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

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

Source: ERS
Sources of operator household income by typology group, 2003

- Commercial farms
- Intermediate farms
- Rural residence farms

Average U.S. household income $59,067

- Total income
- Income from off-farm sources
- Income from farming

$1,000

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

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

Source: USDA CCC
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