

High Yields, Low Prices, and High Government Payments

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The 2004 and 2005 crop years have set the high-water marks for national net farm income. In 2004, U.S. net farm income rose to \$82.5 billion. And were it not for 2004, 2005 would have set a record for national net farm income at \$71.5 billion. Even if we remove government support from the net farm income calculation, the 2004 and 2005 farm income levels are the highest ever recorded. In fact, since 2002, the U.S. agricultural economy has been on a tear, with net farm income, cash receipts, and values of production all being much stronger than we have seen historically. However, at the same time, government support to agriculture has also increased to near record levels. As Figure 1 shows, if USDA projections for 2005 hold, government support for agriculture will be \$22.7 billion in 2005, which would be slightly below the record of \$22.9 billion set in 2000. While the value of agricultural production has risen significantly over the last several years, the value of government farm payments has maintained a high level.

In Iowa, these trends are just as pronounced. Iowa net farm income and value of agricultural production have been very strong over the past few years. For example, the value of Iowa's corn crop has exceeded \$3.7 billion in each of the last four years. However, in 2004 and 2005, Iowa corn received sizable government support. Figure 2 shows the ratio of government support to the value of production for Iowa corn from 2002 through 2005. In 2002 and 2003, this ratio was below 10 percent, implying that over 90 percent

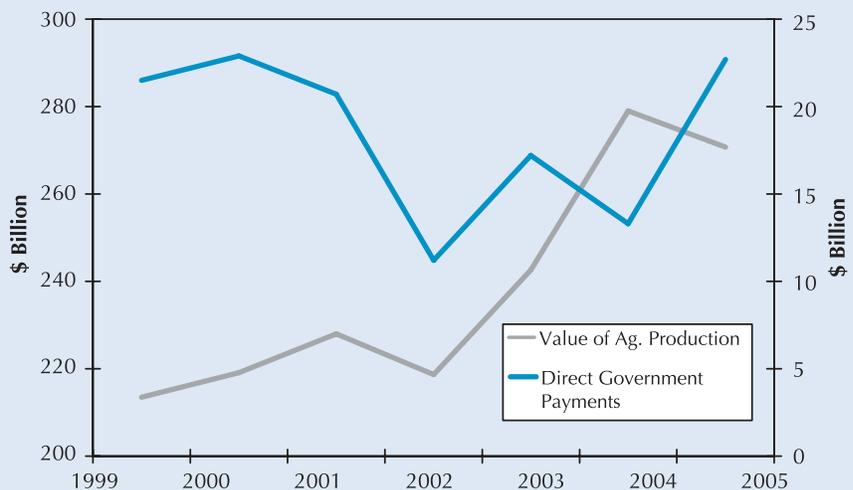


Figure 1. U.S. value of agricultural production and direct government payments

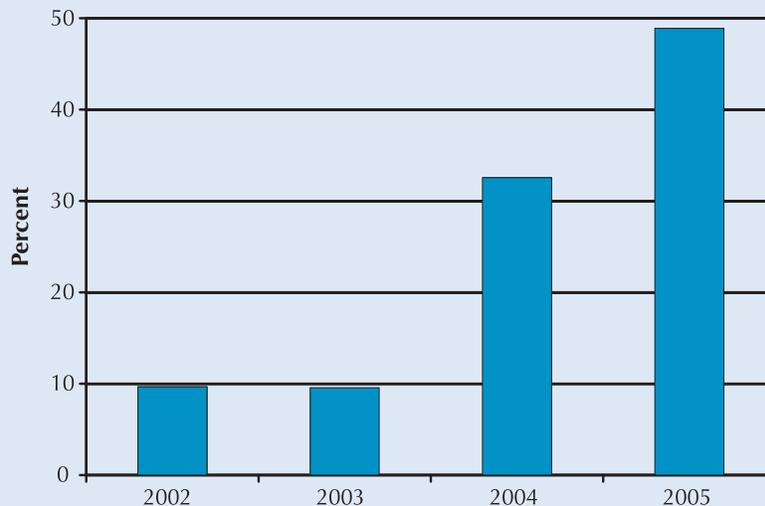


Figure 2. Ratio of government support to value of production for Iowa corn

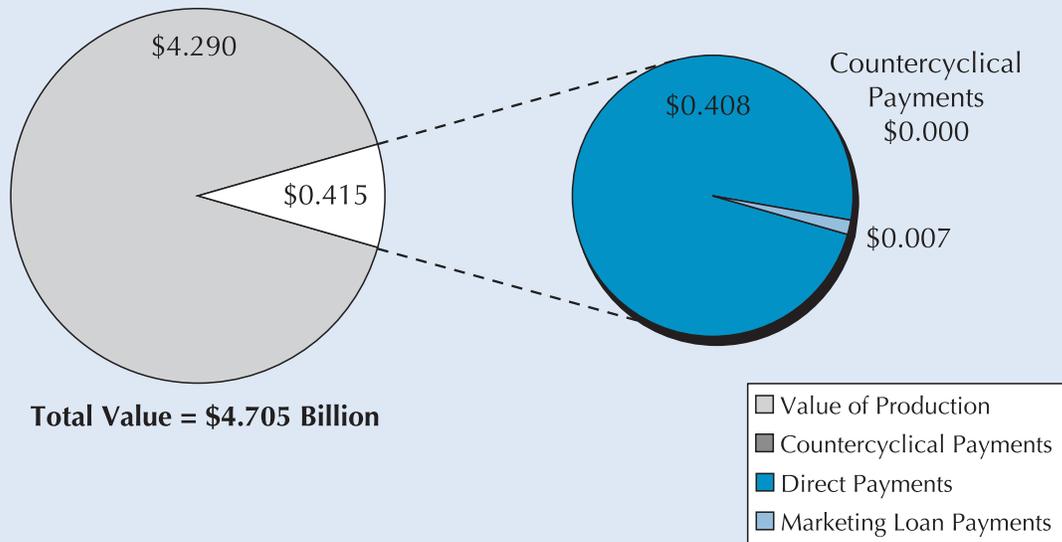


Figure 3. Composition of total value of Iowa corn for the 2002 crop year

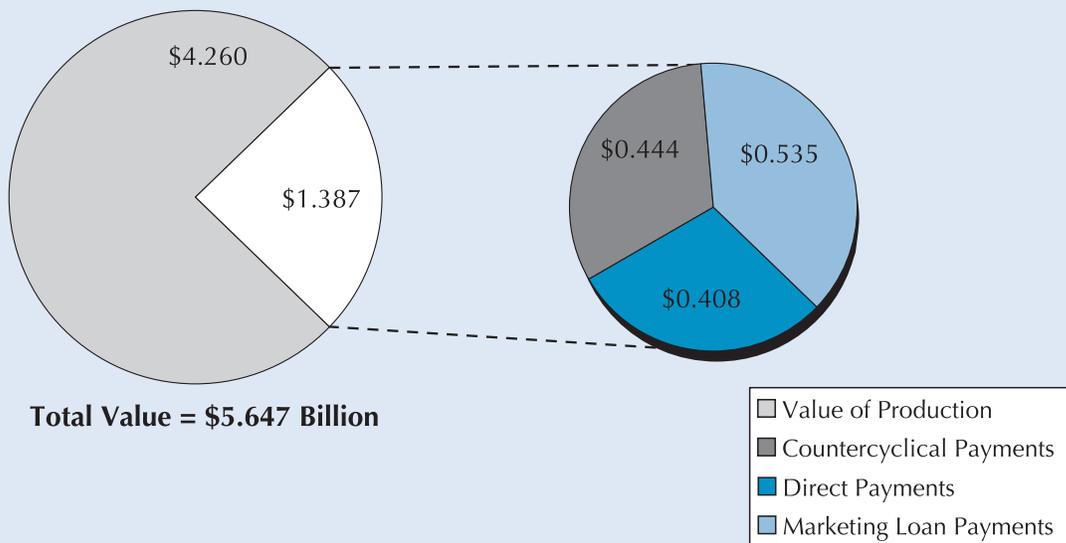


Figure 4. Composition of total value of Iowa corn for the 2004 crop year

of the total value of Iowa's corn crop was derived from the market and less than 10 percent of the value was due to government support. By 2004, this ratio jumped to 33 percent. For the 2005 crop year, projections indicate government payments to Iowa corn will equal half the market value of the crop. The trigger for the jump in support is in the lower corn prices Iowa and the rest of the nation have experienced lately.

Two of the largest government programs for agriculture, the market-

ing loan and countercyclical payment programs, provide payments when prices are low, regardless of market value or revenue from the crop. The 2002 and 2004 crop years highlight how crop prices, values, and government payments can interact. Figures 3 and 4 show the composition of the total value of Iowa's corn crop in 2002 and 2004, respectively. The market value of the corn crop is roughly the same in both years, but because of the government payments, the total value of the 2004 corn crop is nearly

\$1 billion higher than that of the 2002 crop. The lower prices for the 2004 crop triggered over \$400 million in payments from the countercyclical payment program and \$500 million from the marketing loan program. Almost no payments flowed from these programs for the 2002 crop. Programs that trigger on price can often pay when market revenues are at or above average; the 2004 and 2005 Iowa corn crops are examples of this. ♦