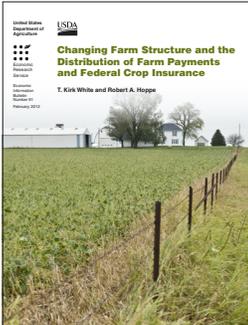


ERS *Report Summary*

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Changing Farm Structure and the Distribution of Farm Payments and Federal Crop Insurance

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What Is the Issue?

The Federal Government supports farmers through USDA programs such as commodity-related program payments made directly to farmers and indemnity payments from Federal crop insurance. In the next farm bill, Congress may adjust both the portion of the overall Federal budget going to farm programs and the design of these programs. Even if there are no changes in farm policy, ongoing changes in farm structure are altering the distribution of farm support. We analyze the impact of program design, farm organization, and changes in farm structure on the distribution of farm support as policymakers contemplate future farm-related legislation.

What Are the Study Findings?

Total Federal Government program payments to U.S. farms, which summed to about \$12.3 billion in 2009, have ranged from as high as \$24.4 billion in 2005 to as low as \$7.3 billion in the late 1990s. Indemnity payments from Federal crop insurance have grown larger in recent years. In 1991, total Federal crop insurance indemnity payments to farms were \$955 million. By 2009, that figure had increased to \$5.2 billion. Not all of the increase in Federal crop insurance indemnity payments represents net benefits to farms, because farms also pay premiums. Similarly, not all Government program payments directly benefit farms, because higher payments can lead to higher production costs, especially for land rentals. Higher payments attached to cropland can lead landowners and farmers to bid up the price of land and rental rates for land. Thus, some of the benefits of Government program payments flow to nonoperator landlords in the form of higher land rents. A significant percentage of U.S. agricultural landlords are not farmers.

A long-term shift in production to larger farms has contributed to a shift in the distribution of commodity-related Government program payments and Federal crop insurance indemnity payments toward larger farms, most of which are family farms. Since operators of larger farms tend to earn higher household incomes, this shift has in turn led to a shift in the distribution of commodity-related Government payments toward higher income farm households. Most commodity-related program payments now go to farms operated by households with annual incomes over \$89,000—significantly higher incomes than the typical U.S. household. Federal crop insurance indemnity payments have also shifted toward farms operated by higher income households, although not as much as commodity-related program payments.

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Congress has created upper limits on the amount of Government program payments that can be made to an individual, as well as income caps that restrict eligibility to households with income below specified levels. The levels differ, depending on program type and income type (farm or off-farm). The current payment limits and income eligibility caps affect few recipients and only a small share of total payments. Several of the recent proposals to lower payment limits or income eligibility caps would still only affect a few recipients. However, some types of farms—especially rice and cotton farms—could be affected more than others, because they tend to receive larger payments than others. Nonetheless, given the small number of farms potentially affected by the proposed limits, in most areas these effects would be small. Payment limits do not apply to Federal crop insurance indemnities or premium subsidies.

How Was the Study Conducted?

We used data from four main sources: USDA's Farm Sector Accounts, the annual Agricultural Resource Management Survey (ARMS), the U.S. Censuses of Agriculture, and summaries of business reports from USDA's Risk Management Agency (RMA). We used the Farm Sector Accounts data to estimate total annual Government payments to farms from 1999 to 2009. The ARMS data were used to examine receipt of Government payments and indemnities from Federal crop insurance by different types of farms, the shift of production to larger farms, and changes in the distribution of insurance indemnities and Government payments by the level of operator household income. Note that some of the programs enacted by the 2008 Farm Act, such as the Average Crop Revenue Election (ACRE) program and the Supplemental Revenue Assistance Payments (SURE) program, are not reflected in the 2009 ARMS data. We used the Census of Agriculture for comprehensive data on multi-year changes in acreage and production by crop. Those data are not available in either the ARMS or administrative data. Finally, we use summaries of business reports from the RMA's Federal Crop Insurance Corporation to calculate totals for Federal crop insurance indemnities received by farmers.