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Implications of the 2002 Farm Bill for Commodity Markets and Trade: A California Focus

by Daniel A. Sumner

The 2002 Farm Bill, signed into law on May 13, 2002, renews major subsidies and introduces some additional programs. The new law has implications for California commodity production and prices and may affect efforts to open international markets.

After many months of legislative negotiation, the Farm Security and Rural Investment (FSRI) Act of 2002 was signed into law by President Bush on May 13, 2002. For more than six decades, the United States has periodically renewed and reformulated legislation authorizing domestic farm subsidy programs and related policies. The new "Farm Bill", the latest in this long history, has received wide media attention around the globe and here in California. Farm bills are typically large and complex with many separate "titles" covering a variety of farm, food and rural issues. The FSRI Act is no exception and includes titles on such diverse topics as food assistance for the poor, research and extension support, food safety and aid to rural communities. This article will focus specifically on the parts of the bill that have major implications for commodity agriculture. Even then there are simply too many complicated wrinkles in the legislation to cover them all here.

This article is a preliminary survey of some commodity market implications of the new law with a particular emphasis on California. It is too early to have definitive results; even the specifics of implementation of the law are yet to be finalized. However, we do have enough information

to provide an overview of changes in the legislation and how it is likely to affect major markets. A closely related topic is how the FSRI Act relates to the U.S. commitments and negotiations in the World Trade Organization (WTO).

The FSRI Act continues the traditional farm programs by providing almost all the direct support to a relatively small handful of commodities. Most of the direct payments are provided to wheat, feed grains (mainly corn), oilseeds (mainly soybeans), cotton and rice. Dairy is also supported with payments and market regulations, and program support is also provided to some minor crops.

Most commodities in California receive relatively little direct support from farm subsidy programs. California typically produces about 15 percent of farm value in the United States and will likely receive less than five percent of the farm payments authorized in the FSRI Act (most of which go to California's rice and cotton industries). Overall, about 70 percent of farm value produced in California, including production of fruits, tree nuts, vegetables and melons, and meat animals, receive almost no direct support from Farm Bill subsidies.

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Commodity Provisions and Implications for Production and Prices

Most of the commodity provisions of the FSRI Act are familiar from previous legislation. These include: (1) “marketing loan” benefits that distribute payments per unit of output when market prices are low; and (2) fixed direct payments to owners of program crop base, even if this land is planted to other crops or no crop at all. As with previous law, no payments are allowed on program-base land that is planted to fruits, tree nuts or vegetables. Each year from 1998 to 2001, the direct payments to owners of program base were increased substantially with “Market Loss Assistance” payments that were legislated on an ad hoc basis because farm prices were generally low. The FSRI Act replaces these ad hoc payments with a new Counter-cyclical payment program. Under the new scheme, payments are made to owners of program-crop base whenever the price of the base crop falls below a specified target.

Under previous law, direct payments and market loss assistance payments were distributed in proportion to base acres and base yield that had been fixed since 1985. Under that arrangement, the payments provided little additional incentive for farmers to plant more of the program crop or attempt to increase yield to enhance payments. The new law still relies on payments distributed according to program base, but now farmers have been allowed to update their base to the recent 1998 to 2001 period if they choose. This update will allow some farmers to increase the payments they receive and may change program-induced incentives. Many farmers now will reasonably expect that the program base will be updated periodically in future legislation. This means they will expect that planting more of the program crop and using additional inputs to increase yields will enhance future program payments.

The overall projected payments under the FSRI Act are roughly equal to the payments that have been made during the 1998 to 2001 period. But, there have been some shifts among programs. The FSRI Act raised projected loan benefits, which provide a direct production incentive, for feed grains and wheat. Loan benefits were lowered for soybeans (which get new direct payments) and not changed for rice and cotton. Direct payments (those payments with the least production incentive) were reduced somewhat from recent levels. The Counter-cyclical payments

were calibrated to roughly equal the magnitude of the market loss assistance payments made from 1999 to 2001. These changes, together with the updates of payments bases, are expected to shift payments away from rice towards, especially, corn and soybeans. Overall, California’s share of the payments is likely to decline marginally.

There has been much international controversy about the market effects of the FSRI Act. Casual observers have simply assumed the impacts will be large and negative for commodity prices. For example, in a May 27, 2002 interview, while he was traveling in Africa with rock star Bono, a BBC reporter asked Treasury Secretary O’Neil how the U.S. could encourage more open markets and fewer subsidies in other countries when the new Farm Bill will “flood world markets with cheap U.S. commodities.” Much global commentary takes a similar view, but the reality is more subtle.

In fact, simple supply and demand modeling shows that the various policy changes in the FSRI Act payment programs are likely to induce marginally more production of wheat and feed grains and thus slightly lower market prices of these crops (estimates are in the one percent range). Offsetting these impacts somewhat is three million new acres to be idled under the long-term Conservation Reserve Program. Rice and cotton production are projected to increase slightly relative to the previous program, so their projected market prices will be slightly lower. In summary, the FSRI Act likely increases the direct program crop production incentives only marginally and continues to allow planting flexibility across crops, so the production impacts across crops are modest. However, impacts may be significant for certain non-program crops in California. Even marginal increases in policy-incentives to grow program crops or payment-eligible crops may induce farmers to either not shift acreage into some relatively small-acre fruits, vegetables or tree nuts or to even shift acreage out of these crops. Thus, one impact of the FSRI Act in California is likely to be some slowing in the shift towards the crops that are not eligible for program benefits and perhaps slightly stronger market prices for these commodities compared to what would have occurred.

Finally, the FSRI Act has introduced a new dairy deficiency payment program that may have significant impacts on markets for milk and milk

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Price, Promotion and Differentiation Effects of the Private-Label Invasion

by

Michael B. Ward, Jay P. Shimshack, Jeffrey M. Perloff and J. Michael Harris

When the share of private-label processed foods and beverages increases, brand-name firms' prices tend to rise and their promotional activities fall. These results, derived from an analysis of recent grocery scanner data, are contradictory to widely held beliefs about the industry.

Though discount brands and generics have been available since the late 1970s, company executives and industry experts maintain that their sales have increased dramatically in the past fifteen years. Consumers, who had long regarded generic foods and beverages as poor substitutes for name-brand goods, changed their views when high-quality private-label products were introduced in the late 1980s and early 1990s.

The substantial quality improvement of private labels resulted from technological advances and the production of private label products by name-brand firms. Examples include Campbell Soup (Vlasic pickles), Union Carbide (garbage bags), Hershey Foods (Ronzoni pasta), Del Monte (canned fruits and vegetables), and H.J. Heinz (soups). Over time, consumers became increasingly aware of these improvements. A 1997 Gallup Poll commissioned by the Private Label Manufacturers Association (PLMA) reported that 76 percent of consumers surveyed agreed that store brands were "brands just like national brands."

Private label shares are also said to have increased because supermarket chains learned that these products provide higher profits than national brands. In particular, private labels create loyalty to a particular supermarket chain rather than to a national brand: Customers return to Safeway if they prefer the chain's Select brands.

Stylized Facts About Private Labels

In addition to the assertion that private-label products have persistently and rapidly penetrated grocery markets since the late 1980s, newspaper articles and trade journals have regularly reported several stylized "facts" about the effects of this private-label invasion on prices, promotion and differentiation. Specifically, food industry executives and experts contend that name-brand firms responded

to private label entry in three ways: Firms lowered prices, engaged in more promotional activities and further diversified their products.

Many national brand executives reported that the private-label "invasion" was killing brand loyalty, so that they had to cut prices to compete. Philip Morris gave this reasoning when it lowered its price for Marlboro cigarettes, Procter & Gamble when it reduced the price of Pampers diapers by a quarter, and Kraft General Foods when it lowered its cheese prices by eight percent. Many other firms reported that they lowered their prices indirectly by means of sales and discount coupons.

Name-brand manufacturers also reported increasing point-of-purchase promotional activities in response to the new competition. The share of promotional budgets allocated to point-of-purchase expenditures and advertising were 73 percent and 27 percent in 1992, compared to 62 percent and 38 percent respectively in 1960 (*Brand Marketing Supplement to Supermarket News*, June 2, 1997). From 1980 to 1992, U. S. food manufacturers' spending on promotional schemes, such as money-off offers and coupons, rose from half to three-quarters of total marketing budgets, while advertising's share fell from 44 percent to 25 percent (*Financial Times*, May 6, 1993).

Many managers stated that they increased the rate at which they innovate in response to the challenge of private labels. For example, firms introduced 22 percent more products in 1991 than in the previous year, releasing 16,143 new products, including 12,398 food products and 3,745 non-food products (*Minneapolis Star Tribune*, March 26, 1992). One might think of constantly providing new products as a flagpole strategy: "Let's run it up the flagpole and see who salutes." Products that are not accepted by consumers are quickly dropped. In recent years, an average of 27 percent of General

Table 1. Percentage Change in Price in Response to a Ten Percentage Point Increase in Private-Label Share

	All	Branded	Private Label
canned juices	0.2	1.3	-1.4
desserts	0.6	0.6	-0.4
frosting	0.9	1.1	-0.2
frozen baked goods	1.1	2.2	-1.0
frozen poultry	3.4	3.5	-0.2
gelatin mixes	2.6	3.0	-0.6
mustard and ketchup	1.5	3.0	-0.1
pickles and relish	0.5	0.6	-1.1
rice and popcorn cakes	0.2	0.9	-1.5
shortening and oil	1.2	3.1	-0.7
spaghetti/Italian sauce	1.1	1.4	-1.5
tea, ready to drink	3.0	3.2	0.7
tomato products	1.0	4.3	-2.0
yogurt	0.7	1.9	-0.5

A number in bold text indicates that one cannot reject the hypothesis that this price change is statistically significantly different from zero.

(and generic goods) is increasing in fewer than half of food and beverage categories, but this share is growing at double digit annual rates in one in four categories. The categories with rapid growth, however, tend to be those with relatively small private label shares.

How do prices respond to private-label entry? We found that—contrary to conventional wisdom—the prices of name-brand goods tend to rise as the share of private-label products increases (even after controlling for other factors in a statistical analysis). We examined the price effect for each of the eight top-selling name brand firms in each category. For every

Mills' sales volume has come from products five years old or less (*Food Engineering*, December 1999).

Statistical Study

To assess the validity of this conventional wisdom, we conducted statistical tests based on Information Resources Incorporated (IRI) InfoScan™ data. IRI obtains information on all items scanned at cash registers from 11,300 local grocery stores from across the United States. The research uses monthly data (December 1996-January 1999) from 32 randomly selected food categories.

Averaging over the 32 categories, the revenue share of private-label and generic items is 14.3 percent and the quantity share is 19.0 percent. There is large variation, however. Private-label and generic goods are nearly two-thirds of the quantity share of frozen poultry, but only one percent of pickles and relish, 0.6 percent of hot cereal sales and 0.5 percent of shortening and oil.

Have private-labels continued to substantially and rapidly penetrate food and beverage sectors? We found that the quantity share of private-labels

company in every industry, results indicated that private-label entry induced no change or an increase in branded price. This result was also true of the average prices of all the remaining branded companies (those that were not among the top eight).

While this result may seem counter-intuitive, there are several economic theories that predict that branded prices may actually rise when generics or private labels enter. We briefly discuss two of them. First, when a substantially low cost alternative enters, price-sensitive consumers switch to the generic or private-label product. Remaining consumers have revealed themselves as brand loyal, and price insensitive. Therefore, the name-brand firm raises its price to take advantage of the price-insensitivity to these loyal customers. Second, as private labels invade, branded firms may compete by raising product quality. Especially if it is more costly to produce higher quality goods, this response leads to increased name-brand prices.

Do private-label prices and overall market prices rise with increased private label penetration? We



Because some consumers prefer name-brand products, their manufacturers can charge prices above those for private labels. Photo by Julie McNamara

found that an increase in private label share has no effect or decreases the price of private label goods. This effect tends to balance or dominate the branded price effect discussed above, and the overall price level usually (but not always) remains unchanged.

Table 1 shows the price effects of a ten-percentage point increase in private-label share on the overall, branded and private label prices for some of the most clear-cut examples. The spaghetti/Italian sauce category is a typical example. The table shows that a ten-percentage point increase in private label share would cause the overall average price to rise 1.1 percent, the brand-name prices to rise by 1.5 percent and the prices of private-label products to fall by 1.5 percent.

Do name-brand firms engage in sales (i.e., price reductions) or non-price promotions in response to the private-label invasion? We found that name-brand firms either make no change or have fewer sales as the share of private-label brands increases. As private labels expand, name-brand firms are also substantially less likely to engage in nonprice promotions using feature ads and displays. Indeed, in many cases (rice and popcorn cakes, yogurt, mustard and ketchup, hot cereals and butter) these decreases in non-price promotions are very large.

Do name-brand firms attempt to differentiate their product lines in response to private-label

entry? Specifically, do branded firms increase the number of items they sell when private labels penetrate the market? We found that differentiation, as measured by items per firm, does not in general increase with private-label competition. Specifically, an increase in private-label share had no statistically significant effect on number of items sold per firm in most categories, a statistically significant positive effect in one, and a statistically significant negative effect in six categories. Of course, it is still possible that name-brand firms increasingly modify their products' characteristics or raise quality of existing products.

Summary and Conclusions

The conventional wisdom is that private labels continue to rapidly enter processed food and beverage industries, and that name-brand firms defend their brands by lowering prices, engaging in additional promotional activities, and increasingly differentiating their products. However, we found that these beliefs are generally false. Private label shares are only currently increasing in approximately 40 percent of the study's categories. When private labels do enter, branded firms increase their prices, hold fewer sales, offer fewer non-price promotions, and reduce the number of items for sale.

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Immigration and the Changing Face of Ventura County

by

Alfonso Guilin, Philip Martin and Edward Taylor

Immigrant farm workers who once shuttled in and out of the United States are settling in the areas in which they work, changing the face of their communities. Settlement in Ventura county has been associated in the 1990s with low earnings, encouraging farm workers to find nonfarm jobs, raising questions about how to get replacement workers.

The “face” of rural and agricultural California is changing, as immigrants from Mexico settle in the areas where they work. UC Davis has been conducting *Changing Face* seminars in rural and agricultural areas to examine the impacts of immigrants on the farm-related industries and communities in which they are employed and the prospects for integrating immigrants and their children in these industries and communities. This report summarizes the findings and discussions of the changing face of Ventura county.

Ventura Farm Workers

Ventura county had a population of 753,197 in 2000, including 252,000 Hispanics, making it the twelfth largest county in California; most residents live in the southern half of the county. There are ten incorporated cities in Ventura county, and Hispanics are over 50 percent of the population of five cities

and places: Oxnard, El Rio, Santa Paula, Fillmore and Piru. Hispanics and whites are separated: two-thirds of white residents of Ventura county live in cities that are at least 70 percent white, while one-third of Latinos live in communities that are at least 70 percent Latino. Oxnard, for example, added 28,000 residents in the 1990s, the net effect of losing 11,000 whites and 1,000 Blacks and gaining 30,000 Hispanics.

Ventura county is one of California’s major agricultural counties; its \$1 billion in annual farm sales, dominated by lemons (25,000 acres and sales of \$187 million) and strawberries (7,600 acres and sales of \$187 million), rank it tenth among California counties, and equivalent in farm sales to Utah. There were an average 20,000 employees on county farms in 2000, up from 17,000 in 1990, and they represented about five percent of the county’s employment. Farm employment peaks at 25,000 in April-May, and reaches a trough of 16,000 in January.

EDD obtains employment data from farm employers as well as farm labor contractors, custom harvesters and other employers of farm workers who pay unemployment insurance taxes on their workers’ wages. Table 1 indicates that between 1985 and 2000, employment in Ventura county increased by 37 percent, and farm employment rose at about the same pace. However, there was a marked contrast between farm production employment (employees directly hired by farming operations) and farm services employment (employees hired and brought to farms by contractors and custom harvesters). Average farm production employment

Table 1. Ventura County Agricultural Employment: 1985-2000, Employment Development Department

Ventura County Employment					
Year	1985	1990	1995	2000	1985-2000
Civilian Employment	287,400	349,300	353,600	392,700	37%
Civilian Unemployment	22,600	21,100	28,500	18,700	-17%
Farm Production	9,300	10,700	9,600	11,900	28%
Farm Services	5,100	6,000	7,400	7,700	51%
Total Farm Employment	14,400	16,700	17,000	19,600	36%
Food and Kindred Products	2,200	1,700	1,600	1,300	-41%

rose 28 percent, while average services employment rose 51 percent. Employment in processing food and kindred products fell 41 percent.

Employers report employees by month, and seasonality decreased slightly for directly hired workers between 1993 and 2000, and increased slightly for farm services' workers. Table 1 confirms that in both 1993 and 2000, production employment peaked in April, reflecting the expansion of strawberry acreage. Farm services employment in the spring months fell between 1993 and 2000, from almost 10,000 in 1993 to under 8,000 in 2000.

Most farm workers in Ventura county were born in Mexico, often in Michoacan and Guanajuato, with the newest farm workers often Mixtec-speaking indigenous peoples from Oaxaca, many of whom settled in the Port Hueneme area. Some of the Mixtecs have little education, but others are teachers or hold professional jobs in Oaxaca.

Most Ventura county farm workers live in conventional housing—single family homes, apartments and mobile homes—but housing is expensive—the 40th percentile fair market rent for Ventura county was \$1,000 a month for a two-bedroom apartment in 2002. Thus, many families double up in housing units, leading to overcrowding, especially in Oxnard, and in mobile home parks around Santa Paula and Fillmore. There are several labor camps in the county, including the ex-Coastal Growers camp in Oxnard that has solo males and a Cabrillo Village in Ventura, which is mostly farm worker families. The earnings-housing cost gap for farm workers is among the highest in the state—an income of \$3,400 a month is needed to keep housing that costs \$1,000 a month at 30 percent of income.

Farm Labor Evolution

Growth and change in Ventura county agriculture between 1980 and 2000 have not improved conditions for farm workers. In the late 1970s and early 1980s, most lemon pickers were unionized. When the minimum wage was \$2.65 an hour in 1978, many had piece-rate earnings of \$5 to \$7 an hour and worked 800 to 1,200 hours a year. In 2002, with a state minimum wage of \$6.75, many

Table 2. Agricultural Employment by Month: Ventura County, 1993, 2000

	1993 production	1993 service	2000 production	2000 service
January	8,100	6,100	10,600	5,300
February	10,500	8,100	13,300	5,400
March	13,000	8,800	15,800	6,700
April	15,700	9,500	17,500	7,600
May	15,100	9,200	17,000	7,800
June	13,200	9,000	13,700	7,400
July	10,000	7,800	9,300	8,700
August	7,100	7,400	8,400	8,700
September	7,500	7,600	8,500	8,200
October	9,100	7,700	10,300	8,300
November	6,900	5,900	9,600	9,500
December	6,800	6,100	8,900	9,200
Max	15,700	9,500	17,500	9,500
Min	6,800	5,900	8,400	5,300
Ratio	2.3	1.6	2.1	1.8

Source: Employment Development Department

workers earn \$7 to \$10 an hour, and hours of work have fallen, reducing annual earnings.

The strong nonfarm labor market of 1998-2000 offered farm workers with transferable skills such as equipment operator nonfarm job options, which improved their wages and put upward pressure on the hours and earnings of remaining farm workers.

For many years, Ventura county agriculture included a wide range of cooperatives providing services to mid-sized lemon and orange growers. The co-op principle was extended to labor management, which meant that professional managers were often hired to organize workers for the lemon harvest. The Ventura county citrus industry was a pioneer in providing housing and other services to farm workers and, in many cases, their families. However, between 1942 and 1964, the packing houses that controlled citrus harvesting switched to Bracero workers, and Ventura county citrus became dependent on Mexican guest workers who were housed in barracks style camps. The mid-1960s were thus a “time of transition” for labor in Ventura county, as lemon growers responded to the end of the Bracero program by reducing quality standards

for picking, introducing a piece rate wage system that aimed to standardize worker earnings even as grove conditions changed, and increasing worker productivity with new clippers, lighter synthetic bags, aluminum ladders and larger bins. Worker benefits were introduced or increased, as employers offered health and pension benefits and UI benefits to stabilize the work force or to keep the same workers returning year-after-year.

The largest of the labor co-ops was the Coastal Growers Association (CGA), founded in 1961. According to Mines and Anzaldua, CGA and other harvesting co-ops were established to insulate packing houses from employer responsibilities. In 1980, Ventura county had 25,000 acres of lemons and 17,000 acres of oranges, as well as 17 citrus packing houses.

CGA assumed for its grower-members all responsibility for harvesting their lemons, including enforcing industry-wide quality standards, and became large enough to achieve economies of scale in recruiting, housing and deploying lemon harvesters. After the Bracero program ended, CGA developed “modern personnel practices” to recruit, reward and encourage the return of the best pickers. The result was a win-win situation: CGA pickers saw their average piece rate earnings rise from \$1.77 an hour in 1965 to \$5.63 an hour in 1978, and average annual earnings rise from \$267 (151 hours) in 1965 to \$3,430 in 1978 (609 hours). The number of pickers employed at CGA (W-2 statements issued) fell from 8,517 in 1965 to 1,292 in 1978, as average productivity rose sharply—from 3.4 boxes an hour in 1965, to 8.4 boxes an hour in 1978; CGA in 1966 expanded from serving three packinghouses to seven.

The UFW organized the workers employed at most of the labor co-ops in the spring of 1978. The background for the union drive was a bumper crop of lemons in 1976-77, which reduced prices and led growers not to raise piece rates in 1978. On March 31, 1978, after a dispute over the height of the trees and thus the piece rate in one grove, CGA workers voted 897-42 to have the UFW represent them. CGA negotiated a three-year agreement that raised piece rates by 12+5+5 percent, and changed to the UFW’s RFK health care plan. By the end of 1978, 70 of the peak 100 thirty-man picking crews in Ventura county were working under UFW contracts.

Several grower-members withdrew from CGA after unionization, and CGA saw the number of boxes of lemons picked fall from eight million

to five million between the mid-1970s and 1980, giving CGA less opportunity to spread its fixed costs. CGA was eventually dissolved, and lemons were picked by farm labor contractors/custom harvesters. FLCs paid the pickers the same or more per box, but had lower workers’ compensation costs and overhead. FLCs also decentralized the rate sheet—they did not necessarily use the county standard and shifted from transporting workers from co-op labor camps in co-op buses to telling workers to arrange their own transportation in car pools or vans from housing in the community. This remains the major way that lemons are picked today.

In 2000-01, the labor supply was tightening with tighter border controls, pushing up piece rates, but there has not been (1) an effort to organize labor demand and supply to minimize the number of pickers, or (2) a move to restore benefits. Unless there is a labor shortage, it seems unlikely that the industry will once again organize itself to use the fewest workers for the longest periods, and to identify and retain the best workers. Thus, a guest worker program’s impact in Ventura county depends on the details of the program—will a guest worker program legalize the status quo, or bring about efficiency-increasing labor changes?

Guest Workers

By the late 1990s, there were many calls in the U.S. and Mexico for a new approach to Mexico-U.S. migration. With an average of one migrant a day dying in the desert, a U.S. unemployment rate under four percent, and farm and nonfarm employers asking for a new guest worker program, Mexican President Fox and U.S. President Bush agreed to explore new ways of managing Mexico-U.S. migration in February 2001. During the summer of 2001, Mexico pushed for a five-pronged agreement that included earned legalization, a new guest worker program and more immigration visas for Mexico.

Many local farm leaders also argue that almost anything would be better than the status quo in farm labor. The UFW and most worker advocates say there is no need for guest workers, that unemployment is high and workers are employed too few hours each week currently. The worker advocates argue that growers want unauthorized workers, or guest workers, because such workers are more dependent on the employer, and less likely to complain.

Conclusions

Ventura county is an example of poverty amid prosperity. When farm sales were half their current level two decades ago, and citrus dominated farm sales, average hourly earnings were 2-3 times the minimum wage, and farm workers earned enough to support families in Mexico or in Ventura county. Today, farm sales have doubled, but most workers earn the minimum wage or up to 1.5 times the minimum wage. Living on such wages has become much harder because housing costs have risen.

Avoiding poverty amid prosperity for current farm workers and their children will require the creation of farm and nonfarm jobs that offer higher wages and more hours of work. Some of these jobs may be created in the nursery industry and other farm-related businesses that offer almost year-round employment. However, most current farm workers and their children will need more education, as well as English, to obtain more hours of work at higher wages.

This leaves the question of what to do about seasonal farm workers. The status quo, which includes 50-60 percent unauthorized workers—makes it very hard for workers to help themselves. The two extremes of the policy discussion are to legalize currently unauthorized workers, thus reducing their “hard and scared” fears, or to convert them as well as future farm workers into guest workers who would be required to leave the U.S., e.g. one month a year. The in-between solution is earned legalization—a temporary legal status that can be converted to immigrant status after 3-4 years in which the worker does 90-120 days of farm work a year.

Each of these federal policy choices has different consequences for farm employers, workers and local communities. Legalization is likely to help workers to leave farm work and unify their families, inducing employers to request more workers from abroad, and perhaps speeding up family unification, with consequences for local communities. The guest worker option may wind up legalizing the status quo, especially if farmers do not have to raise wages or to provide housing to guest workers. Earned legalization is likely to have the same effects as legalization, with a delay.

However, the important point for poverty amid prosperity is what happens after the current farm work force is affected by legalization, guest workers

or earned legalization. In each case, current workers are likely to get out of farm work within 5-10 years, as they do now. Policy decisions on how replacement workers arrive are likely to determine whether agriculture becomes an island within counties, with farmers and their guest workers isolated from the rest of the county's economy and labor market, or whether farm and nonfarm labor markets converge, with workers shifting between farm and nonfarm jobs.

References and Sources

The papers presented at the *Changing Face* seminars are posted at: <http://migration.ucdavis.edu/rmn/changingface.html>. The next seminar is scheduled for April-May 2003 in Asilomar, California. It will feature the detailed analyses of 2000 census data for rural and agricultural areas, and a site visit to the vegetable and strawberry production areas of the Salinas Valley.

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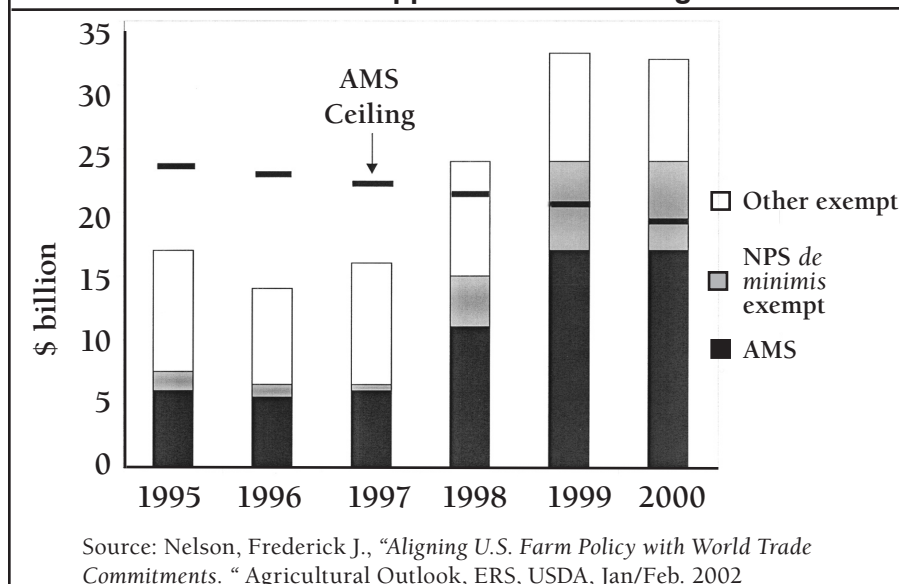
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**Figure 1. Total Direct Support Reported to the WTO:
U.S. AMS Approaches the Ceiling**



on farm subsidy programs. The agreement specified that programs with payments that did not encourage additional production and were not tied to prices were exempt from limits. For other subsidies, the U.S. agreed that by 2001, "trade distorting subsidy" including payments, prices supports, input subsidies and others, would be limited to an Aggregate Measure of Support (AMS) of \$19.1 billion dollars. In making that calculation, countries were allowed to exclude *de minimis* product specific subsidy that remained below five percent of gross revenue of that product.

Furthermore, subsidies that

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products. This program distributes direct payments to milk producers based on the difference between a specified trigger price and a specified price of milk in the Boston market. Since market prices for dairy products are linked nationally, this program will provide an approximate floor price for eligible dairy farmers throughout the country. Overall, payments are expected to total about \$1 billion per year or about five percent of milk revenue. This new program will increase milk production by about one percent nationally, which will push down milk prices by perhaps two percent. However, that is not the end of the story. The FSRI Act included a payment limit such that no further payments would be distributed to any farm when its milk output during the payment months in a year exceeded 2.4 million pounds. This limit will affect relatively few dairy farms in most of the country, but would be binding for essentially all dairy production in California. The result for California would be lower market prices and lower production because payments would fail to off-set lower market returns. Preliminary projections suggest that, even though California dairy farmers would receive payments of about \$20,000 per farm, after considering the impact of lower prices, the net effect is lower dairy revenue in California.

The FSRI Act of 2002 and the WTO

By signing the WTO agreement of 1994, the United States and other nations accepted some complex limits

were not product specific were excluded if they totaled less than five percent of the whole value of aggregate agricultural production— about \$10 billion for the United States. The question is, therefore, will the FSRI Act cause the U.S. to violate these limits?

Figure 1 shows the direct farm support of the United States in categories used by the WTO. Figure 1 documents that, starting in 1998, the U.S. support levels jumped and the AMS jumped as well. By 2000, the U.S. AMS was nearing the limits agreed to in the WTO and the Non-Product-Specific (NPS) support was also nearing its \$10 billion cap. The FSRI Act will likely put upward pressure on the AMS and the NPS subsidy measures, but four factors suggest that the U.S. will not violate its WTO obligations in this area. First, the rules for reporting the various aggregates allow considerable flexibility and, for example, some subsidies now reported as NPS may be shifted to the AMS category and vice versa. Second, the AMS is tied to product prices and it is likely that commodity prices will gradually rise from the historical lows experienced recently, taking some pressure off the AMS. Third, about \$5 billion of the reported AMS is tied to dairy, sugar and peanut price supports. The peanut program has already been modified and the dairy and sugar price support schemes provide relatively little real support for their large contribution to the AMS. These programs could be modified to provide equal benefit to producers and reduce the computed AMS dramatically, leaving room for more direct payments

in times of low market prices. Finally, the FSRI Act includes a “circuit breaker” provision requiring the Secretary of Agriculture to modify payments if WTO limits would otherwise be violated by USDA projects.

More important than the compliance with the Uruguay Round Agreement Acts (URAA), are the effects of the FSRI Act of 2002 on the prospects for successful trade liberalization in the current WTO negotiations and elsewhere. The United States negotiators remain committed to reducing trade barriers and opening markets through the WTO negotiation, in the discussions for free trade in the Americas, and elsewhere. The new farm bill will likely have several implications for these efforts. First, the U.S. negotiators will now have less opportunity to agree to lower domestic supports in exchange for additional market opening or lower export subsidies. Second, some other countries now see the United States as a main source of distortion in world markets, rather than a supporter of liberalization, and will focus attention on negotiating lower U.S. subsidies while devoting less effort to opening markets in places such as Korea, Japan or Europe. Third, negotiating attention from the world community will be diverted from the most trade distorting policies, typically border measures. None of these implications make it easier to achieve more open world markets for agricultural trade.

Comments from around the world indicate the difficult position of U.S. trade negotiators. Brazilian Agricultural Minister Marcus Vinicius Pratini de Moraes, stated that the 2002 Act will not help the negotiations on a new world trade agreement and could also slow the pace of discussions in creating the Free Trade Area of the Americas. China’s vice minister of trade Long Yongtu asked, “After the U.S. Congress adopted such a bill, why can we not do similar things?” Pascal Lamy, EU trade commissioner, told the *Financial Times* of London, “For those people who want to see the [EU farm policy] evolving in a reasonable way to make it more trade-friendly, [the U.S. Farm Bill] is not good news. We’ll be confronted by people saying: ‘These guys are extremely naive if they start undressing at a time when others are buying new pullovers.’” The large farm lobby group in the European Union, COPA/COGECA, stated the U.S. Farm Bill proves that Europe’s CAP should be maintained. *Financial Times* of London summarized much sentiment in its editorial on May 29, 2002. “With its new, grotesque farm subsidies, the U.S. has let the European Union off the hook ... having

surrendered to protectionism, Washington is in no position to fight.” And, “Washington’s reversion to huge subsidies tied to production ... leaves the international campaign for agricultural reform with little hope.”

While the comments are partly self-serving, most of the world evidently finds it hard to take seriously the U.S. efforts to lower border barriers into their markets when many U.S. farmers are protected from market forces at home. The label “cynical hypocrite” does not make negotiation easier.

California agriculture is a large net exporter of many commodities that gain relatively little from Farm Bill subsidies in the 2002 Act. For the longer term, if the FSRI Act makes progress in global market opening more difficult, that is not good news for farmers here in California.

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