

Conclusions

This examination of the U.S. experience with decoupled payments in the FAIR Act offers some perspectives on such payments for the WTO negotiations on agriculture. It describes a general conceptual framework for analyzing the links between decoupled payments, farm households, and farm production decisions. It examines the impacts of the U.S. PFC payments on recipient households, taking into account that most engage in both farm and nonfarm economic activities. Finally, it identifies areas in which more research is needed if the impacts of income transfers on farm households, farm production, and world markets are to be better understood.

Analysis of farm household survey data in this study indicates that U.S. decoupled payments have increased the level of overall well-being of households that receive PFC payments, where well-being is defined broadly to encompass income, wealth, and consumption as well as how people choose to spend their time. Households that receive payments have higher levels of spending out of income than nonrecipient households with similar income levels and are better able to smooth consumption during periods of low income. The payments have also led to small reductions in households' work hours, including their onfarm labor. PFC recipients were also found to allocate a large share of their investments to assets unrelated to agricultural production. This indicates that nonfarm investments are likely to play an important role in their allocation of savings from PFC payments as well as in their adjustments to any changes in risk attitudes attributable to the payments. In addition, aggregate data on investment by participating households show no evidence of higher rates of onfarm investment or capital replacement compared with nonparticipant households. These findings, together with the results of a simulation of a U.S. decoupled payments program, indicate that the PFC cash payments changed and increased recipients' well-being but in ways that can be expected to have minimal links to farm production

levels. The main impact of decoupled payments is likely on land values. These were shown to have increased about 8 percent due to the payments.

An implication of these conclusions for global agricultural negotiations is that market context matters. The case for policy intervention is often based on an actual or perceived distortion in agricultural markets. Some subsidies are designed expressly to effect economic outcomes by offsetting existing distortions. Likewise, the impacts of decoupled programs can be expected to be influenced by their setting. Decoupled payments are more likely to have production impacts when market and institutional conditions, such as farm credit constraints, weak financial systems, and rigid labor markets, create strong links between the payments and a household's farm business decisions. Absent these market failures, payment recipients have only to decide what to do with their income and wealth transfer, allowing their decisions about how to allocate decoupled payments to be largely divorced from their production decisions.

There is little evidence today of market failures in U.S. agricultural factor markets, although they have provided an important rationale for farm policy since the 1930s. They have continued to provide a rationale for government intervention even as the U.S. farm sector has gradually undergone profound change. Efficiencies achieved through the maturation and industrialization of the sector have created competitive markets in farm and nonfarm labor and capital, and led to the economic well-being of agricultural producers being today little different than that of the general population financing the payments. This transformation of the farm economy has important implications for the way in which U.S. farm households are affected by farm programs, in particular, enabling decoupled payments to transfer income and wealth with minimal impacts on production. This allocation of program benefits helps decoupled payments to meet trade policy objectives, but may be less compatible with domestic policy goals of increasing returns to agricultural producers.