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A Consideration of the Devolution of Federal Agricultural Policy

**Craig Gundersen, Betsey Kuhn,
Susan Offutt, and Mitchell Morehart**



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Abstract

Diverse needs and preferences across the United States provide justification for the devolution, or decentralization, of many Federal Government programs to the State or local level. The move toward devolution, however, has not been evidenced in U.S. agricultural policy, despite significant differences across States in such areas as commodity production, production costs, income distribution, and opportunities for off-farm work. The existing structure of USDA funding and program delivery already reflects an appreciation of the gains from devolution, with some programs accommodating differences in State and regional preferences. This report considers the implications of devolving \$22 billion in 2003 budget outlays, mostly for domestic commodity and natural resource programs and rural development and housing programs. The local knowledge of needs and preferences is valuable and can provide the basis for increased program efficiency.

Keywords: Public policy, devolution, agricultural policy, program delivery.

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A Consideration of the Devolution of Federal Agricultural Policy

Introduction

Craig Gundersen, Betsey Kuhn,
Susan Offutt, and Mitchell Morehart*

What level of government—Federal, State, or local—is best to devise, fund, and administer public policies and programs? The U.S. Constitution lays out broad principles to bound Federal action, but, at a practical level, Congress confronts this question each time legislation is written. Devolution is the circumstance in which funding and/or control of formerly Federal or national programs is moved to the State or local level. Current agricultural policy is concentrated at the Federal level, rather than at more decentralized levels. In light of agricultural diversity among States and the possible advantages to more local control of government programs, it is time to consider whether this concentration of power may impede the ability of agricultural policy to effectively address the new face of agriculture in the United States.

This consideration is especially relevant in light of the European Union's (EU) 2003 reform of its Common Agricultural Policy, in which traditional payments to farmers were recast and control over their use devolved to member states. The EU reforms represent a shift from an emphasis on agricultural production to the rural economy and environment, in effect a move from sectoral to geographic policies. At the same time, the responsibility for shaping the content of those policies largely moves to the member states, which may themselves further devolve the program authority, as has the United Kingdom. As a recent ERS report noted, "With the adoption of EU policy reforms, U.S. and EU commodity policies are becoming more similar, with increased emphasis on decoupled income support and greater focus on the interactions between agriculture and the environment" (USDA/ERS, 2004). These similarities provide one impetus for the considerations of devolution in this report.

The recognition of drawbacks to the concentration of power at the Federal level has spurred the devolution of many Federal programs, including Aid to Families with Dependent Children (AFDC), the primary income assistance program designed for single women with children. Prior to passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA, or welfare reform), the rules for AFDC were essentially the same across all States. After PRWORA, States assumed control of the program (renamed Temporary Assistance for Needy Families (TANF)), and the funding mechanism was changed from a matching grant to a block grant program. States were free to design their own programs as long as the redesigned programs met certain principles. Other Federal programs have devolved to some degree, including programs associated with job training

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(Botsko et al., 2001), housing assistance (Orlebeke, 2000), and environmental policy (Butler and Macey, 1996). Reeder (1996) examines devolution of rural development.

Previous studies have examined devolution of various Federal programs, but this study is the first to consider devolution of Federal agricultural programs. While some agricultural programs are best maintained at the Federal level, the great cross-State differences in commodity production, income distribution, costs of production, and opportunities for off-farm work raise the possibility that the devolution of some agricultural programs may lead to superior outcomes.

The extent of geographic diversity across States must be considered in any decision to devolve Federal agricultural programs. Another important consideration is the ability of devolution to help the government better achieve its goals. Defining the goals of any government program, much less one as broad as agricultural policy, is difficult. Wright (1995) defines the following as ongoing goals of agricultural policy: making farming permanently more attractive to the young; equalizing the distribution of income by measures related to landholdings; stabilizing farm incomes; achieving rural development; saving family farming; providing farm-specific consulting on technical or managerial issues; supporting applied research on fully marketable innovations; increasing price supports, deficiency payments, or other transfers to make current farmers more wealthy; providing egalitarian direct transfers to farmers; protecting producers against risk; conducting agricultural research to produce externalities; providing environmental services not privately capturable; assisting disadvantaged consumers; providing food security; protecting against monopoly or monopsony; collecting or disseminating information; and protecting health, safety, and quality. For reasons articulated later, we believe that at least a subset of these goals may be better attained if agricultural programs were devolved.

This study distinguishes between the goals and the tools of agricultural policy. As viewed here, present construction of agricultural policies is one of many ways of achieving the goals of agricultural policies. We do not believe the present construction defines the goals of agricultural policy. If one instead maintains that the present construction of agricultural policy defines the goals of agricultural policy, one's discussion of the advantages and disadvantages associated with the devolution of agricultural policy would be very different. For example, if one defines the maximization of rents for farmers producing certain commodities as both one of the means and one of the goals of agricultural policy, the discussion would then entail a consideration of whether this maximization of rents is best conducted at the Federal or at a more local level. We resist such an equality of the goals and means of agricultural policy. Our arguments for and against devolution are framed in terms of what we believe are the goals of agricultural policy.

Decision To Devolve

There are advantages to funding and managing some government activities at higher levels of government, especially at the Federal level. First, macroeconomic stabilization is generally possible only at the national level. States are ill-suited for this role because they do not have access to one of the key tools used in macroeconomic stabilization, monetary policy. Moreover, any efforts to engage in fiscal stabilization (another macroeconomic tool) are likely to be dissipated due to open borders between States, and many States are legally prohibited from using another macroeconomic tool, deficit spending. (The inability of States to engage in countercyclical measures, at least as pertains to unemployment policies, has, however, been questioned by Inman and Rubinfeld (2001).)

Second, the redistribution of income through such programs as Social Security or the Food Stamp Program is usually more successful at the national rather than subnational level (Warner, 2001) due primarily to variations in macroeconomic conditions across States. For example, average poverty rates from 1980 to 1999 ranged from a high of 18.7 percent in Mississippi to a low of 5.3 percent in New Jersey, while average unemployment rates ranged from 10.4 percent in West Virginia to 3.7 percent in Nebraska. In addition, macroeconomic conditions are not distributed equally among States (e.g., some States are affected more by recessions than others). National control of redistributive policies ensures that monies can be transferred from wealthier States to poorer States, which helps to balance the effects of cyclical variations. National control of redistributive policies also addresses issues arising from the mobility of potential recipients of aid (i.e., the ability to move to more generous localities¹) and, conversely, the ability of wealthier residents to leave an area if they are taxed at what they perceive as too high a rate. Gundersen and Ziliak (2004) provide more information on variations in macroeconomic conditions across States.

Third, population spillovers can place undue burdens on local jurisdictions, requiring higher levels of government to help ensure the appropriate delivery of public services by the jurisdiction affected by the spillover. For example, central cities attracting suburban commuters may not be fully compensated by the commuters for certain benefits and services provided, such as transportation and communication services. In the absence of some coordinating agency (e.g., a metropolitan authority), the city may be unable to produce the optimal level of these services.

Fourth, the costs associated with transferring control of a program from Federal to State or more local government control may be especially large in the short run, especially if the State or local government does not have an existing administrative organization to support the devolved program. Finally, pure national public goods, such as national defense, are best funded, at least in part, at the national level. Rubinfeld (1987), Musgrave (1959), and Oates (1972; 1999) provide more information on the advantages of centralized programs.

Similarly, there are disadvantages to funding and managing some governmental activities at the Federal level. First, preferences for government

¹ While the mobility of residents is often cited as a reason for control of distribution activities at the national level, there is not a consensus that residents base decisions to relocate on welfare benefits. (For example, Enchautegui (1997) finds some migration from low- to high-benefit States, while Walker (1994) finds no migration. Despite this lack of clear evidence, some research shows that States do set benefit levels in response to the benefit levels of neighboring States (e.g., Figlio, Kolpin, and Reid, 1999).

programs differ across the country. A central agency administering a program at the national level may lack the information base needed to accommodate the range of differences. Also, political pressures may dictate that central governments provide a more uniform level of services, even when local communities would prefer lower or higher levels of services (Oates, 1999, p. 1123). In contrast, local policymakers are better able to tailor programs to match the preferences of residents and can be held more accountable for their actions than Federal officials. Locally controlled and tailored policies are also more likely to result in higher levels of welfare for local citizens than more uniform policies implemented from afar. Using direct measures to analyze the effects of devolution, Bradford and Oates (1974) find evidence of large gains in welfare for local areas.

Second, program costs vary among areas across the country. For example, costs (defined broadly to include such things as the opportunity cost of lost wages) of cleaning up a groundwater aquifer (Pinkowski, 1998) or a closed military base (Wernstedt, 2000) may differ across jurisdictions. So, even if preferences were identical, economic considerations may lead different jurisdictions to choose different methods to clean up a site. Lastly, States designing their own programs can learn from the success or failure of other States' programs. Case et al. (1993) provide more information on the "laboratory effect," which several States used to their advantage in designing programs following welfare reform in 1996.

Devolution of Agricultural Policy

Historically, agricultural policy in the United States has been concentrated at the Federal level. Proponents of devolution argue that centralized programs do not always address the diversity of the agricultural sector. Kuhn and Offutt (1999) and other studies provide evidence of the extent of diversity in the agricultural sector at both regional and State levels, which helps illustrate the advantages of devolution. Still, some aspects of agricultural policy are best maintained at the national level.

Concentration of Agricultural Policy at the Federal Level

Federal and State Governments have long shared responsibilities for public agricultural policies and programs. In the earliest days, Federal regulation of trade had a significant impact on agriculture as commodities were the foundation of the American economy. As the Nation developed, Federal policy spurred the growth of agriculture through its emphasis on farm settlement, capitalizing on the country's abundance of land and scarcity of labor (Halcrow, 1977, p. 2). Other Federal Government actions that affected the agricultural sector included the establishment of a legal infrastructure supporting land settlement, the creation of a transportation network, and a general strengthening of democratic institutions.

A landmark in the partnership between Federal and State Government was the passage of the Morrill Act in 1862. The Act gave a grant of public land to each State and U.S. territory for the purpose of "supporting the building of colleges dedicated to the propagation of agriculture and mechanic arts" (Schapsmeier and Schapsmeier, 1975, p. 69). In 1890, a second Morrill Act established Federal grants of \$25,000 to each State's land college. Federal support of State-based research and education recognized the diversity of conditions facing State agriculture and also the possibility of spillover benefits of research and education from one State to another by provision of more and better food, migration of skilled labor, or the transfer of knowledge.

The beginning of the 20th century was the "golden age" of American agriculture. As the scientific underpinnings for agriculture were built, Federal and State Governments further emphasized research and education. At the same time, after a long period of *laissez faire*, Federal and State Governments standardized rules and regulations in a wide array of industries and services in the food resource sector, including commodity markets, rail and freight services, and food inspection (Halcrow, 1977). When agricultural export markets collapsed after World War I, the Federal Government intervened to re-establish the favorable price relationships of the golden age.

Since the 1920s, Federal policy has played the leading role in managing the economic condition of the American farm sector. The intersection of domestic and international markets and the need for market regulation and funding on a national scale called for Federal, rather than State, support. Though their roles were minimized, each State continued to provide services to its farm sector, and today all 50 States maintain departments of agriculture.

Diversity of the Farm Sector at the Regional Level

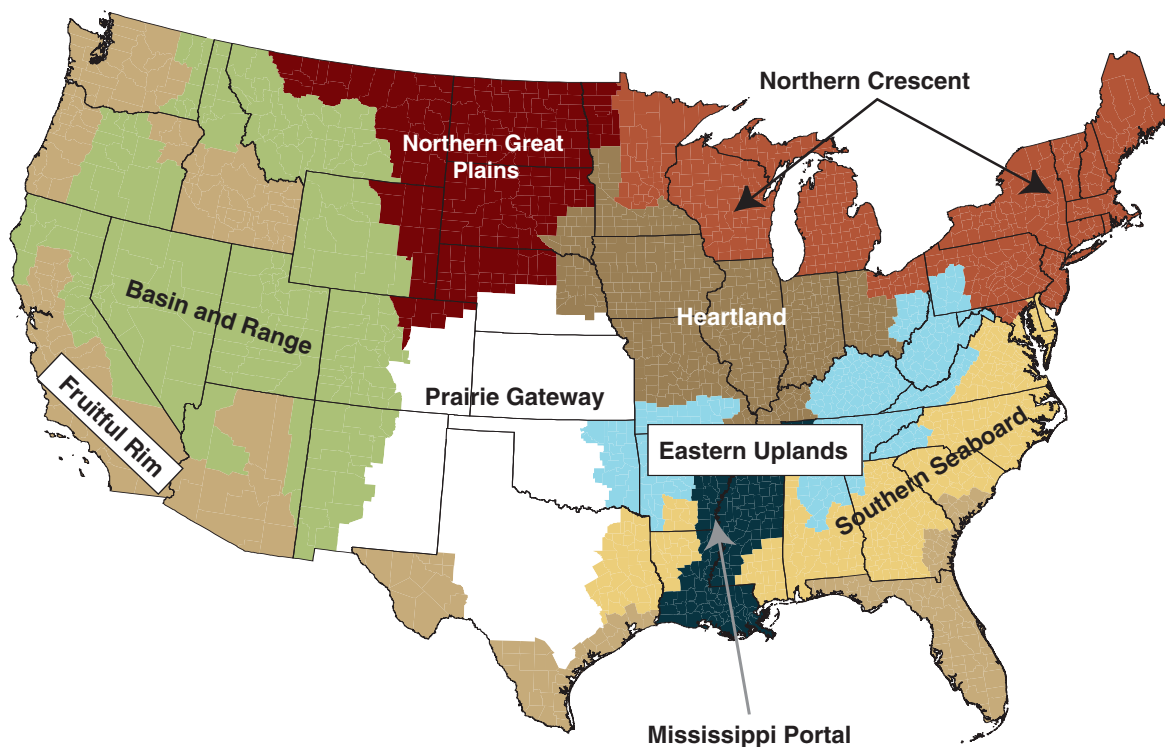
Agricultural diversity in the U.S. farm sector extends to both State and regional levels. USDA's Economic Research Service (ERS) has defined nine resource regions, each with distinct types of farming (fig. 1). For example, in the Northern Crescent, the primary commodities are dairy, general field crops, and cash grains, whereas in the neighboring Northern Great Plains, the primary commodities are wheat, cattle, and sheep. In the Fruitful Rim, the primary types of farms are fruit, vegetable, nursery, and cotton, while in the neighboring Southern Seaboard, the primary farm types are general field crops and poultry. The concentration of farms, as measured by the share of all U.S. farms within regions, also varies. The Heartland has the largest share of total farms (22 percent) while the Mississippi Portal (5 percent), the Basin and Range (4 percent), and the Northern Great Plains (4 percent) have the lowest share of farms.² The value of production also differs among regions, but in ways that are not simply a reflection of the number of farms. For example, the Heartland has the largest number of farms and the highest value (23 percent) of total farm production, but the Fruitful Rim, with 10 percent of farms, has almost the same contribution to total farm production (22 percent). In contrast, the Eastern Uplands has 15 percent of total farms but only 5 percent of total production.

² These and all succeeding statistics in this paragraph are from the 1997 Agricultural Resource Management Survey (ARMS) as summarized in Gundersen et al. (2000).

Average farm household incomes also vary among regions. In 1997, the Fruitful Rim was by far the wealthiest region, with an average farm house-

Figure 1

Farm resource regions



Source: Economic Research Service, USDA.

hold income of \$73,140, over \$17,000 higher than the next wealthiest region, the Heartland. The Northern Great Plains had the lowest average farm household income, \$39,700. These averages, however, belie the differences in the distribution of income across regions. For example, the Fruitful Rim has a higher share of farm households with incomes under \$25,000 a year (28 percent) than the Heartland (25 percent). Conversely, 23.2 percent of farms in the Basin and Range have household incomes over \$100,000, while 19.4 percent of farms in the Fruitful Rim have household incomes over \$100,000. Regional differences are also evident in the average number of hours worked on the farm—the average annual hours worked range from 1,379 in the Mississippi Portal to 2,543 in the Northern Great Plains—and in average education levels—33.7 percent of household heads in the Fruitful Rim have college degrees, compared with 10.1 percent in the Northern Great Plains. Lastly, the costs of production differ widely across regions (Morehart et al., 2000).

Diversity of the Farm Sector at the State Level

In addition to the differences between regions, there are differences between States within regions and between States with similar agricultural products.³ Differences in State agricultural preferences are exemplified in the mission statements or recent goals posted on the Web sites of the departments of agriculture in Iowa, Missouri, and Kansas.

The goals of the Iowa Department of Agriculture for 2001 include building a department that can respond quickly and efficiently to changing global conditions in agriculture; increasing Iowa's agricultural market share both domestic and foreign, and assisting in the removal of unnecessary barriers to agricultural trade; developing and encouraging agricultural education and new avenues for Iowa producers to market their products; increasing the independent farmers' impact on the market; adding value in Iowa to agriculture by developing new products; creating a link for Iowa farmers with consumer-ready markets; preserving Iowa's precious soil; and improving water quality to ensure opportunities for future generations of Iowans.

While the Iowa Department of Agriculture sees its primary mission as improving the status of Iowa farmers, the Missouri Department of Agriculture has a broader mandate. According to its strategic plan, the department values a prosperous agricultural economy that will enable all Missourians to achieve a higher quality of life; the preservation and enhancement of its environment and agricultural resources; a market-based economy and a level playing field for all those involved; consumer confidence in a quality product at a fair price; and opportunities for personal growth, professional development, and organizational advancement.

The Kansas Department of Agriculture, by contrast, emphasizes its regulatory role. According to its mission statement, the department has established itself as the premier food safety, consumer protection, and natural resource protection agency in Kansas. This strong foundation enables it to more effectively advocate and educate on behalf of Kansas agriculture. The department, the mission statement adds, is, first and foremost, a regulatory agency. It is charged by law with ensuring the safety of the meat, milk, and

³ There is also, of course, great diversity in preferences at the sub-State level (Orazem et al., 1989). We do not consider devolution below the State level, but, in principle, any State could devolve to lower levels. In the case of TANF, some States (e.g., California) have devolved to the county level.

egg supply; the responsible and judicious use of pesticides and nutrients; the integrity of weighing and measuring devices in commerce; and the beneficial use of State waters.

The range of support for value-added agriculture also illustrates agricultural diversity among States. According to Kilkenny and Schluter (2001), States have a long history of using various means to increase the value of agricultural products, and all 50 States have at least one value-added agriculture program. To encourage value-added agriculture, States provide capital, entrepreneurial expertise, marketing, and other types of assistance. The level of assistance and the eligibility requirements for assistance varies. For example, some States require that aid recipients be located in rural areas, while other States target assistance at small businesses rather than rural areas. Given the diversity in agriculture across States, it is not surprising that States encourage different types of value-added agriculture. For example, 14 States encourage ethanol production and 8 States focus more exclusively on agricultural products. Finally, States differ in their methods of financing these programs. Sources of financing include bonds, revenues from income and sales taxes, user taxes, license fees, and severance taxes.

Advantages and Disadvantages Associated With the Devolution of Agricultural Policy

The differences in State approaches to agricultural policies imply differences in preferences across States. For example, some States emphasize environmental issues and, therefore, may want to employ more set-asides of agricultural land than current Federal programs, such as the Conservation Reserve Program. Conversely, other States may decide, based on the preferences of residents, that the costs of environmental improvements exceed the benefits. States in which many farmers are struggling financially and have limited opportunities to recover may choose to invest in job training and education to facilitate transitions from farming to other professions. Other States may view such setbacks as temporary and design subsidies to help farmers weather financial difficulties. Some States may view persons who recently left the farm sector as being under the purview of agricultural safety nets and thus provide them with assistance of some sort. Others may extend eligibility for assistance to current farmers only.

The varying uses of funds from tobacco settlements provide further evidence of different preferences among States with respect to farm policy. At least one State (Maryland) has offered to buy out its tobacco farmers, while other States, such as Virginia, have used the funds to provide economic assistance to tobacco farmers and tobacco-dependent communities. The preservation of farmland around metropolitan areas is regarded by some States as aesthetically important while other States view such farmland as a useful source of urban growth. States also differ in their perspectives on using development to improve conditions in rural areas. Johnson (2001) provides more information on federally designed rural development initiatives and the lack of recognition of diversity in rural areas. If agricultural policy is run at the Federal level, tailored responses to these and other specific local issues are more difficult to implement than if policy is run at the State level.

Still, some aspects of agricultural policy are better maintained at the national level. For example, the Federal Government can best address food safety issues arising from agricultural spillovers between States. Similarly, Federal management may be preferred in cases of environmental spillovers (e.g., when a river runs between two or more States). Given the current construction of international trade agreements, agricultural trade issues are also best handled at the national level because negotiations between individual States and foreign governments would be difficult.

As suggested earlier, programs that play a fiscal stabilizing or distributive role are best run at the national level. Neither of these categorizations appears to hold in the context of farm programs. Food security concerns are similar to fiscal stabilization insofar as, in difficult times, food insecurity may increase in the United States. However, international agricultural trade is pervasive enough that any shortfall in U.S. production can be easily remedied. In theory, agricultural policy does serve a redistributive role; however, empirically, the farm safety net primarily benefits wealthy rather than poor farmers. For example, 19.4 percent of limited-resource farmers receive safety net payments, while 60.5 percent of very large family farms receive safety net payments. The average amounts received by these farm types are similarly skewed—a little over \$2,000 for limited-resource farmers, compared with over \$32,000 for very large family farmers. Gundersen et al. (2000) provides more information on the distribution of farm safety net payments. The mobility of residents, which also factors into arguments for national-level policies, is less likely to apply to the farm sector, due to the relative lack of mobility of agricultural capital. Nelson et al. (1989) provides more information on asset fixity in agriculture.

The existing structure of USDA funding and program delivery already reflects, in a modest way, an appreciation of the gains from devolution. Differences in State and regional preferences for program priorities, as well as disparities in costs, are accommodated in some programs. Of course, as can be seen in agricultural research programs, the degree of devolution varies, with block grants to States existing alongside federally directed programs. Moreover, Federal administration can provide a measure of flexibility to States and localities without relinquishing control, as is the case with conservation programs. Still, as a starting point for discussion, it is worth attempting to draw a line between greater and lesser devolution in USDA programs.

In fiscal 2003 USDA's budget authority was about \$75 billion. This authority was distributed across seven "mission" areas that are aligned with the Department's strategic goals. These goals included expanding economic and trade opportunities; promoting health by providing access to safe, affordable, and nutritious food; enhancing the quality of natural resources and the environment; and supporting the ability of rural residents, communities, and businesses to prosper.

About \$2 billion of USDA's fiscal 2003 budget authority could be considered spent on devolved programs. This spending would include the portion of research funds (about \$650 million) distributed in formula-driven grants to States, competitive grants awarded by peer review processes, and special grants specified in annual appropriations. Another \$640 million, repre-

senting about 10 percent of spending on natural resources programs, was transferred to States and local governments for the awarding of grants and technical assistance through State and private forestry programs. In the rural development mission area, about \$5 billion worth of grants and direct and guaranteed loans (representing about \$660 million in outlays) went to community and investor-owned rural utilities and to State and local governments for infrastructure development. This breakout of devolved programs is meant to be illustrative, rather than definitive, as the degree of devolution is a rather subjective matter. A closer look at two of these programs helps explain the characteristics of devolution.

The Environmental Quality Incentives Program (EQIP) is a voluntary conservation program that addresses natural resource concerns based on State and national criteria. Community work groups help ensure the program reflects local needs and priorities. EQIP provides financial incentives and technical and educational assistance to help farmers and ranchers (1) mitigate or resolve soil, water, and related natural resources problems and (2) comply with environmental laws. The distribution of EQIP funds also reflects local environmental and conservation needs and priorities. Funding is allocated based on proposals submitted to the State conservationist and reviewed by the State Technical Committee, which comprises a team of conservation representatives. The State conservationist, with the State Technical Committee's input, selects proposals for funding. The selected proposals are called priority areas and are primarily natural resources based (most are watershed based).

The USDA Community Food Security Initiative, established by the 1996 Federal Agriculture Improvement and Reform Act (FAIR), is charged with "helping nonprofit groups, faith-based organizations, State and local government agencies, tribes, and individual citizens to fight hunger, improve nutrition, strengthen local food systems, and empower low-income families to move toward self-sufficiency." As the name of the initiative implies, these efforts are carried out at the local level. As part of this program, local agencies can apply for grants to implement initiatives they believe will help alleviate food insecurity at the community level. Food security is defined as having access at all times to enough food for an active, healthy lifestyle. Projects are funded from \$10,000 to \$25,000 and for 1-3 years. In fiscal 1996, \$1 million was available, and funds were authorized through the year 2002, at \$2.5 million per year.

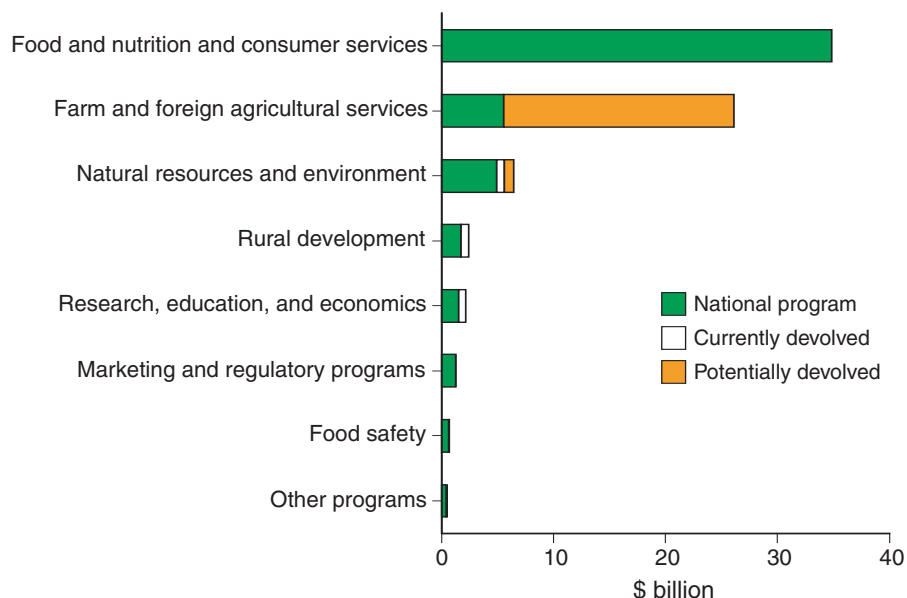
Funding of Devolved Programs

In its assumptions regarding USDA programs that should be considered for devolution, this study omits consideration of food assistance programs managed by the Food and Nutrition Service and the operations of the Forest Service. The aims of these programs are less directly related to goals associated with the food system and with farms and rural people and communities than the aims of other USDA programs. Moreover, because of the size of these two agencies, which together account for \$45 billion of the \$75 billion in USDA fiscal 2003 budget authority, and their scope, the consideration of devolution of these food assistance and forest system missions deserves separate attention.⁴

Following the logic of the theoretical argument about appropriate devolution, this study also excludes from consideration programs aimed at the provision of a public good or that involve substantial spillover of benefits or costs across States. Broadly speaking, operations and assistance intended to support food safety, animal and plant health protection, and interstate and international market regulation would thus not be candidates, nor would the portion of research spending on Federal intramural activities for information gathering. These programs represented \$3.5 billion of USDA outlays in fiscal 2001. The majority of the potentially devolvable funding is found in the domestic commodity and natural resource programs in rural development and housing programs. In addition to the \$2 billion already deemed to be devolved, about \$22 billion of fiscal 2003 budget authority could be further considered (fig. 2). The broad assumptions here are intended to help motivate further discussions about what represents appropriate devolution and to provide some notion of the considerable potential for devolution within existing USDA program and funding structures.

⁴ The devolution of income assistance under welfare reform and the retention of the Food Stamp Program as a Federal entitlement may be appropriate. Under welfare reform, States have the ability to experiment with the best way to assist low-income households, but they also have the assurance that the Food Stamp Program can provide relief to needy persons during a recession.

Figure 2
Assumptions regarding the extent of devolution, 2001



Source: Economic Research Service, USDA.

In general, if Federal programs are devolved to more local levels, program funding will derive from three sources. First, States could assume all of the fiscal responsibilities for these programs. This scenario represents a form of complete devolution and, in the absence of unfunded mandates, would lead to little Federal oversight of agricultural programs. Second, the Federal Government could provide lump-sum transfers to States, and States would bear any additional expenditures. TANF uses this funding mechanism. Third, the Federal Government could provide matching funds to States, where each dollar of State spending is matched to some specified level by the Federal Government. Funding for AFDC, the predecessor to TANF, followed this approach.

As noted earlier the Federal Government desires a role in some crucial areas of agricultural policy, and political pressures would likely keep at least a portion of the funding at the national level.⁵ Moreover, without Federal assistance, States heavily dependent on the farm economy would be particularly vulnerable to program shortfalls in the event of a downturn in the farm sector. Federal assistance enables all States to share the risks inherent in agricultural production. Sobel and Holcombe (1996) provide more information on the variability of tax bases over the business cycle.

Based on the assumptions that block grants are the funding mechanism and Federal funding remains at current levels, this study considers three possible methods for allocating monies to States. The first method maintains the current distribution of agricultural payments. Even in the absence of devolution, policymakers presumably consider some notion of the geographic distribution of agricultural payments. Allocations based on current distribution levels would reflect these considerations.

In the second method considered, monies are distributed in proportion to Hatch Act funding. Under the Hatch Act of 1887, amended in 1995, Federal funding for research at state agricultural experiment stations is allocated in the following manner: 20 percent is allocated equally to all States, not less than 52 percent is allocated based on the share of a State's total population in rural areas and the share of a State's total population living on farms, not less than 25 percent is allocated to multidisciplinary projects where a State works with one or more States on issues of concern to more than one State, and 3 percent is allocated to the administration of the Act. States must then match any Federal monies with their own funds. In the second method, it is assumed States' allocation of monies implicitly reflects the importance of agriculture in those States.⁶ Fuglie et al. (1996) provide more information on the Hatch Act.

Unlike the first two allocation methods, the third method does not use existing Federal guidelines. Rather, it bases the distribution of monies on the needs of farmers as defined by their income levels. Under this scenario, it must be ascertained how much money, by State, would be required to raise each farm household up to 185 percent of the poverty line in the absence of current Government payments. The sum of money for all States represents the national figure. This funding mechanism is similar to the funding mechanism used in other programs, such as TANF, where distribution levels reflect State need. It shall be noted that this study examines distributional

⁵ Except for funding levels, a discussion of the Federal role for devolved programs is beyond the scope of this paper. Nevertheless, we presume the Federal Government would continue to have some authoritative role. In some instances, this role would entail direct oversight of specific practices. For example, the Federal Government would presumably continue to enforce antidiscrimination laws. In other instances, the Federal Government would establish targets for States to meet but would not dictate how these targets would be met. As an example, the Federal Government may set maximum allowable pollution levels but may not dictate how these levels would be achieved.

⁶ Another proposal for the allocation of Federal funds comes from the National Association of State Departments of Agriculture (<http://www.nasda.org/joint/farmbill/allocation.pdf>)

issues only; the equity and efficiency associated with these distributions is beyond the scope of this paper.

These funding mechanisms are suggestive of possible distribution methods and were considered for their simplicity and precedents in existing programs. Clearly, any actual method of devolution would differ. In making such decisions, one would have to consider the incentives associated with alternative methods. For example, if States were to receive money based on the number of farmers (as at least partially done in the Hatch Act funding scenario), States may have an incentive to overstate the number of farmers. Of, if States were to receive money based on the crop mixture (as at least partially done in the current funding scenario), States may provide incentives to farmers to choose favored crops. While any choice of funding mechanism has the potential for opportunistic behavior at the State level, the current system of agricultural programs has numerous negative incentives. Gardner (1992) provides more information on negative incentives.

The funding scenarios here consider devolution to the State level. While regional devolution is possible, it is unusual in the United States, though common in other countries, such as Italy and Canada. Devolution to the States would allow State governors to determine the appropriate farm policy for their constituents and would encourage States to experiment with program design. Arguments for devolution cite its encouragement of democracy, that is, those responsible for programs can be held more accountable when control is at the local level (Inman and Rubinfeld, 1997). For example, in States with a substantial agricultural sector, the governor's performance in handling farm policy would be especially relevant to voters.

Many States already have the necessary infrastructure in place to manage agricultural programs. Table 1 simulates allocations of Federal funds to States under the three funding mechanisms considered in this section. The allocations are based on data from 1999, the most recent year for which the relevant data are available. Using the funding mechanism based on the current allocation of direct government payments, the five largest recipients of Federal agricultural payments in 1999 (Texas, Iowa, Illinois, Kansas, and Nebraska) would receive almost 40 percent of all devolved agriculture payments. The 10 largest-recipient States (adding Minnesota, North Dakota, Indiana, Arkansas, and South Dakota) would receive 62 percent of all payments. This devolution method roughly mirrors the distribution of production of the commodities traditionally supported by the Federal Treasury (i.e., wheat, feed grains, cotton, rice, and dairy).

When devolved Federal agricultural monies are distributed based on the Hatch Act method, the top five recipient States are North Carolina, Iowa, Pennsylvania, Ohio, and Texas. These five States would receive 17 percent of all devolved agricultural monies. The top 10 recipient States (adding Illinois, New York, California, Wisconsin, and Michigan) would receive 33 percent of all devolved agricultural monies.

When agricultural monies are devolved based on the funds needed to provide a safety net for low-income farm households, Texas, Kentucky, Missouri, California, and Iowa receive almost 30 percent of Federal monies. These States, plus the five next-largest recipients (Tennessee, Wisconsin,

Table 1—Allocation of Federal funds to States under three funding mechanisms

State	Current	Hatch Act	Safety net
	<i>\$ million</i>		
Alabama	203	525	566
Alaska	2	132	NA
Arizona	123	259	26
Arkansas	878	454	576
California	744	687	1,130
Colorado	420	346	324
Connecticut	10	245	2
Delaware	22	172	35
Florida	88	394	809
Georgia	412	638	543
Hawaii	1	170	NA
Idaho	239	281	196
Illinois	1,955	750	624
Indiana	926	664	601
Iowa	2,142	831	1,111
Kansas	1,580	454	673
Kentucky	262	669	1,148
Louisiana	470	423	321
Maine	13	244	42
Maryland	77	328	100
Massachusetts	12	287	145
Michigan	444	678	466
Minnesota	1,435	659	766
Mississippi	492	536	401
Missouri	786	629	1,141
Montana	557	281	282
Nebraska	1,510	442	649
Nevada	3	162	61
New Hampshire	5	192	102
New Jersey	11	378	50
New Mexico	105	216	340
New York	134	745	436
North Carolina	325	855	573
North Dakota	1,087	318	596
Ohio	717	785	543
Oklahoma	601	412	730
Oregon	121	381	187
Pennsylvania	108	818	424
Rhode Island	1	164	22
South Carolina	145	453	263
South Dakota	852	315	298
Tennessee	238	667	992
Texas	2,187	759	2,336
Utah	34	242	125
Vermont	14	193	98
Virginia	113	551	772
Washington	308	488	486
West Virginia	13	353	332
Wisconsin	553	678	964
Wyoming	46	206	119

NA = not applicable.

Source: Agricultural Resource Management Survey, 1999.

Florida, Virginia, and Minnesota), receive 47 percent of Federal monies. While, by definition, this scenario reflects the distribution of deprivation across States, it also roughly coincides with the number of farm households in each State. Four of the five largest recipients also have the highest number of farmers, and Kentucky has the sixth highest number. Out of the second 5 largest recipients, 3 are in the top 11 States with the highest number of farms.

The distribution of devolved payments differs quite dramatically among the three scenarios, both in terms of States that would receive monies and the distribution of monies. Only two States are in the top 5 in all three scenarios (Texas and Iowa), and four States are in the top 10 in two of the scenarios (Illinois, Minnesota, California, and Wisconsin). Sixteen other States stand to be in the top 10 depending on the allocation method.

As described in this section, the share of money received under each scenario by the 5 and 10 largest recipient States differs among the scenarios, with the 10 largest recipients receiving the highest proportion of monies under the current distribution, followed by the safety net distribution and the Hatch Act distribution. Examining these allocations by the differences between the largest and smallest recipients reveals further insights on devolution to the State level. Under the current distribution, the gap between the largest and smallest recipients of money is significant (i.e., Texas would receive \$2.2 billion while 14 States would receive less than \$50 million). The safety net distribution is somewhat less skewed: Texas would still receive the largest amount (\$2.3 billion), but only seven States would receive less than \$50 million. Under the Hatch Act distribution, the distribution gap among the States narrows even more. The biggest recipient, North Carolina, would receive \$855 million, while the smallest recipient, Alaska, would receive \$132 million. This lower variation between States under the Hatch Act is due, in part, to the 20 percent of Hatch Act funding allocated equally to all States.

The distribution of per farm benefits for the States also varies significantly by the choice of funding mechanisms (table 2). Under the current distribution funding mechanism, the average farmer would receive over \$35,000 in North Dakota, almost \$28,000 in Nebraska, and between \$24,000 and \$27,000 in Illinois, Kansas, and South Dakota. These States are also in the top 10 of total monies received under the current distribution funding mechanism. On a per farm basis, farm households in Florida, Kentucky, Pennsylvania, and Virginia do not fare as well—the average farmers in these States receive less than \$3,000. Per farm payments are more evenly distributed under the Hatch Act than under the current distribution method. Hatch Act payments range from \$15,000 in North Carolina to \$3,000 in Texas. Benefits under the safety net scenario are also more evenly distributed than under the current distribution mechanism. The average farm in North Dakota would receive about \$20,000, while farmers in Ohio, the State receiving the lowest payment, receive average payments of \$7,000.

Table 2—Per farm allocation of Federal funds to select States under three funding mechanisms

State	Funding mechanism		
	Current	Hatch Act	Safety net
	<i>Dollars</i>		
Arkansas	18,298	9,459	11,993
California	8,502	7,850	12,911
Florida	1,996	8,960	18,378
Illinois	25,058	9,612	7,993
Indiana	14,465	10,380	9,395
Iowa	22,552	8,746	11,698
Kansas	24,681	7,090	10,514
Kentucky	2,907	7,433	12,757
Michigan	8,547	13,029	8,968
Minnesota	18,162	8,337	9,700
Missouri	7,210	5,769	10,470
Nebraska	27,967	8,185	12,010
New York	3,522	19,593	11,473
North Carolina	5,706	14,994	10,053
North Dakota	35,875	10,504	19,655
Ohio	8,963	9,812	6,784
Pennsylvania	1,825	13,859	7,188
South Dakota	26,226	9,699	9,155
Tennessee	2,642	7,412	11,021
Texas	9,675	3,359	10,338
Virginia	2,297	11,243	15,751
Wisconsin	7,182	8,811	12,514

Note: States shown are among the top 10 recipients in at least one of the funding mechanisms.

Source: Agricultural Resource Management Survey, 1999.

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