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A Consideration of the Devolution of Federal Agricultural Policy

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U.S. farm programs have their origins in the 1930s, a period when the well-being of U.S. farm households and rural communities across the country was tightly linked. Since then, farms have become more specialized, farm households have become less dependent on farm income for their well-being, and the importance of agriculture in rural economies has diminished. As these changes and others in the national and international economy have occurred, the Depression-era farm policies and programs have been modified in response. For example, commodity-based support programs have moved away from a focus on direct intervention in agricultural markets and toward direct payments. Natural resource programs have grown in size and expanded from their initial emphasis on soil conservation to include attention to broader water and air quality issues. Rural development now goes beyond electrification and 1930s-era housing concerns to include stimulation of economic growth in diversified rural economies. As the farm sector evolves, agricultural and rural development policies attempt to adjust to new realities.

What Is the Issue?

U.S. farms vary greatly in size, specialty, and household characteristics, and U.S. regions differ markedly in natural resource endowments. States differ widely in how they think funds from agricultural programs should be spent. Devolution, or the transfer to States of Federal funds and/or control of those funds, is one way of adapting national policies to suit local preferences more closely and of recognizing geographical variation in program delivery costs. Devolution is worth considering whenever it has the potential to make program delivery more cost-effective and more responsive to citizens. Would further devolution of Federal agricultural and natural resource programs be beneficial?

How Was the Study Conducted?

We first identified as much as a third of current USDA spending that could be transferred from Federal to State control via block grants. Representing about \$22 billion of the \$75 billion that USDA spends annually, these funds are now primarily associated with commodity and some natural resource programs. The balance of USDA spending was excluded either because it represents programming already substantially devolved, it is not directly or exclusively aimed at farm and rural households (e.g., food stamps, forest management), or it supports activities that are logically the province of the Federal Government (e.g., trade negotiations, meat inspection).

Next we looked at how Federal funds might be distributed across States. We considered three block grant options (these options are suggestive--actual methods may differ):

1. **Commodity production.** Funds could be transferred to States based on the existing commodity-based criteria.

2. **Hatch Act.** Funds could be transferred in a way that provides for more equal distribution among States based on a formula derived from the Hatch Act, which divides Federal funding for agricultural research among the agricultural experiment stations in the States and U.S. territories. The formula is intended to recognize variation across States in the importance of farming and rural communities.

3. **Safety Net.** Funds could be transferred to States via means testing or an allocation based on the needs of farmers as defined by their income levels, similar to other income assistance programs.

What Did the Study Find?

Devolution is worth considering whenever it has the potential to make program delivery more cost-effective and to better satisfy citizens. When program preferences and implementation costs vary across the country, devolution may enable States to better respond to local circumstances. These improvements may be possible because a central agency administering a program at the national level may lack the information needed to accommodate State-level differences. Political pressures may dictate that a central government provide a more uniform level of services, even when local communities would prefer lower or higher levels of services. Another source of gain from devolution can arise from large differences in costs across local areas. For example, costs of cleaning up a groundwater aquifer may differ among jurisdictions, depending on geology and the source of the contamination. So, even if preferences for clean water were identical, economic considerations may lead different jurisdictions to choose different methods to clean up the site.

Funding by State varies with each of the three distribution options. Texas and Iowa are among the five largest recipients under all three distribution options. Under the current, commodity-based distribution option, the 10 largest recipients, mainly Great Plains and Heartland States, receive about two-thirds of the \$22 billion identified as potentially devolvable spending. Under the Hatch Act option, States with relatively large farm and rural populations, such as North Carolina, Pennsylvania, Ohio, and Illinois, would garner the most payments. The farm safety net option would send half the money to the top 10 States, which include States such as Kentucky, Missouri, California, and Tennessee with relatively large numbers of farms and, as it happens, relatively larger numbers of poorer farm households.

Comparing the distributions under the three options illustrates some important points about *any* potential devolution option. First, devolution by a block grant scheme, will, in general, make the distribution of Federal support much more transparent than when it is determined by individual commodity, rural development, or national resource program requirements. Second, both the Hatch Act option and the safety net option move the funding distribution away from large commodity producers and toward smaller farmers and greater numbers of rural people. Any time that the benefits of public policy are directed away from one group and toward others, debate can be expected.

Ultimately, the extent to which devolution of Federal programs produces more preferred outcomes at lower costs would depend on actual implementation. Some States may make unwise choices or suffer from administrative inefficiencies. Nonetheless, States—like the Federal Government—would be held accountable for achieving the intended outcomes of their programs. But the tremendous diversity across States with respect to policy preferences and farm, rural, and natural resource circumstances suggests that more tailored farm programs could be more efficient.

As ERS analysis shows, farm characteristics, natural resource endowments, and rural economies vary widely across States, as do preferences for farm, food, environmental, and rural development policies. This diversity indicates that further devolution may result in gains in efficiency and citizen well-being, but the potential for improvement must be studied more closely. A changing policy agenda and the prospect of trade liberalization suggest such an analysis may some day have a practical application.