Average Farm Incomes:

They're Highest Among Farmers Receiving The Largest Direct Government Payments

by James Duncan Shaffer
and Gerald W. Whittaker

➢ The data on the distribution of direct government payments challenges the prevailing belief that little needs to be done in revising the commodity programs for the 1990 farm bill. At least, if the objective of the commodity programs is to support incomes of disadvantaged low income farm businesses it is likely to continue to miss the mark based on recent experience. In 1987 more than 40 percent of direct government payments to farm operators went to 60,000 farmers who averaged more than $75,000 in payments, almost $100,000 in net cash farm incomes and more than $750,000 in net farm worth.

A new farm bill is being marked up in Congress. There is widespread support for continuing price and income support programs, with minor modifications. Many voters apparently believe these programs help disadvantaged farmers. A look at the record indicates that most of the taxpayers' money will go to a relatively small number of farm businesses with much higher levels of farm income and net worth than farmers receiving little or no payments. Furthermore, a large proportion of payments will go to landowners renting their land on shares.

In 1988 the USDA paid out about $14.5 billion of "direct payments" under the farm commodity programs. The USDA Farm Costs and Returns Survey reported that farm businesses (operators and partners) received about $9 billion. Thus, it can be assumed that up to one third of the payments went to other individuals—those who own farmland and share lease it to farmers. We know practically nothing about the economic characteristics of these non-operating farm landowners. We do not know how many are widows, on welfare, stockbrokers, professors, or government employees.

We do have important information about the distribution of direct government payments among farm operators. The payments were highly concentrated. For example, the 60,000 farm operators who received the highest payment in 1987, received 42 percent of the total direct payments, more than $75 thousand in average payments, had average net cash incomes of nearly $100 thousand and about three quarters of a million dollars of net worth in farm assets and debt.

The farm operators receiving the largest payments in 1987 had the following characteristics:

	Top 3.6%	Top 18%
Percent of direct payments	42	90
Average direct payments	$ 75,586	$ 32,367
Average net cash farm income	96,942	49,293
Average non-farm income	19,705	16,536
Average net worth per farm	745,814	466,817
Approximate number of farms	60,000	300,000

The concentration of payments in 1988 was very similar to 1987 but the level of payments was significantly lower (table). In both years only about 36 percent of the farms represented in the survey received direct payments.

Payments Are Different From Benefits

Direct payments are not synonymous with benefits. Some costs are incurred in order to qualify to receive the payments. Some land is idled, requiring care, and some conservation practices are required. And, of course, some production costs are incurred growing program crops and receipts for these crops in the market may be less than costs. At the same time restrictions are intended to reduce output and raise market prices. In addition supply restricting commodity programs which do not use direct payments, such as for sugar and peanuts, generate benefits by increasing market prices for the commodity.

Most likely, at least in the short run, the direct payments significantly underestimate the total income transfers from the Treasury and consumers to farm operators and those who own farm land. It is also likely that the total transfers are nearly as concentrated as the direct payments, although a larger number of farmers receive benefits than receive payments.

For a long time people close to the farm programs have known that payments to farmers are highly concentrated because the payments are generally tied to the levels of production of specific crops. As farm size increased it became evident that a small proportion of farmers produce a large part of the crops covered by

The Farm Costs and Returns Survey

All data presented here are from the Farm Costs and Returns Survey (FCRS). The FCRS is designed to collect (among other things) detailed income and expenditure information at the farm level. In 1988 over 13,000 farm operators filled out questionnaires in interviews with USDA enumerators. These farm operators were selected by statistical methods to be representative of all farm operations in the United States.

Largely as a result of different sampling procedures, the 1988 FCRS accounted for 82 percent of the number of farms reported to the USDA. Farms accounting for the difference in the two estimates are mostly those with small sales. For example, the FCRS estimate for the number of farms with sales over $40,000 is 94 percent of the USDA estimate. For farms with sales of $10,000 and below, the FCRS estimate is only 73 percent of the number estimated by the USDA. On the assumption that those farms not counted by the FCRS have a similar financial performance to those in the sample, estimates of the distribution of government payments would contain more small farms receiving little or no government payments if adjusted to conform with the USDA estimate.

James Duncan Shaffer is Professor of Agricultural Economics at Michigan State University and Fellow, National Center for Food and Agricultural Policy, Resources for the Future. Gerald W. Whittaker is an Economist with the Economic Research Service.

the farm programs. Only recently has the data been displayed to show directly the distribution of payments and to relate it to levels of income and net worth.

Equity For Whom

Debates about farm price and income programs since the 1920s have focused on equity. Parity prices were often identified with equity. The argument was that farmers were disadvantaged relative to other segments of society. Income data supported the argument. However, the concentration in the distribution of payments from the programs has received very little debate. The issue has reached the popular press as cases of large payments to a few large corporations. The data on distribution show that the issue is much more pervasive.

In the 1980s public attention has focused on the problems of losses in net worth. Bankruptcy and forced farm auctions of family farmers made news and was translated into public support for farm price and income programs. And the problem was real for many individual farmers. From 1981 to 1987 farmers lost nearly one third of their net worth in current dollars and lost half in 1982 constant dollar terms. Of course they had benefited from asset appreciation the previous decade but the incidence of pain was unequally distributed and not necessarily consistent with the gains of the previous decade.

The direct payments are a very large part of the net incomes of those farmers receiving most of the payments. We do not know how they would have fared without the payments. What we do know is that with the payments, 3.6% of farm operators end up with net farm incomes of over $95,000 and 41.8 percent of direct Government payments.

The commodity programs originated in response to real problems in our farm sector. Consistent failures to match commodity supplies with demand at prices consistent with costs of production resulted in unstable and often low farm incomes to large numbers of farmers. However, rather than dealing with the problems of economic coordination, the programs have become instruments for transferring income to a relatively small number of better off farm operators and supporting the value of farm assets. Interest groups and a generally approving public smooth the way for continuing the programs with little change. The problem of the high public debt and the critical unmet demands on the budget seem to be lightly regarded. After all, these programs are a very small part of the total U.S. budget.

Policies are needed to help our agricultural economy perform well in the rapidly changing world economy. Current policy could certainly be improved. It is a time for serious evaluation, not business as usual.

For More Information:

For a more elaborate version of this paper, see Shaffer, *The Distribution of Direct Payments to Farm Operators In 1987 and 1988: Some Questions About Policy Objectives*, Discussion Paper Series No. FAP 90-08, April 1990, National Center for Food and Agricultural Policy, Resources for the Future, Washington, DC 20036.

Table – Distribution of Direct Government Payments To Farm Operators

Percent of Farms Ranked By Payment Level	Average Payments To Farm Operations		Share of Total Direct Payments (Percent)		Average Net Cash Farm Income (Thousand)		Average Non-Farm Income of Farm Operator Households (Thousand)		Average Net Worth Per Farm (Thousand)	
	1987	1988	1987	1988	1987	1988	1987	1988	1987	1988
3.6%*	$75,586	$61,623	41.8	42.9	$97	$96	$20	$18	$746	$804
3.6	35,554	28,034	19.1	19.8	50	41	15	20	522	514
3.6	23,296	17,831	13.3	12.5	36	34	16	14	397	383
3.6	16,051	12,584	8.9	8.9	44	25	14	17	362	380
3.6	11,334	8,932	6.3	6.3	21	19	18	20	307	316
3.6	8,034	6,112	4.4	4.0	20	21	17	20	261	320
3.6	5,257	4,014	3.0	2.9	14	12	18	21	219	233
3.6	3,215	2,331	1.8	1.7	13	11	19	26	252	244
3.6	1,726	1,230	1.0	0.9	6	6	23	21	211	218
3.6	630	432	0.4	0.3	6	7	23	25	217	222
64.0	none	none	none	none	9	12	28	34	268	283
All	18,017	14,257	100.0	100.0	31	27	18	20	349	362

Data are from the USDA Farm Cost and Returns Survey of more than 13,000 farm operators. By survey definition there were 1,671,786 farms in 1987 and 1,764,088 in 1988. The definition excludes smaller units included in the census definitions.

*The 3.6% represents the 10% of the farms receiving payments who received the highest payments. Direct payments include deficiency, conservation reserve and disaster payments. Not included are CCC loans or defaults on other government direct or guaranteed loans.