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Farm Program Payments: A Changing Pattern in Nebraska's Farm Income

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Farm Program Payments: A Changing Pattern in Nebraska’s Farm Income

Over the last decade, considerable change has occurred to the nature of farm cash receipts and net farm income. Total cash receipts to the state’s agricultural sector doubled from about $9.5 billion in 2000 to more than $19 billion in 2010. At the same time, total receipts to the crop sector accelerated even more - increasing from the $3 billion range to around $9 billion by the end of the decade, a three-fold increase! The result has been net farm income levels climbing to the $4 billion range annually over the last few years, a level more than 50 percent above the ten-year average of the decade.

A very profound aspect of this decade of change has been the role of Direct Farm Program payments. In 2000, direct farm payments to the state’s agricultural sector exceeded $1.4 billion and accounted for 97 percent of the total net farm income in that year (Figure 1 on next page). Crop commodity prices were low enough to engage counter-cyclical payments as well as a direct revenue transfer; and the crop sector economy was essentially sustained by them. In fact, for the first five years of the decade direct government payments remained a substantial financial element, averaging about 44 percent of Nebraska’s total annual net farm income. Moreover, the economic impact of the farm program was not limited to just the crop sector. The low cash prices of major feed grains during this time period were, in turn, providing indirect economic advantages to the livestock sector in the form of low feed input costs during these years; so the total economic impact across the state’s farm economy was substantial.

However, with upward movement of crop commodity prices beginning in 2006, farm income levels moved considerably higher with a diminishing role of the Direct Farm Program payments to the crop sector. For the last half of the decade, direct program payments accounted for less than 20 percent of the total net farm income in the state. In
In these times of record federal budget deficits commanding so much attention from the national political scene, it seems ironic that agricultural stakeholders and their policy representatives would not make some effort to address this incongruity. Instead, there seem to be strong efforts to build in a similar process into the next farm bill legislation, which is now in the early stages of being crafted. In other words, this is perceived by many as an entitlement. And as we know, when deficit reduction discussion enters the world of entitlements, Congress on both sides of the political aisle quickly becomes timid.

That said however, what would the likely outcome be if agricultural interests themselves stepped forward to accept a removal of these $5 billion of direct government payments? In essence, the agricultural community would say: “we will voluntarily take a share of the budget deficit reduction effort and challenge our counterparts in the other entitlement areas to consider doing likewise.” In doing so, might there be a modest economic cost paid by the agricultural community for a whole lot of public and political goodwill, let alone at least putting a crack in the entitlement log jam faced by Congress? It’s just a thought.

Reference:

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“We have come to the point - contrary to our understanding of the purpose of (farm) commodity programs - that making payments when they are not needed is just fine.” (Ray and Schaffer)