A Safety Net for Farm Households. By Craig Gundersen, Mitchell Morehart, Leslie Whitener, Linda Ghelfi, James Johnson, Kathleen Kassel, Betsey Kuhn, Ashok Mishra, Susan Offutt, and Laura Tiehen. Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 788.

Abstract

Discussions in the public arena have raised fundamental questions about the ultimate goals of farm policy and the need for establishing a safety net for farm households. This report examines four scenarios for government assistance to agriculture based on the concept of ensuring some minimum standard of living. Lower income farmers would benefit relatively more from the safety net scenarios, while farmers producing selected commodities benefit relatively more from current farm programs. Farm households in the Northern Crescent, the Eastern Uplands, the Southern Seaboard, and the Fruitful Rim all would generally receive a higher level and a greater proportion of benefits than under current programs. A clear understanding of objectives and intended beneficiaries must be the starting point for discussions of future farm policy.

Keywords: Safety net, poverty, assistance programs, farm policy, farm households.

Acknowledgments

Secretary of Agriculture Dan Glickman called 1999 the "Year of the Safety Net." In the spring of 1999, ERS initiated a research study to assess the feasibility of establishing a safety net for farm households. Results of this analysis have been used to inform the debate over alternative Federal policy goals and options for the U.S. agricultural sector. A cross-Division research team organized under the leadership of Susan Offutt, Administrator of the Economic Research Service, and Betsey Kuhn, Director of the Food and Rural Economics Division (FRED) of ERS, conducted the research. In addition, the ERS Farm Household Safety Net Team included economists James Johnson, Ashok Mishra, and Mitchell Morehart of the Rural Economics Division; economists Linda Ghelfi, Craig Gundersen, Kathleen Kassel, and Laura Tiehen of FRED; and sociologist Leslie Whitener of FRED. The analysis is based, in part, on data from USDA's Agricultural Resource Management Study (ARMS). We wish to thank Bruce Gardner, Joy Harwood, Elise Golan, and James Schaub for their comments on this report.

1800 M Street, NW
Washington, DC 20036-5831 October 2000

Contents

Summary

Government assistance to the farm sector provides relatively little to small farms. Instead, most government assistance is to larger farms that receive support through traditional farm program instruments such as crop insurance, direct payments, and environmental conservation programs. This report looks at the issue from a different perspective, one which might reduce government spending and ensure that all full-time farmers receive an income to meet basic needs. Our study applies the concept of a farm household safety net based on a set of standards commonly used in the economics literature and in Federal assistance programs for low- to moderate-income households.

The report considers four safety net scenarios that would assure farm households a certain level of income or consumption:

- Income equal to that of the median nonfarm household in the region.
- Income equal to 185 percent of the poverty line.
- Income equal to the average nonfarm household's annual expenditures.
- Income equal to the median hourly earnings of the nonfarm self-employed ($10 per hour).

The analysis estimates the distribution effects and costs of the four scenarios for two time periods: 1993-97 and 1999-2003.

Current farm programs distributed some type of direct government payment to about 36 percent of all farms in 1997, with payments averaging $7,987. The share of farms receiving payments ranged from less than 20 percent for very small farms to 75 percent for large farms. Under any of the four safety net scenarios, however, all very small farm households would receive payments and payments per recipient to other small farms would be more than twice as high as under current programs.

Farms in the Northern Crescent (Northeast and Great Lakes areas), the Eastern Uplands (southeastern Appalachian Mountain areas), the Southern Seaboard (Virginia through Alabama, excluding Florida), and the Fruitful Rim (coastal areas in Southeast and West) would all benefit more from the safety net scenarios described here than from current farm programs. Farms in these regions typically produce dairy products, beef, hogs, other field crops, fruits, and vegetables and produce less of the farm program crops than producers in other regions.

We base the four farm safety net scenarios outlined here on the income characteristics of farm households, not on commodities produced by a farm. Thus, lower income farmers are more likely to benefit under these safety net scenarios, while farmers producing selected commodities benefit more from current farm programs.

The scenarios considered here are meant to be illustrative. Safety nets may be defined in many different ways, and future research should explore other scenarios and the applicability of the concept to sole proprietors in other occupations. Our findings point out that national policy should recognize the diversity within the farm sector and the need for something other than one-size-fits-all policy prescriptions. A clear understanding of the objectives and intended beneficiaries is an important starting point for discussions of future farm policy.