Agriculture

AN EIGHTH DISTRICT PERSPECTIVE

SUMMER 1986

Government Payments to Farmers: Who Gets What?

Direct government payments to farmers come in many forms. Farmers are paid to divert land from crop production, to store surplus commodities and to adopt various conservation practices. Farmers meeting eligibility requirements also often receive deficiency payments which, in most simple terms, are cash transfers equal to the amount of a crop produced times the difference between market prices and the higher target price established by Congress.

All of these government payments, to varying degrees, have as their objective the preservation of the commercial-size "family farm"—an operation farmed by its resident owner and typically generating between $100,000-$250,000 in annual product sales. Since many of these payments are based on the volume of output, however, a debate has existed for some time over their effectiveness. In particular, the concern has been raised that payments based on output have the potential to funnel a disproportionate share of government support to the generally most efficient, large-scale operations (annual sales greater than $500,000); in the view of some analysts, the size and diversity of these farms should enable them to adjust to fluctuations in market prices with little need for government support. In this article, we review recent data on the distribution of government payments to determine how much taxpayer support is being received by the family-farm target group.

Trends in Government Support

Government payments have accounted for 20 percent or more of net farm income in the last three years, and projections for the next several years do not indicate any significant reduction in this share. Moreover, despite the many billions of dollars spent on farm programs over the last 15 years in an effort to improve the sector's financial status, the share of farm income represented by government support is larger now than it was in the early 1970s. These data clearly indicate that, regardless of how the original objectives and ultimate success or failure of farm legislation since 1970 might be interpreted, the dependence of the farm sector on income transfers from the general public has not been diminished.

Who Receives the Payments?

With this upward trend in total payments and projections of continued high payments at least through 1988, exactly which farmers are receiving government payments? A recent review of the data for 1984 by the U.S. General Accounting Office (GAO) provides some insight.

The data in table 1 (on page 2) indicate that, of the approximately 1.7 million businesses classified as farms, slightly more than 420,000 receive government payments. Subtracting the 1.04 million "hobby" farms with sales less than $40,000, however, reveals that about 45 percent of the remaining commercial-size farm businesses (272,000 ÷ 634,000) receive payments. These commercial operations received, in 1984, about $3 billion in payments, or about 90 percent of the total.

Within the commercial farm category, the two classes that encompass sales between $100,000-$499,000 typically are regarded as family farms. Farm businesses with sales above or below this range typically have special characteristics to distinguish them from family-farm status: the largest sales category (more than $500,000) usually represents large specialty operations, such as poultry processing, whereas the sales category below $100,000 still includes many operators who earn the largest share of their income in off-farm activities. Arguing that characteristics of farms in the largest and smallest sales categories allow them to cope with the business cycle unassisted, analysts focus on farms in the $100,000-$499,000 sales category as representing the family-farm

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Table 1
Number and Percentage of Farms Receiving Government Payments by Annual Sales Class: 1984

Sales class (thousands)	Total number of farms	Number of farms receiving payments	Percentage of farms receiving payments	Value of payments (millions of dollars)
$500 and more	30,363	12,522	41%	$ 440.45
250-499	68,578	30,779	45	609.89
100-249	229,255	108,345	47	1,270.33
40-99	305,949	120,483	39	704.46
20-39	198,460	61,028	31	187.74
10-19	193,086	36,808	19	72.42
5-9	201,412	25,452	13	26.82
0-4	442,206	25,044	6	12.27
TOTAL*	1,669,308	420,460	25	3,324.39

*Totals may not add due to rounding.
SOURCE: GAO, **Farm Debt, Government Payments** and **Options to Relieve Financial Stress,** GAO/RCED-86-126BR, March 1986

target group: medium-sized, undiversified businesses least able to handle cyclical fluctuations and most in need of government support.

On this basis, family farms received about 60 percent ($1.9 billion ÷ $3.3 billion) of government payments in 1984. This support was allocated, as the table shows, among more than 139,000 farms. The average payment among these farms was about $13,525. It also should be noted that slightly more than one-half of the farms in this category received no government payments.

Eighth District Land Prices Continue to Decline

Farmland values nationally fell 12 percent in the 10 months between April 1985 and February 1986. This fifth consecutive year of decline put the average value of farmland at a level slightly above its 1978 figure. In real terms, farmland is now priced near its value in the mid-1960s.

Among Eighth District states, only Tennessee saw land prices stabilize in 1985. Table 2 shows that declines in the remaining District states ranged from 17 percent in Arkansas to 4 percent in Kentucky. Since the 1981 peak, farmers in Missouri, Illinois and Indiana have seen land prices decline more than 40 percent. The smallest five-year decline again occurred in Tennessee, with a drop of 12 percent.

—Michael T. Belongia

Table 2
Changes in Average Farmland Prices

	Apr. 1, 1985 - Feb. 1, 1986	Feb. 1, 1981 - Feb. 1, 1986
Arkansas	-17%	-33%
Illinois	-13	-49
Indiana	-16	-50
Kentucky	- 4	-19
Mississippi	-10	-26
Missouri	- 8	-43
Tennessee	1	-12
United States	-12	-29

SOURCE: U.S. Department of Agriculture

Agriculture—An Eighth District Perspective is a quarterly summary of agricultural conditions in the area served by the Federal Reserve Bank of St. Louis. Single subscriptions are available free of charge by writing: Research and Public Information Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, Missouri 63166. Views expressed are not necessarily official positions of the Federal Reserve System.

EIGHTH DISTRICT AGRICULTURAL DATA

Prices and Costs[1]	Mar. 1986	Apr. 1986	May 1986	Average for 1985	Percent Change Year-To-Date 1986[2]	Percent Change Same Month Year Ago
CONSUMER PRICE INDEX (% change)						
Nonfood	−0.6%	−0.4%	0.1%	0.3%	−0.8%	1.3%
Food	0.0	0.2	0.4	0.2	−0.2	2.0
PRODUCTION COSTS FOR FARMERS (% change)						
Agricultural machinery and equipment	0.1	0.2	0.0	0.0	0.4	0.3
Mixed Fertilizers	−0.5	1.2	−0.3	−0.2	0.0	−2.2
Other Agricultural chemicals	−1.8	2.1	−0.3	−0.1	3.6	1.9
Gasoline	−21.4	−8.3	11.2	0.3	−33.7	−34.3
PRICES RECEIVED BY FARMERS (% change)						
All products	0.0	−0.8	1.7	−0.4	−3.9	−4.7
Livestock	−0.8	−3.8	3.2	−0.5	−4.4	−2.2
Crops	0.0	2.7	0.0	−0.5	−3.4	−8.1
FEEDER CATTLE						
Wholesale price - Kansas City ($/cwt.)	$63.22	$60.32	$60.40	$64.55	−1.0	−9.9
FEEDER PIGS						
Wholesale price - So. Missouri ($/head)	$41.33	$37.98	$39.97	$37.11	39.5	1.5
BROILERS						
Wholesale price - 12-city (¢/lb.)	50.31¢	50.05¢	54.56¢	50.81¢	12.0	7.2
TURKEYS						
Wholesale price - New York, 8-16 lb. young hens (¢/lb.)	63.94¢	64.61¢	67.08¢	75.48¢	−22.8	7.1
CORN						
Wholesale price - No. 2, yellow - St. Louis ($/bu.)	$ 2.42	$ 2.46	$ 2.56	$ 2.66	−1.2	−8.9
SOYBEANS						
Wholesale price - No. 1, yellow - Central Illinois ($/bu.)	$ 5.47	$ 5.40	$ 5.44	$ 5.56	2.3	−5.6
WHEAT						
Wholesale price - No. 1, hard winter - Kansas City ($/bu.)	$ 3.36	$ 3.45	$ 3.40	$ 3.39	−0.6	1.8
LONG-GRAIN RICE						
Wholesale price - Arkansas ($/cwt.)	$17.25	$15.50	$13.25	$17.70	−23.2	−25.7
COTTON						
Average price received by U.S. Farmers (¢/lb.)	55.00¢	56.40¢	56.90¢	55.84¢	6.8	−1.0

U.S. Exports	Mar. 1986	Apr. 1986	May 1986	Average for 1985	Percent Change Year-To-Date 1986[2]	Percent Change Same Period Year Ago
Corn (mil. bu.)	98.0	58.0	48.0	145.8	−73.2%	−65.2%
Soybeans (mil. bu.)	88.7	80.4	56.2	53.7	−40.3	69.8
Wheat (mil. bu.)	74.0	65.0	51.0	81.7	−29.2	−19.1
Rice (rough equivalent, mil. cwt.)	3.4	2.9	3.1	5.1	−32.6	−38.1
Cotton (thou. bales)	188.0	173.0	81.0	418.7	−58.7	−82.1

NonReal-Estate Farm Debt Outstanding

	Banks			PCAs[3]		
	Outstanding ($ millions)	Percent Change 3/85 - 3/86	Percent Change 3/84 - 3/86	Outstanding ($ millions)	Percent Change 3/85 - 3/86	Percent Change 3/84 - 3/86
U.S.	$33,779	−11.6%	−13.6%	NA	NA	NA
Eighth District[4]	2,429	−9.1	−11.2	NA	NA	NA
Arkansas	409	−6.2	−11.1	$214	−27.9%	−40.0%
Kentucky	567	0.5	1.1	243	−25.1	−46.3
Missouri	1,164	−18.2	−22.1	243	−32.0	−44.7
Tennessee	310	−8.3	−12.7	242	−22.3	−44.8

Agricultural Bank Loan Performance[5]

	Percent of Farm Loans Overdue at Agricultural Banks			Percent of Total Loans Written Off at Agricultural Banks		
	3/86	3/85	3/84	3/86	3/85	3/84
U.S.	6.8%	6.1%	4.4%	.39%	.33%	.15%
Eighth District[4]	8.6	7.1	5.0	.31	.30	.12
Arkansas	7.5	8.5	6.8	.29	.42	.20
Kentucky	6.9	6.3	6.5	.17	.13	.10
Missouri	8.7	8.3	5.0	.34	.44	.16
Tennessee	6.3	5.8	4.4	1.17	.27	.10

Agricultural Production Loan Interest Rate[6]

	Banks 5/86	Banks 5/85	PCAs 3/86	PCAs 3/85
Eighth District Average	10.8%	12.4%	12.0%	12.5%

[1] The consumer price index components are seasonally adjusted. All other data are not seasonally adjusted.
[2] Percent change from December of previous year, based on the most recent month available.
[3] Source: Farm Credit Banks of Louisville and St. Louis, Farm Credit Administration.
[4] Includes all of AR and parts of IL, IN, KY, MO, MS and TN.
[5] Agricultural banks are defined as those with more than 25 percent of total loans in agricultural loans.
[6] Interest rate data are for different dates. PCA rates are weighted averages for Arkansas and Missouri, not adjusted for stock purchase requirements. Source: Farm Credit Banks of St. Louis.