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Center for Agricultural & Environmental Policy at Oregon State University
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Got Subsidies?

Who Benefits from Farm Programs and How that Could Change with a New Farm Bill

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Who Benefits

Who benefits from the various subsidy, conservation, and other programs embedded in the 'farm bill'? The answer is of key political and economic importance both to farmers and others in society. This includes agricultural land owners who may not be farmers but benefit from subsidies, politicians who create the policies, taxpayers who pay the costs, as well as others affected directly or indirectly by the policies.

Each farm bill has parts related to agricultural policy as well as food and nutrition programs. In this Brief, we review the distribution of the benefits from the agricultural policy parts of the farm bill, and then review possible changes in policy. Our goal is to lay the factual groundwork for understanding the magnitude of subsidy and other programs that provide payments, and how benefits from these programs are distributed among different kinds of farms and ranches under the current legislation. Center for Agricultural and Environmental Policy (CAEP) researchers will be studying how the amount and distribution of benefits may change with the changes that may be enacted in 2013.



Some Facts about the Distribution of Farm Program Payments, 1995–2011

Between 1995 and 2011, farm subsidies have totaled more than \$277 billion. The vast majority of this money has gone toward commodity subsidies (Figure 1). Within this category, nearly half (\$141 billion) has been used to fund corn, wheat and cotton programs, with eight states (TX, IA, IL, MN, NB, KA, ND, and AR) collecting more than 50% of all farming subsidies. For comparison, the Northwest states of ID, OR and WA have received just 3 percent of these subsidies.

Crop insurance premiums have made up the second largest portion of these payments (17 percent), followed by conservation programs (13 percent), and disaster subsidies (7 percent).

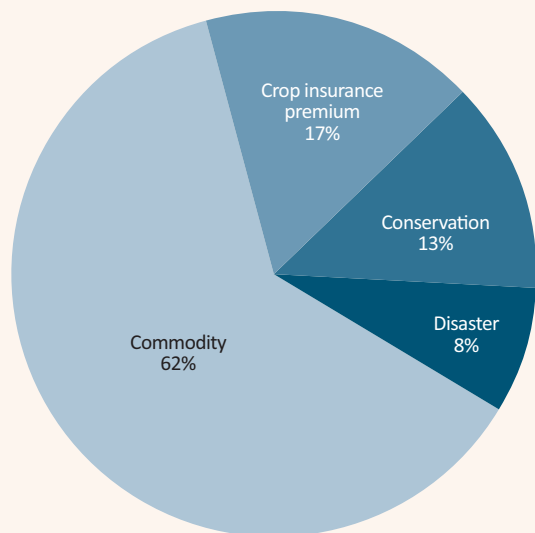
Figure 2 illustrates how subsidies in these four main categories have changed since 1995. The commodity subsidy has varied significantly over time. The spike in the 1990s occurred in response to a sharp decline in commodity prices and a resulting increase in price support payments, due in part to increases in supply after the 1996 farm bill eliminated annual set-asides and most government stor-

age programs (Ray et al. 2003; Zulauf et al, 2005). The decline since 2005 was the result of rising commodity prices which meant that price support payments were reduced. The portion of subsidies going towards conservation has remained rather constant between \$1.5 and \$3.0 billion per year.

Increasing Importance of Crop Insurance

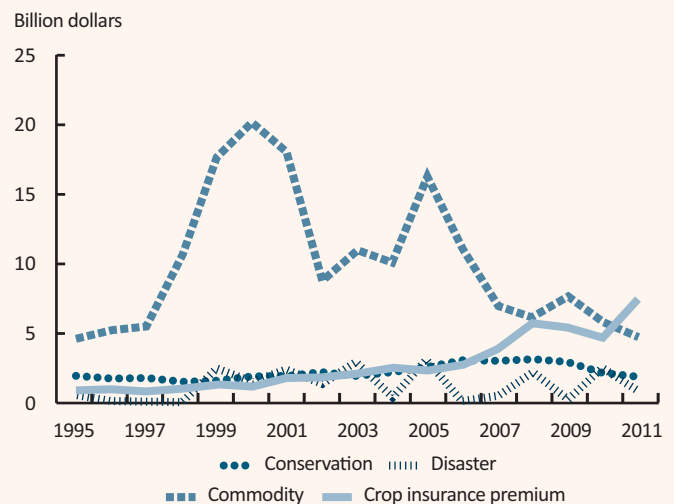
Crop Insurance subsidies (and associated payments) have been gradually increasing; in 2011 they surpassed commodity subsidies, and are predicted to be much higher in 2012 due to the Midwest drought. This steady increase in crop insurance premium subsidies is due to incentives that have been enacted throughout these years aimed at increased participation (see RMA). In 1996, Congress required farmers who accepted other benefits to purchase crop insurance or waive their eligibility for disaster. In 2000, premium subsidies were increased, and over the last few years, products that combine yield and price coverage have been introduced. “Over the next 10 years, federal spending on crop insurance is projected to

Figure 1. USDA Farm Subsidies 1995–2011 (\$277 billion)



Source: EWG farm subsidy database.

Figure 2. USDA Farm Subsidies 1995–2011, by Category



Source: EWG farm subsidy database.

outpace spending on traditional commodity programs by about one-third (Shields 2010).”

Benefits of Farm Subsidies in the PNW

To examine who is benefitting in the Pacific Northwest, 2007 Agricultural Census data for 45 counties and over 7,000 farms in WA, OR, and ID east of the Cascade Range were analyzed (the “Inland Empire” of the Pacific Northwest). Although these data are five years old (the census is collected every five years), these data provide the most detailed information available about what farms produce and the subsidies they receive. Even though the situation changes somewhat year-to-year, these data provide a good indication of the situation in this region. We analyzed data on the average payments made to each type of farm for four of the largest farm subsidy programs: Direct Payments, Deficiency Loans, Conservation Reserve Program, and Crop Insurance payments (not including premium subsidies). We stratified the farms into six categories that represent the major systems in the region, and then separated these into large and small farms (those above and below the median size). The six categories are described as:

1. Rainfed grain-based crops (more than 50 percent of revenue from grains and less than 10 percent of acres in fallow).
2. Rainfed grain crop-fallow (more than 40 percent of acres in fallow).
3. Rainfed grain crop-fallow transition (10–40 percent of acres in fallow).
4. Irrigated grain and hay based crops (more than 50 percent revenue from grains and hay).
5. Other irrigated crops (less than 50 percent revenue from grains and hay).
6. Cattle farms with more than 50 percent of revenue from cattle sales.

These farms received more than \$82 million in payments and subsidies, with an aver-

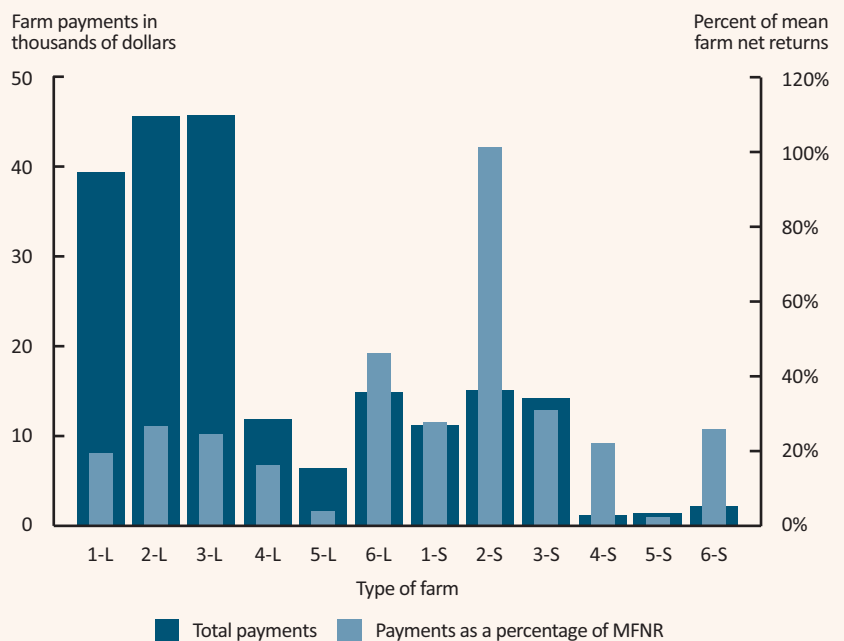
age of about \$11,000 per farm. On average, rainfed grain farms receive the most payments. The large farms in these categories receive an average of about \$43,000/farm, and the small farms receive an average of \$13,000/farm (solid bars in Figure 3).

However, if one examines the importance of payments as a percent of mean farm net returns (striped bars in Figure 3), we see a different picture. Within each farm type most small farms receive a greater percent of net returns from farm subsidies than large farms. The farms that receive the largest relative payments are small rainfed grain crop-fallow farms and large cattle farms. In this relative sense, these farm types will be most vulnerable to the changes in the 2012 farm bill.

Proposed Changes to the 2008 Farm Bill

The Senate and the House both had their own versions of a 2012 farm bill (see CRS 2012, and House Committee on Agriculture, 2012 for further details of each version). The Senate’s version was passed in June, but because the

Figure 3. Average Farm Payments by Size and Farm Type



Source: Authors’ calculations from the 2007 Census of Agriculture.

House version did not pass before the end of the year, the House and the Senate have agreed to extend the current 2008 farm bill until the end of September 2013. The Senate bill proposed cuts that would have resulted in a net decrease in spending (over 10 years) of \$23 billion from current spending levels. The House proposed much larger cuts projected to decrease spending (over 10 years) by \$35 billion. Most of the savings would have been achieved by eliminating the direct payments program and consolidating other programs, many of which are within the Commodity Programs, Conservation, and Nutrition title of the 2008 legislation. Both versions would have eliminated direct payments, and proposed substantial increases in crop insurance funding (\$5–9 billion). The biggest difference in the two versions was funding for Food Stamps/SNAP. The Senate proposed a cut of \$4.5 billion from food stamps, and the House proposed a cut of \$16 billion.

Implications for the Amount and Distribution of Subsidies

Although it is not an easy task to predict how the total amount of subsidies will change with new legislation, or how they will be distributed, some “educated guesses” are possible based on the changes proposed in 2012. First, it appears that direct payments will be reduced or eliminated, and that reliance on crop insurance will increase and shift the emphasis towards single-year risk management. Also, it appears that conservation and environmental subsidies will be reduced. In addition, in principle more farms producing more types of crops are likely to be eligible for crop insurance. Thus, those large grain farms that now receive a large share of farm subsidies, and also receive a relatively large share of their program payments from direct payments and conservation programs (primarily from the Conservation Reserve Program), are likely to see substantial reductions in payments. However, the magnitude of these reductions will depend on how the crop insurance programs are re-designed. According to one analysis done earlier this year, average payments to producers under the proposed programs ARC and STAX could be lower than payments under the previous DCP and ACRE programs by about \$18 billion over the next ten years (FAPRI, 2012).

Likewise, the proposed changes in programs will affect the distribution of benefits. Rigorous analysis will require quantitative modeling and will depend on factors such as changes in commodity prices and how farm managers and landowners respond to the policy changes. Yet, from the current distribution of program benefits discussed above, we know that among the farms east of the cascades, Direct Payment subsidies represent 40 percent or more of total farm subsidies for most farm types, thus eliminating direct payments will have a significant impact on the net revenue of these farms. The extent of the impact will depend largely on the extent to which changes in crop insurance policies will compensate for the losses from direct payments. We have already seen an increase in crop insurance subsidies in recent years and expect this trend to continue with changes in the new farm bill. We also know that small rainfed grain farms that fallow land will be the farm type most impacted by changes in conservation programs, because on average more than 35% of their farm subsidies are from the Conservation Reserve Program which will likely be reduced by 6 billion dollars. ■

FOR FURTHER READING

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The logo for OreCal, featuring the text "OreCal" in a white, sans-serif font on an orange rectangular background. A dark blue horizontal line is positioned below the orange box.

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OreCal is a policy research collaboration between Oregon State University's Center for Agricultural & Environmental Policy and the University of California Agricultural Issues Center. Principal Investigators for the partnership include members of the Departments of Agricultural and Resource Economics at both OSU and UC Davis. The Partnership's mission is to improve public and private decision-making by providing the highest quality, objective economic analysis of critical public policy issues concerning agriculture, the environment, food systems, natural resources, rural communities and technology.

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