Expansion in Direct Payments Did Not Lead to More Crop Production

by Jeremy Weber and Nigel Key

Since the 1996 Farm Act went into effect, Federal farm programs have been making direct payments to farmers based on their historic acreage and yields of program crops like corn and wheat. The payments, referred to as "direct payments" in the 2002 and 2008 Farm Acts, are often considered "decoupled" because they are not linked to a farmer's current production decisions. The extent to which direct payments encourage production has been a point of dispute in World Trade Organization (WTO) negotiations and legal cases. Recent ERS analysis, however, finds that direct payments have little effect on production decisions. A more rigorous ERS analysis accounting for farm...
and regional characteristics also found no evidence of direct payments having economically significant effects on production.

Because direct payments are linked to past production of program crops and because productive areas tend to remain productive over time, areas that currently have higher average yields and more acreage of program crops tend to receive more payments than areas with lower yields and fewer acres. Thus, while there is a positive association between direct payments and production of program crops, it is unclear whether payments induced farmers to produce more than they would have without the payments.

The 2002 Farm Act authorized direct payments for the first time for oilseed crops, such as soybeans. The change in policy triggered a sudden increase in direct payments to areas with higher average production of oilseeds than other areas. It therefore provided an opportunity for researchers to study the effects of changes in direct payments on production decisions.

ERS researchers compared crop production changes in ZIP Code areas with above-average and below-average oilseed production in 2002. From 2002 to 2007, Government payments decreased to both high- and low-oilseed production areas, with payments in 2002 reflecting the 1996 Farm Act and payments in 2007 reflecting the 2002 Act. Consistent with the change in the 2002 Farm Act that favored oilseed producing areas, high-oilseed production areas had a much smaller average decrease in payments (roughly $23,000) than low-oilseed areas ($86,000).

Despite the different effects on high- and low-oilseed areas, the value of production of program crops grew by about a million dollars in each area. The same was true of acres harvested of all crops. This suggests that direct payments have little, if any, effect on production decisions.
High- and low-oilseed areas have similar growth in production despite different changes in payments

![Bar chart showing change in payments and average change in the value of production for high- and low-oilseed areas between 2002 and 2007.]

Source: USDA, Economic Research Service using Census of Agriculture data for ZIP Code areas where key program crops were grown in 2002 and 2007. The value of production is calculated using 2002 crop prices and only includes crops considered by Weber and Key (2012).

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