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## Out With the Old, In With the New: Are Western Commodity Producers Ready for Buyouts?

Amy M. Nagler, Christopher T. Bastian, Bradley D. Lubben, and Dale J. Menkhaus<sup>1</sup>

### Introduction

Current agricultural policy offers U.S. producers subsidies evolving from policies dating back to the 1970s (Flinchbaugh and Knutson 2004). Increased globalization in agricultural markets has prompted policy makers to search for trade-friendly policy alternatives. Such alternatives, called new generation policies, “decouple” the linkage between program payments and agriculturists’ production decisions.

One new-generation policy tool being discussed is a buyout bond. A bond scheme proposed by policy analysts in the United States and the European Union provides income support but is not linked to agricultural production. During a transition period of 15 to 25 years individual producers would receive a bond associated with a guaranteed income stream in exchange for giving up all future government subsidies. This bond, much like a savings bond, would have financial value and could be sold over its life (Orden and Diaz-Bonilla 2005). The amount of the bond would be based on previous production. Payments would be eliminated altogether at the end of the transition period. Such a policy would allow farmers who wanted to retire or diversify into other sectors to cash in their future entitlement and receive a lump sum. Others might want to use returns from the bond to invest in an agricultural enterprise or to supplement household income.

A buyout of agricultural supports is not entirely new to American producers or the policy arena. Both peanut and tobacco farmers have received buyouts or transitional payments associated with the end of traditional marketing quotas for their crops (Womach 2003). Citigroup proposed a voluntary buyout bond program be considered in the 2007 farm bill debate for traditional commodity program recipients (Brasher 2007). The buyout bond proposal was briefly considered in the House Committee on Agriculture during initial farm bill debate, but was not included in the bill passed by the committee and approved by the full House in July 2007. The Senate did not consider the buyout bond proposal when it debated and eventually passed its bill in December 2007. Without House or Senate language moving forward, the buyout bond proposal will not be in the latest farm bill.

The question then becomes whether such policies will be considered in future farm bills? With the existing safety net based on relatively low price support levels compared with today’s record commodity market prices, there is an opportunity to reform the design of the safety net. The expected capitalized value of the existing safety net is quickly drawing towards zero given current prices and price expectations for the next few years. That, however, has not led to calls for a buyout while there is still some value left in the existing safety net. Instead, the calls have been for the adoption of a revenue safety net that tracks price movements over time and “climbs” to current price levels (Orden 2008). As a result, the final farm bill could have a safety

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<sup>1</sup> Amy M. Nagler is Research Scientist, Christopher T. Bastian is Assistant Professor, and Dale J. Menkhaus is Professor, all with the Department of Agricultural and Applied Economics, University of Wyoming. Bradley D. Lubben is Assistant Professor and Extension Public Policy Specialist, Department of Agricultural Economics, University of Nebraska-Lincoln. Bastian is corresponding author: bastian@uwyo.edu.

net that is much more costly should prices fall from current levels toward historical averages more quickly than support price levels can fall under the new farm bill. If this were to happen, farm program costs could be well over levels prescribed in our WTO commitment. Moreover, given current concerns over deficit spending, it seems likely that such a scenario would increase concerns about farm program costs, and discussion would again turn to farm program reforms that would be decoupled and provide some opportunity for reduced program costs in the future.

Are commodity producers ready to embrace policies that increase market-orientation in the agricultural sector, should the policy arena choose to move in that direction? Such an orientation would mean producers might eventually give up subsidies from fixed direct payments, countercyclical payments, loan deficiency payments, and marketing loans.

We explore the potential preferences of western producers regarding a buyout bond option in this paper. Such knowledge should help agricultural economists as they conduct analyses and develop educational programs designed to help both policy makers and producers regarding this policy alternative.

### **The 2005 National Agricultural, Food, and Public Policy Preference Survey**

A national policy preference survey asked U.S. producers for opinions regarding their preferences for a range of policy alternatives being discussed as part of the 2007 Farm Bill debate. The National Agricultural, Food, and Public Policy Survey, sent to more than 63,000 producers, was a collaborative effort involving land grant university policy specialists, state statisticians, USDA personnel, and the Farm Foundation. Statistically valid surveys were conducted between October 2005 and April 2006 in 27 participating states representing four regions (Figure 1). The survey had a usable response rate of 24%. A complete statistical description of results has been published (Lubben et al. 2006). A question asking producers specifically about preferences regarding a potential buyout bond in lieu of current commodity program payments was part of the national survey:

*Some have suggested that current commodity programs could offer a buyout program similar to that recently implemented for tobacco. In a buyout program, producers would be offered a lump-sum payment or series of payments in exchange for eliminating all future rights to federal commodity program payments. Please indicate your preference for each of the following buyout options.*

*Producers should be offered a buyout of existing commodity programs.*

Yes    No    No Opinion/Don't Know.

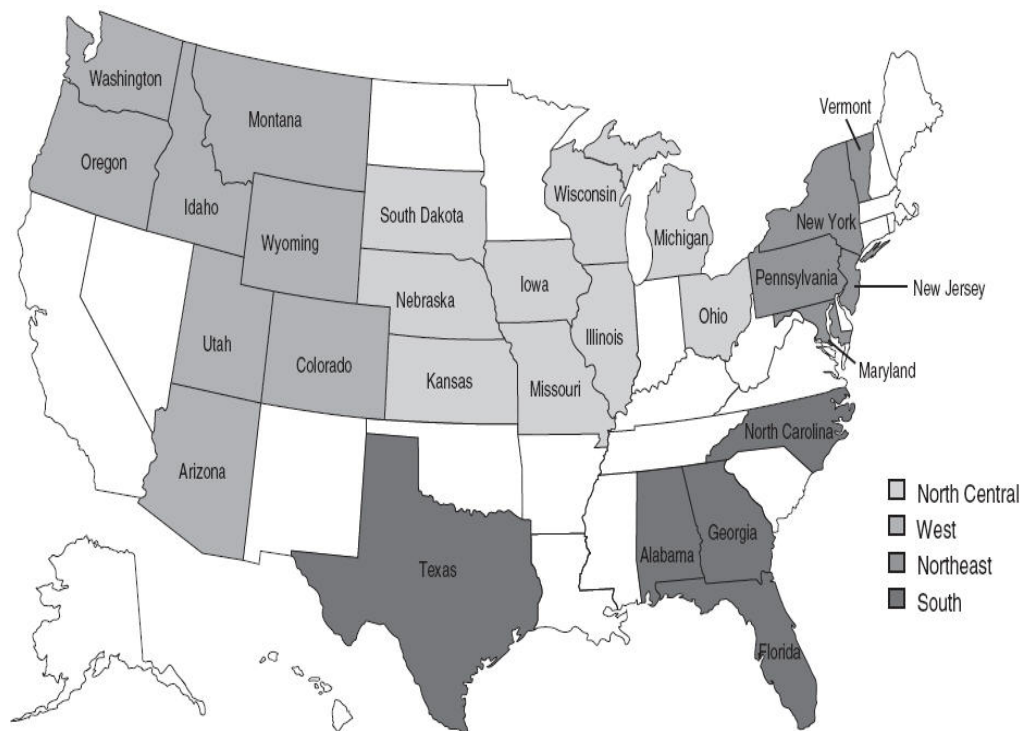
### **Commodity Program Participants Largely Didn't Want or Didn't Know About Buyout Alternative**

Results from the recent national survey indicate that producers may not be enthusiastic about the buyout bond option. Among the 51% of all respondents who reported participation in or receiving benefits from commodity programs in recent years (direct payments, price supports, commodity loans, loan-deficiency payments, etc.), the potential buyout policy presented in the survey was not popular: only 23% answered "yes." Nearly twice as many (50%) responded that existing programs should not be bought out (Figure 2). This may not be a surprise since U. S.

producers received \$10.8 billion dollars in direct commodity program payments in 2006 overall, with states represented in the survey receiving \$6.3 billion of that total (USDA ERS 2007).

Nearly a third (27%) of program participants responding indicated they had no opinion or did not know when asked whether producers should be offered a buyout of current commodity payments. This significant proportion of producers who did not voice an opinion may indicate a lack of producer education regarding buyout policies and their potential impacts.

**Figure 1.** States participating in the National Agricultural, Food and Public Policy Preferences Survey and regional definitions.



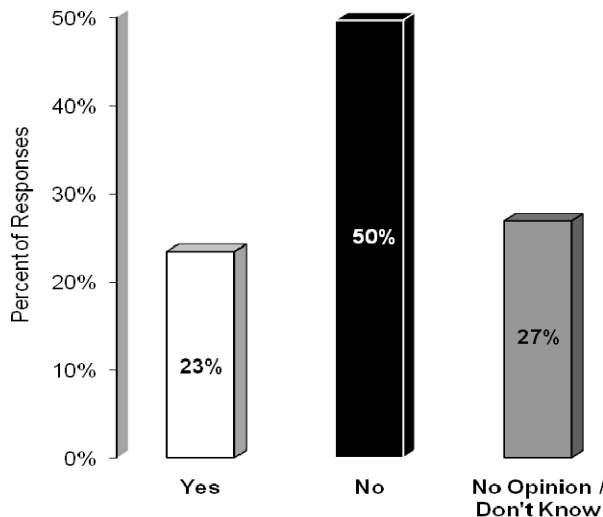
### **Regional Differences**

Regionally, western, southern, and northeastern commodity program participants were the most accepting of a potential buyout with 26%, 28%, and 27% of respondents saying “yes” to a buyout being offered. North central commodity program participants were the least in favor of a buyout of commodity payments with 53% of respondents indicating “no” versus 20% saying “yes” (and 27% responding “no opinion/don’t know”). Northeast commodity participants, had the largest percentage of respondents (35%) indicating “no opinion/don’t know” about whether buyouts should be offered (Figures 1 and 3). These overall trends are not surprising given the level of dependence of the above regions on commodity program payments. The north central states represented in the survey captured 56% of the \$6.3 billion in commodity program payments in 2006 received by all the states participating in the survey, while the Northeast

received only about 3%. The southern and western states responding to the survey received nearly 33% and almost 9% of that \$6.3 billion in payments, respectively (USDA ERS 2007).

While the western region as a whole received just 9% of the total \$10.8 billion in commodity program payments in 2006, those payments continue to be a significant factor in the western region agricultural economy at approximately \$1 billion annually. In addition, the western region has a greater stake in the direction of policy for some specific program crops. For wheat in particular, the western region has 23% of the nation's program base acres (USDA ERS 2003). A more in depth examination of survey responses from the western region suggests further differences among producers relating to farm size, level of education, age, and expectations after retirement and their preferences for buyouts.

**Figure 2.** Commodity program participants' buyout program preferences: "Producers should be offered a buyout of existing commodity programs."



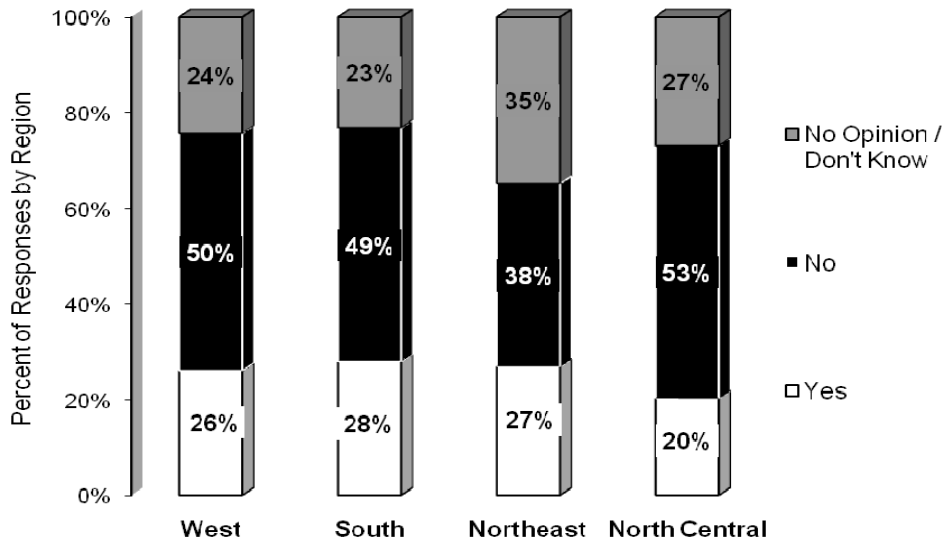
### **A Closer Look at Western Producer Preferences for a Buyout Policy**

Despite the lack of overall enthusiasm for a buyout policy, demographic differences in preference for a buyout program within the western region, encompassing both north- and south-western states of Arizona, Colorado, Idaho, Montana, Oregon, Utah, Washington, and Wyoming, provide some interesting insights regarding potential regional acceptance of this policy.

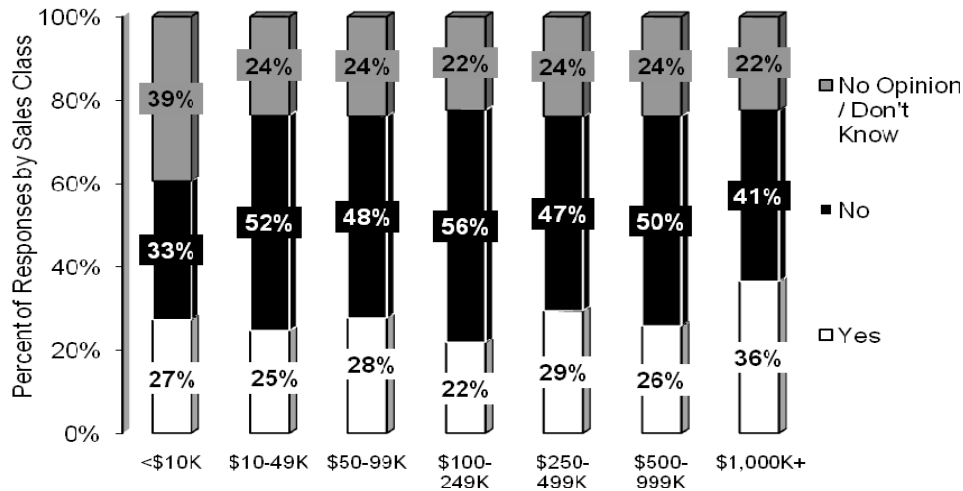
#### ***Farm Size***

Farm size classifications for the National Policy Survey were based on the average annual market value of agricultural sales. While acceptance of a buyout program remained relatively similar for small and medium-sized operations in the West, program participants from the smallest farms (with less than \$10,000 in sales) were more likely to respond "no opinion/don't know" (39%) when asked about a potential buyout program (Figure 4). This is not surprising as these producers receive a smaller portion of payments. Nationally, farms with less than \$10,000 in sales received 5% of all payments in 2005 (USDA ERS 2006).

**Figure 3.** Commodity program participants' buyout preferences by region.



**Figure 4.** Western region commodity program participants' buyout preferences by farm size (annual market value of agricultural products sold).



Western commodity program participants from mid-sized operations were more likely to reject a buyout. Between 47% and 56% of participants reporting \$10,000 to \$999,999 in sales responded “no” compared to only 22% to 29% who responded “yes”. Among producers reporting over \$1 million in sales, 41% of participants responded “no” compared to 36% “yes” (Figure 4). A higher acceptance rate from farms reporting \$1 million or more in annual market

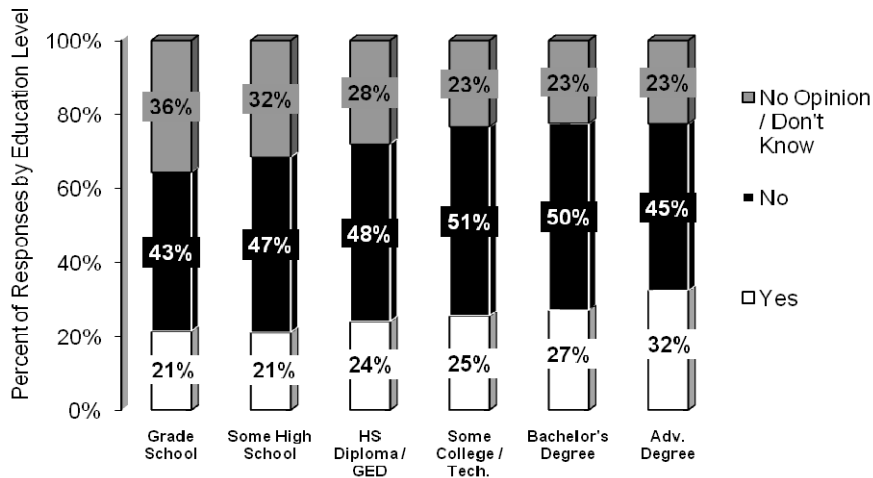
value of agricultural sales may be due to these farms being less dependent on commodity payment income transfers as a percentage of total income. Although commodity payments increase with farm size, the percentage of gross income of farm payments decreases; payments are only 6% of gross sales for farms with annual sales over \$1 million (Hoppe and Banker 2006). As the largest commercial farms are less dependent on program payments, they are less likely to be affected by a possible buy-out.

**Education**

Commodity program participants from western states holding an advanced college degree were more likely to agree that a buyout program should be offered (36% of respondents in that category indicated “yes”). They also were more certain of their opinion (only 23% indicating “no opinion/don’t know”). This positive response may indicate educated producers are more likely to keep up on current policy issues or are more accepting of market-oriented policies.

Figure 5 further reinforces the relationship between all levels of education and buyout policy preferences. The proportion of western respondents answering “no opinion/don’t know” is steadily replaced by those answering “yes” as the level of education increases, while the proportion responding “no” remains fairly consistent.

**Figure 5.** Western region commodity program participants’ buyout preferences by level of education.



**Age and Expectations after Retirement**

The age of western survey respondents participating in commodity programs did not influence buyout preference. This lack of association is worth mentioning because it suggests using buyout payments as retirement income may not be an issue affecting policy preference. That is, producers may want to pass benefits on to the next generation. This conclusion is reinforced by an analysis of producers’ expectations after retirement.

Commodity program participants from western states who expected their farm or ranch would be operated by a family member after their retirement were the least likely to approve of a buyout option with 25% responding “yes”. Commodity producers who expected their farms

would be converted to non-farm uses were more likely to agree that a buyout should be offered with 34% approving.

### **What Does This All Suggest?**

It seems likely that the political economy surrounding agricultural policy will require decision makers to revisit the notion of decoupled policies such as the buyout bond at some point in the future, even if the current farm bill does not offer this alternative. Overall, the policy preference survey results indicate there are regional and demographic differences in acceptance of a commodity program buyout among American agricultural producers participating in commodity programs. Generally, however, results suggest there may be considerable political resistance from producers to a buyout bond, even for producers in the West who are less dependent on commodity program payments than other regions of the country. This resistance is especially strong among those producers with less education and whose income would be most affected by a change in policy. Education will be required before producers may be ready to accept a decoupled policy such as a buyout bond. Agricultural economists will need to estimate potential benefits and costs at the firm level as part of this education. Moreover, analyses regarding such issues as potential impacts of a buyout policy on agricultural trade and market prices, agricultural land values, and indirect impacts on productivity from such programs may also provide important information to policy makers and producers thinking about this potential policy alternative. As the policy environment changes and “new generation” policy alternatives are anticipated, agricultural economists have an opportunity to be proactive in providing such information.

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