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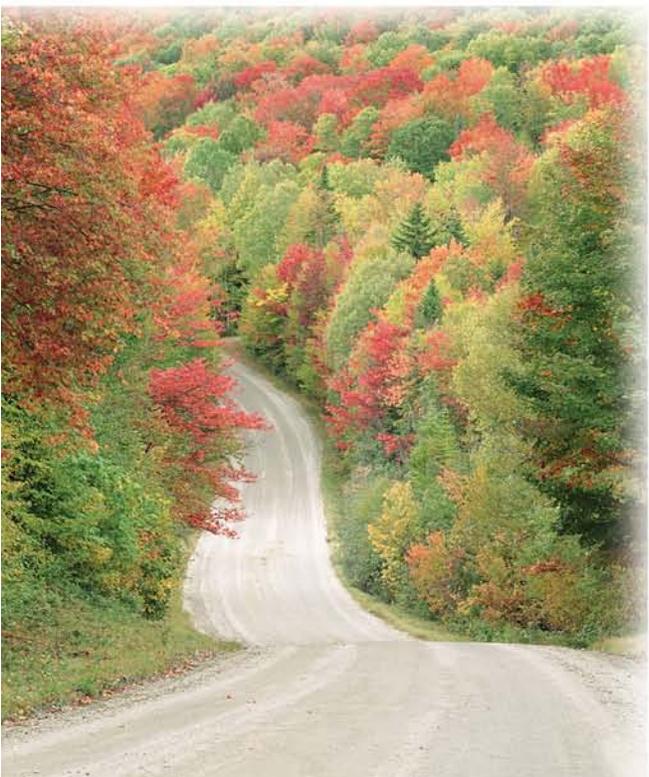


The Main Street ———
Economist
Commentary on the rural economy



Do Farm Payments Promote Rural Economic Growth?

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Farm policy is once again in the news. The Administration's recently released budget called for annual cuts in federal payments to farmers of \$570 million, prompting new cries of foul and fair from various interest groups. Moreover, government spending on agriculture remains a contentious issue in the current round of global trade talks. Developing countries call for the European Union and the United States to slash farm subsidies, supports that they claim depress farm prices for developing world growers. Finally, Brazil recently won a challenge in the World Trade Organization that payments in the U.S. cotton program unfairly harm producers in other countries.

payments—roughly \$4.5 billion a year. The counties in this top tier are concentrated in the Midwest, central and northern Plains, Delta, the Central Valley of California, and eastern Washington. Under the 2002 farm bill, however, the payments will be more concentrated in the South and West than in the previous map.² Cotton and rice programs in the 2002 farm bill were generously funded, and payments to these farmers have been, on average, bigger than to producers of crops grown in the Midwest. Finally, it is worth noting that the Phoenix area shows up on both maps. The only apparent explanation is that a large number of farmers have retired there, and the payments have followed.

Which counties depend most on farm payments?

Before examining how the economy is performing in counties that receive farm payments, it is helpful first to identify the counties where the payments are most important to the local economy. These “farm-dependent” counties represent the 783 counties where farm payments have the biggest impact on the rural economy.

Payments are most important in western portions of the Midwest, all of the Plains region, the Delta, and a sprinkling of counties in the South and Northwest (Figure 3). While states like Indiana and California receive a lot of payments, there are many other economic activities that overshadow agriculture.

Are farm payments boosting rural economic growth?

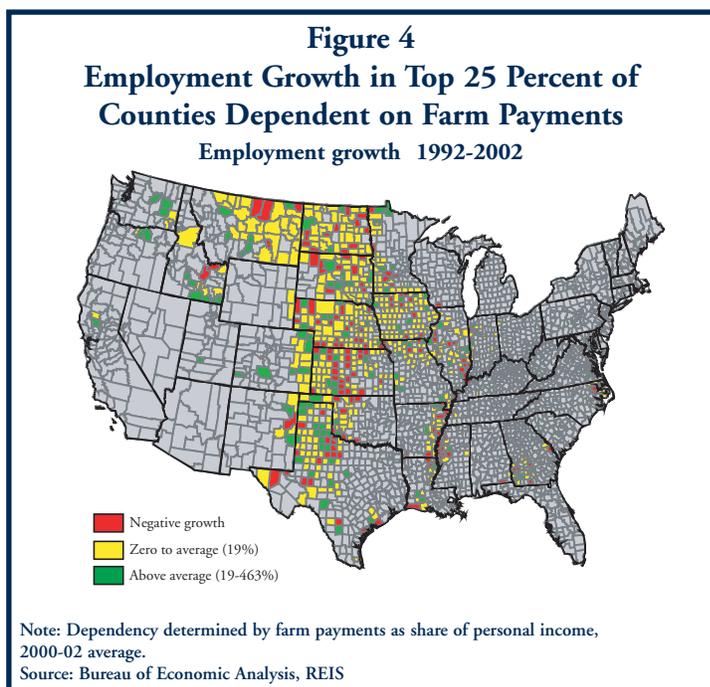
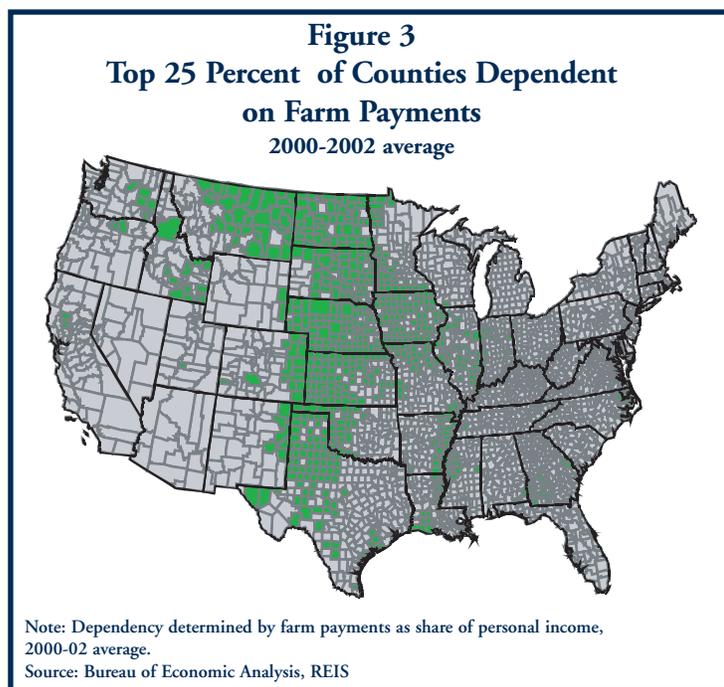
Farm payments are not providing a strong boost to the rural economy in those counties that most depend on them. Job gains are weak and population growth is actually negative in most of the counties where farm payments are the biggest share of income. These conclusions flow from examining employment and population growth over the decade ended in 2002. Since farm payments have long been a pillar of farm policy, one would expect the impact to play out over time, and thus it is helpful to consider their long-term economic impact.

Job growth is decidedly weak in the counties most dependent on farm payments. The vast majority of such counties (483) had job gains below the 19% national average

from 1992 to 2002 (Figure 4). A considerable number (167) had outright job losses over the period. Only a sixth of the farm-dependent counties had above average growth in employment. These counties generally have two characteristics: They are near metro areas or they are emerging retail trade centers that are capturing a bigger market as retail trade consolidates. Goodland, Kansas, is a good example of a retail hub.

Farm payments have an even weaker impact on population growth. In fact, the vast majority of counties (461) are actually losing population (Figure 5). About a third have modest growth, while a small number (88) are posting population gains above the average 10% gain for the nation.

In short, farm payments are not yielding robust economic and population gains in the counties where they should have the greatest impact. If anything, the payments appear to be linked with subpar economic and population growth. To be sure, this quick comparison cannot answer whether growth would have been even weaker in the absence of the payments. Still, farm payments appear to create dependency on even more payments, not new engines of growth.



Why is the impact not stronger?

This begs the question why the sizable federal payments are not spurring more economic growth. While the answer is likely complex, there are a few strong factors at work. As noted previously, most farm payments are attached to *commodity programs*. That is, farmers receive payments for growing certain commodities. Under the current farm bill, the most important commodities in terms of payments are corn, cotton, rice, wheat, and dairy. To stay in the business of producing such commodities, the overwhelming challenge for farmers is to be the low-cost producer. In farming as in other industries, this means tapping all available economies of scale and getting bigger. As farms continue to consolidate, that means fewer jobs for all associated businesses—from implement dealers to bankers.

Simply put, commodity programs wed farming regions to an ongoing pattern of economic consolidation. It should not be surprising, therefore, that the very places that depend most on federal farm payments also happen to be places where economic consolidation is happening apace.

Building new rural economic engines

Many farming regions are beginning to explore whether new economic engines offer greater growth in the 21st century. While farm payments have been a mainstay in the production of commodities, the reality of consolidation is prompting a raft of questions about the future.

In much the same way, new questions are being asked about agricultural policy. If sustaining rural economic growth remains a primary goal, then new policy instruments must be found. Traditional programs simply do not provide the economic lift that farming regions need going forward. While society may continue to have a separate goal of lifting farm income, funds spent there can no longer be expected to spur broader growth in the rural economy.

There are many possible paths policy might take with rural economic growth as the goal. A critical feature in all of them, however, will be fostering a climate of business innovation and entrepreneurship. Economic analysts agree that innovation provides the fuel for building new economic engines.

Evidence suggests that current farm

policy falls short in this dimension.

Innovation is hard to measure. But one useful proxy is the rate of growth in new businesses. From 1990 to 2002, the growth in new business establishments was generally the weakest in counties most dependent on farm payments (Figure 6). By focusing on commodities, farm payments again wed regions to consolidation—even fewer businesses.

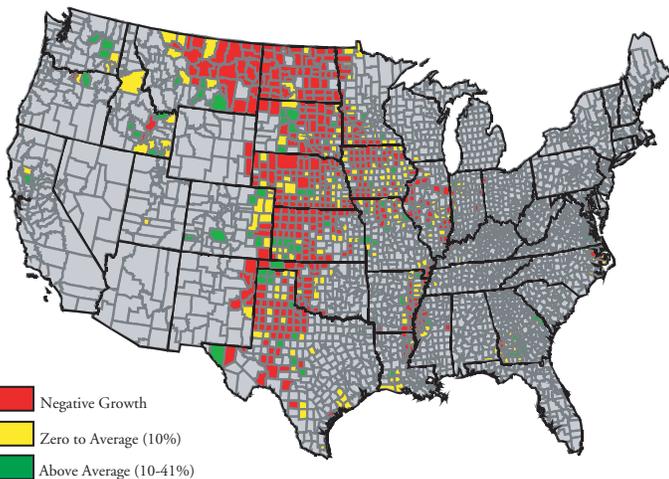
Farm policy has a rich history of providing support to rural America. From the beginning it has served many goals, including raising the incomes of farmers and boosting economic gains in rural communities. While helping farmers may continue to be an important objective for farm policy, new approaches are needed if the nation wants to spur broader economic gains in rural regions.

Nancy Novack, associate economist in the Center, helped prepare this article.

¹The maps in this article trace farm payments and economic information for the three-year period from 2000 through 2002, the first year of the current farm bill and the last year for which county-level economic data are available.

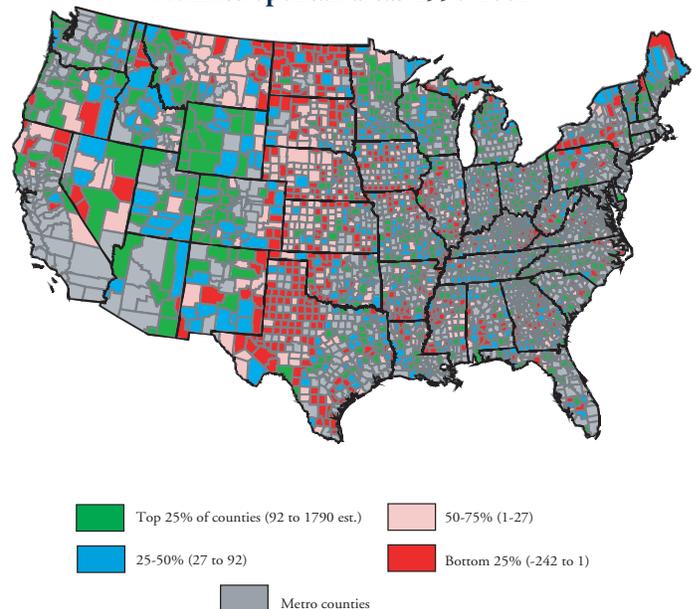
²Portions of North Carolina, Georgia, and Alabama are more prominent as recipients of farm payments in 2002. This reflects the one-time peanut buyout program that was implemented that year.

Figure 5
Population Growth in Top 25 Percent of Counties Dependent on Farm Payments
Population growth 1992-2002



Note: Dependency determined by farm payments as share of personal income, 2000-02 average.
Source: Bureau of Economic Analysis, REIS

Figure 6
Change in Number of Establishments Nonmetropolitan areas 1990-2002



Source: County Business Patterns