ERS Report Summary

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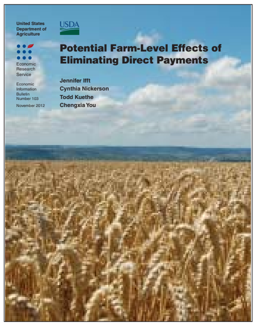

This is a summary of an ERS report.

Find the full report at ***www.ers.usda.gov/publications/eib-economic-information-bulletin/eib103.aspx***

Potential Farm-Level Effects of Eliminating Direct Payments

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What Is the Issue?

Direct payments are commodity program payments made to farmers, which are not tied to current production or market prices but are based on historical cropping patterns of major commodities, or "base acres," with per-acre rates fixed in legislation. Direct payments have accounted for a significant portion of total farm program payments since 2003, ranging from 21-45 percent of total farm program payments. In 2010, $4.8 billion in direct payments were paid to producers, accounting for 39 percent of total farm program payments and 6 percent of U.S. net farm income. A number of proposals for the next Farm Act have called for elimination of the direct payment program. This report considers the potential contribution of direct payments to farm revenues and land values across commodities and regions and estimates the financial impact on participating farms should direct payments be eliminated.

What Did the Study Find?

Although some farms' financial position may be adversely affected should direct payments end and not be replaced by a program providing similar levels of renumeration, our analysis suggests that the majority of farms currently receiving direct payments would not see a substantial decline in their overall financial well-being. Based on variation in income and cropland values, an end to the direct payment program likely would have more of an impact in some regions than in others.

- On a per-acre basis for 2004-08, direct payments were equivalent, on average, to 6.8 percent of all direct payment program crop revenues (crops that establish eligibility for direct payments). Many counties in the Northern Plains, Southern Plains, Southeast, and Mountain regions received direct payments per acre that were equivalent to at least 7 percent of direct payment program crop revenues per acre, on average, for 2004-08.
- Direct payments per acre vary significantly by commodity. In 2008, rice and peanuts received the largest direct payments per acre ($96.25 and $45.85, respectively), but combined they only accounted for about 2 percent of total base acres. Corn, wheat, and soybeans accounted for more than 80 percent of total base acres in 2008, but received lower direct payments per acre ($24.39 per acre, $15.21 per acre, and $11.54 per acre, respectively).
- The estimated contribution of direct payments to cropland values over 2004-08 has been relatively small in the Corn Belt and Lake States, while it was larger in areas of the Northern and Southern Plains and the Delta.

Based on 2009 Agricultural Resource Management Survey (ARMS) data, if direct payments were eliminated, some farms receiving direct payments (DP farms) could see a negative impact on their financial performance as a result of reduced income and land values.

- About 21 percent of farms received direct payments, which averaged $8,700 per DP farm in 2009.
- Relatively more DP farms were in a stronger financial position in 2009 than farms that did not receive direct payments. As of 2009, about 64 percent of farms receiving direct payments enjoyed a favorable financial status (defined as positive income and a relatively low debt-to-asset ratio of less than 40 percent), compared with 55 percent of farms that did not receive direct payments.
- The payment loss would lead to about 11,000 DP farms, or 2 percent of all DP farms, losing their favorable financial status. This loss appears slightly larger, at 4 percent, when measured against just those DP farms that had a favorable financial status in 2009.
- Our findings indicate that most shifts in financial status for DP farms from elimination of direct payments would be a result of lost income and not from lower farmland values.
- The number of farms considered vulnerable—farms with negative net farm income, a debt-to-asset ratio greater than 40 percent, and most likely to experience financial stress—would increase by about 2,600 (less than 1 percent of all DP farms).
- DP farms in the Delta and Southeast regions would be most affected by an end to direct payments, which would cause about 13 percent of Delta DP farms and 10 percent of Southeast DP farms that had favorable status in 2009 to lose this status. These farms would see the most impact because direct payments per farm are higher, on average, in these regions.

Although the potential loss of income and decline in land values could be significant for some farms, new programs (not assessed in this report) that have been proposed in Farm Act deliberations could help maintain farm income stability if direct payments are eliminated. Producers can also take actions—like diversifying crops or seeking off-farm work—to diminish the loss of direct payments. Further, the U.S. farm sector has benefited from growth in average farm income and farmland values over the last 5 years, and DP farms that have experienced this growth would be less likely to see a decline in their financial status from the elimination of direct payments now than what our 2009 data show.

How Was the Study Conducted?

Our analyses were based on data from various USDA agencies. Farm program payment information from 2004 to 2008 was provided by USDA's Farm Service Agency (FSA), crop production information was obtained from USDA's National Agricultural Statistics Service (NASS) 2007 Census of Agriculture, and annual field crop price, yield, and acreage data from NASS Quick Stats (2004-08). Cropland values data for 2004-08 came from the USDA/NASS June Area Survey. USDA's Economic Research Service (ERS) provided farm income estimates. Detailed farm survey data came from the 2009 Agricultural Resource Management Survey (ARMS), a joint effort by ERS and NASS. The goal of this study was to identify the potential magnitude of the impacts of ending direct payments rather than to estimate precise impacts; as such, our analysis includes a number of simplifying assumptions, including that output prices and most input prices remain fixed and that producers would not make changes to their farm operations as a result of direct payments ending. Our approach also drew from previously published studies on farm finance and management and incidence of Government payments.