



Loosening the Limits and Tightening the Noose: U.S. House Farm Bill Helps Mega Farms Squeeze Family Farms

The U.S. House Farm Bill increase in the limitation on direct payments would subsidize mega farms to expand their acreages by 50 percent.

Under current law, a farmer is limited to direct payments of \$80,000 annually. Under the House farm bill, H.R. 2419, that increases to \$120,000 for a married farmer. Direct payments are made every year regardless of crop prices.

The additional payments would subsidize a Southern Minnesota corn and soybean farm to grow to 7,151 acres if operated by a married farmer; 21,453 acres if operated by a married farmer in partnership with two adult married children. It would subsidize a West River South Dakota summer fallow wheat operation to grow to nearly 27,000 acres if operated by a married farmer; 80,000 acres if operated by a married farmer in partnership with two adult married children.

The Findings section below shows the size to which model farms across 13 states would be subsidized to grow by the House bill.

Findings

Increase in Acreage Covered by Direct Payments under House Farm Bill

Merced County California Irrigated Cotton, Wheat and Tomato Operation

Married farmer – Subsidized to grow from 2,513 to 3,770 acres

Married, farming with 2 adult married children – Subsidized to grow from 7,540 to 11,310 acres

Eastern Colorado summer fallow wheat operation

Married farmer – Subsidized to grow from 14,012 to 21,018 acres

Married, farming with 2 adult married children – Subsidized to grow from 42,036 to 63,054 acres

Eastern Colorado irrigated corn and alfalfa operation

Married farmer – Subsidized to grow from 4,636 to 6,954 acres

Married, farming with 2 adult married children – Subsidized to grow from 13,908 to 20,862 acres

Southwest Georgia cotton, peanuts*, and corn operation

Married farmer – Subsidized to grow from 4,553 to 6,830 acres

Married, farming with 2 adult married children Subsidized to grow from 13,660 to 20,489 acres * Peanut direct payments have a separate \$120,000 limit. Peanut payments do not count toward the combined direct payment limit for other commodities.

Iowa corn and soybean operation

Married farmer – Subsidized to grow from 4,687 to 7,031 acres

Married, farming with 2 adult married children Subsidized to grow from 14,062 to 21,093 acres

Northwest Kansas summer fallow wheat operation

Married farmer – Subsidized to grow from 12,504 to 18,756 acres

Married, farming with 2 adult married children Subsidized to grow from 37,512 to 56,268 acres

Southwest Kansas irrigated corn operation

Married farmer – Subsidized to grow from 3,477 to 5,215 acres

Married, farming with 2 adult married children Subsidized to grow from 10,430 to 15,645 acres

Central Kansas corn, wheat, and soybean operation

Married farmer – Subsidized to grow from 5,801 to 8,702 acres

Married, farming with 2 adult married children Subsidized to grow from 17,404 to 26,106 acres

Southern Minnesota corn and soybean operation

Married farmer – Subsidized to grow from 4,767 to 7,151 acres

Married, farming with 2 adult married children Subsidized to grow from 14,302 to 21,453 acres

Central Minnesota corn and soybean operation

Married farmer – Subsidized to grow from 5,826 to 8,740 acres

Married, farming with 2 adult married children Subsidized to grow from 17,480 to 26,220 acres

Northwest Minnesota wheat, soybean and canola operation

Married farmer – Subsidized to grow from 7,468 to 11,203 acres

Married, farming with 2 adult married children Subsidized to grow from 22,406 to 33,609 acres

Nebraska Panhandle summer fallow wheat operation

Married farmer – Subsidized to grow from 11,967 to 17,949 acres

Married, farming with 2 adult married children Subsidized to grow from 35,898 to 53,847 acres

Eastern Nebraska corn and soybean operation

Married farmer – Subsidized to grow from 5,122 to 7,683 acres

Married, farming with 2 adult married children Subsidized to grow from 15,366 to 23,049 acres

Western North Dakota summer fallow wheat operation

Married farmer – Subsidized to grow from 15,404 to 23,105 acres

Married, farming with 2 adult married children Subsidized to grow from 46,210 to 69,315 acres

Northeast North Dakota wheat, soybeans and canola operation

Married farmer – Subsidized to grow from 9,071 to 13,606 acres

Married, farming with 2 adult married children Subsidized to grow from 27,212 to 40,818 acres

Southeast North Dakota corn, soybean and wheat operation

Married farmer – Subsidized to grow from 7,234 to 10,850 acres

Married, farming with 2 adult married children Subsidized to grow from 21,700 to 32,550 acres

Northwest Oklahoma continuous wheat operation

Married farmer – Subsidized to grow from 6,809 to 10,212 acres

Married, farming with 2 adult married children Subsidized to grow from 20,424 to 30,636 acres

Southeast South Dakota corn and soybean operation

Married farmer – Subsidized to grow from 6,794 to 10,191 acres

Married, farming with 2 adult married children Subsidized to grow from 20,382 to 30,573 acres

South Dakota, West River summer fallow wheat operation

Married farmer – Subsidized to grow from 17,802 to 26,704 acres

Married, farming with 2 adult married children Subsidized to grow from 53,408 to 80,112 acres

Northeast South Dakota corn, soybean, and wheat operation

Married farmer – Subsidized to grow from 7,895 to 11,843 acres

Married, farming with 2 adult married children Subsidized to grow from 23,686 to 35,529 acres

Ohio corn and soybean operation

Married farmer – Subsidized to grow from 4,997 to 7,494 acres

Married, farming with 2 adult married children Subsidized to grow from 14,988 to 22,482 acres

Northeast Montana summer fallow wheat

Married farmer – Subsidized to grow from 14,826 to 22,238 acres

Married, farming with 2 adult married children Subsidized to grow from 44,476 to 66,714 acres

Idaho wheat and barley operation

Married farmer – Subsidized to grow from 4,258 to 6,387 acres

Married, farming with 2 adult married children Subsidized to grow from 12,774 to 19,161 acres

Methodology

We created model farms for various regions of California, Colorado, Georgia, Idaho, Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota, Ohio, Oklahoma and South Dakota.

The model farms were assigned direct payment bases and yields, drawing on state average direct payment crop bases and state average direct payment yields. We adjusted those bases and yields for regional variations based on US Department of Agriculture National Agricultural Statistics Service cropping district data for acres planted to various crops and actual yields.

We do not claim that these farms are representative of the average farm for these states and regions. They are, however, farms of a type that one could reasonably expect to find in these states and regions.

Direct payment bases and yields were established decades ago. Thus, direct payment yields are generally lower than current yields and, in some areas, direct payment bases do not reflect recent shifts in crop acreages.

We assume 16.67 percent of production and payments go to landlords, as would be the case when 1/3 of the farm operator's land is rented on a 50/50 crop share or, for summer fallow wheat production, half the land is rented for a 1/3 crop share.

Crop share leases are more prevalent in summer fallow wheat production areas, thus we believe it is appropriate to assume more of the land in those areas will be leased on a crop share basis. For most other areas, the assumption that 1/3 of acres will be leased on crop share exceeds the average among farms of all size. However, we believe that is a reasonable assumption for farms affected by payment limitations. They have a powerful incentive to seek crop share leases to enable them to farm more acres while avoiding the effects of payment limitations.

Finally, we calculate direct payments only on 85 percent of acres, in conformity with federal law. We used the following formula to calculate the acreage at which model farm would reach the \$120,000 direct payment limit.

$$\frac{\$120,000}{(.85 \text{ payment acres} * .833 \text{ operator's share}) * [(Commodity \#1 \text{ Pay Rate} * \% \text{ acres} * \text{Pay Yield}) + (commodity \#2 \text{ pay rate} * \% \text{ acres} * \text{pay yield})]}$$

Commodity direct payment rates used for this report are found in Section 1102 of H.R. 2419, the House's adopted version of the 2007 Farm Bill.

Payment Limitation Changes: US House Farm Bill Passed July 2007

Current Law Direct Payment Limits

- Mega farms get double the \$40,000 direct payment limit by using either the three entity or spouse rule. *They cannot use both.*
- The "three-entity rule" allows individuals to receive *double* the stated limit by drawing payments through one entity in which they own 100% interest and two entities in which they own 50%.

Alternatively, a couple can receive double the stated limit by *each* enrolling in the farm program. If one is eligible for payments, the other also qualifies by participating in one significant farm decision annually.

The House Bill Payment Limitation Increase

- Eliminates the three entity rule as a means of doubling by attributing all payments received by a corporation to its stockholders.
- Raises the paper limit on direct payments from \$40,000 to \$60,000.
- Retains the spouse rule as a means of receiving double the new \$60,000 limit.

The Net Effect of the House Farm Bill on Effective Limits on Direct Payments

Single farmer – Reduced from \$80,000 to \$60,000

Single, farming with 2 adult married children – Increased from \$240,000 to \$300,000

Married farmer – Increased from \$80,000 to \$120,000

Married, farming with 2 adult married children – Increased from \$240,000 to \$360,000

Conclusions

The findings demonstrate the inaccuracy of claims that the House farm bill tightens payment limitations.

A significant majority of farmers are married, particularly the middle age farmers likely to operate large, rapidly expanding farms. For them, limits are increased substantially on direct payments, which are the only payments projected in most years of the next farm bill for wheat, feed grains and oilseeds. These increases are a result of raising the nominal limitation on direct payments from \$40,000 to \$60,000.

There is one payment limitation reform in the House farm bill. The bill attributes payments made to corporations and other entities directly to the shareholders and members. Though admirable, that reform is of little effect because married operators of large farms retain an alternative means of automatically receiving double the nominal \$60,000 limitation – dividing payments between spouses.

Closing one gate but leaving another open does not keep the hogs out of the trough. Likewise, closing one loophole while leaving the other open has no effect except on single farmers who cannot use the remaining means of receiving double the nominal limit.

Thus, large farms would be subsidized to grow to much larger sizes under the House bill than under current law. Mega farms would be subsidized to bid land away from smaller operations – driving up cash rents, narrowing profit margins and tightening the noose on family-size farms struggling survive.

Each time Congress passes a farm bill it does so amidst great rhetoric about the benefits to society, including improving returns to farm operators, enhancing the viability of family size farms and improving the social and economic viability of farm-based communities. In reality, the House Farm Bill will have the opposite effect.

Appendix 1

Acreage Covered by Direct Payments under House Farm Bill

State	Scenario	Direct Payment Yields	Married Current Law	Married House Proposal	Married with 2 Adult Married Children Current Law	Married with 2 Adult Married Children House Proposal
CA	Merced County California Irrigated Cotton Operation – 1/2 Cotton/1/4 Wheat/1/4 Tomatoes	Cotton 1,076.3; Wheat 68.2	2,513	3,770	7,540	11,310
CO	Eastern plains—summer fallow wheat	Wheat 31	14,012	21,018	42,036	63,054
CO	Eastern plains: 1/4 alfalfa; 3/4 corn	Corn 116	4,636	6,954	13,908	20,862
GA	Southwest: 60% Cotton; 30% Peanuts; 10% Corn (Peanuts do not count against the same limit)	Cotton 688; Peanuts 3,151.7; Corn 62.4	4,553	6,830	13,660	20,489
IA	1/2 corn; 1/2 soybeans	Corn 116; Soybeans 35.7	4,687	7,031	14,062	21,093
KS	Northwest—summer fallow wheat	Wheat 38.6	12,504	18,756	37,512	56,268
KS	Southwest—irrigated corn;	Corn 116	3,477	5,215	10,430	15,645
KS	Central—1/3 corn; 1/3 soybeans; 1/3 wheat	Corn 102; Soybeans 22.2; Wheat 38.6	5,801	8,702	17,404	26,106
MN	Southern—1/2 corn; 1/2 soybeans	Corn 101.5; Soybeans 33.3	4,767	7,151	14,302	21,453
MN	Central and West Central—1/2 corn; 1/2 soybeans	Corn 101.5; Soybeans 33.3	5,826	8,740	17,480	26,220
MN	Northwest—1/2 wheat; 40% soybeans ; 10% canola	Wheat 38.5; Soybeans 33.3; Canola	7,468	11,203	22,406	33,609

Appendix 1, Continued

Acreage Covered by Direct Payments under House Farm Bill

State	Scenario	Direct Payment Yields	Married Current Law	Married House Proposal	Married with 2 Adult Married Children Current Law	Married with 2 Adult Married Children House Proposal
NE	Panhandle—Summer fallow wheat	Wheat 36.3	11,967	17,949	35,898	53,847
NE	Eastern—1/2 corn; 1/2 soybeans	Corn 105.8; Soybeans 32.9	5,122	7,683	15,366	23,049
ND	Western—Summer fallow wheat	Wheat 28.2	15,404	23,105	46,210	69,315
ND	Northeast—1/2 wheat; 1/4 soybeans; 1/4 canola	Wheat 28.2; Soybeans 27.3; Canola 1,058 lbs.	9,071	13,606	27,212	40,818
ND	Southeast—1/2 corn; 1/4 soybeans; 1/4 wheat	Corn 64.6; Soybeans 27.3; Wheat 28.2	7,234	10,850	21,700	32,550
OK	Northwest Continuous Wheat	Wheat 31.9	6,809	10,212	20,424	30,636
SD	Southeast—1/2 corn; 1/2 soybeans	Corn 63; Soybeans 28.6	6,794	10,191	20,382	30,573
SD	West River—Summer Fallow Wheat	Wheat 24.4	17,802	26,704	53,408	80,112
SD	Northeast—1/3 Corn; 1/3 Wheat; 1/3 Soybeans	Corn 63; Wheat 24.4; Soybeans 28.6	7,895	11,843	23,686	35,529
OH	1/2 corn; 1/2 soybeans	Corn 109.6; Soybeans 33	4,997	7,494	14,988	22,482
MT	Northeast—summer fallow wheat	Wheat 29.3	14,826	22,238	44,476	66,714
ID	2/3 wheat; 1/3 barley, continuous cropping	Wheat 62.2; Barley 62	4,258	6,387	12,774	19,161