

TASK FORCE SERIES

Modernizing America's Food and Farm Policy: Vision for a New Direction

REPORT OF THE AGRICULTURE TASK FORCE
THE CHICAGO COUNCIL ON GLOBAL AFFAIRS

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Executive Summary

The place of food and agriculture on the American national policy agenda has never been more critical. American consumers have long taken for granted a diverse, plentiful supply of safe, nutritious, and affordable food. American farmers have long enjoyed competitive advantages in food production, the resilience of U.S. natural resources, and a vibrant export trade. From 1950 to 2002 American agriculture enjoyed a 2.1 annual percent increase in total factor productivity, while the percent of personal disposable income spent on food by U.S. households dropped by nearly one-half, from 20 percent to 10 percent.

Food policy is critical not simply to the farm community, but to the nation. Its economic impacts are far-reaching. The food system—production, farm input and supply, food processing, distribution, and retail—not only feeds the nation but also provides up to 12 percent of American jobs and a similar proportion of the country's gross domestic product. It includes many of our leading corporations and has been a rare positive and continuing bright spot in the country's otherwise negative balance of trade. Agriculture affects regional economies throughout America, and food policy affects our health, our safety, our environment, our culture, and our global relationships. Agricultural trade can become a catalyst for change in developing countries, and biofuels offer America an alternative to dependence on unreliable overseas sources of fossil fuels.

Current trends, however, indicate that current agriculture policies are not sufficient for addressing the challenges facing farmers and the nation as a whole. Federal farm programs, while remaining popular with many producers, are not serving U.S. agriculture as well as in the past and are having unintended consequences. These programs have traditionally been justified as a way to provide insulation against market fluctuations and keep more small farms in business. Current programs do, in fact, increase incomes and provide some protection against sharp market changes. But rather than keep smaller farmers on the land, they have contributed to farm consolidation and higher land prices. This, in turn, makes it more difficult for younger farmers to enter farming. In many cases the programs also discourage producers of program commodities from switching crops as markets change and undermine the incentive to innovate and develop the specialty products today's consumers want.

Continued U.S. backing of our current farm programs is also one of the major reasons for the recent collapse of the World Trade

Organization's (WTO) Doha Round of negotiations. The view of this as a positive development by some U.S. farm groups is shortsighted. If it can be restarted, the Doha Round could be a catalyst for expanding markets for U.S. food and agricultural products. Additionally, our current farm programs are vulnerable to WTO litigation for breaking current international trade rules. We run the risk of losing these programs through litigation without receiving the benefits that a negotiated Doha Round agreement would provide. Farm programs that serve a smaller and smaller portion of farmers may also be vulnerable to Congressional budget-cutting because of their continuing high cost and perceived inequity at a time of historic deficits.

To be efficient and environmentally sustainable, agricultural production must be flexible and responsive to market opportunities. The biggest opportunity for American farmers today is in the new markets created by dramatically changing patterns of demand:

- Economic growth in developing countries
- Population growth and evolving consumption patterns in both the United States and developing countries
- The expanding role of agriculture in energy production

To secure these new markets, farm production must reorient itself to today's changing world, and public policy must support this goal. The Task Force is optimistic about the future of American agriculture. Those countries whose governments allow and encourage their farmers best to compete will win new domestic and international markets resulting from anticipated growth in food demand, new bio-based sources of energy, and better stewardship of natural resources. For the United States, this result is within reach. We enjoy competitive advantages in our natural resource base, production technology, and infrastructure. Our financial infrastructure, from cash and futures markets to credit and sophisticated investment services, provides an essential foundation for farmers, agribusinesses, and rural communities.

To maintain leadership, American policymakers must adopt a new vision, replace outdated approaches, and reform ineffective programs. In 2007 Congress will craft a farm bill to set the course of American policy for the next five years or more. Every American has a stake in this process. The global economy as a whole stands to benefit or lose. The farm bill covers not just farming, but helps

set national policy on nutrition, rural development, conservation, agricultural research, trade, food safety, and a host of related topics. It has a substantial impact on consumers through the cost, quality, availability, diversity, purity, and sustainability of the food we feed our families. Now is the time to put new ideas on the table so they can be debated, understood, refined, and fully considered.

The Task Force's program for change covers seven crucial, interlinked areas of food and agricultural policy. In general, the 2007 farm bill should use funds made available from the elimination of current programs and price supports to provide a blend of new non-trade-distorting alternatives, including revenue insurance, transition measures, and investments that support the agriculture sector as a whole such as for research, conservation, and rural development. The Task Force's principal recommendations are described below.

A. Growing New Markets

The United States needs to make a commitment to getting the Doha Round restarted. We must recognize that reform of U.S. agricultural policies is in our best interest in order to ensure a competitive and sustainable agricultural sector. It is essential that multilateral trade negotiations continue and result in an agreement that opens markets, promotes growth in developing countries, and levels the competitive playing field. The long-term success of the Doha negotiations is critical to the future of American agriculture and that of other efficient farmers in developed and developing countries alike. Efforts by government and farm community leaders should be directed toward this end. The United States must renew its offer to change our current domestic programs as well as its few remaining U.S. export subsidies. This will empower our trade negotiators to win the strongest agreement for American export growth. It will additionally be critical for Congress to renew the president's Trade Promotion Authority, set to expire in July 2007, so that an eventual multilateral trade agreement can be successfully navigated through Congress.

The sector's competitiveness will also rely on the availability of sufficient labor at a variety of fair and livable wage scales. Immigrant workers play a vital role in fulfilling these labor requirements and the Task Force urges the enactment of comprehensive immigration reform to ensure that the agriculture and food sectors can continue to have access to needed labor.

B. A New Regime for Domestic Support

The setback in the Doha Round should not be used as an excuse to avoid needed changes to our domestic support programs. A new approach should address distortions current policy causes in farm structure and production as well as serve a broader range of producers.

We propose that the entire grouping of product-specific, trade-distorting income and support programs, including countercyclical and loan deficiency payments, price supports, and federal crop insurance and disaster payments, be replaced with a new portfolio of approaches that are nondistorting and compliant with WTO green box rules, including:

- Direct payments that are delinked from specific types of production and from market conditions so as to comply fully with green box standards and that are only used during a transition period until other approaches are fully developed
- A universal revenue insurance program covering all commodities on a multiproduct basis that allows farmers to purchase coverage at subsidized rates to protect against losses in price and in production
- A new land stewardship program that recognizes and rewards the value of the environmental contributions made by farmers and pays producers according to the kind and amount of environmental goods and services they provide
- Farmer savings accounts similar in structure to tax-deferred 401(k) accounts that are backed by government matching contributions and that could be tapped for a variety of farm household costs, including health care, education, or retirement savings
- A significant investment in public goods that benefit the entire farm sector, including research and infrastructure projects; not less than 20 percent of the federal baseline funds currently committed to trade-distorting domestic support programs (in addition to money spent on stewardship and conservation programs) should be redirected to investments in these sectorwide public goods

- Transition measures to protect farmers and owners of rented farmland against investment losses such as declining land values as a result of the proposed changes to support programs

The proper development, experimentation, and implementation of these new programs will take time, but should be accomplished within the five-to-six-year term of the next farm bill.

C. Balancing Hunger and Nutrition

An integral part of U.S. agriculture policy is food policy, particularly providing food to vulnerable populations. While the United States can be proud that nutrition education and food access programs have served millions of low-income Americans, hunger persists, and the country today faces an alarming rise in dietary health problems. Diseases linked to nutritional imbalance are reaching epidemic levels, especially among the poor, who are the principal beneficiaries of federal nutrition programs. Obesity now plagues more than sixty million American adults, and nearly twenty-one million Americans are affected by diabetes. Yet federal nutrition and hunger mitigation programs have failed to reorient themselves effectively to address these critical new problems.

The Task Force believes that federal feeding programs such as the Women, Infants, and Children program (WIC) and the Food Stamp Program should be formally linked to nutritional goals as outlined by USDA and the Department of Health and Human Services in their published dietary guidelines. The recently issued regulations on current WIC commodity allocations need to be finalized to add fruits and vegetables as an eligible category. For the Food Stamp Program, modern checkout counter technology can and should be used to make the least nutritious foods ineligible, to magnify the value of stamps used to purchase the most nutritious foods, and to shrink the value of stamps used to purchase less nutritious foods.

Similar steps should be taken to reorient other nutrition programs such as the National School Lunch Program to comply with published dietary guidelines and to institute accompanying education programs. Schools that reflect the dietary guidelines in their meals and ban products with low nutritive value from vending machines would receive higher subsidies, while payments would be lowered for those schools that did not. We recognize that many school districts, and even some states, are moving in this direction already.

D. Safeguarding Land and Water

Farmers and ranchers are the stewards of about one-half of the land surface of the United States. They play a critical role in safeguarding the nation's land and fresh water. In addition to the new land stewardship program proposed as part of the fundamental restructuring of domestic support programs, land use planning efforts must be strengthened; spending on research and technical assistance must be restored; and clear, aggressive goals must be established for existing programs, stressing the efficient use and protection of water resources and other effective conservation practices.

E. Bolstering Rural Communities

Rural communities today are less dependent on farming than ever before, and most farmers earn the majority of their living from non-farm sources, including tourism, small businesses, and regional distribution networks. The Task Force proposes that Congress reorient programs to help rural communities diversify their economic structures and create off-farm jobs. Specific initiatives should target improving education, health, and infrastructure, including universal access to modern information technologies such as broadband Internet access and providing a more investment-friendly environment.

F. Renewable Energy from Agriculture

The federal government should continue to support research on biofuels as a meaningful alternative to unreliable sources of fossil fuel. Current subsidies, in combination with support under the Energy Policy Act of 2005, are adequate to seed these new industries. Research should focus on new technologies to produce usable energy from cellulose or other feedstock that can be grown on lesser-quality land. Federal support programs must insist that as these biofuel industries mature and market conditions permit, companies benefiting from biofuel subsidies and import restrictions develop business models that ultimately accommodate a scaling back of such federal support to levels consistent with those given to other fuel production sectors.

G. Global Hunger and U.S. Food Aid

Food aid remains a moral imperative in times of disaster and a key foreign policy tool for the United States. To make it more efficient and effective, the Task Force proposes the following:

- Current concessional loans to foreign governments should be eliminated and replaced with support for the McGovern-Dole International Food for Education and Child Nutrition Program, an overseas school feeding initiative.
- Funding requirements for cargo preference should be shifted from USDA to the Department of Defense. Savings in the agriculture account of the budget could then be used to purchase food aid from local producers in developing countries.

The Task Force's goal is to advocate its view of the best direction for public policy. It recognizes that once the direction is chosen, the process of change will have just begun. It will take much hard work to flesh out these ideas and translate them into workable, sound legislation, particularly in the domestic support area. Leadership will be essential to break old habits. Stakeholders in this effort include interests both in and beyond the agricultural sector. The Task Force urges voices from across the spectrum of American life, including business, consumers, trade, development, health, nutrition, and conservation, to join the debate. Change will occur whether or not we plan for it. The question is whether we will have the foresight to embrace change and shape it to our benefit, or whether we will allow ourselves to become its victims.