FOREWORD
Special Issue on Agricultural Policy

Barrett E. Kirwan

Agricultural policy directly impacts three fundamental areas of social concern: food, energy, and the environment. Well-designed agricultural policy improves the environment, while ensuring a stable and secure food and biofuel supply. Ill-designed agricultural policy can cause environmental degradation, inflate food prices, and foster an inefficient biofuels program. The Doha Development round of the World Trade Organization negotiations has illuminated the far-reaching effects of agricultural policy. Combined, the European Union, the United States, and Japan explicitly spend nearly $190 billion annually on domestic agricultural support.[1] These expenditures promote production, encourage research, and provide ecosystem services. Along with tariffs and export subsidies, these domestic policies also distort trade and shield and sustain inefficient producers and practices.

This special issue of the *Agricultural and Resource Economics Review* contains papers from a workshop focused on evaluating current agricultural policies and policy proposals surrounding the 2008 Farm Bill. The workshop was held in Québec City, Québec, preceding the 2008 joint meetings of the Canadian Agricultural Economics Society and the Northeastern Agricultural and Resource Economics Association (NAREA). The USDA's Economic Research Service and the Farm Foundation co-sponsored the workshop. The research presented at the workshop analyzed a broad array of domestic and international agricultural policies, ranging from the health effects of confined animal feeding operations, to the influence of subsidies on farmland rental rates, to models addressing the inefficiencies inherent in tariff rate quotas. All of the research presented, whether it addressed energy policy, trade policy, or risk management policy, provided cutting-edge analysis using state-of-the-art empirical and theoretical tools. This special issue includes four important papers addressing myriad policy issues. In addition to the workshop papers, this issue includes two policy-focused papers, one by Joy Harwood, the other by Walter Armbruster, that were presented at the 2008 NAREA conference.

Andrew Schmitz, a keynote speaker, provides an overview of the current state of agricultural policy and analyzes a wide range of agricultural policies in the United States, the European Union, and Canada. Using graphical models, Schmitz and coauthors Hartley Furtan and Troy Schmitz demonstrate that multiple subsidies can have a negative multiplicative effect on social welfare. Focusing on the high commodity prices in 2008, they describe the effects of ethanol policy, nontariff barriers, and price support payments. In particular, they focus on the beneficial freer-trade effects that high commodity prices have had on agricultural policy in developing countries, and they document the reduction in taxes and tariffs in countries hard-hit by high food prices.

Joseph Cooper gives us a focused first look at the effects we can expect from the innovative Average Crop Revenue Election (ACRE) program included in the 2008 Farm Bill. The ACRE program acts as an insurance policy on farm *revenue*, thereby addressing both yield and price risk. Cooper, writing before the details of ACRE were finalized, utilizes the details of the similar Average Crop Revenue (ACR) program from the Senate-passed version of the bill to compare revenue distribution under the ACR program with the distribution of revenue under the Loan Deficiency Payments (LDP) and Counter-Cyclical Pay-

Barrett Kirwan is Assistant Professor in the Department of Agricultural and Resource Economics at the University of Maryland at College Park, Maryland.

[1] See Table 12 in "Policies That Distort World Agricultural Trade: Prevalence and Magnitude" (August 2005), Congressional Budget Office, Washington, D.C.

Agricultural and Resource Economics Review 38/1 (April 2009) iii–iv
Copyright 2009 Northeastern Agricultural and Resource Economics Association

https://doi.org/10.1017/S1068280500000137 Published online by Cambridge University Press

ments (CCP) programs, which originated with the 2002 Farm Bill and were continued in the 2008 Farm Bill. Cooper demonstrates that ACR, which targets state yield, provides substantial revenue-risk reduction in states whose yield is poorly correlated with national yield. Because payments under both programs are triggered by national prices, states with yields that are highly correlated with national yields, however, benefit more from traditional, price-based payment programs due to the "natural hedge" between price and yield.

James Whitaker and Anne Effland evaluate farm policy in terms of its effect on farm household consumption. They use farm-level data to examine the relationship between farmers' income source and their consumption behavior. This research finds that the income source influences the proportion of the marginal dollar consumed: farm households consume more of the marginal dollar from off-farm income and decoupled subsidies than they do of the marginal dollar from farm production or production subsidies. Such a finding, while interesting in itself, has broad policy implications if smoothing farm household consumption is a goal of agricultural policy. Policymakers may need to rethink price supports if farmers treat farm income and counter-cyclical subsidy payments as two volatile (albeit negatively correlated) streams of income rather than a single, less-volatile income stream.

Energy policy related to biofuels plays a substantial role in twenty-first century agricultural policy. Harry de Gorter, David Just, and Qinwen Tan address the interrelationship between ethanol promotion policy and agricultural subsidies. By formally modeling the relationship between corn, ethanol, and gasoline prices, de Gorter and his co-authors explore the social welfare consequences of various policy scenarios. Interestingly, in the presence of corn price supports, social welfare increases by subsidizing ethanol imports in order to weaken reliance on gasoline.

Agricultural policy is now more relevant and far-reaching than ever. As the pace of development quickens in developing countries and food demand grows, agricultural policy continues to be salient in its traditional role of ensuring a stable and secure food supply. Concerns about energy and the environment demand new solutions in well-designed agricultural policy. Well-designed agricultural policy relies on clear-thinking analysis to better understand the policies' intended, and unintended, consequences. The 2008 NAREA workshop focused on agricultural policy analysis. The papers from that workshop that are included in this special issue underscore the innovative thinking and cutting-edge tools being brought to bear on these problems, the result of which will be a greater understanding of agricultural policy and, ultimately, more efficient policy and greater social well-being.

https://doi.org/10.1017/S1068280500000137 Published online by Cambridge University Press