WHAT ARE FARM POLICIES?

In this reading, an adapted executive summary from the chapter "Farm Policy" written by Tim Josling and published in "Global Social Issues: An Encyclopedia. Volume 1", you will learn what farm policies (or agricultural policies) are exactly. You will discover the history of these policies, their impact on small farmers and consumers, as well as their relationship with international trade. The objective of the reading is to give you a general background regarding farm policies and their importance in developed and developing countries.

Did you know that most governments take an active interest in the economic and social conditions in their rural areas and, in particular, in the agricultural sector? As Tim Josling explains, the term "farm policies" (also known as agricultural or agrarian policies) is used to refer to "the set of policy measures that governments at the national and subnational level employ to influence the economic environment of the farm sector." To carry out such interventions, governments use certain instruments, which will be explained in the next video of the course.

Examples of these policies are: "protection at the border from imports, subsidies and other inducements to export surplus productions; direct payments to farmers to maintain farm incomes; stabilization programs to avoid price instability; investment incentives for farm improvement; and regulations to protect the health of consumers and farmworkers."

Another way that governments can influence agriculture indirectly is through investments in infrastructure, education and health in rural areas, and by implementing land tenure policies and taxation laws. Such political measures also fall within the "broad heading of farm policies".

Farm policies are narrowly related to food policies ("which focus on the availability and safety of food supplies") and, increasingly, with the policies designed to preserve and improve the environment.

How has Farm Policy changed over time?

While in the Nineteenth Century, farm policy was usually limited to imposing tariff and quotas on imports, governments in the Twentieth Century started to play a greater role in domestic agricultural markets through buying, selling and storing farm products and by limiting or encouraging the production of certain products over others. In the 1930s, the U.S. government introduced legislation which granted control over the production and marketing of the major crops (such as wheat and corn) and over imports of these products from abroad. Other developed countries soon followed suit.

Market intervention was considered to be necessary to solve the issue of the low relative prices and productivity in agriculture and resulting low income in rural areas, which had brought about the exodus of labor from agriculture.

However, internationally this has been controversial, with developing countries and large exporters such as Australia or New Zealand complaining that such domestic policies resulted in unstable and unprofitable world markets for farm goods. Furthermore, although developing countries benefited from importing surplus wheat and corn cheaply, this encouraged them to neglect their farm economies, instead focusing on feeding the urban areas. This, in turn, led to urban overcrowding and worsened income distribution.

New ways of supporting farmers without such extensive market intervention were explored in the mid-1980s, when several countries introduced direct payments to farmers.

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What has been the impact of farm policies?

Analysts agree that though farm policies in developed countries have mainly aimed to support farm incomes, the results of such policies are mixed. Although higher farm prices have a positive effect on the income of farmers, farmers benefit in proportion to their output levels. That is, the largest farmers have benefited the most. This is also true for direct payments, which go disproportionately to the largest farms. So, "neither price support policies nor direct payment policies are effective in supporting small farmers".

Adding to this, evidence shows that land prices increase with price support or direct payment and so the main beneficiaries of these farm programs are those who own the land when the policies are introduced or when benefits increase. On the other hand, new farmers benefit less from such programs and can suffer from land prices falling when support decreases.

Another impact of these policies (import tariffs or price support) is that consumers and food processors pay higher food prices. This is a hidden 'consumer tax' that hits low-income families more severely as they allocate a higher proportion of the household budget to food. As such, supporting domestic producers can come into conflict with antipoverty programs.

Farm policies in an international context

Farm policy decisions have a significant impact on international trade and can be a major cause of international tension. As a result of the Uruguay Round of negotiations in the General Agreement on Tariffs and Trade (GATT)[1], a framework was established so that farm policies would be less disruptive on world markets, fostering direct payments as the preferred method to provide ongoing support for agriculture.

Other issues have appeared that give rise to international concern regarding the impact of farm policy. For instance, the encouragement of the use of farm crops as feedstock for biofuels. Although alternative fuels from agricultural production might have been welcomed in times of low prices and adequate supply, world prices have been on the rise since 2003. When malnutrition and hunger are more prevalent, conflict arises between using farm products for food or fuel.

The General Agreement on Tariffs and Trades (GATT) was established in Geneva in 1947 with the purpose of creating a framework to regulate and foster international trade. (The Implications of the Uruguay Round Agreement on Agriculture for developing countries. Training materials, FAO, which can be read here).

Looking Ahead

The farming sector is no longer considered poor and so the reasons for payments to the sector need to be reexamined in the search for budget savings. Thus, beneficiaries of direct payments now need to carry out particular actions. For instance, payments in the EU are tied to carrying out environmental practices, while in the U.S. risk-management instruments such as crop insurance are being implemented.

The question remains: what will developing countries do? Will they follow developed countries in their protection of domestic farm production? Limitations in public budgets make it unlikely for poorer countries to use direct payments. However, when prices are weak, domestic price support policies may appear.

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This is an adapted Executive Summary of the Chapter “Farm policy” by Tim Josling, which can be read in full in the book “Global Social Issues: An Encyclopedia. Volume 1”, edited by Christopher G. Bates and James Ciment.