Decoupled payments were introduced into the U.S. farm support program relatively recently. These household income transfers represent a significant departure from the commodity programs that traditionally have been used to support income from farming. Because the effects of income transfers are evidenced throughout a household’s spending, saving, and work choices, analysis of decoupled payments’ impacts on the farm operation must also take into account this broader household context. The research findings in this report represent an initial effort to understand U.S. farm household choices about consumption, savings, investment, and employment in response to changes in income and wealth due to decoupled payments, taking into account the diversity of farm households.

Detailed survey data on farm households’ farm and non-farm activities are now becoming available through ARMS. As a result, the research questions posed in this report are certain to become an active area of agricultural policy research and analysis. Some issues for analysis, in addition to more indepth treatment of the questions addressed in this report, include how wealth effects work in a dynamic setting. For example, how might negative wealth effects work if subsidies are removed and farm asset values decline? Are markets that capitalize future payments also efficient in capitalizing policy reform? What is the time lag associated with payment capitalization, and how does producer uncertainty about policy affect the rate of capitalization?

Other research issues include the role of taxes and the nature of transactions within the farm household that lead to observed household behavior.