

Globalization & Rural America: The Benefits & Distributional Costs

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Outline of Presentation

- Globalization is here to stay
- Separate effects of globalization from normal change in rural America
- Rural development: “Its jobs, stupid!”
- WTO negotiations: further liberalize trade
- Assistance to facilitate/smooth the transition/adjustment

Globalization

- Increasing integration of economies (from the most local level) around the world
 - Trade
 - Technology/knowledge
 - People/labor
 - Financial capital
- Result of technological advances that reduce cost and increase speed of international transactions
- Creates unprecedented opportunities for specialization and exchange of goods and services (global sourcing & supply chains)
- Exposes previously isolated markets to competition

Gains from Trade Liberalization

- Economic theory tells us that the gains of the gainers exceed the losses of the losers
- It does not tell us there are no losers!
- The challenge is to define policy interventions to compensate losers for their losses:
 - to facilitate the adjustment
 - to neutralize opposition of politically powerful opponents who could stop liberalization dead

Rural America

- Neither metropolitan nor micropolitan:
 - *Metropolitan*: having at least one urbanized area of at least 50 thousand inhabitants
 - *Micropolitan*: having at least one urbanized area of at least 10 thousand but less than 50 thousand inhabitants
 - *Rural*: everything else -- areas not having any urbanized area of more than 10 thousand inhabitants
- Regionally very diverse – generalization impossible

Adjustment to Change Has Been the Norm in Rural America

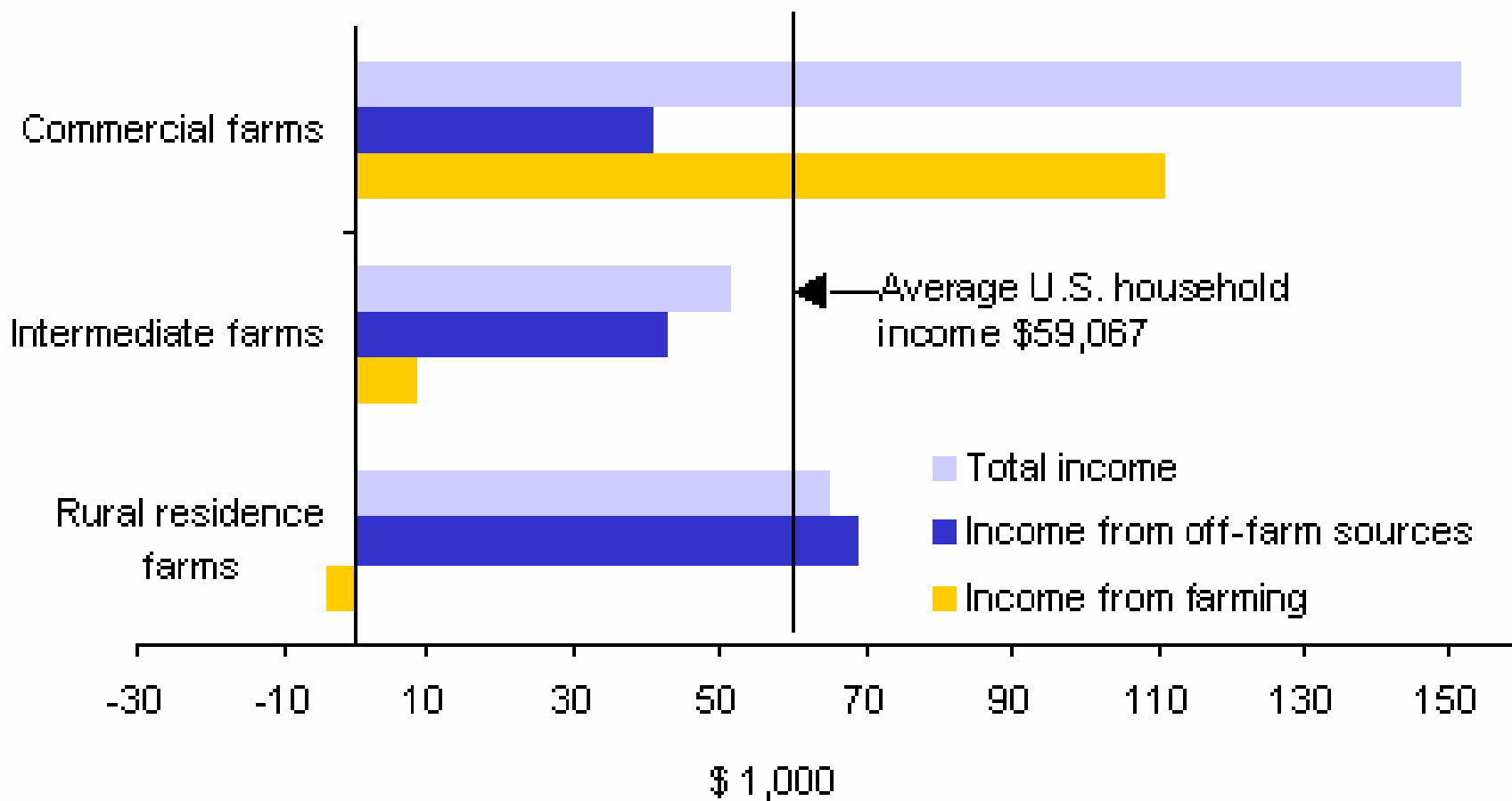
- Historically rural America farm dependent
- Agricultural productivity growth
 - Farm production grew with fewer total inputs
 - Redundant farm labor
 - Ag supply grew faster than domestic demand
 - Technology “treadmill”
- Farm & agribusiness consolidation
- Commodities vs. differentiated products
- Declining fraction of rural community incomes from agriculture
- Outmigration and the rise of part-time farming

Size Distribution of U.S. "Farms," 2003

Size in \$ thousand	Thousand farms	% of all farms	% with payment	Ave \$/ pay farm (000)
<10	1,227	58	20	2
10-49	398	19	53	6
50-99	172	8	71	10
100-249	165	8	78	19
250-499	86	4	78	34
500-999	45	2	70	55
>1000	29	1	56	82
All	2,123	100	39	13

Source: ERS

Sources of operator household income by typology group, 2003



Source: 2003 US DA *Agricultural Resource Management Study*.
Economic Research Service, USDA.

Ag Policies Alter Production Decisions and Concentrate Wealth

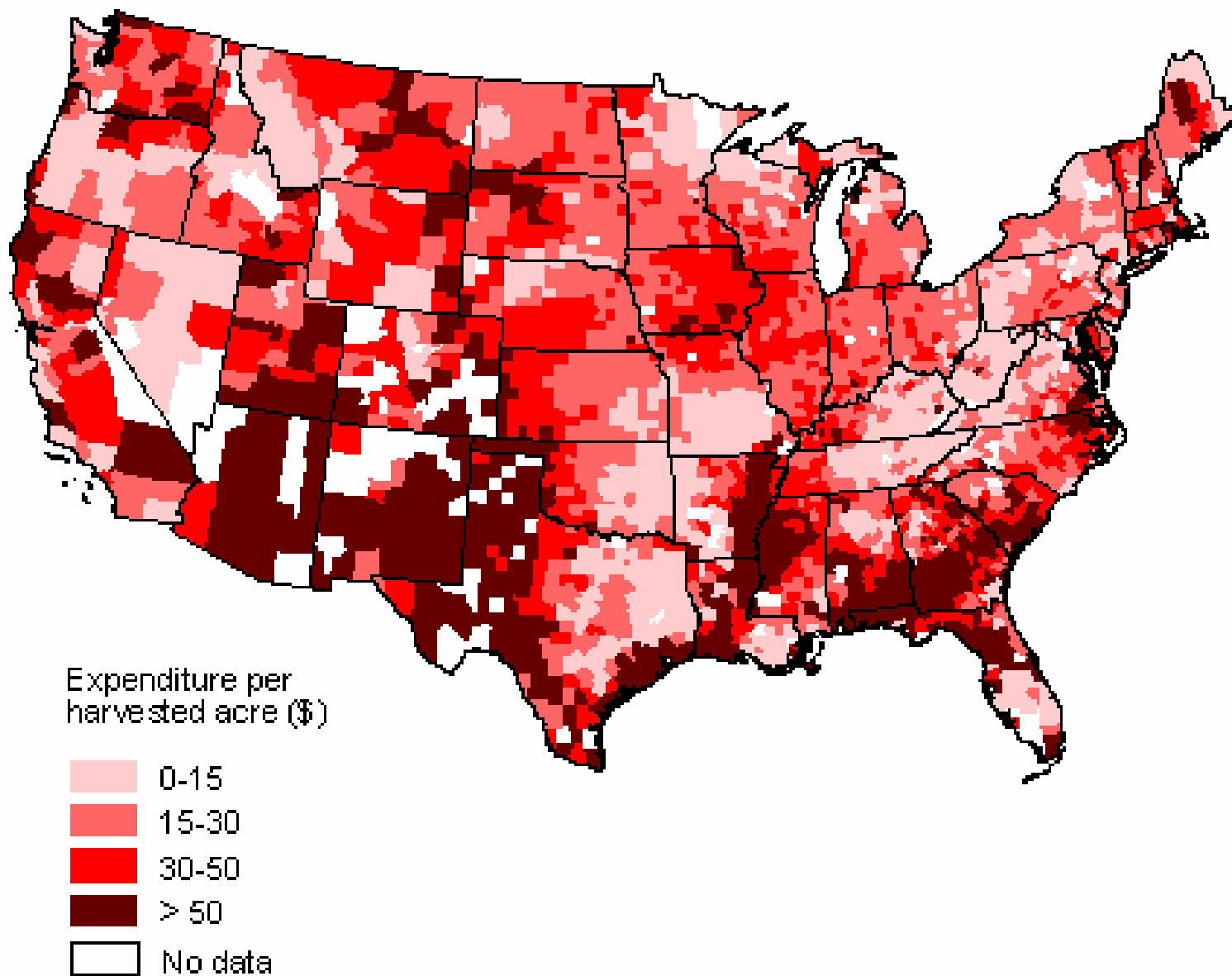
- Distort domestic terms of trade in favor of politically powerful commodities/groups
- Subsidies tied to output of specific commodities stimulate larger production in less efficient locations
- Facilitate consolidation of farms
- Subsidies justified on basis of low farm income but distributed in proportion to sales are ultimately bid into land prices, benefiting large farmers & land-owners

CCC Outlays, by Commodity

Commodity	2002	2003	2004	2005E
Corn	2,959	1,415	2,504	7,683
Wheat	1,190	1,118	1,173	1,495
Rice	1,085	1,279	1,130	586
Upland cotton	3,307	2,889	1,372	4,721
Soybeans	3,447	907	595	1,563
Dairy	622	2,494	295	633
Total	15,680	17,425	10,575	24,065

Source: USDA CCC

Distribution of commodity payments per harvested acre



Source: ERS

What Is Possible in the Current WTO Ag Trade Negotiations?

- Eliminate all forms of ag export subsidies *by a date certain*
- Cap and reduce trade-distorting domestic subsidies *commodity by commodity*
- Allow *no* trade-distorting amber box policies to be moved to the blue box
- Reduce highest tariffs the most (by a minimum amount?) (*commodity by commodity?*) (increase minimum market access TRQs?)
- Allow LDCs longer phase-in period, but exempt *no* products from cuts

The Policy Challenge

- To find ways to smooth the progress of welfare-enhancing structural change while reclaiming the productive potential of workers and communities bearing the costs of job losses and local economy contraction

The Funding Challenge

- Agricultural policy makes weak rural development policy
- Rural America is not likely to secure larger allocation of Federal funds, but most is going in form of farm program payments
- How to sell the need for Federal investments to facilitate adjustment to globalization by investing in public goods
 - Infrastructure
 - Human capital