The Influence of Direct Payments on US Cropland Values

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May 22, 2015

farmdoc daily (5):95


Permalink URL
http://farmdocdaily.illinois.edu/2015/05/influence-of-direct-payments-on-cropland-values.html

Direct payments were a key fixture of US farm policy and America’s farm financial safety net from 1996 to 2013. Unlike prior price support programs, direct payments were considered “decoupled” because they were not tied to current production practices or current market prices. Instead, direct payments were determined by historical cropping patterns (called base acres). The program was originally introduced to ensure World Trade Organization (WTO) compliance, but the nature of the payments drew political scrutiny. The program was phased out through the 2014 Farm Bill (Agricultural Act of 2014). The prominence of the direct payments program coincided with one of the largest increases in U.S. agricultural land values, and as a result, many questioned the role direct payments played in the recent farm real estate price boom. A recent study, reviewed in this article, suggests that an additional dollar of direct payments is associated with an $18 per acre increase in cropland values.

Farm program payments provide a safety net for America’s farm sector by reducing income variability or increasing per acre returns. This additional income stream is bid into the market price of agricultural lands through a process economists call “policy capitalization.” (A more detailed review of this process with respect to farm policy payments and farm real estate values can be found here.) While the policy capitalization of farm program payments is well documented, previous studies have not examined the phenomenon for the direct payment program separate from other payments due to data limitations.

A study recently published in Agricultural Economics employs a unique dataset to estimate the impact of decoupled (direct) payments on U.S. cropland values. The study used confidential field-level data from the 1999-2006 National Agricultural Statistics Service (NASS) June Area Survey (JAS). JAS, conducted each...
June, collects farmland value and production information from all operators within selected land segments, averaging approximately one square mile in size, and each segment remains in the survey for five years. Because the information is collected for known locations, additional factors that influence farm real estate values can be modeled along with farm program payments. In addition, JAS data allows researchers to address other confounding factors that muddle prior research efforts, including controlling for farm level characteristics and disaggregating cropland acreage from buildings, improvements, and other land uses.

The results suggest a high level of capitalization of direct payments. An additional dollar of direct payments is associated with an increase of about $18 in per acre cropland values. While direct payments are associated with higher cropland values, the program does not fully explain the rapid increase in cropland values (approximately 74% increase from 2006 to 2013). In addition, the study showed that direct payments were associated with higher cropland values in two production regions: Atlantic and Plains states.

The farm financial safety net came under increased scrutiny during the recent farm bill debate, and given the expected declines in farm income and likely payments from farm programs, one might expect that this debate will intensify in the future. The 2014 Farm Bill (Agricultural Act of 2014) marked a substantial shift in US farm policy away from decoupled payments. For most major agricultural commodities, direct payments were eliminated in favor of insurance based risk management programs. Participation and payments under the new programs will play an important role in determining the future relationship between government payments and cropland values. At the current time, there is little empirical evidence of the degree to which these new policies will be bid into farmland values, yet there is some evidence that the benefits of publicly-subsidized insurance program are also capitalized into agricultural land values (Ifft et al, 2014).

References


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