The Buck Stops Where? The Distribution of Agricultural Subsidies

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The U.S. has a long history of providing generous support for the agricultural sector. A recent omnibus package of farm legislation, the 2008 Farm Bill (P.L. 110-246) will provide in excess of $284 billion in financial support to U.S. agriculture over the 2008-2012 period. Commodity program payments account for $43.3 billion of this total. Our paper is concerned with the distribution of these benefits. Farm subsidies make agricultural production more profitable by increasing and stabilizing farm prices and incomes. If these benefits are expected to persist, farm land values should capture the subsidy benefits. We use a large sample of individual farm land values to investigate the extent of this capitalization of benefits. Our results confirm that subsidies have a very significant impact on farm land values and thus suggest that landowners are the real benefactors of farm programs. As land is exchanged, new owners will pay prices that reflect these benefits, leaving the benefits of farm programs in the hands of former owners that may be exiting production. Approximately 45% of U.S. farmland is operated by someone other than the owner. We report evidence that owners benefit not only from capital gains but also from lease rates which incorporate a significant portion of agricultural payments even if the farm legislation mandates that benefits must be allocated to producers. Finally, we examine rental agreements for farmers that rent land on both a cash and share basis. We find evidence that farm programs that are meant to stabilize farm prices provide a valuable insurance benefit. This paper is available as PDF (588 K) or via email.