Targeting Farm Program Benefits

Olga U. Isengildina, University of Georgia
Fred C. White, University of Georgia
Mitchell J. Morehart, Economic Research Service, USDA

Background

The distribution of benefits from farm programs remains a major public concern. Historically, commodity programs have suggested a food security and stability objective, and targeted benefits to production. The changes in distribution of government payments resulting from implementation of the two most recent farm bills, the 1990 farm bill and the 1996 farm bill, are discussed in the following section.

Direct government payments to farmers more than doubled in the last 10 years going from $8.2 billion in 1991 to $20.6 billion in 1999. Almost 1 million, or 42 percent, of farms received government payments in 1999, for an average payment of about $9,000 (Table 1). However, government payments were not allocated based on the percentage of farms in each size group. Large and medium size farms captured the largest share of government payments.

The distribution of government payments as a source of income displayed a similar pattern over this period. Government payments as a percentage of gross farm income almost doubled for small farms, more than tripled for medium size farms, and increased 2.75 times for large farms between 1991 and 1999. While the average nominal payment for large farms was considerably higher than for small farms, payments to large farms were a smaller proportion of their gross farm income — about 2 percent for large farms compared with 14 percent for small farms. Small farms had lower participation rates, which averaged 51 percent compared to 78 percent for medium size farms and 54 percent for large farms.

Changes in distribution of government payments received by different size farms have been accompanied by changes in the contribution of these farms to overall gross farm income. Large farms significantly increased their contribution to gross farm income while medium size and small farms decreased their proportion of sales in 1999. The regional distribution of loan deficiency payments was determined by location and production of program commodities (such as wheat, corn, grain sorghum, barley, oats, rice, and cotton). Because corn, wheat, and soybeans represented a major share of loan deficiency payments, areas dominating the production of these crops were the largest recipients of payments. Thus, the 1996 farm bill once again targeted food security and stability through production, with the bulk of payments going to major production areas mostly in the Midwest and those producing traditional program crops.

Table 1. Distribution of Government Payments and Gross Farm Income by Farm Size, 1991 and 1999.*

Value of Output ($1,000)	Government Payments: Per Farm 1991	Government Payments: Per Farm 1999	Government Payments: As A Percentage of Gross Farm Income 1991	Government Payments: As A Percentage of Gross Farm Income 1999	Percentage Distribution Among Farm Sizes: Government Payments 1991	Percentage Distribution Among Farm Sizes: Government Payments 1999	Percentage Distribution Among Farm Sizes: Gross Farm Income 1991	Percentage Distribution Among Farm Sizes: Gross Farm Income 1999
	------ Dollars------		--Percent--					
Less than 20	618	1,155	6	12.9	9.4	7.2	6.7	4.9
20 to 49	3,272	4,502	7.5	12.5	11.8	7.9	6.8	5.5
50 to 99	6,922	13,688	7.2	15.8	21	13.4	12.6	7.4
100 to 249	11,447	26,436	5.6	13.6	30.2	25.2	23	16.2
250 to 499	16,982	54,362	4.1	13.2	14.5	22.3	15.3	14.8
500 to 999	24,736	73,166	2.6	9.3	8.6	14.4	12.5	13.5
1,000 or more	30,633	63,430	0.8	2.2	4.6	9.6	23.2	37.7
Total US	3,881	9,386	4.3	8.7	100	100	100	100

*Farms are defined as small if the value of output is less than $100,000, medium if the value of output is between $100,000 and $999,999, and large if the value of output is over $1,000,000.

Source: USDA, Economic Research Service

Principles of Effective Targeting

Some previous revisions in programs to target payments on a basis other than production have not been effective. It seems that the failure of government programs to effectively target groups was caused mainly by a misalignment of policy objectives and the instruments required to implement them. Problems also arise from the competing goals among government programs such as between general tax policy and agricultural programs. One of the principles of effective targeting is that policy goals are consistent and matched with specific policy instruments required for their attainment. Specific examples of matching policy objectives and policy instruments are given in Table 2.

Another principle is that slippage may reduce the effectiveness of government programs. Large farms may break into smaller farms (at least on paper) to be eligible for payments designated for small or medium farms. Another form of slippage occurs when program benefits are bid into land values. In this case, landowners rather than renters, new landowners, or farm laborers capture most of the benefits from farm programs. Also, higher bid prices for business assets allow slippage of credit subsidies to non-targeted groups. Thus, due to slippage, the ultimate beneficiaries of farm programs could be different from the intended beneficiaries.

Table 2. Objectives and Instruments for Targeting Farm Policy.

Objective or Problem	Current Instruments	Public Instruments for Cost Effective Targeting
1 Maintain family farms	Commodity programs, production flexibility contracts, credit programs; disaster payments, risk management programs	Financial assistance targeted to farms vulnerable to failure
2 Stabilize farm income	Commodity programs, crop insurance, risk management education, disaster payments	Counter-cyclical direct payments, Storage/marketing loans, Crop insurance, risk management
3 Alleviate poverty	Commodity programs, production flexibility contracts, welfare, schooling and training	Income maintenance (workfare) programs, schooling and training
4 Maintain rural communities	Commodity programs, rural development programs, schooling and training	Schooling and training, job development
5 Protect environment (soil conservation, and water protection)	Conservation Reserve Program; Environmental Quality Incentive Program (EQIP), Natural Resource and Conservation Service (NRCS);	Environmental Quality Incentive Program (EQIP), Environmental Protection Agency (EPA), NRCS
6 Food safety (protection of food from chemical contamination)	Environmental Protection Agency (EPA); Food and Drug Administration (FDA)	EPA, FDA
7 Food security (assured, adequate food supply)	Commodity programs, research and education; trade liberalization	Wheat buffer stocks, research and extension, trade liberalization
8 Low food prices, and international competitiveness	Commodity programs, including Export Enhancement Program (EEP), Market Promotion Program (MPP), research and education, trade liberalization	Research and education, trade liberalization

Matching Policy Objectives and Policy Instruments

Table 2 gives an example of policy matching by listing 8 policy objectives, along with potential policy instruments to achieve them. Farm commodity programs currently attempt to serve several of these objectives, but each objective could be served more cost-effectively by modifying commodity programs to better target potential beneficiaries. The following section discusses the impacts of matching some of these objectives and instruments on certain affected parties.

Maintenance of Family Farms

Maintaining family farms has been one of the objectives of farm policy. One of the drawbacks of the current policies is that payments are based on production rather than some other criteria. However, this goal might be achieved more effectively by targeting specific family farms that are vulnerable to failure. The problem with this approach is how to identify eligible farms. The issues of identifying different types of farms are discussed in the Underserved Farmers and Small Farmers paper.

Once the targeted groups have been clearly defined, the form in which assistance will take place should be determined. Various alternatives may include subsidized loan programs and tax policies. The Agricultural Credit Policy paper discusses loan programs in more detail. However, it is important to ensure that these loan programs have additional oversight features to reduce slippage effects. Tax policies may include tax benefits for farms at some level of total family income, farms with low off-farm income, and/or farms of certain size.

The primary beneficiaries of these policy alternatives would be financially vulnerable family farms. They would receive government assistance that may be necessary for them to stay in business during periods of low income. Because this policy alternative is not associated with any particular commodity, it should not affect product prices. However, it should help stabilize the income of small farms that depend on farming as a major source of family income.

Stabilization of Farm Income

Stabilizing farm income has been another priority of farm policy. Historically, farm income has been supported through the system of price and income support payments that have been a part of the commodity programs. It appears that the government will continue to provide a "safety net" in the form of an income support (loan deficiency payments) however, there is much discussion as to where it should be set. It is important to ensure that while providing an effective safety measure for producers' incomes, loan deficiency payments do not disrupt markets. There are some suggestions that loan deficiency payments should be decoupled from production and paid out in a form of counter-cyclical direct payments that would provide some financial support to farmers in the periods of low incomes. The Counter-Cyclical Whole Farm Safety Net paper provides more insight on this issue.

If the direction is taken to move away from government subsidies to more market oriented income stabilization mechanisms, crop insurance and hedging with futures and options will become more important. The paper on Crop Insurance and Disaster Assistance provides additional discussion on the policy alternatives associated with their use. It appears that the role of the government in this case would be to help markets provide these instruments, and to ensure that farmers receive adequate educational and financial assistance in using them. Implementation of these risk management instruments is expected to benefit some agribusinesses as, in effect; it will transfer one of the functions formerly performed by the government to agribusiness. Firms providing crop insurance and assistance in using futures and options are expected to benefit most from this policy implementation. Taxpayers could also benefit, as targeting farm payments might significantly reduce government spending on farm programs.

Alleviation of Poverty

Alleviating poverty has been another major issue of farm policy. It appears that an income-maintenance "workfare" program, along with human resource development programs, might be a better alternative use of public funds than commodity and welfare programs. The direction that is proposed here is similar to the latest developments in the welfare programs in the sense that it is oriented toward developing the human capital of poor people, rather than simply providing them with a minimal income level. Providing jobs for poor people and ensuring proper training may be an effective way to alleviate poverty. Additional measures of alleviating poverty are discussed in the Agricultural Credit Policy paper.

These programs would primarily benefit poor and beginning farmers. Higher levels of human capital expected to result from this program would likely increase their chances of finding better jobs, and would increase their marketability in the job market. This change in policy may also benefit taxpayers because it could reduce the cost of farm and welfare programs.

Maintenance of Rural Communities

The implementation of the first three objectives is expected to affect objective four: maintain rural communities. If family farms remain in place, farmers enjoy stable income, poverty is mitigated, and rural communities would likely benefit. Additionally, rural equity funds for agriculture and rural business development may be established to provide off-farm income opportunities, additional markets for agricultural products, and new businesses in rural communities. Also, additional schooling, training, and job development may further enhance maintenance of rural communities. The principal beneficiaries of this program are members of rural communities — farmers and agribusinesses. Taxpayers could also benefit if government spending on farm programs declines.

Protection of the Environment

Protecting the environment has also been an objective of agricultural policy for many years. The traditional conservation programs have been criticized, however, for their high costs, their inflexibility, and their “top-down” nature — as well as for not being targeted to achieve environmental outcomes (Batie). It appears that programs targeted to specific environmental problems, such as the Environmental Quality Incentives Program (EQIP), could better serve the goal of protecting environment. The EQIP program was introduced in the 1996 Farm Bill, and was primarily based on cost sharing for better management practices. In other words, EQIP is a green payments program designed to pay farmers to “produce” environmentally friendly outcomes (Batie).

Under a program like this, payments should be specifically targeted to certain problem areas in environmental and water protection, and soil conservation that would not be addressed by farmers otherwise. The challenge is identifying problem areas and taking into account that local conservation interests are in accord with broader conservation goals. Also, it may be difficult to determine which problem areas would not be addressed without adequate government assistance.

Similar matching can be provided for other policy alternatives, as outlined in Table 2. Specific issues of targeting food safety, food security, and international trade issues are discussed in the respective sections of this publication and, therefore, are omitted from this paper. In general, the suggested policies are primarily aimed at creating public instruments to aid market coordination of the proposed policy objectives.

The success of targeting farm programs lies in providing proper matching of farm policy objectives and the instruments suggested for their implementation.

It is important that farm policy is consistent so that instruments designed for one objective do not contradict other policy objectives. It is also vital to assure that the objectives of farm policy and the instruments for their implementation are clearly defined to successfully implement these policies. Targeting implies a clear definition of perspective beneficiaries. These beneficiaries may change as policy priorities change. The ultimate goal of targeting farm programs is to provide a more efficient use of federal funds, which would translate into savings of tax dollars.

References and Suggested Readings

Batie, S.S. “Green Payments as Foreshadowed by EQIP” http://www.farmlandinfo.org/cae/wp/wp98-8.html.

Duff, S.N., D.P. Stonehouse, D.J. Blackburn and S.G. Hilts. “A Framework for Targeting Soil Conservation Policy.” Journal of Rural Studies 8 (1992):399-410.

Gale, F. “How Important Are Farm Payments to the Rural Economy?” Agricultural Outlook, October 2000: 15-18.

Tweeten, L., and Fred C. White, “Targeting Farm Program Benefits.” National Extension Education Committee, Ed Smith and Ron Knutson (editors), Agricultural and Food Policy Center, Texas A&M University, 1994.