DISEQUILIBRIA

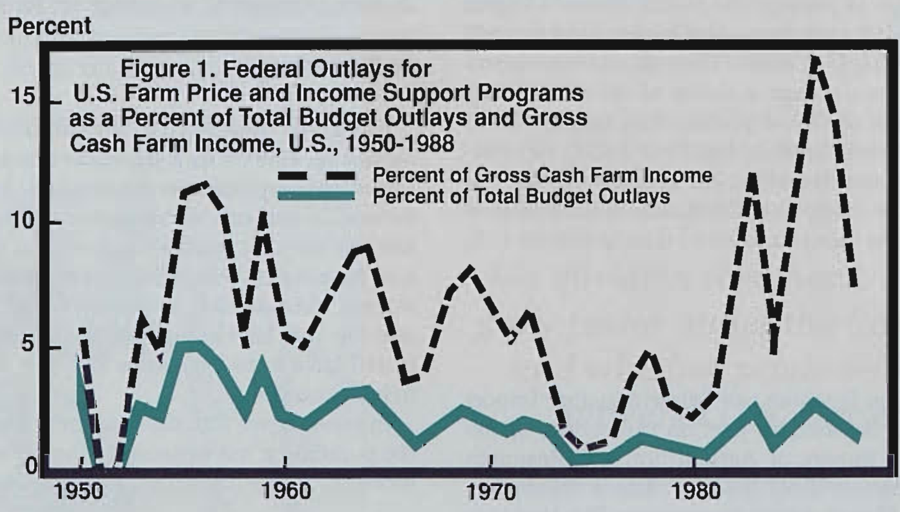
Federal Expenditures For Farm Programs

A Historical Picture Since 1950

by Carl Zulauf, Luther Tweeten, and Tom Jackson

➢ Those who favor continued large program payments to farmers will do well to keep the 1990 farm policy debate focused on the sector and to avoid, if at all possible, a focus on subsidies on a per farm basis. Over time the number of farmers have declined. And while current farm program payments, as a whole, compare favorably with some earlier years, the per farm payments remain very high.

The specter of $26 billion spent on farm programs during fiscal year 1986 still haunts the farm policy debate even though program expenditures have declined. Furthermore, pressure from Gramm-Rudman-Hollings to reduce the federal budget deficit combined with pressure to fund other initiatives, such as the savings and loan bailout, child care, drug enforcement, and toxic waste clean-up, means farm programs could be targeted for future cuts. Given the potential importance of the budget to the 1990 farm bill debate, it is useful to place farm program expenditures in historical perspective. Included in farm expenditures are outlays for the Commodity Credit Corporation, National Wool Act, Sugar Act, Soil Bank, and Conservation Reserve. The latter two include a conservation component, but they also raise farm income by removing land from production.



Notes: Includes federal expenditures for Commodity Credit Corporation, National Wool Act, Sugar Act, Soil Bank, and Conservation Reserve. For federal expenditures, fiscal year data. For gross cash income, calendar year data.
Sources: Budget of the U.S. Government, various fiscal years 1950-1989; USDA, National Financial Summary, 1987; USDA, Agricultural Outlook, June 1989.

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Farm Program Outlays Are Substantial

Between 1950, the first year consistent budget numbers became available, and the late 1970s, farm program expenditures trended erratically lower as a share of total federal outlays (Figure 1). However, from FY82 through FY88, farm programs claimed 1.8 percent of federal outlays, far higher than the 0.6 percent from 1974 through 1981.

During 1983, 1985, 1986, and 1987, the farm program share of federal outlays exceeded the farm sectors contribution to gross national product. This was probably the first time that more money was spent on farm programs by the public (i.e., the general economy) than farmers contributed to the general economy.

From 1983 through 1988, farm program expenditures equalled 10.6 percent of gross farm cash income (Figure 1). This level of expenditures was higher than during any similar six-year period since 1950, and underscores the importance of farm programs in stabilizing the farm financial crisis. Cash grain farms were the most heavily dependent; in 1987 federal government payments accounted for 27 percent of gross cash income for farms which earned over half their sales from grain.

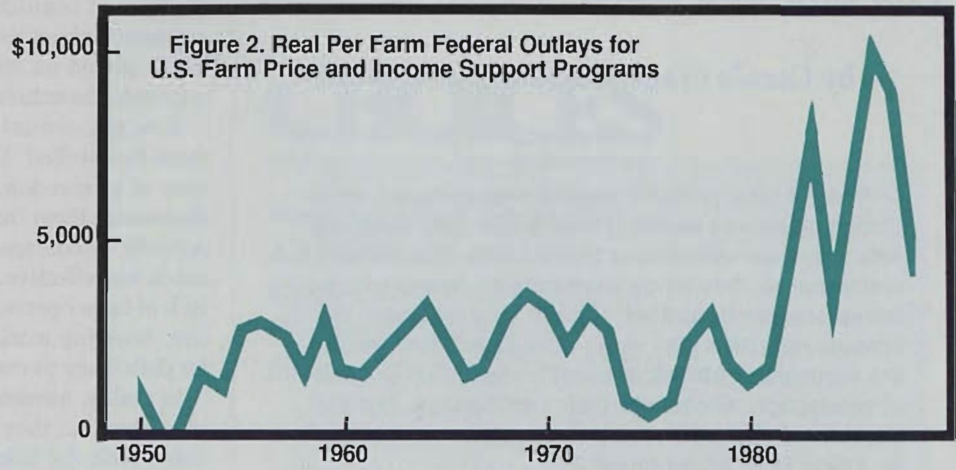
Per Farm Federal Outlays

Real per-farm cost of farm programs, measured in 1982 dollars using the GNP implicit deflator, fluctuated erratically in the $1,000 to $3,500 range from 1950 through 1981 (Figure 2). Since 1981, however, annual federal expenditures have averaged $6,597 per farm and current budget projections suggest real per-farm expenditures will average $4,000 to $5,000 over the next couple of years. In nominal dollars, projected per-farm expenditures will average between $4,000 and $5,000 during the next few years. While large by historical standards, this amount is substantially below the $11,682 spent per farm in 1986, a value which exceeded the national average poverty threshold for a family of four ($11,203).

The dramatic increase in per farm expenditures during the 1980s looks even more ominous when we look only at commercial farms. In 1987, for example, direct income payments alone averaged $26,170 per farm with sales between $100,000 and $249,999. These farms averaged $51,749 net farm income and $649,073 net worth.

Implications for the 1990 Farm Bill

In arguing for a continuation of current programs, some advocates will argue that the increase of farm program expenditures in the 1980s was associated with direct income payments replacing income previously earned through higher loan rates and more stringent production controls. However, it is not clear that consumers and taxpayers will note this rather esoteric argument. Furthermore, consumers would rationally agree to higher taxes only if it means lower food costs. While it is too early to conclude what impact lower price supports will have on retail food prices, retail food prices have kept up with general consumer inflation since the major decline in price supports in 1986. Thus, consumers and taxpayers may have little reason to view higher farm expenditures as a reasonable return on tax payments.



Notes: Includes federal expenditures for Commodity Credit Corporation, National Wool Act, Sugar Act, Soil Bank, and Conservation Reserve. Nominal dollars deflated by GNP deflator, 1982=100. Fiscal year expenditures divided by farms reported for corresponding calendar year.

Sources: Budget of the U.S. Government, various fiscal years 1950-1989; USDA, National Financial Summary, 1987; USDA, Agricultural Outlook, June 1989.

Consequently, early historical, not recent, levels of federal expenditures may be a good indicator of what consumers and taxpayers are willing to spend on farm programs. Such comparisons could be on a sector or a per farm basis.

Farm programs, if not changed substantially, will claim about 1 percent of federal outlays and provide 6 to 8 percent of gross cash farm income for all farmers in the next three years. These projections are within the ranges of the last quarter century. Therefore, they do not suggest substantial cuts in farm programs. However, a focus on the individual farmer as opposed to the sector gives a different perspective. To reduce per farm expenditures to the high end of the 1950-1980 range, a 10 to 30 percent reduction in expenditures would be required. An even larger cut is needed if average per-farm expenditures are to return to the 1950-1980 average. Thus, history suggests that, if the debate focuses on the individual farmer, maintaining currently projected farm program expenditures will require considerable political skill by farm groups.