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***THE ROLE OF THE STATE IN RURAL DEVELOPMENT:  
CONTRIBUTIONS OF THE AMERICAN EXPERIENCE***

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## ***1. INTRODUCTION***

The development and implementation of effective public policies and programs to revitalize agriculture and rural areas, providing on acceptable level of quality of life in rural areas, remain important concerns. Additionally, it is important to understand the implications of shifts in USDA and in other Federal policies and programs/projects upon agriculture, rural areas, communities, small towns, and families. Periodic farm bills (along with budget acts) remain the principal vehicles for policy changes related to agriculture, food and other rural issues.

In this sense, this work intends to give an overview of the USDA and other Federal level – assistance programs/projects and policies that contribute to the development of agriculture, rural areas and their population, improving their lives, conditions and economies.

## ***2. AGRICULTURAL POLICY IN THE USA***

According to Gardner (1995), agriculture is one of the most regulated sectors of the U.S. economy and has been for many decades. Also is one of the most heavily subsidized. Production of almost every commodity is affected by some governmental policy. Specifically, agricultural policy includes direct income transfers to farmers through price support and conservation payments; regulated production through acreage set-asides, marketing quotas and marketing orders, government-imposed quotas on imports and subsidization of exports, government sponsorship and funding of research and

extension activities, direct subsidization of inputs such as irrigation water and electric power, and demand enhancement programs for agricultural commodities such as foreign food aid, food stamps, and school lunches.

Most of these policies are covered in the 1985 Food Security Act and its successor, the 1990 Food, Agriculture, Conservation, and Trade Act, the two most recent major pieces of legislation.

The U.S. agricultural politics covers a wide spectrum of programs. In the last six decades, the U.S. has used a number of agricultural politics mechanisms to reach the desired objectives. The main domestic and external trade policies include price and income supports, supply control programs, politics of conservation and resources management, domestic food assistance, food aid to foreign countries, export assistance programs and import programs.

Because of the gradual increase in the importance of the agricultural trade to the health of American agriculture, domestic and foreign trade programs became an important part of the agricultural politics of this country. Such programs aim at supporting the levels of domestic price and income, to preserve natural resources and to compete in international market. The 1985 Food Security Act and the 1990 Food, Agriculture, Conservation, and Trade Act, show that economical and political existing situation have a strong influence on the agricultural politics of the United States (Fagundes, 1994).

The scheme for protecting farmers in the United States traditionally involves both price subsidies for farmers (institutionalized since the 1933 Agricultural Adjustment Act) and mechanisms for supporting their income through the so-called deficiency payments

scheme, or other measures whose value is related to land holdings (Wright & Gardner, 1995; Estudos de Politica Agricola, 1993). The two systems can operate simultaneously, in which case direct payments cover the difference between sustained prices and so-called target prices, which correspond to the return deemed adequate for farmers (Estudos de Politica Agricola, 1993).

Moves to restrict the system and edge prices closer to market levels (as attempted under the Reagan Administration) have run aground after proving politically unworkable. More recently (in 1990) the Farm Act has sought to move towards liberalization but in actual fact several programs involving exports subsidies have been extended, the most important being the Export Enhancement Program (EEP).

Beyond the farm bills, other recent legislation has increased income support for the agricultural sector, including Congress's response to the 1980-grain embargo by President Carter and the drought legislation of 1988. The 1980 Disaster Assistance Act provided benefits for producers who suffered losses in 1988 due to drought, hail, excessive moisture, or related conditions. This was the largest disaster relief measure in U.S. history up to that time (Gardner, 1995).

Several different mechanisms have been employed to sustain prices and secure incomes. There are also programs for scaling down production by which farmers are granted incentives to reduce the area under cultivation. On the whole, programs for sustaining prices are more important in sectors where exports either do not exist or else are so small as to make no difference to price levels (meat, dairy produce and sugar, for instance). In case of products with substantial exports (especially cereals), sustaining

prices is a much trickier business, involving dual price levels or export subsidies. Here, direct payments to farmers are usually preferred. (Estudos de Politica Agricola, 1993)

Just to show how important these mechanisms are, US outlays for farm price and income support increased from US\$ 3 billion in 1980 to US\$ 25 billion in 1987. These policies, which existed in the beginning of the 1980s are still firmly in place today (Moyer & Josling, 1990).

Mounting government stock-piles resulting from measures to sustain prices led to various schemes being created to distribute surpluses to social welfare programs, the aim being to offset the depressive effects these stocks had on the commercial market. These schemes involved the distribution of food stamps to low-income families and what have been termed foreign "humanitarian aid" programs, provided for by Public Law 480, introduced in 1954. In case of dairy products, especially, the fact that they are perishable means stockpiles of them are mostly allocated to social assistance programs. (Estudos de Politica Agricola, 1993)

The dispute between the United States and the European Economic Community (EEC) over the Community's CAP has in recent years led to the adoption of subsidies for North American agricultural exports, partly associated with EEP. Such measures have affected not only products that have been the object of clashes with the EEC but also the interests of third parties, such as Brazil, as in the case of poultry and soy by-products.

Compared with their counterparts in the EEC and Japan, American farmers are granted far fewer subsidies. Moreover, the level of subsidization has remained relatively stable, in contrast to an expansion trend in the EEC. The same applies to the level of

indirect taxation of consumers. Differently from the EEC (and even more so from Japan), the onus for agricultural protectionism tends to take the form of additional taxation and not of higher.

## ***2.1. HISTORY OF THE DEVELOPMENT OF AGRICULTURAL POLICY.***

During Abraham Lincoln's administration in the 1860s, agriculture made substantial progress in enlisting governmental support. The land grand act of 1862 provided federal land for establishing state agricultural experiment stations and colleges of agriculture and mechanical arts. The homestead acts provided federal land to settlers who would bear the costs of homesteading and working the land. The USDA was established and governmental support services in research, quarantine, and vocational education soon followed (Gardner, 1995).

This support was insufficient to remove agriculture's vulnerability to cyclical boom and busts. Therefore, farmers sought strong federal regulation of the economic forces they argued caused their problems: tight money and restraints on trade. Their proposed solutions took two main forms: the organization of cooperatives to better control their domestic markets and international protection through tariffs on imports and even dumping excess domestic supplies on world markets.

During the nation's most rapid development in the 30 years following the Civil War, the agricultural sector was a net debtor to the rest of the economy. This meant that the sector's wealth position would be positively affected by unanticipated general price inflation. Since agriculture was a net debtor, the sector favored "easy-money" policies that

produced inflationary conditions in the economy. But since the three decades following the Civil War were not inflationary but deflationary, net debtors sectors lost out relative to their creditors.

The period from 1910 to 1914 has been called the “Golden Age” for agriculture because of the favorable relationship between the prices farmers received and their production costs. These good times generally continued through World War I, stimulated in part by increased demand because of the war. However, in 1921 grain prices fell sharply, and farmers who had paid high prices for land in anticipation of favorable commodity prices could not make their mortgage payments and were foreclosed on by their lenders.

Given the sharp fluctuations in farm incomes as well as per capita incomes that fell below the average for their urban counterparts, agricultural producers asked for governmental aid in their behalf. However, before World War I this help was not granted in direct government subsidies and price supports that were characteristics of later programs. Aid would be sought more indirectly through macroeconomic policies such as low interest rates and promotion of foreign sales of agricultural commodities.

The promotion of cooperatives led to the passage of the 1922 Capper-Volstead Act, the 1926 Cooperative Marketing Act, and the 1929 Agricultural Marketing Act (AMA). The Capper-Volstead Act provided broad exemptions for agricultural cooperatives from antitrust provisions of the Sherman and Clayton acts. The Cooperative Marketing Act created the Division of Cooperative Marketing within the USDA. The AMA further promoted cooperatives and joint marketing efforts. Its aim was to extend the scope and strength of producer-owned and –controlled coops at a time when many were failing.



The AMA also created the Federal Farm Board, which was permitted to make loans to the coops for the purpose of stabilizing prices, the first direct government intervention that attempted to control supply getting to the market. These loans could be used to purchase and hold production off the market temporarily and to develop improved merchandising and distribution networks. Limited price insurance was also provided (Hoffman apud Gardner, 1995). The Federal Farm Board had a short life because in a period of rapidly falling prices, it paid more for the stocks it acquired than they could be sold for and the board soon ran out of its appropriated capital. It set the precedent for later governmental programs to control prices.

Legislation of 1920s also created marketing orders for many perishable commodities, such as milk, nuts and fruits. These orders were supply controls imposed by the federal government to raise prices. Marketing orders were unworkable for nonperishable crops such as cotton, wheat, rice and the feed grains. These commodities could be stored by farmers and sold on the market when prices were going up, hence negating the beneficial effects of the short-run supply control produced by marketing orders.

But even these government actions were insufficient income supporters to create parity between agricultural and nonagricultural incomes and stabilize the farming sector. While the worldwide depression deepened, when the Great Depression arrived, in the end of 1929, the protectionist pressures were strengthened, mainly in agricultural area, which was also in depression, culminating in the approval of Smoot-Hawley Law, when the American tariffs were raised.

According to Gardner (1995) when interventionist Roosevelt administration came to power in 1932, one of the first orders of business was massive income support to the agricultural sector via a myriad of federal programs of the kind that are still in existence nowadays. Also in that time the Agricultural Adjustment Administration was created, enlarging the possibilities of governmental intervention in agriculture (Coutinho, 1994).

Gardner (1985) states that the bulk of the current structure of agricultural policy which consists of price supports, acreage allotments and set-asides, marketing quotas, loans to farmers, and marketing orders was initiated in the 1930s as an integral part of the New Deal. Special attention was given to agriculture because of low farm incomes, falling commodity prices, and sharply diminishing land prices. However, many previous attempts had been made by government to aid the agricultural sector, since difficult times did not begin in that time. It has long been understood and accepted that the sector has certain characteristics that make it specially vulnerable to sharp cyclical swings of good times and bad, with the latest generally outnumbering and outlasting the former.

Moyer & Josling (1990) agree saying that US agricultural policy in the late 1980s was centered on a system commodity programs which had their origins in the Agricultural Adjustment Act of 1933. This piece of legislation, enacted in the midst of the Depression, when farm prices and incomes had collapsed, set the US government firmly on a course of regulating market to support the prices of a few farm commodities. Subsequent farm legislation, including the major statutes passed in 1939 and 1949, continued commodity price supports as the basis of US agricultural policy.

Price support policies worked fairly well during the Depression, the Second World War, and the immediate post-war period, when world supplies were tight because of the

war's devastation. However, they began increasingly to fail in the late 1940s and 1950s, when they became prohibitively expensive because of the enormous surpluses produced – partly stemmed from the production incentives of price support policies and partly from the revolution in farm technology, which took place during that era. By 1960, a combination of price supports, dramatic increases in crop yields, and the ineffectiveness or obsolescence of acreage limitations had generated record grain stockpiles, mostly under government ownership, causing high storage costs.

The Kennedy and Johnson administrations first sought better control of farm programs and their costs by imposing very strict acreage limitations as part of a broad supply management approach. The 1965 Agriculture Act changed farm income support in a way that to be eligible for farm program payments a farmer had to accept the planting restrictions established by the Secretary of Agriculture in the planting regulations of the current year. The Secretary could adjust these restrictions to increase or decrease production, based on existing stocks, projected demand and projected production during the coming crop year under various program and price assumptions.

The 1965 Agriculture Act cut farm program costs by creating incentives for reduced production and by creating an environment for increased exports. US agricultural price support programs, beginning with the 1933 Agricultural Adjustment Act, had sacrificed potential export markets by setting US prices well above market clearing levels. Exports required expensive subsidies. Introducing the two-price system in 1965, with the lower price (loan rate) set at or near market clearing levels, provided a strong impetus for rapidly increasing agricultural exports and dependence on the international market.

The 1970s were excellent years for farmers. Prices and incomes were high while government costs were low. However, the agricultural policy environment has changed dramatically from global shortage in the 1970s to global surplus in the 1980s.

This change in environment has had a number of manifestations in the USA. Farm production peaked while the export market soured. The declining trend in US food exports began after 1981. The sudden decline in farmer prosperity was unprecedented since the Depression years. At the same time, farm income dropped sharply and farmland values began to decline. The adverse farm economy created an environment, which put considerable public pressures on the government for relief. The US government had mixed incentives in responding to the farm crises. On the one hand, it had an incentive to help farmers in their plight. On the other, increased farm program costs presented real problems to the Reagan administration, which had entered office, dedicated to cutting taxes and spending. Throughout the decade, as farm program costs rose, one would have expected increasing government resistance to farmers' demands and increasing popularity of agricultural reform. But as Moyer & Josling (1990) argue, this did not happen.

President Reagan announced the Payment-in-Kind (PIK) program as a response to the developing farm crisis in January 1983 – another adverse year for agriculture. This program would provide payments to farmers of wheat, corn, cotton and rice (all crops in surplus) not to plant these crops in that year. This program would allow the administration to save on budget costs for storage, get rid of the surplus.

The 1985 Food Security Act reflected the national consensus that farm programs should be more market-oriented to reduce costs and to increase exports.

If, on the one hand the U.S. began to negotiate the diminishing of tariff protection since 1934, on the other in the previous year they had already created the first programs of farm support price. Since then the farmer assistance was intensified, being lowered only in mid of the 1980s, pressured by the high budget deficits that it caused. Despite the U.S. have been trying to re-direct its agricultural politics to free market basis, American farmers still rely on a wide variety of programs aiming at support the price of their products and their income. This happens because this re-direction is being done in a timid way, only freezing given assistance level, instead of its complete removal (Coutinho, 1994).

## ***2.2. OBJECTIVES, MAIN MECHANISMS AND INSTRUMENTS***

In general, the domestic politics of resources distribution of the industrialized countries to incite the development and the protection of the agricultural sector are based, mainly, in the argument of “supply guarantee at stable prices” – national safety and in the political strength of the agricultural lobbies of these countries. The arguments favorable to sector protection are still connected with objectives of people migration’s reduction to other sectors; countryside environmental protection; development promotion of related sectors (agribusiness, fertilizers, etc.); increase of agricultural sector productivity; and expansion of net agricultural trade (Coutinho, 1994).

To achieve the objectives of the agricultural politics, the industrialized countries have been creating, along the years, several instruments of agricultural politics, which are managed by their governments. Such instruments, may affect the domestic producers (farmers), the domestic consumers, and the trade (that affects both producers and

consumers), and the latter has consequences both in the country that enforces the mechanism, as in the other countries.

The means of price supports, deficiency payments, or other tied to land, quotas, or other assets with fixed supply comprise the major instruments of agricultural policy in the United States (Wright & Gardner, 1995).

The main objective of U.S. domestic agricultural policy is support prices and farmers' income, ensure consumers an appropriate supply of food and fibers at reasonable prices, assist low income families with food, and preserve land and water resources. Along the time, some disagreements related with the ways to reach these goals appeared. As U.S. economy became more complex, one began to accept the government role to actively help any sector in the Nation that have been adversely affected by weather conditions or by the development forces (Fagundes, 1994).

The specific reasons of the government involvement in the agriculture have changed along with the transformations in the nature of the agricultural matter and in the economic situations. Among the reasons presented to governmental intervention in U.S. agricultural sector is the perception that farmers constitute a group economically depressed. The main reason for this argument is the fact that they have a relatively unfavorable position in the market. There is also a perception that, in the absence of governmental intervention, there would be less stability in domestic markets of agricultural products, what would affect adversely both farmers and consumers. These justifications have become each day more controversial while the government costs increase, while the number of farmers decrease and while rural sector income is not anymore so low, compared to urban sector income.

These disadvantage that the farmers seem to have regarding the other professions stem from, partially, the organizational and biological characteristics of the agriculture its own. A great number of agricultural establishments produce homogeneous commodities, and each establishment has a very small share of the total produced. The production quantity also tends to be variable due to the weather conditions, what may result in great fluctuations in the agricultural prices and income. Moreover, the constant agricultural technological advances have resulted in a diminishing need of resources, mainly human, to supply the market. The basic problem of the American agricultural business sector have been the excess of capacity – with the exception of some relatively short periods, what one sees is an excess of resources producing an excess of commodities.

An important component to be reminded regarding government involvement with agricultural sector, in market economics context in U.S., is that programs focused on agricultural products, along with credit and the rural development, are intended for helping those who were unfavorable affected by development forces. These programs do not intend to stop the development forces. It has been a long time since it was recognized that the bigger farmers, more efficient and more aggressive will use the income gains to expand their agricultural operations. In promoting strong incentives to the production, the farmers individually will continue expanding their productions while the marginal or additional cost is bellow the support price. Matters regarding the structure of agricultural sector (if the sector is composed of a great number of small properties or of a small number of big properties, or what kind of assistance should less efficient properties have) can not be appropriately tackled solely with programs related to agricultural products.

### ***2.3. DOMESTIC AGRICULTURAL POLICY (INCLUDING JOINT-VENTURES BETWEEN USDA & STATE LEVEL)***

Fagundes (1994) suggests a way to measure the level of governmental support to the farmers: use the so-called Producer Subsidy Equivalent (PSE). PSEs are defined as a net assistance provided through market price supports and other government programs that benefit the agricultural sector, expressed as a percentage of total farm receipts (Gardner, 1995). The PSE value to a determined product represents the estimation of subsidies to the product resulting from various governmental policies, including mechanisms of income support, price intervention, trade assistance, among others (Fagundes, 1994).

If we use the PSEs as a way to measure the governmental support, we will see that this support in the U.S. has been reduced in the most recent years. The observed decline of the governmental support is due to the two latest Agricultural Bills (1985 and 1990), which are more market oriented.

The integration of the domestic agricultural and trade policies in the U.S. has become more and more obvious since the beginning of the 1980s. The Commodity surplus at that time, the financial crisis in countryside, the loss of position in international market in middle of that decade, the great 1988 drought, the assistance given to the former-USSR and to Eastern Europe and the incapacity to conclude negotiations in the General Agreement on Tariffs and Trade (GATT) have influenced U.S. agricultural politics and programs in the 1980s and in the beginning of the 1990s.



The governmental authorities have been trying for a long time to establish and to specify a formula to be applied in the calculation of the levels of price support and minimum price. The high production costs in the late 1970s persuaded the authorities to fix the loan values in higher levels compared to the international market prices, in the 1981 Bill. The result of the high minimum prices was a production stimulus around the world and caused the loss of U.S. competition in the international markets. The share of the U.S. in the international market was also reduced. To recover this share, the agricultural law in the middle of 1980s reduced the minimum prices, linking the price support levels to the market prices. The aim was to reduce commodities price until they reached international prices, in such a way that minimum prices no longer were used as a floor price. The current law maintains the linkage between minimum prices and market prices.

Farmers are also supported by direct payments, in the scope of the target-price program, created by the 1973 Bill. Target-prices are still the most important part of American programs of income level maintenance. During all of the 1980s and the beginning of the 1990s, political authorities discussed the formula to fix the level of the target-prices. Such a program, almost unrestricted, stimulated production. To avoid excess of supply, some programs aiming at reducing planted acreage were implemented. They set limits for acres that each farmer participating in the program can plant. The current law, the 1990 Food, Agriculture, Conservation, and Trade Act has provisions that permit a flexibility in planted area, in such a way that it limits the influence of target-prices and gives farmers a chance to choose which crop they want to plant according to their expectation of market return.

In the second half of the 1980s another mechanism of supply management was introduced, through the use of generic certificates. The aim was to increase the market

access to the government stocks, when the market needed, and also to reduce the fiscal expenses. The participants received their payments directly from the government, under the form of generic certificates of agricultural products. These generic certificates could be exchanged by commodities owned by the Commodity Credit Corporation (CCC) or then be used to pay loans. The generic certificate program enhanced the farmer capacity to plan his operations and strengthened the farmer's position in the market. It also reduced the default payment risk of the given loans to grains, and gave the participants the opportunity of using arbitration.

The generic certificates reduced the CCC stocks as well, and in turn the commodities were available for exportation. The generic certificates issued by the government were used as a bonus to the American exporters accepted in the Exports Enhancement Program (EEP). As the stocks level fell, the generic certificates are no longer used. However, they remain in the 1990 Bill as a discretionary mechanism.

## **I – Mechanisms that directly affect the domestic producers**

**a. Support of the Commodity Price and of the Production** – The U.S. government guarantees a minimum price to its agricultural products, stipulating ground-prices to loan or commodity purchase (known as loan rate or price support) (Coutinho, 1994).

The minimum prices are guaranteed through the stipulation of ground-prices to loan or commodity purchase (loan rate). In order to avoid prices falling below the minimum stipulated level, the U.S. government created a price support program, disposing loans to farmers and, in some cases, purchase agreements that allow them to store commodities in periods when prices are low to a future sell, when prices are higher.

The loan programs are financed by the Commodity Credit Corporation (CCC) and managed by the Agricultural Stabilization and Conservation Service (ASCS), of the USDA. The interest rate is determined by the Secretary of Agriculture.

Other mechanisms are the marketing orders, which are organized under the supervision of the USDA and provide a mechanism for groups of producers to control supply and, therefore, increase price. The rationale commonly given for these orders is to provide a stable marketing environment for domestic producers of perishable commodities such as milk, eggs, nuts, fruits, and vegetables. Such stability would reduce risk and induce to economic efficiency. Since perishable commodities cannot be stored for long periods of time, it is either impossible or very costly to support producers price by simply targeting prices and managing stocks of commodities such as is done by the CCC for storable crops like wheat, feed grains, cotton, rice, and oilseeds (Gardner, 1995).

**b. Support to farmer income** (direct payments) – Aiming at improving the competitiveness of its agricultural products or at protecting the farmer from the weather adversities, the U.S. government gives several subsidies in the form of direct payments to the farmer. Among these payments, are the deficiency payments, plantation diversion payments, loan deficiency payments, inventory reduction payments, support price reduction payments, land conservation payments, disaster payments for natural hazards such as killing frost, floods, and drought, and the advanced deficiency payments (Coutinho, 1994).

The deficiency payment was created by the Agriculture and Consumer Protection Act in 1973, when one tried to indicate a desirable level of market price (known as target price). The target-price of each product is calculated, considering the production cost that

the State wants to protect. The payment begins when the average price of the product in the first five months of the year stays below the target-price. That is, the government pays the farmer the difference between the market price and the target-price. The products eligible to receive deficiency payments are wheat, feed grains, but not oilseeds, cotton, and rice.

The loan deficiency payment rate began in 1985 and consists of the payment of the difference between the loan rate and the marketing loan, times the amount of product eligible to receive the loan. This kind of payment is offered to the producers who, although eligible, did not take loans from the government. It comes with the condition that they give up using the loans benefits and the purchases of their commodities offered by the government.

There are also the mechanisms of regulating the domestic supply and demand (planted area reduction program, land conservation program, area diversion program, inventory reduction program). In this case there are programs of production limitation, which are the conditions to get the benefits linked to the programs of price and farm income support. Indeed, except for some commodities, the farmers' participation in this program against the production surplus is the only way that allows them to use the "production subsidy" programs.

**II – Mechanisms that directly affect the consumers** (food stamp program) – Special programs to aid deprived people and newborn children and their mothers (Coutinho, 1994).

**III – Mechanisms of various support** – In the U.S. there is governmental support for natural catastrophes, storage expenses to maintain the CCC stocks, subsidized federal insurances for the harvest, land conservation, credits to the agricultural exploration, research to eliminate weeds, biotechnology investments, improvements of land productivity, etc (Coutinho, 1994).

## ***2.4. AGRICULTURAL TRADE POLICY IN THE USA***

This section was divided in two: Support Mechanisms to Exports and the Regulation Mechanisms to Imports.

### **2.4.1. Support Mechanisms to Exports**

The Law that created the CCC, in 1948 gives the USDA the authority to create and to manage foreign trade programs. The credit guarantees to exportation programs are authorized by that Law. The 1985 and 1990 Laws authorize the USDA to manage the EEP programs and the Target-Export Aid (TEA). The TEA program is now called Market Promotion Program (MPP), according to the Agricultural Law of 1990. The 1988 General Law of Trade, gave the president the authority to negotiate foreign trade agreements, within limited terms, without consultation to the Congress (Fagundes, 1994).

As already stated, the main objectives of the U.S. agricultural programs are: support to agricultural income, conservation and protection of the planted areas, and the competitiveness in the international markets. The trade agricultural policies, in the last three decades, have reflected the governmental intervention in the domestic market.

Though some domestic controls of supply programs have been adopted, like the planted area reduction, these have not been enough to compensate the effects produced by the programs of support to the agricultural products, in a sense to stimulate the production. When the commodities supply is abundant and the stocks are accumulated the exports subsidies are used. The government gives credit to stimulate the commodities sale, and increase the donations. The best example of a subsidy program to exports used in the 1980s and 1990s has been the EEP.

The purpose of the Title IV, about the Agricultural Trade, of the 1988 General Law of Trade and Competition, was: (1) to enhance USDA efficiency in the process of formulating and implementation of agricultural trade policy and to strengthen this Department, for it to help American farmers to participate in international agricultural trade, and (2) to promote competitiveness of American commodities and agricultural products in international market.

The 1990 General Law of the Budget Reconciliation, had a provision that provoke the concession of trade loans to wheat and feed grains, as well as programs that stimulated the exports. As the agreements with the GATT were not made, credits to trade were to be given to the 1993 harvest to wheat and feed grains.

The U.S. involvement in the international trade depends upon both economical as well as political conditions, domestic and abroad. The government objectives and the levels of involvement change from time to time, as long as these conditions change. The objectives, in the 1940s, 1950s, and 1960s were to find a place to put the commodities surplus, give food assistance, for humanitarian reasons, and stimulate the market development in the long run. In the 1980s, the purposes of these programs and initiatives

included the enlargement of the market share, the search for new markets, the guarantee of the food needs and the increase in the U.S. bargain power in the GATT trade negotiations.

The export aid in the U.S., before the 1960s, stemmed from the domestic agricultural surplus. To increase the sales and to drain off commodities surplus, the government subsidized the prices, gave loans of short and long term and donated commodities to the needy nations. After World War II, the U.S. export programs were seen as a way to mitigate the shortage of food in other countries. These exports were financed with grants and loans from the U.S. The CCC was also allowed to donate the commodities surplus to the abroad governments, in the 1949 Agricultural Law.

The CCC stocks exchange for strategic commodities was allowed as well. The programs aiming at the removal of commodities surplus also foresaw sales abroad, in change of foreign currency. To make the competition in the international market easy, export subsidies were adopted. During the 1948-54 years, subsidy programs to wheat export were implemented. The export subsidies were essential, because the price of the U.S. commodities were above the international price. Among the other governmental programs are the sales in privileged conditions and the donations carried out after the 1954 Law of Development and Aid to Agricultural Trade (PL 480). The PL 480 was promulgated aiming at having the use of the surplus commodities of CCC and developing new markets to the U.S. commodities.

The diminishing participation of the United States in international agricultural trade, in the beginning of the 1980s, brought about the need of a Law that promoted export growth. To stimulate exports, the USDA gives credit guarantees to banks, which finance

agricultural sector exports in the United States. According to these credit guarantee programs to exports, U.S. exporters or their financial agents receive the payments if the buyers do not pay. These programs reduced financial risks faced by exporters and their banks.

One of the objectives of the 1990 Agricultural Law is to promote a greater exports volume and at the same time reduce the need for governmental assistance. On average, 80% of the U.S. agricultural exports do not receive governmental assistance.

**a. Support mechanisms to exports** – The United States uses several mechanisms to incentive their exports, such as credit concession to carry out the export, guarantee of receiving the export payment, prizes/or discounts/rebates in CCC commodities to market in the foreign trade, etc. Among them, the most important are: Program of Credit Sales to Foreign Countries; Sales at Negotiable Prices; Program of Intermediate Credit Sales of Animals Intended to Procreate; Programs of Guarantee Receiving Credits Related to the Export; Export Enhancement Program; Trade Incitement Program; and, Foreign Agriculture Service.

Since the promulgation of the Food, Agriculture, Conservation and Trade Act of 1990, the U.S.A addressed, for the period 1990-95, \$54 billion to support their agricultural programs (domestic and foreign as well). Moreover, it was already determined that, in case of negotiations in GATT do not get succeed, the stipulated values to promote the U.S. agricultural exports would be raised to \$1 billion per year, from 1994 on (Coutinho, 1994).



**b. Food Aid Assistance in the U.S.A (PL-480) or Consenting Sales Program –** The government finances the sales, in the long term with interests that vary according to the needs of an import country. This aims at expanding foreign markets to U.S. agricultural products, fighting against hunger and encouraging economical development in developing countries. Besides sales, donations are also made in this program (Coutinho, 1994).

Food assistance is given through the PL 480, or the Food for the Peace Program, and also through the 1949 Agricultural Law (Section 416b). The PL 480 was approved in 1954, and at that time it was seen as a surplus draining off program. In 1966, this perception was changed with the approval of the Food for the Peace Law. According to Title 1, The United States was supposed to give long term low interest rates for the acquisition of U.S. agricultural commodities. The foreign currency produced by these sales was used to assist the economic development of the buyer countries, so that they could increase their production, improve the conditions of storage, transportation and other installations required for agricultural production. The 1990 Law about Food, Agriculture, Conservation and Trade renewed the authorization and added some new activities (Fagundes, 1994).

To help developing countries that did not have a strong currency, sales could be carried out in another currency. These sales were subsequently substituted by credit sales. In the 1973 fiscal year, the long-term financed sales represented 68% of total sales, in the PL480; the sales in foreign currency and donations made up the remaining 32%. The 1990 Agricultural Law once again authorized the government to government sales, in favored conditions, with the maximum expiration date to reimburse being 30 years.

The United States is the biggest food donator in the world. Since 1980 it has sent more than US\$ 13 billion abroad in agricultural commodities, under favored conditions sales. In 1999, the United States sent more than 9.5 million tons of commodities (around \$2 billion dollars) to poor countries as part of its Food Aid programs.

Around 80% of U.S. food donations are addressed to developing countries. During the 1950s and 1960s, Asia and Latin America were the main beneficiaries. During the 1970s and 1980s, Subsahara Africa was one of the greatest beneficiaries. Other countries that benefited since the beginning of the donation program include India, Morocco, Pakistan, South Korea, Egypt and Bangladesh. Wheat and its derived forms are responsible for around half of the U.S. food donations. Other products are vegetable oils, food grains and related products and composed food. Around 3/5 of the U.S. food donations are made through U.S. volunteer and nonprofit institutions, like CARE, Catholics Assistance, Worldwide Service of Churches.

The 1990 Agricultural Law created the Food for Development program, which foresees food donations from government to government to less developed countries. Around 14 countries received this kind of assistance in 1992. Another program, Food for the Progress, provides commodities to needy countries to encourage them to implement agricultural reform. The 1990 Agricultural Law adds to the category of potential beneficiaries, private volunteer organizations, nonprofit agricultural organizations and cooperatives. The countries benefited with this assistance in 1992 and 1993 included Albania, Nicaragua, Panama, Georgia, Poland, Russia, Armenia, Ukraine.

**c. Short and Long Term Programs of Credit Sales to Foreign Countries, or Programs of Trade Credit Guarantee and Export Stimulus** – These are used to increase U.S.

agricultural exports, to help it compete in international markets and to help developing countries to satisfy their food and fiber needs. (Coutinho, 1994)

The U.S. government has used credit guarantees as a way to help exporters to face external competition and to stimulate importer countries to buy U.S. export commodities. The CCC Program of Credit Export Sales was first created in 1956 to finance trade exports coming from private stocks. The General Sales Management (GSM) program assures the commercial banks that the U.S. government will pay 98% of debts if borrowers do not pay. As most of the GSM beneficiaries are considered low risk, the offered credit for this program is basically subsidized (Fagundes, 1994)

The Foreign Agricultural Service within the USDA has two Credit Guarantee Programs to the CCC. The Programs of Credit Guarantee to Exports (GSM 102 and GSM 103) allow foreign buyers to buy agricultural commodities from U.S. exporters with loans provided by commercial banks. The Program of Credit Guarantee to Exports (GSM 102), in force since 1981, guarantees credit refund for up to three years. The 1985 Law of Food Security authorized the Intermediate Program of Guarantee to Export (GSM 103), which assures the refund of provided private credit given from three to ten years. The guarantees offered by the CCC reduce the risks that commercial banks face because of default borrowers. If such guarantees did not exist, private banks would be reluctant to finance these purchases. Both the GSM 102 and the GSM 103 are intended to help the target-countries to pay loans they made to buy agricultural commodities. These two programs were responsible for more than 50% of government total sales in the 1980s.

The 1990 Agricultural Law allocated more resources to the GSM 102. In 1992 and 1993, around 35 countries used the program. The Programs of Credit Guarantee to Exports have become more important in later years.

At the beginning of the EEP, exporters received export bonuses through generic certificates, which could be recovered in exchange for excess commodities belonging to the CCC. Nowadays, the EEP bonuses are given in cash because of the low level of government stocks. The bonuses make U.S. exporters more competitive in target-countries. They cover the difference between the sale price to the target-country and the paid price in U.S. domestic market.

Since its inception, the EEP has already carried out 147 initiatives in 101 countries. Up to July/1993, it had sold more than 135 million tons of wheat, more than 12 million tons of barley, more than 442 thousand tons of barley malt and more than 861 thousand tons of rice. It also sold frozen poultry products, eggs, vegetable oils, canned peaches, dairy cattle and poultry food. From 1985 to 1993, sales surpassed \$18 billion.

**d. Sales at Negotiable Prices - Commodities** belonging to the *Commodity Credit Corporation* are sold, at negotiable prices to private entities or at stipulated prices when the negotiation is from government to government (Coutinho, 1994).

**e. Short (GSM-102) and Long Term Programs of Credit Receiving Guarantees to Export (GSM-103)** - The CCC assures protection to the exporter against the risk of not receiving loan credits given to foreign banks (used to sell any U.S. agricultural commodity) (Coutinho, 1994).

**f. The U.S. Export Enhancement Program (EEP)** - This was initiated by the U.S. government in 1985 to counter the loss of markets to the EU due to its heavy export subsidies. EEP initiatives target virtually every market where U.S. producers face what were perceived to be unfair EU subsidies in sales of certain agricultural products. The 1990 Food Agriculture Conservation and Trade Act (FACTA) includes reauthorization of the EEP up to 1995. It continues the USDA policy of not issuing new EEP initiatives that would adversely impact the agricultural exports of nonsubsidizing competitors (Gardner, 1995).

Nowadays, the United States offers subsidized sales to third markets, as long as they are not subsidized. Using this strategy, the U.S.A intends to encourage other exporter countries to remove subsidies when negotiating (Coutinho, 1994).

**g. Market Promotion Program (MPP)** – This was formerly the **Target** Assistance Program (TEA), designed to develop, maintain and expand markets, as well as being used to counterattack or to cancel the effect of unfair trade practices (Coutinho, 1994).

**h. Foreign Agriculture Services Abroad (FAS)** – Several offices, abroad, designated to promote the exports in cooperation with the foreign trade associations, through a number of programs of agricultural sector development (Coutinho, 1994).

#### **2.4.2. Regulation Mechanisms To Imports (Tariffs, Quotas, Additional Rights)**

The United States maintains high level of tariff protection to the agricultural products in which the domestic production is competitive (meat, fruits, vegetable, cotton

and sugar) (Coutinho, 1994). The US tariff on orange juice is 40%; on yogurt and ice cream, 20%; dried egg yolks, 22.3%; fresh cabbage, asparagus, and broccoli, 25%; carrots, 17.5%; cantaloupes, 35%; and soybean and cottonseed oil, 22% (Gardner, 1995).

Besides this tariff protection, the United States got a waiver from GATT, which allows the imposition of quantitative restrictions and additional rights over farming and agriculture products, when these imports are damaging to its domestic programs. These restrictions can be specific or general, being regulated by Section 22 of the Agricultural Adjustment Act of 1933. (Coutinho, 1994).

According to Gardner (1995) the U.S. International Trade Commission (ITC) studied U.S. farm import quotas to estimate what the tariff equivalents of the current quotas would be. ITC's conclusions were that the sugar quota was equivalent to a 233% tariff; butter, a 190% tariff; cheddar cheese, a 132% tariff; and non-fat dry milk, a 142% tariff.

Several investigations anti-subsidies and antidumping established by the U.S. also lead to the imposition of compensatory rights and antidumping, reducing the competitiveness of the foreign products in its domestic market.

The fitosanitary norms are also very rigid in that country and, sometimes, act as a strong inhibitor of a product's entrance in its market. For example, they do not allow the import of Brazilian *in natura* meat (a problem related to the aftosa fever). The U.S. also required that mango passes by some technical process to avoid the "fruit-fly" problem.

Several laws and trade agreements have mechanisms that affect the imports. These are affected directly through tariffs and non-tariff devices, like the import quotas. The import tariffs in the U.S. are low: in 1989, to all the agricultural and non-agricultural products, the weighted average was around 5%; to all the agricultural products the average was 3%. The U.S. tariffs depend upon the commodity: some fruit and vegetable imports may have general tariffs that reach the 25%, like the Brussels sprout, or have a zero tariff, like apples.

In general, the U.S. tariffs may be classified in two groups: general and special. The general tariffs are those applied to the most favored nations (MFN), and the special are those that have a special tariff treatment because of priority programs, like the General System of Preferences (GSP), the Caribbean Basin Economical Recovery Act (CBERA) and the Free Trade Canada-USA Agreement.

There are also special tariffs applied to those countries that do not receive from the U.S. the MFN treatment. The United States use the GSP programs to give a priority treatment to some developing and less developed countries. A developing country is excluded of GSP treatment when it becomes competitive regarding U.S. producers or when it becomes responsible for more than 50% of U.S. total imports of a certain product. Mexico, for instance, does not have GSP treatment in case of tomatoes (during the winter) cauliflower, Brussels sprout, guava and mango.

In 1991, the United States imported US\$ 29.3 billion of eligible products to GSP treatment, which meant 6% of total U.S. imports. From total GSP imports, US\$ 13.7 billion were non-tariff imports, equivalent to 2.8% of total U.S. imports. In 1990, the main beneficiaries by GSP were Mexico, Malaysia, Thailand, Brazil, Philippines, India, Israel,

Argentina and Indonesia. The share of eligible imports to GSP in each country varies from 44% to Mexico, 33% to Brazil and 19% to Indonesia (Fagundes, 1994).

In 1990, the United States introduced tariffs quotas mechanisms to sugar imports, in substitution to import quotas. The Agricultural Adjustment Law of 1933 allowed the United States to maintain import quotas to dairy products, peanut, cotton, and some products that contain sugar. The 1979 Meat Import Law also authorizes the United States to maintain import quotas to fresh, cool, and frozen meat of cattle, veal, lamb and goat.

### ***3. US AGRICULTURAL PRODUCTION AND INTERNATIONAL TRADE***

The United States is the main agricultural producer in the world, participating in 1988 with 12.6% of the world production (in terms of value). However, the importance of U.S. agricultural sector in the world scene as a great net exporter has appeared only since 1960 and, particularly, since 1972. In the majority of years between World Wars the United States was an agricultural net importer (Coutinho, 1994).

**TABLE 1 - Imports and Exports of Agricultural Products and Food (Except Fish), World and United States, 1997**

	(million dollars)					
	IMPORTS			EXPORTS		
	World	USA	Part.	World	USA	Part
Total Agricultural Products	4.568.434	418.645	9,16	4.379.070	573.517	13,10
Food Except Fish	3.091.121	244.435	7,91	2.952.653	384.063	13,01

Source: FAO Trade Yearbook, 1998.

The reasons for such changes are various, but the most important are an intensive and well conducted agricultural policy and development of modern technologies in



agricultural area. Part of this development may be considered a consequence of agricultural policies, carried out by the government (Coutinho, 1994).

Although the participation of agricultural sector in the U.S. GDP is not so high – in 1990 it was 2,3% - its volume is immense. The main products, in value terms, are corn, hay, soybeans, wheat, cotton, potatoes, tobacco, rice, sugarbeets, peanuts, apples, grapes, lettuce, and oranges. The next tables, 2 and 3 show data about the main crops in the USA, since 1994 up to 1999.

**TABLE 2 – Value of Crop Production, for Principal Crops, United States, 1994-99**

(billion dollars)

YEAR	FIELD AND MISC. CROPS	FRUITS AND NUTS	COMMERCIAL VEGETABLES	TOTAL VALUE
1994	78,334	10,121	8,347	96,803
1995	82,176	10,859	9,167	102,203
1996	88,452	10,446	8,353	108,253
1997	83,886	12,835	9,321	106,041
1998	70,572	11,212	9,426	91,211
1999	65,572	12,293	9,208	87,073

Source: USDA web page.

**TABLE 3 – Selected Field Crops: Acreage, Yield, Production, Price and Value, United States, 1994-99**

<b>CROP AND YEAR</b>	<b>HARVEST ACRES</b> (thousand)	<b>YIELD PER ACRE</b> (units)	<b>TOTAL PRODUCTION</b> (thousand units)	<b>AVERAGE PRICE</b> (dollars per unit)	<b>TOTAL VALUE</b> (thousand dollars)
Corn(1)					
1994	72,514	138.6	10,050,520	2.26	22,874,154
1995	65,210	113.5	7,400,051	3.24	24,202,234
1996	72,644	127.1	9,232,557	2.71	25,149,013
1997	72,671	126.7	9,206,832	2.43	22,351,507
1998	72,589	134.4	9,758,685	1.94	18,922,084
1999	70,537	133.8	9,437,337	1.90	17,949,707
Cotton(2)					
1994	13,322	708	19,662	0.720	6,796,654
1995	16,007	537	17,900	0.765	6,574,612
1996	12,888	705	18,942	0.705	6,408,144
1997	13,406	673	18,793	0.662	5,975,585
1998	10,684	625	13,918	0.617	4,119,911
1999	13,425	607	16,968	0.471	3,836,490
Potatoes (3)					
1994	1,385	339	469,425	5.56	2,593,446
1995	1,376	323	445,099	6.75	2,995,711
1996	1,426	350	499,254	4.91	2,423,476
1997	1,354	345	467,091	5.64	2,622,621
1998	1,388	343	475,771	5.56	2,633,198
1999	1,333	359	478,398	5.84	2,782,762
Rice (4)					
1994	3,316	5,964	197,779	6.78	1,336,570
1995	3,093	5,621	173,871	9.15	1,587,236
1996	2,804	6,120	171,599	9.96	1,690,270
1997	3,103	5,897	182,992	9.7	1,756,136
1998	3,317	5,669	188,051	8.89	1,686,580
1999	3,562	5,908	210,458	6.00	1,257,071
Soybeans(5)					
1994	60,809	41.4	2,514,869	5.48	13,746,071
1995	61,544	35.3	2,174,254	6.72	14,599,145
1996	63,349	37.6	2,380,274	7.35	17,439,971
1997	69,110	38.9	2,688,750	6.47	17,372,628
1998	70,441	38.9	2,741,014	4.93	13,493,891
1999	72,476	36.5	2,642,908	4.75	12,451,149
Tobacco (6)					
1994	671	2,359	1,582,896	1.758	2,779,056
1995	664	1,914	1,269,910	1.820	2,307,168
1996	733	2,072	1,518,704	1.882	2,853,739
1997	836	2,137	1,787,399	1.802	3,217,176
1998	718	2,062	1,479,867	1.828	2,700,795
1999	644	1,980	1,275,438	1.831	2,329,397
Wheat (7)					
1994	61,770	37.6	2,320,981	3.45	7,968,237
1995	60,955	35.8	2,182,708	4.55	9,787,766
1996	62,819	36.3	2,277,388	4.3	9,782,238
1997	62,840	39.5	2,481,466	3.38	8,286,741
1998	59,002	43.2	2,547,321	2.65	6,780,623
1999	53,909	42.7	2,302,443	2.55	5,903,501

Source: USDA web page.

- (1) Total production in bushels and yield per acre in bushels.
- (2) Total production in bales and yield per acre in pounds.
- (3) Total production in hundredweights.
- (4) Total production in hundredweights and yield per acre in pounds.
- (5) Total production in bushels and yield per acre in bushels.
- (6) Total production in pounds and yield per acre in pounds.
- (7) Total production in bushels and yield per acre in bushels.

The impact of U.S. agricultural sector in world market can be measured through its share in world exports of certain agricultural commodities. Since 1976, the value of U.S. exports of agricultural products exceeded any other country value (i.e. not considering the economical blocks). These exports' participation in world total exports was particularly strong at the end of the 1970s and beginning of the 1980s (more than 18.5%) declining to 14,1% in 1985-89 period (Coutinho, 1994).

The main competitors were another developed countries, specially the EC, whose participation in the world market of agricultural exports was significantly increased after 1983. Developing countries lost market shares during last decade, continuing the decline initiated since mid-1960's. Many exporters of agricultural products, who compete with United States in international market, diminished their participation in that market in the last decade, including Argentina, Brazil, Canada and Australia.

With changes in U.S. federal programs, after promulgation of 1985 Food Security Act, the United States began to compete more aggressively in export markets and its competitive position has stabilized after 1986. In that time the Export Enhancement Program (EEP) was created and the Market Promotion Program (MPP) was even more aggressive, later on its name was changed to Target Assistance Program (TEA). With this, the value of agricultural exports has increased since that year, departing from \$26.3 billion to \$49.1 billion, in 1999 (Coutinho, 1994 and USDA web page).

The U.S. agricultural trade is mainly addressed to Asia, Western Europe and Latin America. Japan, Canada, Mexico, Korea, Netherlands, and German are the main buyers (Coutinho, 1994).

According to USDA data, the most important products, in terms of value, exported by the United States in 1999 were beef and veal, chickens, cotton, fresh fruits, corn, rice, wheat, oilseeds, tobacco and fresh vegetables.

The United States are also one of the most important world importers of agricultural products, spending \$37.4 billion in 1999 fiscal year (USDA web page). However, in the 1960s, the U.S. were responsible for more than 11% of total imports of agricultural products and, in the following decade, its share in these imports fell to 8%. In the first years of the 1980s, this decline was even greater and, only after 1988, U.S. imports began to increase, although did not reach the 1960s level (Coutinho, 1994).

The United States are the main importer of coffee, cacao, tea and spices, tobacco, beverages, chocolates and candies (based on the 1985-89 average). Also it is the second most important importer of fruits, greens and vegetables. It is important to say that almost all the non-competitive products, in its primary form, have free tariffs, this does not happen with them when they are processed.

The main products imported by the U.S.A. in 1999 were live cattle, beef and veal, pork, cheese, biscuits and wafers, fruit juices, sugar (cane or beet), wine, mal beverages, nursery stock, coffee and rubber. And the main supplier countries to U.S. imports, at the same year were, Canada (21,09% of total U.S. imports), Mexico (12,89%), France (4,18%), Brazil (3,84%), Italy (3,81%), Netherlands (3,72%), Colombia (3,18%), Indonesia (3,16%) and Australia (3,03%) (USDA web page).

The next two tables, 4 and 5, show the development of exports and imports of agricultural products, since 1989 up to 1999, in indexes.

**TABLE 4 – Agricultural exports: Quantity Indexes, United States, 1989-99**

(year 1987=100)

YEAR (1)	TOTAL (2)	MEAT AND MEAT PRODUCTS	ANIMAL FATS	DAIRY PRODUCTS	POULTRY AND POULTRY PRODUCTS	COTTON AND LINTERS	TOBACCO UNMANUFACTURED	GRAINS AND FEEDS	VEGETABLE OILS AND OIL-SEEDS	FRUITS AND VEGETABLES
1989	106	162	113	63	109	111	100	110	75	119
1990	113	163	104	46	148	127	112	114	83	142
1991	108	175	96	19	165	119	123	98	76	155
1992	121	207	115	62	204	114	126	105	100	175
1993	122	217	112	81	251	87	118	108	101	178
1994	117	246	110	75	345	122	101	92	84	186
1995	148	305	144	69	475	154	101	122	121	197
1996	145	349	115	63	581	127	112	113	106	198
1997	145	340	87	46	633	123	122	96	119	209
1998	146	386	112	56	667	119	107	90	129	208
1999	142	385	115	53	597	69	105	107	118	206

Source: USDA web page.

(1) Fiscal years Oct. 1 – Sept. 30, 1999: preliminary data.

(2) Excludes quantities not in metric tons; accounts for 86% of total value of U.S. agricultural exports in 1987.

**TABLE 5 – Agricultural Imports: Quantity Indexes, United States, 1989-99**

(year 1987=100)

YEAR (1)	TOTAL (2)	NON-COMPETITIVE (3)	COMPETITIVE (3)	DAIRY PRODUCTS	HIDES AND SKINS	MEAT AND MEAT PRODUCTS	WOOL EXCLUDING FREE IN BOND	GRAINS AND FEEDS	VEGETABLE OILS AND OIL-SEEDS	SUGAR CANE OR BEET	TOBACCO UNMANUFACTURED
1989	98	101	96	99	80	87	93	126	111	140	76
1990	107	113	104	118	61	91	67	132	120	149	86
1991	106	104	107	110	51	95	84	139	119	150	96
1992	113	122	107	108	62	91	84	161	122	137	162
1993	114	116	113	115	62	90	93	165	136	132	164
1994	117	110	121	131	62	93	87	253	170	137	135
1995	113	105	117	124	62	84	85	225	163	132	95
1996	122	117	125	124	62	82	71	220	164	230	115
1997	133	122	139	124	62	91	53	264	196	248	151
1998	137	127	143	129	62	98	67	270	213	183	107
1999	142	134	147	164	62	112	34	285	192	143	97

Source: USDA web page.

(1) Fiscal years Oct. 1 – Sept. 30 ; 1999: preliminary data

(2) Excludes quantities not in metric tons; accounts for 86% of total value of U.S. agricultural exports in 1987.

(3) Competitive agricultural imports consist of all imports similar to agricultural commodities produced commercially in the USA, together with all other agricultural imports interchangeable to any significant extent with such U.S. commodities. Non-competitive agricultural imports include all others, about 90% of which consist of rubber, coffee, tea, cacao beans, raw silk, wool for carpets, bananas, spices, and vegetable fibers.

As it is possible to see, both in exports as in imports, there is a trend of increase the trading quantities by the United States in the last decade.

#### ***4. THE ROLE OF USDA IN RURAL DEVELOPMENT***

The relevant legislation that sets policy guidelines is administered by the executive branch, mostly but not entirely under the supervision of the U.S. Department of Agriculture (USDA) (Gardner, 1995). USDA plays the lead role in the development of farm policy and is one of the Federal Government institutions that are concerned with rural development. The goal of USDA's Rural Development mission area is to help the people of rural America develop sustainable communities and improve their quality of life. USDA believes rural Americans have a right to the same quality of life as is enjoyed by people who live in suburban and urban areas. In that way, USDA Rural Development is committed to helping improve the economy and quality of life in all of rural America.

Through its programs, it deals with rural America in many ways. Its financial programs support essential public facilities and services including water and sewer systems, housing, health clinics, emergency service facilities and electric and telephone service. It promotes economic development by supporting loans to businesses through banks and community-managed lending pools. It offers technical assistance and information to help agricultural and other cooperatives get started and improve the effectiveness of their member services. It also provides technical assistance to help communities undertake community empowerment programs.

The USDA Rural Development Program is making efforts to eliminate substandard housing from rural America by helping rural people buy, build or rent decent housing. It also creates jobs by funding the growth and creation of rural businesses and cooperatives. According to USDA, in a typical year, Rural Development programs create or preserve

more than 150,000 rural jobs, enable 40,000 to 50,000 rural Americans to buy homes and help 450,000 low-income rural people rent apartments or other housing.

Rural Development also has programs that help rural communities build or improve community facilities, such as schools, health clinics and fire stations, and others that help rural communities build or extend utilities, including water, electricity and telecommunications services.

USDA Rural Development programs are delivered through three of its sister agencies: Rural Utilities Service (RUS) which addresses rural America's need for basic services such as clean running water, sewers and waste disposal, electricity, and telecommunications. The Rural Housing Service (RHS) that cares about rural America's need for single-family and multi-family housing as well as health facilities, fire and police stations, and other community facilities. And finally, the Rural Business-Cooperative Service (RBS) which provides help to rural areas that need to develop new job opportunities allowing businesses and cooperatives to remain viable in a changing economy.

Program assistance is provided in many ways, such as direct or guaranteed loans, grants, technical assistance, research and educational materials. To accomplish its mission and revitalize rural areas, USDA Rural Development often works in partnership with state, local and tribal governments, as well as rural businesses, cooperatives and nonprofit agencies. Rural Development programs are provided across the Nation through 47 state offices and 800 area and local offices.

#### ***4.1. RURAL BUSINESS AND COOPERATIVE SERVICE PROGRAMS***

The mission of the Rural Business-Cooperative Service is "to enhance the quality of life for rural Americans by providing leadership in building competitive businesses including sustainable cooperatives that can prosper in the global marketplace."

In order to achieve these goals they invest financial resources and provide technical assistance to businesses and cooperatives located in rural communities; and, establish strategic alliances and partnerships that leverage public, private, and cooperative resources to create jobs and stimulate rural economic activity.

The goal of Rural Business-Cooperative Service (RBS), Business Programs (BP) is to promote a dynamic business environment in rural America. BP works in partnership with the private sector and the community-based organizations to provide financial assistance and business planning. BP also helps fund projects that create or preserve quality jobs and/or promote a clean rural environment. The financial resources of RBS BP are often leveraged with those of other public and private credit source lenders to meet business and credit needs in under-served areas. Recipients of these programs may include individuals, corporations, partnerships, cooperatives, public bodies, nonprofit corporations, Indian tribes, and private companies.

The mission of Cooperative Services Program is to promote understanding and use of the cooperative form of business as a viable organizational option for marketing and distributing agricultural products. It serves cooperative members, directors, management, educational institutions, organizations, rural residents, and all others with an interest in the



cooperative form of business, in order that they effectively use cooperatives to improve their economic well being and quality of life.

## ***4.2. HOUSING AND COMMUNITY PROGRAMS***

USDA's Rural Housing Service (RHS) supervises a complete portfolio of housing options for single rural residents, rural families, and underserved rural residents, such as farm workers, the elderly and those living in some of America's poorest rural communities. The Rural Housing Service distributes more than \$4 billion in loans and grants annually to improve housing and community facilities in the nation's rural areas. In 1999 the agency helped more than 67,000 rural Americans purchase or improve their homes, financed the construction of more than 2,100 units of affordable rental housing and built or expanded 620 vital community facilities, including rural schools, libraries, day care centers, police and fire stations.

### **a. Nonprofit and Public Body Opportunities**

The Rural Housing Service works with a wide variety of public and nonprofit organizations to provide housing options to communities throughout rural America. Organizations eligible to apply for RHS funds include local and state governmental entities; nonprofit groups, such as community development organizations; associations, private corporations, and cooperatives operating on a not-for-profit basis; and Federally recognized Native American groups.

There are several loans and grants, of special interest to nonprofit organizations, that may attend rural families, depending on their needs and conditions, they include:

Single-Family Housing, Multi-Family Housing Development, Farm Labor Housing, Community Facilities, Community Facilities Grant Program, Single-Family Housing.

**b. Lender Opportunities**

The Rural Housing Service works with private lenders to guarantee loans to borrowers for the construction of multi-family housing units; community facilities; and individual homes. Most loan guarantees issued by the Rural Housing Service are from 80-100% of the amount of the loan.

The reasons investors might choose to work with the Rural Housing Service are many. Since loan guarantees issued by RHS are backed by the full faith and credit of the U.S. Treasury, many lenders consider RHS programs to be a relatively risk-free way to expand portfolios.

Also, loans made possible by partnerships between RHS and private lenders improve the economic health of rural communities. The continued well being of rural areas provides more opportunities for lending institutions, which invest in these communities.

There are several programs in which lenders might be interested, including: Single Family Housing Loan Guarantees, Rural Rental Housing Guaranteed Loan Program, and Community Facilities Guaranteed Loan Program.

**c. Developer Opportunities**

The Rural Housing Service makes a variety of loans and grants to housing developers for the construction and renovation of multi-family housing facilities in rural

areas. (In some cases, loans and grants are also made for the construction of single-family homes as well).

There are three different kinds of programs in which developers might be interested: Farm Labor Housing, Rural Rental Housing Guaranteed Loan Program and Rural Rental Housing.

#### **d. Individual and Families Opportunities**

The Rural Housing Service provides a number of homeownership opportunities to rural Americans, as well as programs for home renovation and repair. RHS also makes financing available to elderly, disabled, or low-income rural residents of multi-unit housing buildings to ensure they are able to make rent payments.

There are several RHS programs which might be of interest to individuals wanting to buy or renovate a home, or to receive rental assistance, they include: Single Family Housing (Direct Loan Program, Loan Guarantee Program, Mutual self-help Housing Program, Home Repair and Preservation) and Multi-Family Housing (Rental Assistance Program).

#### **e) Existing Borrowers**

To improve service and cut taxpayer costs, USDA Rural Development created the Centralized Servicing Center (CSC), which uses an automated system to expand benefits to new and existing home loan borrowers nationwide. The CSC services all USDA Rural Development single family housing loans.

### ***4.3. UTILITY PROGRAMS***

The Rural Utilities Service (RUS) is the Federal "point" agency for rural infrastructure assistance in electricity, water and telecommunications. As a Federal credit agency in the United States Department of Agriculture, RUS provides a leadership role in lending and technical guidance for the rural utilities industries.

The public - private partnership which is forged between RUS and these industries results in billions of dollars in rural infrastructure development and creates thousands of jobs for the American economy.

#### **a. Electric programs**

Providing reliable, affordable electricity is essential to the economic well being and quality of life for all of the nation's rural residents. The electric program of USDA's Rural Utilities Service (RUS) provides leadership and capital to upgrade, expand, maintain, and replace America's vast rural electric infrastructure. Under the authority of the Rural Electrification Act of 1936, RUS makes direct loans and loan guarantees to electric utilities to serve customers in rural areas. The federal government, through RUS, is the majority noteholder for nearly 750 electric systems.

Since the start of the program, USDA has approved approximately \$57 billion in debt financing to support electric infrastructure in rural areas. Of these rural systems, about 96 percent are nonprofit cooperatives, owned and operated by the consumers they serve. The remaining 4 percent include municipal systems, Native American tribal utilities,

and other entities. These electric systems provide service to more than 90 percent of the nation's counties identified by the Economic Research Service (ERS) as having persistent poverty, out-migration, and/or other economic hardship.

Most RUS-financed systems have a two-tiered organizational structure. Retail consumers are members of the distribution cooperative that provides electricity directly to their homes and businesses. Most distribution cooperatives, in turn, are members of power supply cooperatives, also called "generation and transmission" or "G&T" cooperatives, which generate and/or procure electricity and transmit it to the distribution member systems.

#### **b. Telecommunications Program**

Rural Utilities Service (RUS) telecommunications lending creates public - private partnerships to finance the construction of the telecommunications infrastructure in rural America. RUS is a vital source of financing and technical assistance for rural telecommunication systems.

For over 50 years, the Rural Utilities Service has been promoting universal service in rural America through targeted lending and technical advice. The competition and universal service provisions of the Telecommunications Act of 1996 have brought a new era with both challenges and opportunities for rural Americans.

RUS is working in concert with its borrowers, other bodies such as the Federal Communications Commission and the Rural Task Force, and with rural leaders to build telecommunications infrastructure that will provide the same kinds of services for rural communities as are available in more densely populated cities and suburbs. Universal

service mechanisms will stimulate this process and will help to make advanced telecommunications more affordable for rural institutions and consumers.

**c. Water and Environmental Programs**

Water and Environmental Programs (W E P) provides loans, grants and loan guarantees for drinking water, sanitary sewer, solid waste and storm drainage facilities in rural areas and cities and towns of 10,000 or less. These programs include: Water and Waste Disposal Loans, Water and Waste Disposal Grants, Technical Assistance and Training (T A T) Grants, Solid Waste Management Grants, Emergency Community Water Assistance Grants, and Rural Water Circuit Rider Technical Assistance.

Public bodies, nonprofit organizations and recognized Indian tribes may qualify for assistance. W E P also makes grants to nonprofit organizations to provide technical assistance and training to assist rural communities with their water, wastewater, and solid waste problems.

**d. Distance Learning and Telemedicine**

The Distance Learning and Telemedicine Program (DLT) is designed specifically to meet the educational and health care needs of rural America. Through loans, grants, and loan and grant combinations, advanced telecommunications technologies provide enhanced learning and health care opportunities for rural residents.

The eligible purposes are various, and depend on the program features. Some of them are: acquiring equipment's, such as computer hardware and software, audio and video equipment, terminal equipment, medical or educational equipment, and others;

acquiring telecommunications transmission facilities provided no facilities exist, purchasing or constructing buildings, among others.

For Federal Year (FY) 2001, \$25 million in grants and \$300 million in loans will be made available for distance learning and telemedicine projects serving rural America. The funding will be provided in three categories: (1) \$15 million will be available for grants; (2) \$200 million will be available for loans; and (3) \$110 million will be available for combination grants and loans (\$10 million in grants paired with \$100 million in loans).

#### ***4.4. COMMUNITY DEVELOPMENT AND EMPOWERMENT (OFFICE OF COMMUNITY DEVELOPMENT)***

The Office of Community Development is a part of the U.S. Department of Agriculture's Rural Development mission area. OCD operates special community development programs, provides technical support to USDA-Rural Development's community development staff in offices across the United States and address unique and pressing economic development issues.

OCD provides this service by:

- Implementing special initiatives that demonstrate effective methods of building vital rural communities
- Disseminating information about effective rural community and economic development strategies and methods
- Promoting networking among rural communities and rural development practitioners

The following efforts demonstrate how the OCD works to achieve its mission.

**a. Empowerment Zones/Enterprise Communities (EZ/EC)**

The Empowerment Zone and Enterprise Community program is designed to afford communities real opportunities for growth and revitalization. The framework of the program is embodied in four key principles:

- *economic opportunity*: The first priority in revitalizing distressed communities is to create economic opportunities- jobs and work- for all residents. The creation of jobs, both within the community and throughout the region, provides the foundation on which residents will become economically self-sufficient and communities can revitalize themselves. Opportunities for entrepreneurial initiatives, small business expansion, and training for jobs that offer upward mobility are other key elements for providing economic opportunity and direction.
- *sustainable community development*: The creation of jobs is the first critical step toward the creation of a livable and vibrant community where human initiative, work, and stable families can flourish. However, economic development can only be successful when part of a coordinated and comprehensive strategy that includes physical development as well as human development. A community where streets are safe to walk, the air and water are clean, housing is secure, and human services are accessible, and where a vital civic spirit is nurtured by innovative design, is a community that can be a source of strength and hope to its residents. A community where learning is a commitment for life can foster the skills, habits of mind, and attitudes that will make work rewarding and families nurturing.

The EZ/EC Program seeks to empower communities by supporting local plans that coordinate economic, physical, environmental, community, and human development.



- *community-based partnerships*: The road to economic opportunity and community development starts with broad participation by all segments of the community. The residents themselves, however, are the most important elements of revitalization. Others may include the political and governmental leadership, community groups, health and social service groups, environmental groups, religious organizations, the private and nonprofit sectors, centers of learning, and other community institutions.

Communities cannot succeed with public resources alone. Private and nonprofit support and involvements are critical to the success of a community seeking revitalization. Partners also must be created within and among the levels of government. Government departments and agencies on all levels must work together to ensure that relevant programs and resources can be used in a coordinated, flexible, and timely fashion to help implement the community's strategic plan and that regulatory and other barriers to sustainable growth are removed.

Through the Empowerment Zone and Enterprise Community process, the Federal government offers a compact with communities and State and local governments: "if you plan comprehensively and strategically for real change, if the community designs and drives the course, the Federal government, will waive burdensome regulations whenever possible, and work with you to make our programs responsive to your plan."

- *strategic vision for change*: A bold and innovative vision for change describes what the community wants to become -- for example, the community may envision itself as a center for emerging technologies with links to a nearby university or community college; a key export center for certain farm products, customized manufacturing goods, or health and other human services; or a vibrant residential area focused

around an active local school, with access to jobs, retail markets, recreation, and entertainment.

The vision for change is a comprehensive strategic map for revitalization. It is a means to analyze the full local context and the linkages to the larger region. It builds on the community's assets and coordinates its response to its needs -- such as public safety, human and social services, and environmental protection. It integrates economic, physical, environmental, community and human development in a comprehensive and coordinated fashion so that families and communities can work together and thrive. A strategic plan also sets real goals and performance benchmarks for measuring progress and establishes a framework for assessing how new experience and knowledge can be incorporated on an on-going basis into a successful plan for revitalization.

#### **b. Rural Economic Area Partnership (REAP)**

Many rural areas face economic and community development issues of a very different character than communities whose needs are mainly defined by poverty. Often, the defining features are geographic isolation of communities separated by long distances, absence of large metropolitan centers, low-density settlement patterns, historic dependence on agriculture, continued population loss, outmigration, and economic upheaval or economic distress.

To address these issues, USDA advocated a pilot concept for rural revitalization and community development called Rural Economic Area Partnership Zones. The REAP Initiative was established to address critical issues related to constraints in economic activity and growth, low density settlement patterns, stagnant or declining employment,

and isolation that has led to disconnection from markets, suppliers, and centers of information and finance.

Through local efforts in strategic planning and community action, millions of dollars in state, federal, private and nonprofit assistance can be made to flow into these areas by:

- Improving economic viability, diversity, and competitiveness of the local economy and enhancing its participation in state, national and global markets;
- Assisting local communities to develop cooperative strategies that will maintain and expand essential community functions, basic infrastructure, education, health care, housing, and telecommunications;
- Assisting families with crises resulting from displaced employees and joblessness; and
- Providing financial and technical assistance to implement a citizen-built strategic plan.

Memoranda of Agreement between the Zones and USDA establish USDA's Office of Community Development in the Rural Development mission area as the lead Federal Agency to assist the zones in the implementation of their programs. This pilot project sets up a collaborative and citizen-led effort to enhance economic development in the REAP Zones. This effort will become the model for building a new rural economy for other rural areas with similar problems. The Department of Agriculture has provided modest amounts of money to Zones for planning this program. This contribution has been augmented by USDA's community development technical assistance across all areas of Zone endeavor. Furthermore, priority consideration is given for Zone applications submitted for funding through USDA Rural Development.

#### **b.1) Responsibilities of a REAP Zone**

- Conduct a citizen-led, comprehensive, long-term, strategic planning process for development of the community according to the principles of the Community Empowerment Initiative.
- Develop specific performance benchmarks and indicators from the strategic plan; enter these in OCD's on-line Benchmark Management System and keep them current.
- Seek a broad range of resources to implement the strategic plan, with emphasis on mobilizing local and regional resources that will continue to be available after the REAP Zone designation expires, rather than looking to USDA or other outside sources to subsidize local development.
- Obtain approval from USDA Rural Development before amending any of the community's strategic plan elements, benchmarks, or performance measures.
- Provide USDA-Rural Development-Office of Community Development (OCD) with descriptions of successful practices that have potential application in other communities facing similar conditions and issues.
- Report regularly on the community's progress in implementing its strategic plan through the Benchmark Management System and other reports as requested by USDA.
- Manage all funds used to implement the strategic plan responsibly and report publicly on their use and accomplishments; conduct annual independent audits of all funds used to implement the strategic plan, whether government or private.
- Recognize that the objective of the REAP Zone program is not merely project implementation, but community empowerment, and devote significant resources and attention to achieving this by building the skills of citizens and leaders to plan, implement, manage, and evaluate their own programs.

- Develop and maintain broad and open partnerships with other local and regional organizations that have a stake in the enhancement of the quality of life in the REAP Zone; these partnerships will become a bridge to establishing the permanent capability of the community to make continuing improvements without special Federal assistance after the REAP Zone designation expires.
- Remain faithful to the principles of the Community Empowerment Initiative that put strong emphasis on the critical importance of broad-based citizen participation in all phases of the development, implementation, and evaluation of the strategic plan, with special emphasis placed on welcoming those members of the community (minorities, low income citizens) who are traditionally left out of the process.
- Participate in USDA-sponsored training for REAPs.

## ***5. FINAL CONSIDARATIONS (LESSONS LEARNED)***

The reasons why governments of Western industrialized countries have become involved with their agricultural sectors differ in detail but share some broad similarities. Among the reasons for supporting agriculture is the need to protect the agricultural sector against economic forces which, if unchecked, would result in a diminished prosperity for home farming, lower farm incomes and fewer farmers. It has long been assumed by many policy makers that farmers have a special role as private producers of public goods, so that government support is just a reward for secure supplies of food, management of the countryside and economically viable rural communities. One argues that without government intervention, farming is thus a declining industry in which it becomes increasingly difficult to earn a decent living.

Farming has always been seen as playing a part in the prosperity of rural areas, and since the mid-1970s agriculture has been used as a vehicle for maintaining the size of the population in areas which otherwise suffer from depopulation; increasingly farming is used for job retention in rural areas generally. However, even with government support, the farming population in the US has been declining significantly since the 1930s.

In this sense, as the most part of developed countries, the United States uses a wide range of programs and policies to protect farms' income and agricultural products' price. The targets of U.S. agricultural policies have been broadened, including also conservation, food assistance and price competitiveness in international markets. In a broad sense, one might say that the most recent policies are getting more and more dependent upon market orientation and more linked to supply and demand forces (open market policies).

The support given in the most recent years, measured by PSEs, is on a downward trend and is below the values given by main trade competitors. Trade barriers, like tariffs, are among the lowest, except for some fruits and vegetables. Import quotas are imposed to some products like dairy products and meat, peanuts, cotton and some sugar products. The United States is actively involved in GATT and NAFTA negotiations to reduce even more agricultural trade barriers.

Besides that, the signing of the Uruguay Round Agreement in 1993 put in place a common strategy for improved market access through tariffs, the gradual replacement of price support with 'decoupled' income payments and the phased elimination of export subsidies. The Agreement means that the agricultural policies of industrial countries are on converging paths, subject to the same internationally agreed rules and procedures.

Indeed, through a series of incremental policy reforms, U.S. policy makers have been quietly decoupling farm support from production for some time now. To the extent that it is the culmination of a decoupling process that has been in progress since 1985, FAIR (1996 Federal Agricultural Improvement and Reform) also reflects a shift in attitudes among US policy makers and the farm lobby in favor of a more market and export orientated agricultural industry. In the wake of FAIR this now begins to look like a realistic long-term possibility.

Regarding to the rural area, broadly speaking, U.S. government, through the USDA plays an indispensable role in rural areas. The USDA was transformed from a small-budget organization mainly concerned with research and education into a government agency responsible for injecting large amounts of public money into rural America.

Most of its programs are conducted in partnership with other public and private institutions. An important part of its contribution consists of providing general infrastructure, including roads, waterways, irrigation facilities, legal structures, electricity, and communications; essential public facilities and services including water and sewer systems, housing, health clinics, and emergency service facilities.

Through its programs the USDA is helping improve the economy and quality of life in all of rural America.

In fact, some programs carried out by the U.S government are efficient responses to market failure – like agriculture extension, land grant research universities, homesteading-land distribution – but others are mainly resulted from “rent seeking” of

lobbyist and politicians. The evaluation of these programs would be a recommendation for a future paper.

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