Decoupled Payments in a Changing Policy Setting for more information) or more narrow impacts on farm business decision making. Decoupled payments can also influence production decisions through impacts on land values and farm structure and performance.

Effects on the Farm Household

In principle, there are many ways for a farm household to adjust its decisions in response to a fixed direct payment. When a household's income goes up, its expenditures also change—either through consumption, savings, or taxes. Consumption and savings decisions, in particular, can have implications for the farm business. The household may also change its allocation of labor between the farm business, off-farm activities, and leisure.

Flow of household income and expenditures



Source: *Decoupled Payments in a Changing Policy Setting*, USDA, ERS, AER 836, October 2004.

Consumption of goods and leisure. Consumption effects are often overlooked when assessing decoupled payments. To the extent that lump-sum payments are spent on goods and services, they should have no effect on production decisions. But households also consume leisure, and lump-sum payments may alter time allocations between leisure and labor. Both on-farm and off-farm labor has to be considered, and on-farm labor allocations would be expected to respond to higher farm returns. If decoupled payments did enhance the returns to farming, they might be expected to induce more on-farm labor. However, evidence on the effects for on-farm labor is somewhat limited. For large commercial farms, which account for the bulk of production of program commodities, the introduction of decoupled payments does not seem to have significantly altered on-farm labor allocations. (For additional details, see Decoupled and Coupled Payments Alter Household Labor Allocation and "Labor Supply by Farm Operators Under 'Decoupled' Farm Program Payments" by El-Osta, et al., in *Review of Economics of the Household*, Vol. 2, No. 3, 2004).

Savings and Investment Decisions. For any household—farm or non-farm—an increase in income and wealth generally makes it easier to save and invest and may also increase the household's access to credit. Households choose among investment options based on a comparison of their expected rates of return. Farm households may choose to increase on-farm investment, through purchases of equipment or other physical capital, if the expected returns to doing so are higher than the returns expected from off-farm investment opportunities. (See Farm Payments: Decoupled Payments Increase Households' Well-Being, Not Production for more information.)

Since fixed, lump-sum payments do not directly affect either on-farm or off-farm rates of return, they would not affect on-farm investment or production levels through capital market channels as long as these markets are efficient and households can access credit or capital. Instead, these payments provide farm households with increased purchasing power to allocate among a variety of uses, including financial investment and consumption.

In a paper presented at the 2005 annual meeting of the American Agricultural Economics Association, Goodwin and Mishra used data from the 2003 Agricultural Resource Management Survey (ARMS) to address how farmers have allocated their decoupled payments (e.g., to the farm operation or household expenditures). Farmers reported spending a large share of these payments on their farm operation, but it is unclear whether this spending was offset by reduced spending on the farm operation from other income sources.

Effects on the Farm Business

Within the context of the farm business, there are several other mechanisms through which decoupled payments can affect production decisions.

Farmers' attitudes toward risk. Fixed direct payments may alter a producer's tolerance for risk. If producers show less aversion to risk when their wealth increases, as assumed in some theoretical economic models, then a lump-sum payment may induce a change in output or crop mix. In short, the "wealth effect" associated with such payments may encourage farmers to absorb more risk, such as by producing crops with more variable yields and prices.

This rather subtle effect would depend on the risk attitudes of individual producers and on the size of decoupled payments relative to net worth. Empirical evidence on U.S. producers is mixed, with a wide range of risk attitudes reported in the literature. (See Decoupled Payments and Farmers' Production Decisions Under Risk for additional details.) For many large commercial farms, decoupled payments are small relative to net worth, suggesting that the wealth effects (in terms of production impacts) may be modest.

In a study of acreage planted to program crops in the Corn Belt, Goodwin and Mishra found that decoupled payments led to some increase in the production of soybeans, but effects were modest (*American Journal of Agricultural Economics,* December 2005). Effects on corn and soybeans were also attributed to Market Loss Assistance "emergency" payments, with impacts again estimated to be modest. Other recent evidence suggests that government payments are less important than crop rotation, input costs, and expected crop prices in influencing acreage decisions (See "Farm Operator Decisions," pp. 42-46, in the 2004 issue of *Agricultural Income and Finance Outlook*).

Capital market imperfections. Capital markets are sometimes characterized by imperfections that can induce creditors to restrict producers' access to capital or credit. In such cases, farm households that have limited access to credit may use fixed direct payments to increase on-farm investment. (See discussion in Decoupled Payments to Farmers, Capital Markets, and Supply Effects.) However, farm investment patterns do not rely on farm cash income—which includes government payments—except in relatively rare circumstances, both for the sector as a whole and for individual farms.

Furthermore, evidence suggests that capital constraints have not been an important determinant of U.S. production of program commodities in recent (nonrecessionary) years. However, if there is a "credit crunch" associated with farm recessions, for example, fixed direct payments may raise on-farm investment to more efficient levels.

Impacts on land values and rents. Since fixed direct payments are assigned to base acres, the expected value of these payments should be reflected in land values through a process called capitalization. For more information, see Federal Commodity Program Payments and U.S. Farmland Values, a section of the Land Use, Value, and Management Briefing Room.

Owners of base acres are clear beneficiaries in terms of asset values. But fixed direct payments are made to farm operators rather than farmland owners, and most base acres are rented, according to available data from ARMS. What does this mean for the distribution of program benefits? To the extent that rental rates for cropland adjust upwards to reflect the value of payments on base acres, the value of fixed payments is transferred, at least in part, from operators to the owners of base acres.

According to ERS research, producers who rented cropland (on a cash rental basis) in 1992 paid on average a 21-cent premium per dollar of government payments received. They paid a 33-cent premium in 1997, 1 year after the PFC program went into effect. These findings suggest that government payments had a stronger influence on land rental rates in the later period, after the introduction of decoupled payments. However, the rise in land rents did not fully reflect the amount of government payments received by renter-operators. (See the discussion in Effects of Government Payments on Land Rents, Distribution of Payments Benefits, and Production.)

Knowledge about ownership patterns of program acres is incomplete. However, data on the ownership of U.S. cropland show that only 35 percent of rented acres are rented from one active farmer to another, while 65 percent are rented from non-farming landlords. While these data suggest that a large share of benefits ultimately leave the farm sector, many of these non-farming landlords have a relationship to farming in that they are retired farmers, surviving spouses, or heirs. Nonfamily corporations or other types of business organizations own less than 10 percent of rented farmland.

Impacts on Farm Structure and Performance

A study by Key and Roberts, Do Government Payments Influence Farm Business Survival?, used Census of Agriculture data to examine how program participation has affected growth in farm size. Results indicate that, after accounting for various farm characteristics, farms of commodity program participants tended to grow faster than those of nonparticipants—even after decoupled programs have been in effect.

Ahearn, et al., in "Effects of Differing Farm Policies on Farm Structure and Dynamics" (*American Journal of Agricultural Economics*, December 2005) also considered the effects of commodity programs on farm size and survivability. In general, their results support the notion that farmers who participated in programs expanded their farm size by buying additional farmland.

What Can We Conclude?

Conceptually, payments that are "decoupled" in terms of their implementation criteria could have an impact on agricultural production in several ways. While results are not always consistent, most empirical studies conclude that the impacts of U.S. fixed direct payments are relatively modest. Among economists, there is general agreement that that these payments exert less influence on production decisions than traditional "coupled" forms of producer support.

Decoupled payments were intended, in part, to reduce variability in federal expenditures for commodity programs. While expenditures on fixed payments are determined by legislation and not subject to market uncertainties, they are only one component of U.S. commodity programs. Other forms of support, including marketing loans and counter-cyclical payments, continue to drive year-to-year variation in expenditures.

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Briefing Rooms [ARCHIVE]

Farm Policy, Farm Households, and the Rural Economy: Farm Households and Financial Well-Being

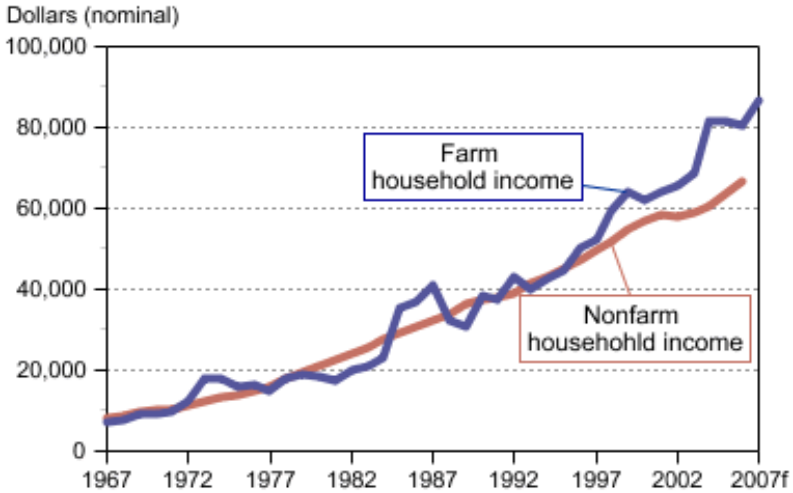
Commodity price and income support programs were implemented in the 1930s to provide financial assistance to farms, farmers, and farm-dependent rural communities. A key stimulus for legislative action was disparity between farm and nonfarm incomes. With some adjustments, the system enacted then continues today, although livelihood strategies have changed dramatically for farm households.

Farm household income has grown in absolute terms, as well as relative to nonfarm households. The trend in farm household income growth has generally tracked the less volatile path of nonfarm household income growth. Since 1996, farm household incomes have exceeded nonfarm household incomes by 5 percent or more. Farm households have a diversified earnings portfolio, consisting of farm business income, off-farm wage and self-employment income, and passive earnings from farm and nonfarm investments. While all sources of income contribute to household well-being, the driver behind the growth of farm household incomes over the modern era is off-farm income.

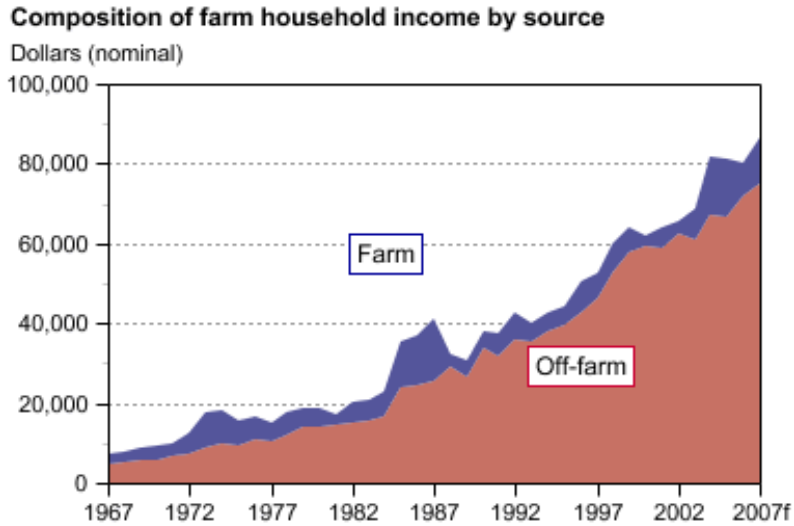
Contents:

- Farm Policy, Farm Households, and the Rural Economy Briefing Room
- Agricultural Policy Tools and Objectives
- **Farm Households and Financial Well-Being**
- Agricultural Policy and Rural America
- The Evolution of Noncommodity Policies

Average farm and nonfarm household income

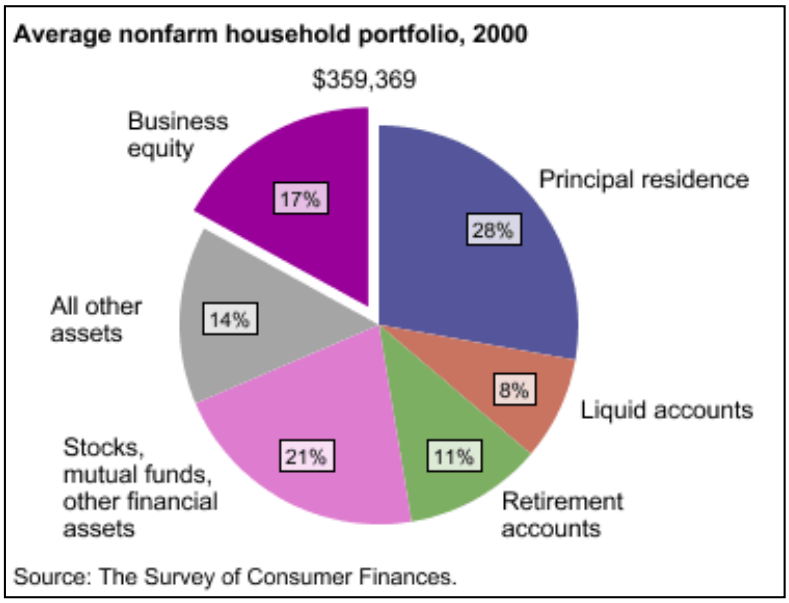


Source: http://www.ers.usda.gov/Briefing/WellBeing/Gallery/historic.htm.

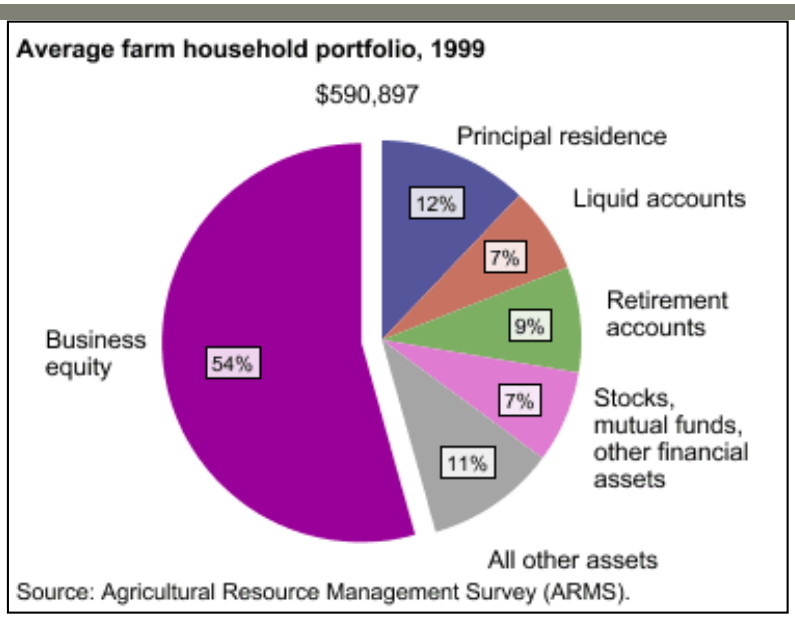


Source: http://www.ers.usda.gov/Briefing/WellBeing/Gallery/historic.htm.

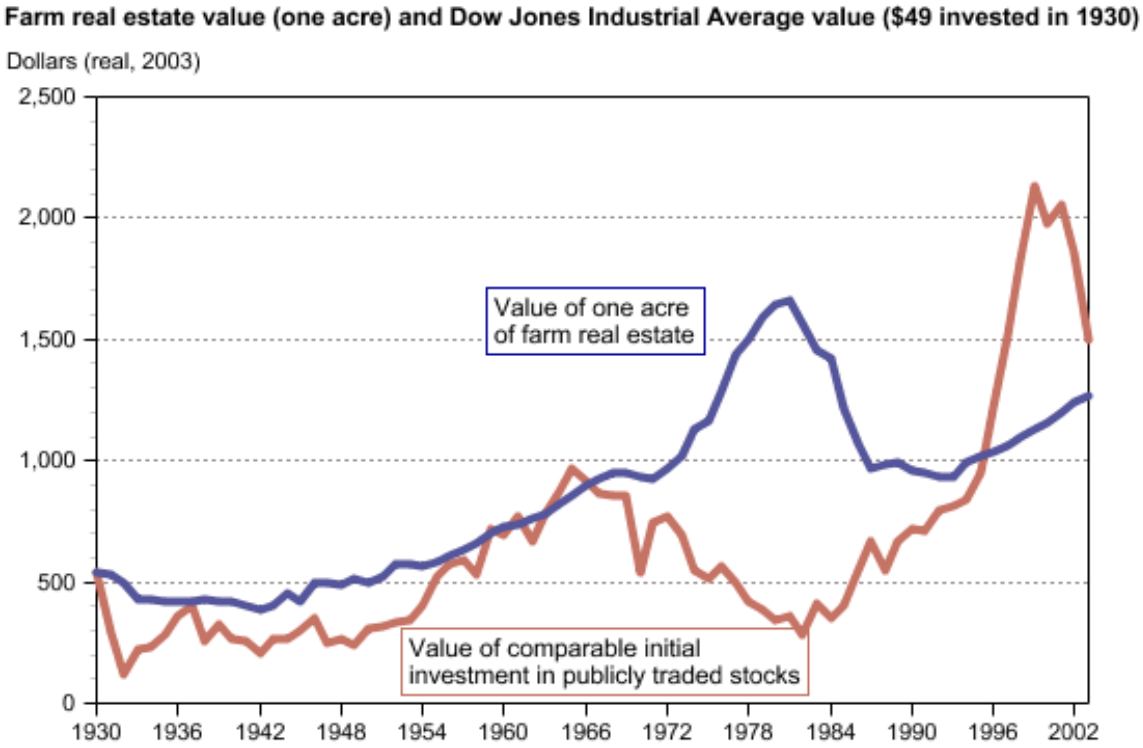
While farm households have comparable incomes to nonfarm households, they typically have much greater levels of wealth. For the latest years available, average farm household wealth (defined broadly to include the household's current value of farm and nonfarm assets less the current value of farm and nonfarm debt) was $590,897, compared with average nonfarm household wealth of $359,369. The difference is mostly attributed to the concentration of business equity held by farm households. The portfolio of assets held by farm households is heavily weighted towards farm assets relative to housing and other nonfarm assets. In contrast, the average nonfarm household asset portfolio is most influenced by home values. Farm households, it appears, are much more reliant on off-farm income to meet their basic household consumption needs and maintain their standard of living. However, the evidence suggests that wealth creation has been accomplished largely through the control of farm-related assets. Most contemporary farm households can attribute their relatively high levels of well-being to their ability to leverage household resources—including labor—across multiple markets. As a result, farm household well-being is increasingly dependent on local nonfarm economic conditions.



Source: The Survey of Consumer Finances.

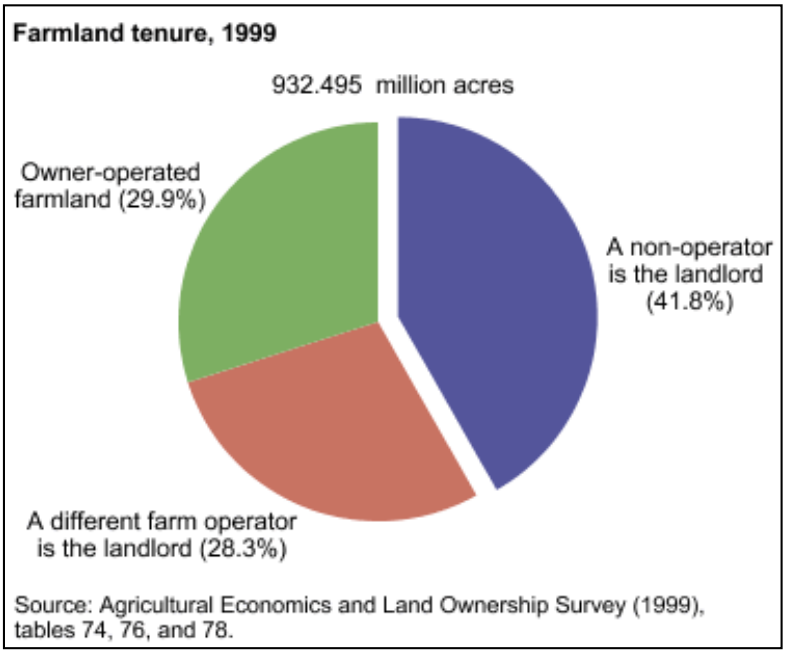


Farm households with farmland in their portfolios can, in general, count on steady asset growth, because the amount of land available for farming is more or less fixed. This is true when land values are measured in nominal terms and when the values have been adjusted for inflation (real terms). However, policies set for the nonfarm economy (such as monetary policy and long-term interest rates on money borrowed to finance land purchases) as well as policies set for the farm economy (such as government payments to participants in commodity-based farm programs) do affect the real price of farmland. In the 1990s, farmland values showed strong growth, although land values are still below their 1980-81 peak when adjusted for inflation. In fact, if equivalent amounts were invested and held in farmland and a portfolio of publicly traded stocks, the value of farmland would have been as high or higher than the value of the stocks for all but 13 years since 1930. Both investments have experienced bubbles, however.



Sources: Farm real estate values are from June Area Survey, NASS; Dow Jones Industrial Average data are from the Dow Jones Index web site. CPI data used to adjust historical values to 2003 dollars are from the Bureau of Labor Statistics web site.

Given the economic returns to holding land, it is not surprising that much of the land used in farming is not owned by farmers. In 1999, only 30 percent of farmland—which includes cropland, pasture, forest land, and other land on farms—was owner-operated, while 28 percent was rented from one farmer to another. The most common arrangement, on 42 percent of the land, was for a farmer operator to rent land from a nonoperator landlord. Two-thirds of land held by nonoperator landlords is held by individual or family proprietorships, and another 17 percent is held in partnership form; 7 percent is held as a family corporation, 4 percent by non-family corporations, and 4 percent by some other type of organization such as a cooperative, an estate or trust, or an institution.



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Updated date: May 10, 2004

Briefing Rooms [ARCHIVE]

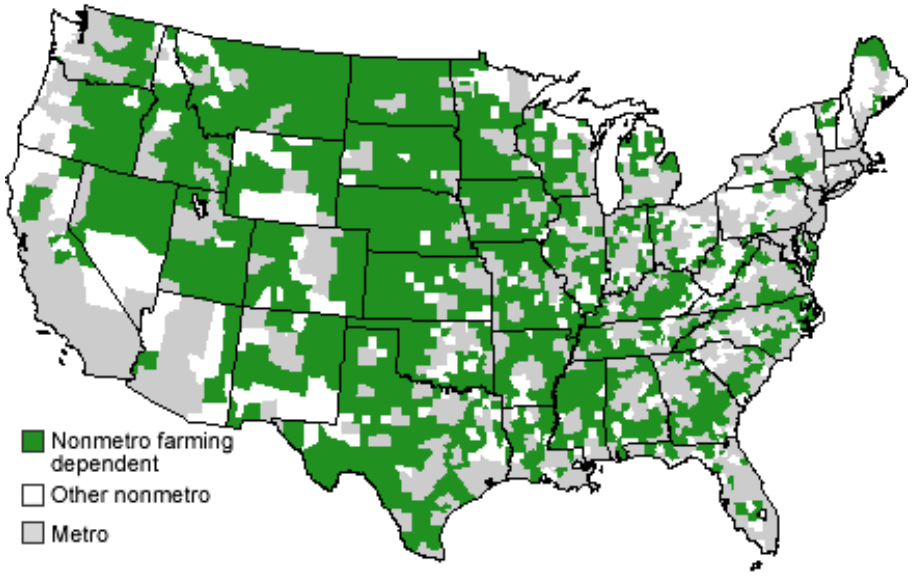
Farm Policy, Farm Households, and the Rural Economy: Agricultural Policy and Rural America

Agriculture's dominance in rural (nonmetro) counties in the United States has declined markedly over the last five decades. Many rural counties have diversified into nonfarm activities in response to economic and demographic forces. In 2000, agriculturally dependent counties were geographically remote with low population densities and few natural amenities. These characteristics of agriculturally dependent counties can be viewed in the context of industrial diversification, rural employment trends, natural amenities, and rural population loss and farm payments.

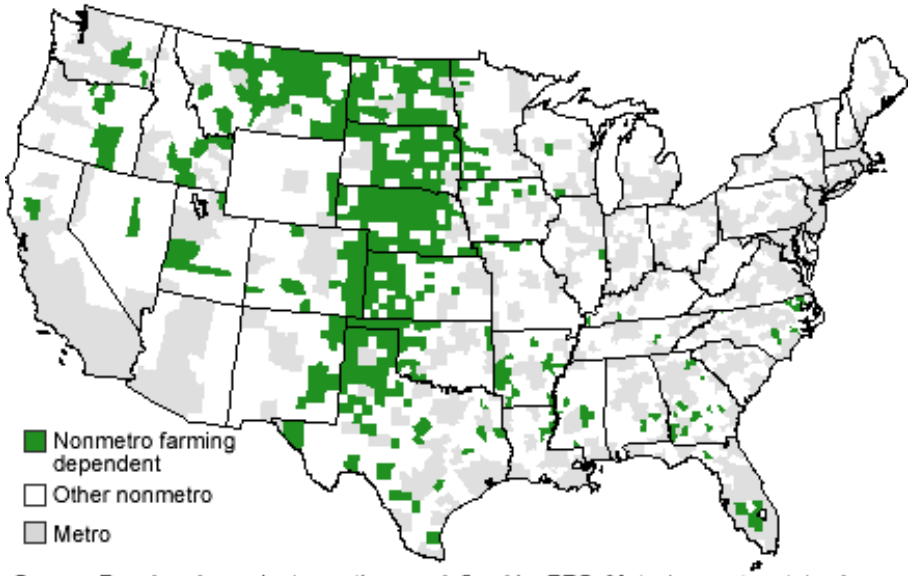
Contents:

- Farm Policy, Farm Households, and the Rural Economy Briefing Room
- Agricultural Policy Tools and Objectives
- Farm Households and Financial Well-Being
- **Agricultural Policy and Rural America**
- The Evolution of Noncommodity Policies

Nonmetro farming-dependent counties, 1950



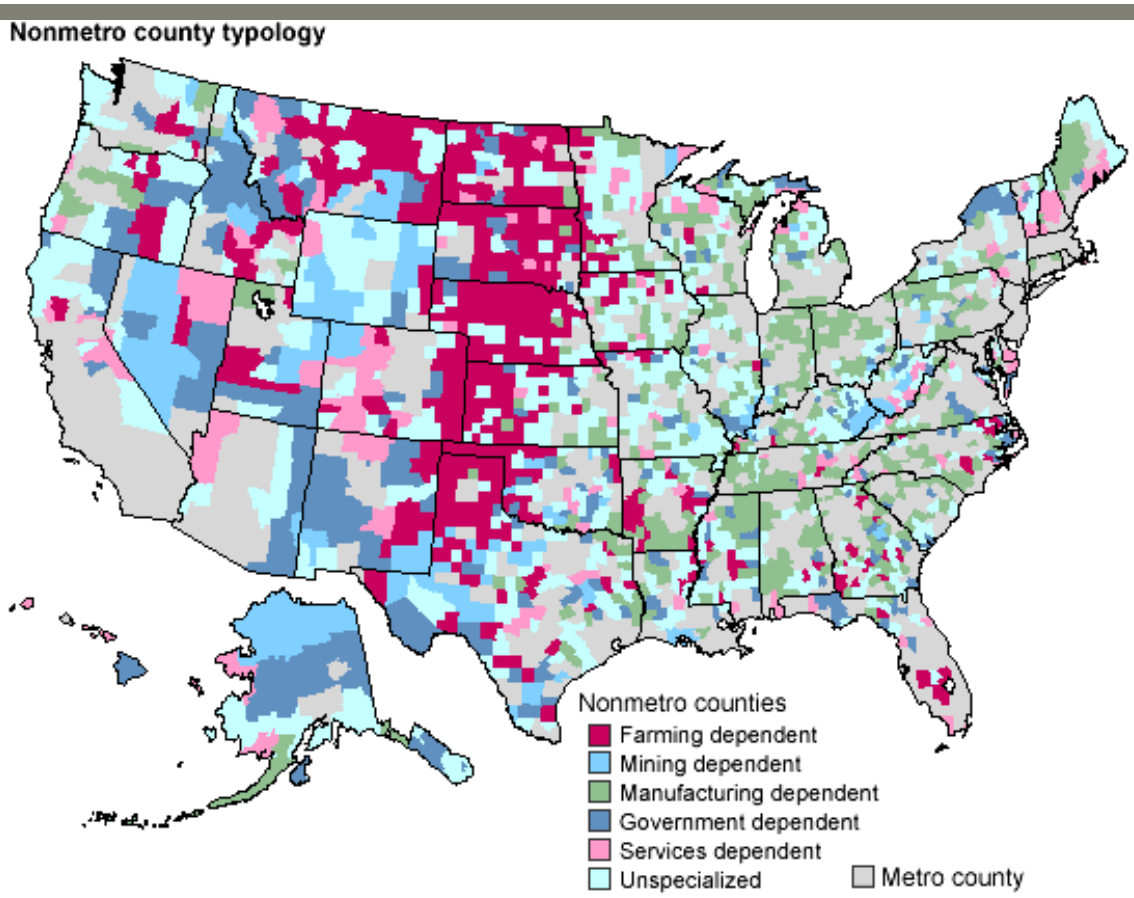
Nonmetro farming-dependent counties, 2000



Source: Farming-dependent counties are defined by ERS. Metro/nonmetro status is based on the Office of Management and Budget (OMB) June 2003 classification.

Industrial Diversification

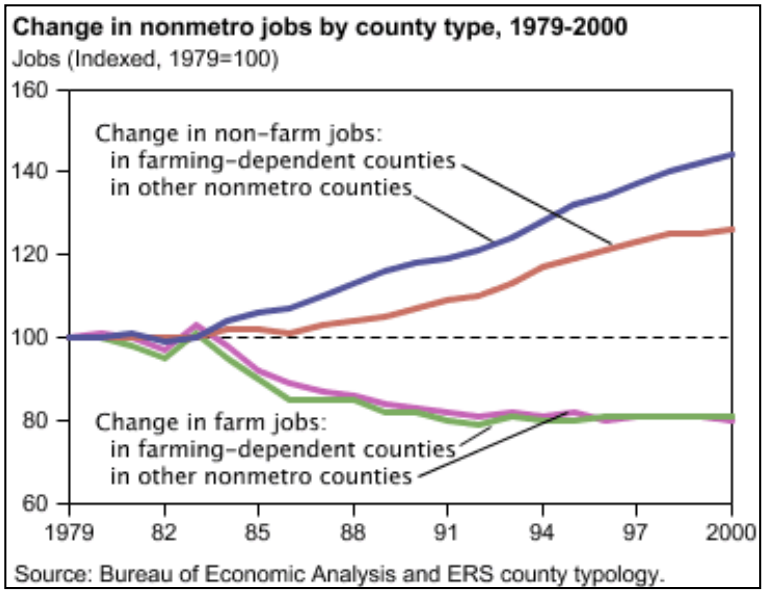
Close to eight out of 10 rural (nonmetro) counties are dominated by nonfarm activities, including manufacturing, services, mining, and government operations. Manufacturing-dependent rural counties are dominant in the eastern half of the United States. Services-, mining-, and federal/state government-dependent rural counties dominate the Mountain States and the Far West. In many of these counties, however, agriculture is still an important income-producing sector. The challenge for farming-dependent rural counties, which are located primarily in the Great Plains, is not that the agricultural economy is not sufficiently strong—it is. Rather, other nonfarm sectors in these counties have not been equally prosperous. Remoteness from major urban markets and low population densities have limited the development of nonfarm activities.



Source: Farming dependent counties are defined by ERS based on data from the Census Bureau and the Bureau of Economic Analysis. Metro/Nonmetro status is based on the Office of Management and Budget (OMB) June 2003 classification. See the Measuring Rurality Briefing Room for more information.

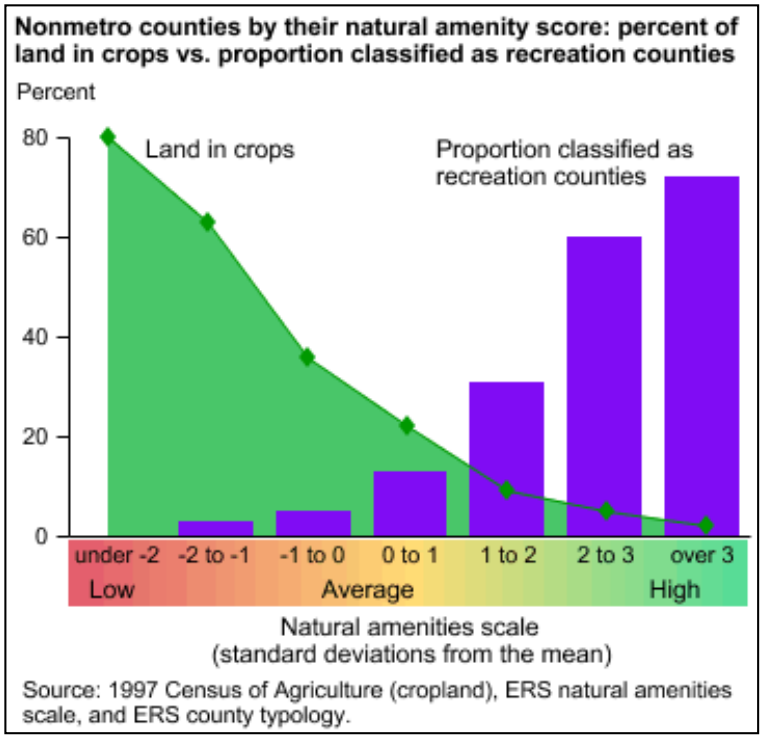
Rural Employment Trends

Over the last two decades, employment has grown in rural (nonmetro) counties in the United States. However, counties that have diversified away from agriculture have experienced stronger job growth than farming-dependent counties. Since the beginning of the 1980s, jobs in non-farming-dependent counties increased by 42 percent, while jobs in farming-dependent counties increased by 25 percent. Farm jobs in both farming-dependent and non-farming-dependent counties in the 1980s declined by almost 20 percent—as a result of the farm crisis in the early 1980s—and remained constant in the 1990s. However, for farming-dependent counties in the 1990s, the problem was not the loss of jobs in agriculture, but the geographic remoteness and low population density that dampened nonfarm employment growth.



Cropland Versus Natural Amenities

Natural amenities, including varied topography, lakes and ocean shore, sunny winters, and temperate summers, are a magnet for population and tourism. Optimal conditions for most types of farming—flat and unbroken land, wet winters, and hot, humid summers—are not usually associated with the natural amenities that attract new or returning residents. Thus, rural (nonmetro) counties with low scores on ERS' natural amenities scale tend to have extensive cropland, little recreation and second home development, and suffer from outmigration. In contrast, the higher the county's value on ERS's natural amenities scale, the more likely it is a rural recreation county, and the more strongly it attracts new migrants. (See The Roots of Rural Population Loss and Natural Amenities Drive Rural Population Change for further details. For a discussion of resource amenities associated with farmland, see Farmland Protection: The Role of Public Preferences for Rural Amenities.)

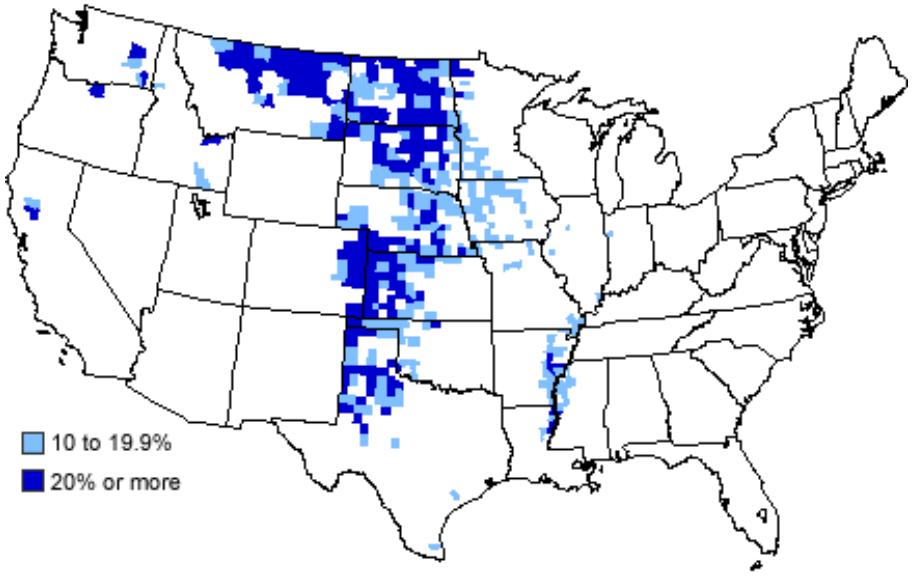


Nonmetro counties by their natural amenity score: percent of land in crops vs. proportion classified as recreation counties							
	Natural amenities scale (standard deviations from the mean)						
	under -2	-2 to -1	-1 to 0	0 to 1	1 to 2	2 to 3	over 3
	Percent						
Land in crops	80	63	36	22	9	5	2
Proportion that are recreation counties	0	3	5	13	31	60	72
Source: 1997 Census of Agriculture (cropland), ERS natural amenities scale, and ERS county typology.							

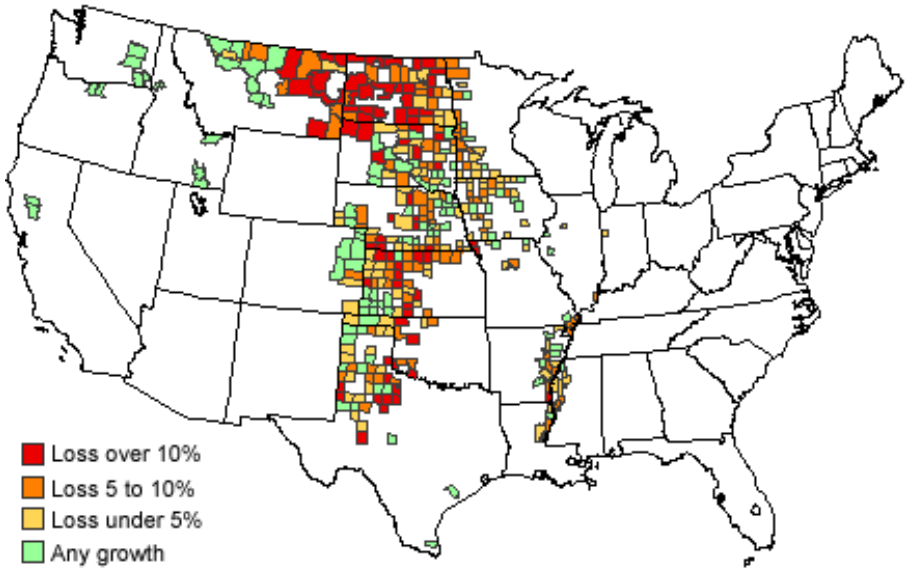
Rural Population Loss and Farm Payments

One justification for farm program payments is that they help support local economies and reduce rural outmigration. While it is difficult to untangle effects of these payments, it is clear that the high level of payments in the late 1990s did not eliminate the problem of rural outmigration. Primarily located in the Great Plains, the counties where payments were most important were also counties with some of the highest rates of population loss. In light of the flat trend in the growth of farming jobs, the large county-level presence of farm program payments in these remote counties may have little to do with the region's population losses. (For further discussion, see Farm Programs, Natural Amenities, and Rural Development).

Farm program payments as a percent of county household income, 2000



Population change in farm program payment counties, 1990-2000



Source: Farm program data are from the Bureau of Economic Analysis, Regional Economic Information System; county population and average income data are from the U.S. Census Bureau.

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Briefing Rooms [ARCHIVE]

Farm Policy, Farm Households, and the Rural Economy: The Evolution of Noncommodity Policies

Contents:

- Farm Policy, Farm Households, and the Rural Economy Briefing Room
- Agricultural Policy Tools and Objectives
- Farm Households and Financial Well-Being
- Agricultural Policy and Rural America
- **The Evolution of Noncommodity Policies**

The scope of USDA policy responsibility extends beyond a sole focus on agricultural commodities. Policy initiatives have been concerned with areas in which market failures exist or the public well-being is at stake: the agricultural infrastructure, rural communities, natural resources and the environment, and food assistance and nutrition. While some of these programs were launched in the 1930s, others received their big push in the 1960s and 1970s, still others emerged only in the last two decades. Nevertheless, the increasing globalization of our Nation's food supply and changing consumer preferences presents new challenges for USDA's noncommodity policies in the 21st century.

Agricultural Infrastructure

Since the 1930s, investment in the agricultural infrastructure has supported the safe delivery of affordable, abundant, and nutritious food. USDA policy has also focused on the development of cutting edge science and technology in agriculture, and the maintenance of agricultural research and extension institutions. However, the existing infrastructure is now being challenged in radically changed market and institutional contexts. How food reaches our tables—from farm to processor to retailer—is becoming increasingly interconnected and globally linked. Insuring food safety across the supply chain now offers challenges to basic research and the design of sound policy. Global transmission of once regional plant and animal diseases requires increasingly rapid responses by our Nation's agricultural infrastructure. Recent increases in intellectual property protections and advances in biological sciences have created additional opportunities for partnerships between the public and private sectors.

See the ERS briefing rooms on Agricultural Research and Productivity, Food Marketing System in the U.S., Food Safety, and Invasive Species Management, and Agricultural Biotechnology for additional details.

Rural Communities

From the 1930s through the 1950s, USDA rural policies focused primarily on upgrading the Nation's rural infrastructure—rural electrification and telephones, rural schools, rural transportation, and water and sewage treatment utilities. Since then, as agriculture has become less important to most rural economies, the needs of rural communities have been increasingly shaped by industrial restructuring. Hence, the creation of nonfarm jobs in rural areas and maintenance of viable rural towns have become a primary concern of rural policymakers and practitioners. While retaining the scope of earlier objectives, rural development policies face new challenges. Policy initiatives are also addressing how to reduce structural poverty in rural areas, strengthen rural entrepreneurial skills, and adopt innovations in information network technology. The goal of the latter is to reduce the delivery costs to remote areas of providing an array of public and private social, educational, and medical services, such as telemedicine and distance learning.

See the ERS research emphasis area on Enhanced Quality of Life for Rural Americans for additional details.

Natural Resources and the Environment

One of the most enduring legacies of federal conservation policies over the last seven decades has been the widespread reduction of soil erosion. However, the changing structure of farm enterprises presents new challenges facing agriculture's stewardship of the land. These issues include diminishing open space, carbon sequestration, nutrient management, pesticide use and runoff,

water management, energy production and conservation, and safe disposal of nonnutrient animal wastes. While progress has been made, the current fiscal climate adds stress to the need for new innovation in policy design that provides "best-practice" incentives in a market-based stewardship program, such as establishing water banks and a contract bid system for allocating conservation funds based on a conservation-benefits index.

See the ERS briefing rooms on Conservation Policy and Environmental Interactions with Agricultural Production and the research emphasis area on Harmony Between Agriculture and the Environment for additional details.

Food Assistance and Nutrition

While USDA's food assistance programs date back to the 1930s, national nutrition programs emerged in the late 1960s. The Food Stamp Program, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), child nutrition programs, and commodity distribution programs form the core of this government assistance. The challenge is how to serve unmet needs while improving program accountability. In addition, within the last two decades, poor diets and physical inactivity in the U.S. population has led to a pronounced increase in the incidence of obesity and the increased risk of other major chronic health problems. Of particular concern is child obesity. Given the large social costs of obesity and related conditions, the challenge is how to encourage change in consumers' dietary patterns.

See the ERS research emphasis area on A Healthy, Well-Nourished Population for additional details.

For More Information, See...

- Food and Agricultural Policy: Taking Stock for the New Century, USDA, September 2001.

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Briefing Rooms [ARCHIVE]

Farm Policy, Farm Households, and the Rural Economy: Recommended Readings

Contents:

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- Farm Households and Financial Well-Being
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- The Evolution of Noncommodity Policies

Farm Households
Rural Economy
Agricultural Policy

Farm Households

Structure and Finances of U.S. Farms: Family Farm Report, 2007 Edition. This report presents comprehensive information on family and nonfamily farms and important trends in farming, operator household income, farm performance, and contracting. Most farms are family farms, and small family farms account for most farms but produce a modest share of farm output. Many farm households have a large net worth, reflecting the land-intensive nature of farming. A companion brochure summarizes the report's findings.

Understanding U.S. Farm Exits. The rate at which U.S. farms go out of business, or exit farming, is about 9-10 percent per year, comparable to exit rates for nonfarm small businesses in the United States. The probability of exit is higher for recent entrants than for older, more established farms.

Changing Federal Tax Policies Affect Farm Households Differently. Recent Federal tax legislation has reduced income tax rates for both individuals and businesses and cut the number of farm estates that owe Federal estate taxes. Commercial farmers are the primary beneficiaries of the reduced business and estate taxes.

Farm Poverty Lowest in U.S. History. Fifty years ago, half of all farm families were poor. Today, farm poverty is at its lowest level in the Nation's history, thanks to the availability of remunerative off-farm employment and onfarm gains in labor productivity. Thus, general assistance programs, such as food stamps or Medicaid, may be more helpful in reducing farm poverty than traditional commodity programs.

Composite Measure of Economic Well-Being. The economic well-being of farm households is a recurring theme in farm policy, but accurate and objective assessment is difficult because income and wealth measures alone provide an incomplete picture of the economic position of the farming unit. ERS has recently developed a composite measure of economic well-being that includes all household income and the annualized value of the household's marketable wealth (assets that can be easily converted into cash to support household consumption needs).

Assessing Farm Household Well-Being—Beyond Farmers and Farm Income. New data from USDA's Agricultural Resource Management Survey and the Federal Reserve's Survey of Consumer Finances allow comparison of America's 2 million farm households with two separate nonfarm populations that have much in common with farm households.

Income, Wealth, and the Economic Well-Being of Farm Households. Farm households draw income from various sources, including off-farm work, other businesses and, increasingly, nonfarm investments. Using an expanded definition of economic well-being, the report shows that farm households as a whole are better off than the average U.S. household, but that 6 percent remain economically disadvantaged.

A Safety Net For Farm Households. A discussion of the fundamental questions surrounding the ultimate goals of farm policy and the need for establishing a safety net for farm households. A clear understanding of objectives and intended beneficiaries must be the starting point for discussions of future farm policy.

Rural Economy

Farm Programs, Natural Amenities, and Rural Development. Despite decades of farm program payments, economic researchers have been unable to establish that these payments help sustain farm-based communities. Many areas that have consistently garnered high payments from farm programs have lost population decade after decade. Recent ERS research on the differences in population change between counties receiving high government payments and other rural counties found that these differences were associated with several nonagricultural factors.

Farmland Retirement's Impact on Rural Growth. Conventional wisdom holds that efforts to protect natural resources and the environment affect resource-related jobs, and consequently the economies of nearby communities. Recent ERS analysis of the impact of the Nation's largest farmland retirement program—the Conservation Reserve Program—on rural economic growth suggests otherwise. For the full report, see The Conservation Reserve Program: Economic Implications for Rural America.

Enhanced Quality of Life for Rural Americans: At a Glance. A series of publications that summarize timely issues related to rural America—such as poverty, education, employment, and housing.

Rural America: Opportunities and Challenges. At the beginning of the 21st century, rural America comprises 2,305 counties, contains 80 percent of the Nation's land, and is home to 56 million people.

Understanding Rural Population Loss. Despite a widespread decline in rural poverty in the 1990s, a quarter of nonmetro counties lost population over the decade. Poverty rates were no higher in these counties than in counties without population loss. Remote (from metro areas), thinly settled counties are identified as "frontier" counties, arguing that the lack of access to services and the small labor market sizes in these counties inhibits the inmigration of people and businesses, particularly in the absence of compensating natural amenities.

Agricultural Policy

Whole-Farm Approaches to a Safety Net. "Whole-farm revenue" programs have been proposed as a new form of income stabilization that would be available to all U.S. farms. This report looks at the risk management potential for such programs, which are not linked to production of particular commodities, and the obstacles to implementing such an approach.

What is Meant by Decoupling? A concise overview of an approach to supporting farm income through fixed payments. What pressures led to the growing use of decoupled programs, and how can even decoupled payments affect production decisions?

Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act. Farmland owners had an opportunity to update base acres under the 2002 Farm Act. Findings in this report suggest that decisionmakers responded to economic incentives in their designations of base acres by selecting those options that resulted in the greatest expected flow of program payments. See also Farm Program Acres for the county-level farm program and planted acreage data used in the report, which can be downloaded and mapped.

The 20th Century Transformation of U.S. Agriculture and Farm Policy. The structure of farms, farm households, and rural communities has evolved markedly over the last century. The report analyzes a wide range of historical data related to farm structure and provides perspective on the long-term forces that have helped shape agricultural and rural life. A review of some key policy developments also considers the extent to which farm policy design has or has not kept pace with the continuing transformation of American agriculture. See also Milestones in U.S. Farming and Farm Policy, an *Amber Waves* data feature based on this report.

Recent Agricultural Policy Reforms in North America. Countercyclical assistance is the common thread among recent agricultural policy innovations of the United States, Mexico, and Canada. In other areas, the three countries are pursuing distinct agricultural policies, reflecting differing national objectives and economic contexts.

U.S. Peanut Sector Adapts to Major Policy Changes. With the elimination of marketing quotas under the 2002 Farm Act, U.S. peanut producers are now more responsive to market forces. New government payments continue to support sector revenues, but peanut production decisions are more flexible, leading to increased output in the Southeast—where producers have been more efficient. For the full report, see Peanut Policy Change and Adjustment Under the 2002 Farm Act.

Devolution of Farm Programs Could Broaden States' Role in Ag Policy. The great diversity across States in farming characteristics and policy preferences suggests that tailoring farm programs to local circumstances may be more efficient. Devolution, or the transfer of control over Federal funds to States, is one way of adapting national policies to suit local preferences more closely. For the full report, see A Consideration of the Devolution of Federal Agricultural Policy.

Decoupled Payments in a Changing Policy Setting. This report analyzes the U.S. experience with decoupled payments in its Production Flexibility Contracts program from 1996 to 2002. The studies in this report consider the effects of decoupled payments on recipient households, and assess land, labor, risk management, and capital market conditions that can lead to links between decoupled payments and production choices.

Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing. The effects of dairy programs on markets are modest and current dairy programs are limited in their ability to change the longterm economic viability of dairy farms. Other forces—technology, changing consumer demand, and changes in the marketing and processing sectors—while difficult to measure, are likely to have more impact. (This PDF file is 1.5 MB in size and may take time to download.)

U.S.-EU Food and Agriculture Comparisons. The European Union and United States are the world's largest agricultural traders and among the largest producers and consumers. This report provides information and analysis that reflects the similarities and differences in their agricultural sectors when comparing farm structure, production, consumption, trade, productivity, farm policy, and responses to environmental issues.

Risk, Government Programs, and the Environment. ERS research examining the conceptual underpinnings of risk-related research, the challenges involved with measuring the consequences of risk for agricultural production decisions, government programs that influence the risk and return of farm businesses, and how production decisions influence both the environment and the risk and average returns to farming.

Emphasis Shifts in U.S. Agri-Environmental Policy. Recognizing the negative impact that some farming practices—excess fertilization and manure, for example—can have on U.S. natural resources, policymakers have been devoting more attention and funding to agri-environmental policies and programs. This article examines shifts in the emphasis of U.S. agri-environmental policy associated with the 2002 Farm Act.

Report of the Commission on the Application of Payment Limitations for Agriculture. The commission found that current limits on program payments have little impact on aggregate payments or on farm income, farmland values, rural economies, or markets. It recommends that any substantial changes in payment limitations should take place with reauthorization of the next Farm Bill and that there should be an adequate phase-in period.

Decoupled Payments: Household Income Transfers in Contemporary U.S. Agriculture. The U.S. experience with production flexibility contracts (PFC) under the 1996 Farm Act indicates that PFC payments improved the well-being of participating farm households, with well-being defined to encompass income, wealth, and consumption, as well as labor/leisure choices. The decoupled payments—not tied to production or prices—have raised land values but have had minimal impact on production and trade.

The 2002 Farm Act: Provisions and Implications for Commodity Markets. This report provides an initial assessment of the legislation's effects on agricultural production, commodity markets, and net farm income over the next 10 years. Results indicate that commodity market impacts are fairly small. Net farm income is projected higher than under a continuation of the 1996 Farm Act, largely reflecting an increase in government payments.

The 2002 Farm Bill: Provisions and Economic Implications. This web feature presents an overview of the 2002 Farm Act and a side-by-side comparison of 1996-2001 farm legislation and the 2002 Act. For selected programs, links are provided to additional analyses of key changes, major provisions, and economic implications.

Aligning U.S. Farm Policy with World Trade Commitments. U.S. support to producers under current farm programs is expected to remain below ceiling levels agreed to in the Uruguay Round Agreement on Agriculture (URAA). But increases in support under new farm programs, if not carefully crafted to utilize URAA exemptions, could present a problem for U.S. compliance with commitments to reduce trade-distorting subsidies.

Food and Agricultural Policy: Taking Stock for the New Century. Designed to take a longer term view of our Nation's agriculture and food system and offer constructive ideas to help guide future farm policy, this USDA report examines the enormous changes faced by today's food and farm system, as well as the lessons learned from more than seven decades of food and farm policies.

U.S. Farm Policy: The First 200 Years. In general, Federal farm policies have been rooted in attempts to ensure opportunities for individuals and families to make a living at farming. Current challenges facing farm policymakers—such as continuing structural change, complexities of global trade, and new environmental goals—will require creativity in crafting farm policy for the future.

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