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The Evolving Distribution of Payments From Commodity, Conservation, and Federal Crop Insurance Programs

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What Is the Issue?

Federal support to U.S. agriculture takes many forms. For example, the U.S. Department of Agriculture (USDA) administers programs designed to support agricultural productivity growth through scientific research, to control the damages done by agricultural pests and diseases, to improve agricultural market performance through information and reporting programs, and to support small and beginning farmers through credit and educational programs.

USDA also aims to mitigate the financial risks faced by farmers through commodity and crop insurance programs and to maintain and improve natural resources through conservation programs. These programs, through direct financial assistance to farmers in commodity and conservation programs and through premium subsidies paid to insurance companies for Federal crop insurance, provided $16.9 billion in assistance to producers and landowners in 2015. Commercial farms face financial risks from sharp fluctuations in commodity and input prices, and from weather- and pest-related production shocks. These risks may be mitigated in livestock operations that feed animals in controlled-climate facilities under stable contracts with processor/integrators, but they can be substantial for other livestock and crop producers.

The amount of direct financial assistance provided to the farm sector, and its allocation among producers, varies with changes in the design of programs, enrollment decisions of farmers, and the overall state of the farm economy. Changes in farm structure also affect the allocation of support among producers. This report tracks the effect of changes in farm structure on the allocation of support, while taking account of developments in the overall farm economy and program design.

What Did the Study Find?

The composition of direct financial support has shifted. In 1999, commodity programs accounted for 89 percent of commodity and conservation program payments and crop insurance premium subsidies. By 2015, commodity programs amounted to just 43 percent, as the shares of spending from conservation and crop insurance support increased.

Swings in commodity prices affected program payments and household incomes. Crop prices rose generally after 2002, with sharp fluctuations, reaching historic highs in 2008 and 2011-13. While higher prices limited commodity program outlays, they also contributed to sharp increases in household incomes for producers of field crops, including recipients of commodity program payments. Falling crop prices in 2015 led to reduced household incomes.

Agricultural production shifted to larger farms, along with commodity program payments and insurance indemnities, between 1991 and 2015. Large farms—those with gross cash farm income before expenses of $1 million or more (in inflation-adjusted 2015 dollars)—increased their share of agricultural production from 23 to 41 percent.

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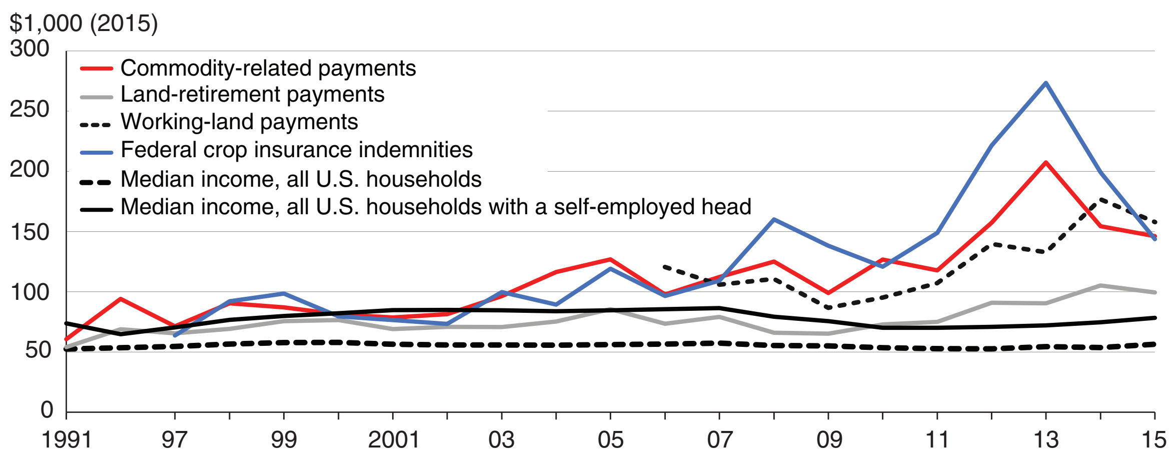
Payments also shifted to farms with higher household incomes, mainly because larger farms tend to be operated by people with higher household incomes. In 1991, half of commodity program payments went to farms operated by households with incomes over $60,717 (in constant 2015 dollars); however, in 2015, half went to households with incomes over $146,126. For context, the median income of U.S. households in 2015 was $56,516, and payments shifted further from the U.S. median throughout 1991-2015. Insurance indemnity payments follow a similar trend but with more interyear variability.

Conservation program payments also shifted to higher income households, but more slowly. In 1991, half of land retirement payments (payments to farmers for retiring environmentally sensitive farmland from production) went to households with incomes no higher than $54,000 (2015 dollars); by 2015, that median value had risen to $99,000. Half of working-land payments (payments to farmers for conserving natural resources on farmland in production) went to households with incomes no greater than $121,000 in 2006 (when our working-lands series starts), and that value increased modestly to $158,000 in 2015.

A dollar of Government payments does not necessarily become a dollar of net benefits to farmers. Program participation can raise farmers' costs (e.g., some conservation programs require adoption of costly practices). Payments can also raise farmland rental rates and land values.

Farm household income at the 50th percentile[1] of Government payments—by type of program—and Federal crop insurance, 1991 and 1996-2015



Note: Household income is expressed in 2015 dollars using the Consumer Price Index, All Urban Consumers. Detailed data on Government payments are not available for 1992-95. Also, crop insurance indemnities represent gross indemnities and do not subtract farmer-paid portions of the premium.
[1]The 50th percentile line for each program shows the farm household income level at which half of the payments went to households with income above that value and half of payments went to households with income below that value. Median incomes for all U.S. households are reported for context. See Appendix B for underlying data in table format.
Source: USDA, Economic Research Service and National Agricultural Statistics Service, 1991 Farm Costs and Returns Survey and 1996-2015 Agricultural Resource Management Survey for farm households. U.S. Bureau of the Census, Current Population Survey for all U.S. households. Federal Reserve Board, Survey of Consumer Finances (SCF) for all U.S. households with a self-employed head. The SCF is conducted every 3 years. Data points between SCF survey years were interpolated.

How Was the Study Conducted?

We use data from four USDA sources to summarize trends in the distribution of payments. ERS Farm Sector Accounts data provide estimates of commodity and conservation program payments to the farm sector, while USDA's Risk Management Agency provides data on Federal crop insurance premium subsidies and indemnities. Farm-level Agricultural Resource Management Survey (conducted jointly by ERS and USDA, National Agricultural Statistics Service) data are used to track flows of program payments and insurance indemnities to different types of farms, and to track flows of farm business income to households. Finally, Census of Agriculture data track changes in crop production and acreage, which are not available from ARMS or administrative data.