

Impact of Direct Payments in Kansas

Troy J. Dumler
Extension Agricultural Economist
Kansas State University

Recent budget debates have often turned to farm subsidies as a source of potential budget reductions. While members of Congress, the Administration, and others have made budget recommendations that would cut farm program spending, the heavy work of developing farm programs and setting farm program spending will be done during the markup of the 2012 Farm Bill. Although work has not officially begun on the development of the next Farm Bill, several trends have emerged.

The program that is currently receiving the most publicity in terms of its future is the Direct Payment program. The Direct Payment program makes fixed payments to producers based on historical production, and thus is decoupled from current prices and production. Payments under this program have averaged about \$5 billion (table 1) per year over the last several years. While generally supported by most farm groups, Direct Payments have become less popular among the general public as farm incomes have risen in recent years. Because the public does not support fixed payments when farm income is at record levels, and with the ongoing budgetary constraints, Direct Payments have been targeted for reduction.

Table 1. U.S. Farm Subsidies by Program (Fiscal Years 2007-2011E).

Program	2007	2008	2009	2010E	2011E
	Million \$				
Direct Payments	3,957	4,821	5,222	5,144	4,963
ACRE Payments	0	0	0	0	734
Counter-Cyclical Payments	3,159	359	731	1,079	749
Loan Deficiency Payments	174	6	146	183	24

Source: Economic Research Service, USDA

One option that Congress will likely consider when writing the next Farm Bill is reducing direct payments, but using that reduction to fund other programs such as enhanced ACRE or crop insurance programs. Another option would be to make Direct Payments dependent on income losses. This paper will show the average direct payments per acre by county and compare the value of direct payments to market receipts.

Figure 1 shows the county average Direct Payment per acre for the seven most common program crops in Kansas. Average Direct Payments range from a low of \$11.47 per acre in Anderson County to a high of \$24.06 per acre in Haskell County. The difference in payments is the result of differences in base acres, payment rates, and payment yields. Payment rates and yields are shown in Table 2. The three crops with the highest average payment per acre are corn, grain sorghum, and wheat. Therefore, because Anderson County grows more soybeans, it has lower average payments than Haskell County—which primarily grows corn.

counties—if the goal is to reduce or eliminate them, now would be the best time to do so. Whether or not that will happen will depend on a number of factors including: the federal budget situation, economic conditions, trade considerations, and politics.

Table 3. Average Market Value and Direct Payment for Primary Program Crops in Kansas.

Year	Market Value* (\$/acre)	Direct Payment (\$/acre)	Direct Payment % of Market Value
2001	124.14	15.52	12.5
2002	116.99	15.52	13.3
2003	156.90	15.52	9.9
2004	155.92	15.52	10.0
2005	164.83	15.52	9.4
2006	177.45	15.52	8.7
2007	287.19	15.52	5.4
2008	317.53	15.52	4.9
2009	310.38	15.52	5.0
2010	385.80	15.52	4.0

* Market Value based on average state yields and U.S. market year average price (estimated for 2010).