

A Safety Net for Farm Households

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Introduction

Low commodity prices have renewed the debate regarding the farm safety net provided by current Federal farm programs. Farmers received \$4.3 billion in direct government payments in 1997, \$6.0 billion in 1998, and \$8.7 billion in 1999. Payments are an important source of income to individual farmers and can be very high; for example, in 1997, the average large family farm recipient received over \$18,000 in benefits. Farm programs dating back to the Great Depression are unlike safety nets available today to nonfarmers in the United States. Safety net programs for the general public (including farmers) are constructed so that people have enough resources to maintain a minimum standard of living. Current direct government payments to farmers do not generally benefit the lowest income farmers but instead go to the most well-off.

In this report, we analyzed the implications of an alternative set of safety net programs for farmers. Unlike the present safety net programs, which generally target producers of major field crops, this alternative set of safety nets targets farm households that fall below certain income- and earnings-based criteria.

We identified four safety net scenarios based on different thresholds: median incomes; 185 percent of the poverty line; median household expenditures; and median earnings of nonfarm self-employed households. Assuming that all households with incomes below these thresholds qualify for benefits, we analyzed how the costs and distributional impacts of these scenarios differed from those of current farm safety net programs. We found that, while costs were roughly similar for some of the alternative scenarios, the distribution of benefits was markedly different.

What Is a Safety Net?

Secretary of Agriculture Dan Glickman called 1999 the “Year of the Safety Net.” Yet most discussions of the concept for the farm sector consider only tradi-

tional farm program instruments, such as crop insurance, direct payments, and the Conservation Reserve Program. Some members of Congress even favor a return to price support policies. These concepts are decidedly different from the way the economics literature treats a safety net. For economists, a safety net is a policy that ensures a minimum income, consumption, or wage level for everyone in a society or subgroup. It may also provide people (or businesses) with protection against risks, such as lost income, limited access to credit, or devastation from natural disasters.

The construction of a safety net first requires some concept of a minimum standard of living. From Adam Smith in 1776 to Nobel laureate Amartya Sen, economists have linked poverty to the lack of “necessities,” which Smith defined as “not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without” (Smith, 1993 ed.). This minimum standard of living can be translated into a monetary figure, such as the poverty line.

Researchers in other fields have echoed these economic constructions with a particular emphasis on the social dimensions of the safety net. Sociologist Peter Townsend observed that people are “social beings expected to perform socially demanding roles as workers, citizens, parents, partners, neighbors and friends” (1992, p. 5). He defines economic security as sufficient income for people to “play the roles, participate in the relationships, and follow the customary behavior which is expected of them by virtue of their membership in society” (Townsend, 1992, p. 10).

Theoretical Rationale

Building on this concept of a minimum standard of living, the economics literature establishes several well-known arguments for the provision of a safety net. One class of arguments is based on people’s preference to reduce income uncertainty and variability.