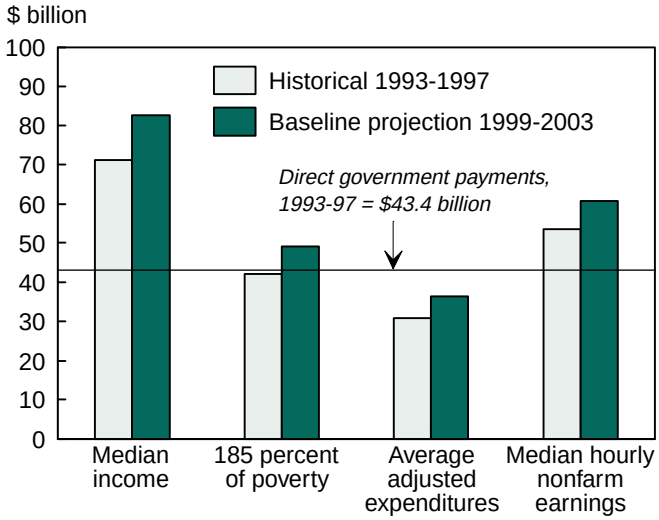
Comparison with Current Farm Programs

During the period 1993-97, direct government payments to farms, including production flexibility contract payments, loan deficiency payments, and other program payments, totaled $43.4 billion. Program costs during this time period reflect the economic environment in agriculture and the pre-1996 farm bill mechanisms for program payments (e.g., deficiency payments). Projections for program costs in the 1997-2002 time period reflect more pessimistic commodity prices and differences in the mechanisms of how program payments are made (e.g., Loan Deficiency Payments and Production Flexibility Contract Payments). As seen in fig. 6, for scenarios 1 and 4 (the regional median household income and median hourly earnings of nonfarm self-employed scenarios), total costs from 1993 to 1997 are higher than under current farm programs. For scenarios 2 and 4 (185 percent of the poverty line and average adjusted expenditures), total costs are lower than under current farm programs. One way to compare the costs of the alternative construction of a farm safety net proposed in this report with current farm programs is to calculate the safety net threshold such that the costs of this alternative safety net are lower. As measured for 1993-97, any safety net threshold less than about $30,000 will result in a lower total cost than current farm programs.

Regardless of the safety net threshold chosen, however, the distributional effects by both farm type and region are strikingly different than with current programs (see fig. 7-10 and appendix fig. 5-8).[10] Only lower income farmers would benefit under these safety net scenarios, while farmers producing selected commodities benefit from current farm programs.

The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 instituted a shift in Federal farm programs toward increased operator control by removing acreage restrictions. In addition, the FAIR act eliminated automatic, counter-cyclical payments, although such payments are still possible on an *ad hoc* basis. Farmers with a historical production base for wheat, corn, grain sorghum, barley, oats, upland cotton, and rice were eligible to sign production flexibility contracts. The legislation provides specific payments to farmers over a 7-year period, with the payments generally declining after the first few years (except as modified by subsequent emergency legislation). The FAIR Act also continued loan deficiency payments (LDP) for major field crops, including oilseeds. Farmers are eligible for LDPs when posted county prices (or adjusted world prices for upland cotton and rice) fall below the established government commodity loan rate adjusted for local conditions. The third major component of programs providing direct government payments are environmental conservation programs, from which eligible farmers receive annual payments on the amount of environmentally sensitive acreage enrolled in the programs.

Figure 6
Scenario costs compared with direct government payments



Under current farm programs, only about 36 percent of all farms received a direct government payment in 1997, with an average payment of $7,987 per participating farm. By farm typology group, the share of farms receiving payments ranged from less than 20 percent of *limited resource* farms to 75 percent of farms in *farming, high sales* and *large farm* groups (table 9). With the safety net concept applied using the alternative scenarios, the distribution of total program benefits would change dramatically. Almost all *limited resource* farm households would receive safety-net payments—partly because *limited resource* farm households are much more likely than more well-off farms to specialize in beef cattle (Hoppe, 1999, p. 12). Since current farm programs tend not to direct payments to farms specializing in beef cattle, a safety net designed with respect to income rather than

[10] Recall that *large family* farms and *agribusinesses* are not included in our safety net scenarios because the incomes of *large family* farms, by definition, are too high to qualify for any safety net program and *agribusinesses* are not households. Both of these farm typologies do qualify for current farm programs.

Figure 7

Scenario 1—Regional median household income compared with direct government payments in 1997: By farm type

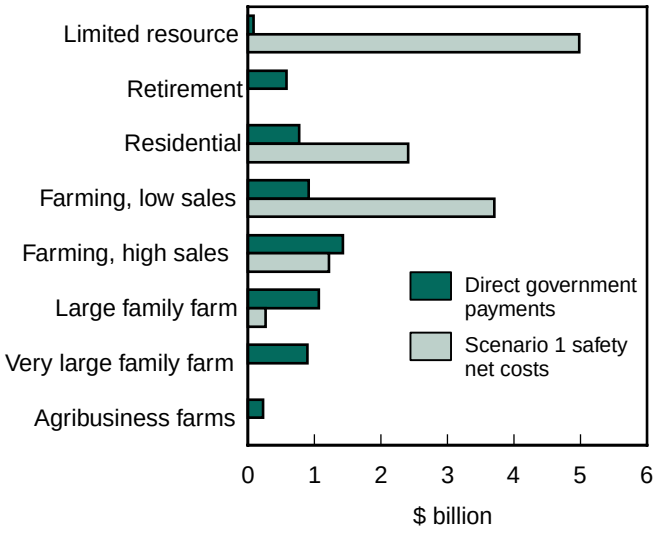


Figure 8

Scenario 2—185-percent-of-the-poverty line compared with direct government payments in 1997: By farm type

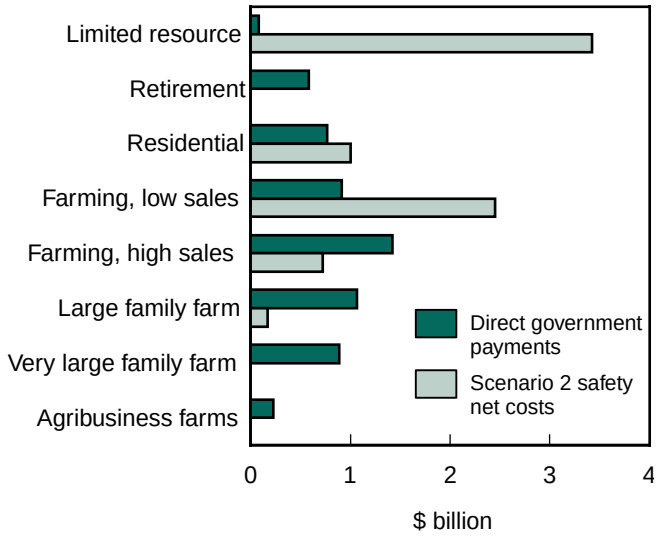


Figure 9

Scenario 3—Average adjusted expenditures compared with direct government payments in 1997: By farm type

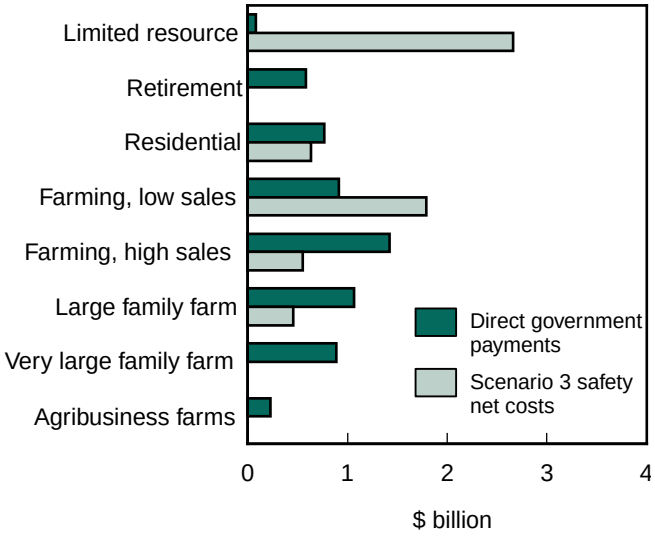
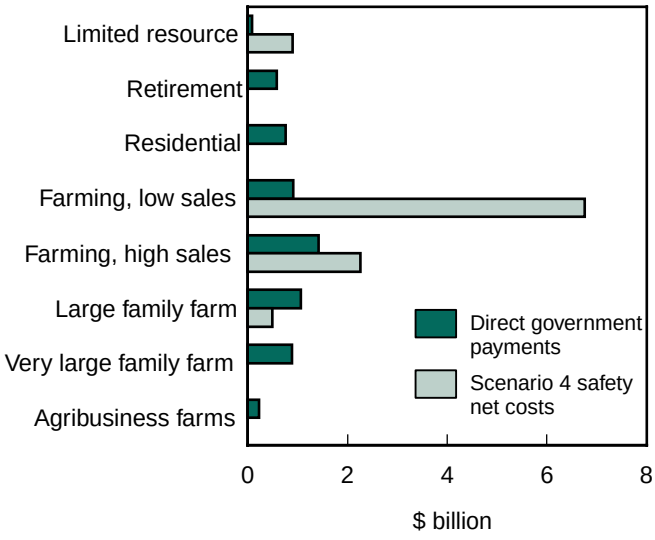


Figure 10

Scenario 4—Median hourly earnings of nonfarm self-employed compared with direct government payments in 1997: By farm type



production will therefore direct more payments to *limited resource* farm households. Even though a lower percentage of *farming, low sales* households would receive benefits than under current farm programs, the amount of payment per recipient would be more than twice as high. The total amount of safety-net payments going to *large* and *very large* farms would be half the amount of direct payments to these categories of farms in 1997.

The regional results (table 10) also show that under the scenarios described here, farm households in the Northern Crescent, Eastern Uplands, Southern Seaboard, and Fruitful Rim regions would generally receive a higher level and a greater proportion of benefits than under current programs. Farms in these regions generally produce dairy products, beef, hogs, fruits, vegetables, and other farm products not included in the commodity programs that provide direct government payments.

Table 9—Distribution of farm program payments by farm typology, 1997

	Limited resource	Retirement	Residential lifestyle	Farming, low sales	Farming, high sales	Large family	Very large family	Agribusiness	Total
Average direct government payment ($)	424	1,906	941	2,307	7,987	13,483	19,411	5,975	2,903
Payment per recipient ($)	2,183	6,395	3,844	4,948	10,889	17,766	32,087	16,401	7,987
Farms receiving payments (%)	19.4	29.8	24.5	46.6	73.4	75.9	60.5	36.4	36.4
AMTA (%)	11.9	17.5	17.1	40.7	69.1	72.3	55.9	22.8	28.8
CRP and WRP (%)	5.4	17.3	9.3	9.1	13.0	10.7	10.4	18.7	10.6

Source: Calculated by ERS using data from the 1997 Agricultural Resource Management Study (ARMS).

Table 10—Distribution of farm program payments by resource region, 1997

	Heartland	Northern Crescent	Northern Great Plains	Prairie Gateway	Eastern Uplands	Southern Seaboard	Fruitful Rim	Basin and Range	MS Portal
Average direct government payment ($)	4,338	1,656	8,592	4,272	345	1,233	2,177	2,484	4,781
Payment per recipient ($)	7,054	4,567	10,831	10,110	2,596	5,701	15,055	15,301	13,450
Farms receiving payments (%)	61.5	36.3	79.3	42.3	13.3	21.6	14.5	16.2	35.5
AMTA (%)	51.9	27.2	67.6	35.8	9.0	13.3	10.4	11.2	25.1
CRP and WRP (%)	17.0	9.5	26.3	13.6	2.5	9.4	3.3	5.0	11.8

Source: Calculated by ERS using data from the 1997 Agricultural Resource Management Study (ARMS).

In theory, the existence of safety nets leads to actions that people would not take in the absence of assistance programs. For example, due to the existence of unemployment insurance, some people may spend more time in a job search than they would without such programs (Diamond, 1981). Or, if benefits are targeted based on geographic considerations, some people may move to an area to obtain the benefits (Baker and Grosh, 1994). In the case of current farm programs, the main problem appears to be nonoptimal production levels. For example, McDowell, Kramer, and Price (1989) found that agricultural production would have been 17 percent lower from 1970 to 1982 in the absence of farm programs. And, Gardner (1987) for example, showed that there was a $6 billion net social cost due to $17.7 billion in farm program spending in 1987. Implicitly, therefore, some farmers absent a safety net would no longer farm. (For more about negative consequences of the current farm safety net, see, for example, Gardner, 1992.) A farm safety net based on household income would probably have different negative behavioral incentives than current farm safety net programs insofar as the structure of the benefits would be different. The magnitude of these negative incentives is likely to be directly related to the safety net threshold—with a higher threshold, the incentives are likely to be larger.

One should be cautious, however, about ascribing too much of an impact of safety net programs on behavior, especially when the safety net thresholds are set low enough. Take the case of the now defunct Aid to Families with Dependent Children (AFDC), a program primarily designed for low-income single mothers. The benefit levels from this program were set such that recipients' total income would be below the poverty line, far below the poverty line in some States. While hours of work were lower than they would have been without AFDC benefits, the work disincentives were calculated to have led to about a 5-percent increase in the AFDC caseload (Moffitt, 1992, p. 17). Over time, the number of single-parent households has increased, but that increase, despite the claims of some policymakers, has not been attributed to the AFDC program (Moffitt, 1992; p. 29). While a farm safety net would not be implemented like AFDC, this research shows that, just as concerns about negative incentives in other programs were overstated, so too might be concerns about negative incentives associated with a reconstructed farm safety net based on household income.