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CORNHUSKER ECONOMICS

University of Nebraska–Lincoln Extension

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Institute of Agriculture & Natural Resources
Department of Agricultural Economics
http://agecon.unl.edu/cornhuskereconomics

Farm Program Payments: A Changing Pattern in Nebraska's Farm Income

Market Report	Yr Ago	4 Wks Ago	4/15/11
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$99.96	$114.21	$119.09
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	128.29	155.87	151.50
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	115.78	130.89	136.30
Choice Boxed Beef, 600-750 lb. Carcass	166.77	186.88	188.89
Western Corn Belt Base Hog Price Carcass, Negotiated	80.10	79.22	91.57
Feeder Pigs, National Direct 50 lbs, FOB	*	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	82.82	91.91	95.90
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct	*	188.00	182.50
National Carcass Lamb Cutout, FOB	288.98	381.86	396.22
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	3.96	6.89	7.26
Corn, No. 2, Yellow Omaha, bu.	3.53	6.52	7.25
Soybeans, No. 1, Yellow Omaha, bu.	9.79	13.37	13.24
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	5.61	10.88	11.91
Oats, No. 2, Heavy Minneapolis, MN , bu.	2.15	3.49	3.83
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	135.00	140.00	140.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	92.50	72.50	72.50
Grass Hay, Large Rounds, Premium Nebraska, ton.	*	*	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	103.50	191.00	215.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	35.50	71.00	79.00

***No Market**

Over the last decade, considerable change has occurred to the nature of farm cash receipts and net farm income. Total cash receipts to the state's agricultural sector doubled from about $9.5 billion in 2000 to more than $19 billion in 2010. At the same time, total receipts to the crop sector accelerated even more - increasing from the $3 billion range to around $9 billion by the end of the decade, a three-fold increase! The result has been net farm income levels climbing to the $4 billion range annually over the last few years, a level more than 50 percent above the ten-year average of the decade.

A very profound aspect of this decade of change has been the role of Direct Farm Program payments. In 2000, direct farm payments to the state's agricultural sector exceeded $1.4 billion and accounted for 97 percent of the total net farm income in that year (Figure 1 on next page). Crop commodity prices were low enough to engage counter-cyclical payments as well as a direct revenue transfer; and the crop sector economy was essentially sustained by them. In fact, for the first five years of the decade direct government payments remained a substantial financial element, averaging about 44 percent of Nebraska's total annual net farm income. Moreover, the economic impact of the farm program was not limited to just the crop sector. The low cash prices of major feed grains during this time period were, in turn, providing indirect economic advantages to the livestock sector in the form of low feed input costs during these years; so the total economic impact across the state's farm economy was substantial.

However, with upward movement of crop commodity prices beginning in 2006, farm income levels moved considerably higher with a diminishing role of the Direct Farm Program payments to the crop sector. For the last half of the decade, direct program payments accounted for less than 20 percent of the total net farm income in the state. In

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fact, for the last two years of the decade, the payments fell to just 13 percent of Nebraska's aggregate net farm income. And based on record farm income preliminary estimates for 2010, the direct payments had fallen even more, to only eight percent. Certainly, crop producers can feel good about the favorable profit margins, as a variety of market forces have pushed farm commodity prices to new heights. In fact, all predictions point to this year, 2011 as being a record shattering income year for the United States farm sector as a whole. In Nebraska we may well see the state's aggregate net farm income approaching $5 billion, 20 percent higher than the record level set in 2010.

Despite these record farm income levels across Nebraska and the U. S., the current Federal Farm Program will continue to disperse direct government payments to crop producers. For the country as a whole, these payments will amount to $5 billion in 2011, being a direct transfer to crop producers and land owners from the federal treasury. For recipients with Nebraska land, they will receive an estimated $350 million of these 2011 direct payments. As the current Federal Farm Program was configured in 2008, provisions allow these payments to continue even when commodity prices far exceed costs of production. In short, what was essentially put in place as **one** of the components of an ***economic safety net*** in the 2008 farm bill legislation to compensate for low farm returns, continues to disperse federal revenue payments when there is no economic reason to do so. Moreover, this is occurring even when there are also other aspects of a federal farm safety net - crop insurance and disaster assistance provisions - that remain in place to protect the crop sector in terms of risk management, which also are subsidized by the federal treasury. As economist Daryll Ray and Howard Schaffer recently commented, it appears that today's farm commodity programs represent a safety net turned on its head:

> *"We have come to the point - contrary to our understanding of the purpose of (farm) commodity programs - that making payments when they are not needed is just fine." (Ray and Schaffer)*

In these times of record federal budget deficits commanding so much attention from the national political scene, it seems ironic that agricultural stakeholders and their policy representatives would not make some effort to address this incongruity. Instead, there seem to be strong efforts to build in a similar process into the next farm bill legislation, which is now in the early stages of being crafted. In other words, this is perceived by many as an entitlement. And as we know, when deficit reduction discussion enters the world of entitlements, Congress on both sides of the political aisle quickly becomes timid.

That said however, what would the likely outcome be if agricultural interests themselves stepped forward to accept a removal of these $5 billion of direct government payments? In essence, the agricultural community would say: "*we will voluntarily take a share of the budget deficit reduction effort and challenge our counterparts in the other entitlement areas to consider doing likewise."* In doing so, might there be a modest economic cost paid by the agricultural community for a whole lot of public and political goodwill, let alone at least putting a crack in the *entitlement log jam* faced by Congress? It's just a thought.

Reference:

Ray, Daryll E. and Harwood D. Schaffer. *Policy Pennings*, "Today's Commodity Programs: A Safety Net Turned on Its Head?" March 25, 2011.

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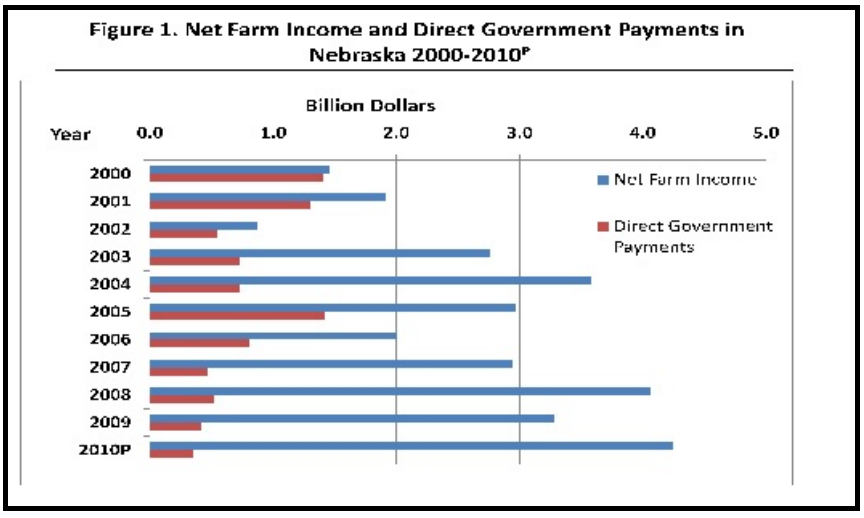

Figure 1. Net Farm Income and Direct Government Payments in Nebraska 2000-2010[P]