

## **The Case for Farm Program Payment Limitations**

- The lack of effective payment limitations has caused federal farm programs to finance consolidation in agriculture and the elimination of mid-size family farms;
- The lack of effective payment limitations has encouraged expanding large producers to bid farm program payments into higher cash rents and thereby reduce profit margins for all farmers; and
- A shrinking budget for agriculture appropriations has led to cuts in federal funding for value added, rural development and conservation programs vital to the future of agriculture and rural America.

*Therefore the solution is to close payment limitation loopholes, including:*

- Eliminate loopholes that allow mega farms to receive double the limit by dividing the operation between spouses or into multiple legal entities.
- Strengthen the criteria for persons eligible for farm program payments by requiring significant active personal management and active personal labor in the farming operation. Continue the exemption for crop share landlords.
- Gains on generic certificates and on commodities forfeited to USDA to satisfy marketing loans should count toward the limit on loan deficiency payments.

*Payment limitations should be calibrated to provide equitable treatment to southern producers, for example by counting one dollar of cotton or rice payment as 50 cents toward the limitation. So calibrated, the limits would affect farms at comparable acreages and achieve comparable savings across commodities*

Savings from closing these loopholes should be invested in expanding value added, beginning farmer, conservation and rural development programs that create a future in rural America.

**Background Information:** This would prevent mega farms from doubling payments by forming multiple entities or dividing the operation between spouses. But it would not hurt siblings farming together or parents in partnership with adult offspring each actively farming. They would each qualify for payments up to the limit. Spouses could each receive payments but the payments would be combined for payment limitation purposes.

This proposal closes the loophole granting unlimited loan deficiency payments to mega farms that take them as generic certificates or forfeit commodities under loan to USDA. And it would prevent evasion of limitations through partnerships with so called “farmers” who do nothing more than participate in conference calls. Farm “partners” would qualify for payments only if they provide substantial labor and management.

**Rationale:** Farm programs were created to enable family farms to prosper. But unlimited payments are destroying family farming. We cannot throw the baby out with the bath water. Family farmers rely on farm programs to pay the bills. Rather, we must design a program that works in both north and south, in short and long-terms.

The keys are: 1) closing loopholes to restore the integrity of payment limitations and 2) calibrating by counting one dollar of cotton or rice payment as 50 cents toward the limitation. So calibrated, the limits would affect farms at comparable acreages and achieve comparable savings across commodities. Farm programs would be restored to their historic purpose of strengthening family farming.

And farm programs would regain credibility with voters and Congress. The majority of Americans support farm programs that benefit small and mid size farms, but oppose big payments to mega farms. That is why farm program opponents like the Environmental Working Group have seized on big payments to discredit farm programs. Payment limitations are critical to protecting the integrity and political viability of farm programs.

**Acres to Reach Payment Caps with Loopholes Closed and 50% Cotton/Rice Factor**

<b>Commodity</b>	<b>Fixed Direct Payment Limit: Husband/Wife</b>	<b>Fixed Direct Payment Limit: Parents/2 Sons/Daughters</b>	<b>Counter Cyc. Payment Limit: Husband/Wife</b>	<b>Counter Cyc. Payment Limit: Parents/2 Sons/Daughters</b>
Corn/Soybeans (50/50)	2,632	7,896	3,253	9,760
Cotton (67%) Wheat (33%)	3,190	9,570	2,599	7,797
Rice/Soybeans (50/50)	1,576	4,728	2,996	8,989
Wheat, Sunflower/Barley (50/40/10)	4,039	12,116	8,273	24,819
Cotton (CA)	1,321	3,963	1,043	3,129
Continuous Wheat	3,103	9,309	4,339	14,017

*For direct payments, we use national average program yields for each commodity, except we use the state average yield for California cotton. For counter cyclical payments we use 93.5% of year 2000 actual yields, as provided by the 2002 farm bill. We assume the maximum counter cyclical payment, as would be made when prices fall to or below loan rates. All payments are calculated on 85 percent of base acres. 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.*

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