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Farm Commodity Payment Limits: Comparison of Proposals

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Summary

Greater public awareness of the size of commodity program payments reaching a comparatively small number of very large farms has focused the attention of Congress on payment limits. Limits on commodity program payments have been imposed since 1970. As part of the emergency economic assistance packages enacted each of the past three years, the payment limits have been doubled. In addition, a mechanism has been developed that allows farms to circumvent the limit on loan deficiency payments, namely commodity certificates.

The House farm bill (H.R. 2646) largely preserves payment limits at the increased levels recently approved, including the exemption of commodity certificates. In contrast, the bill adopted by the Senate (S. 1731), including an amendment sponsored by Senators Dorgan and Grassley, reduces the limits about 50% and eliminates the commodity certificate exemption. Translating the dollar limits into crop acreage levels makes it easier to see how farmers might be impacted. Lower payment limits mostly are felt by rice and cotton farmers.

A limit on the total annual payments a "person" can receive through farm commodity support programs was first enacted in the Agricultural Act of 1970 and has remained in place since. Fundamentally, the need for payment limits and the level at which they should be set is a debate about farm size, and not about the financial condition of recipients. In no case does a farm have to demonstrate financial hardship to be eligible for commodity program payments. In the House and Senate farm bills (as in current law) fixed, decoupled payments and counter-cyclical payments are based on each farm's production history, not current production, of wheat, corn, grain sorghum, barley, oats, rice, upland cotton, soybeans and minor oilseeds. These are called "covered crops" in the House bill and "contract commodities" in the Senate bill. Also, the identical support system is newly applicable to peanuts in both bills. Farms actually producing these same commodities are eligible for marketing loans based solely on current production. As market prices decline below loan rates, marketing loan benefits increase. In all cases, subsidy payments are made per unit of a commodity (i.e., $ per bushel).

When Congress imposes payment limits, it is saying that not all production on large farms will be subsidized. Supporters of payment limits argue that the federal government should not directly finance the consolidation of farms into larger and larger operations through commodity support programs. Critics of payment limits counter that all farms are in equal need of support when market prices decline, and larger farms should not be penalized for the economies of size they have achieved.

Under the Agricultural Market Transition Act (AMTA) of 1996, payments to producers of contract commodities include: 1) fixed, decoupled payments (called production flexibility contract payments (PFCs)); 2) loan deficiency payments(LDPs); 3) and marketing loan gains (MLGs). In the law, the annual limit on PFC payments is $40,000 per person. Emergency market loss payments in 2000 and 2001 matched the PFC payments, effectively doubling that limit. Together, the combination of LDPs and MLGs, called marketing loan benefits, is counted against a single payment limit of $75,000. However, this limit was doubled to $150,000 for crop years 1999, 2000, and 2001.

The payment limits in the House bill (H.R. 2646) are higher than current law. In contrast, the Senate bill (S. 1731, including the Dorgan/Grassley-sponsored payment limit provisions) substantially reduces the maximum payment a farmer can receive. Table 1 shows current law and the two payment limit proposals. The House bill sets separate limits on fixed, decoupled payments ($50,000) and on counter-cyclical payments ($75,000). The Senate bill combines fixed, decoupled payments and counter-cyclical payments under a single payment limit ($75,000).

Table 1. Commodity Program Payment Limit Provisions of Current Law and Proposed Alternatives

	Current Law, Including Emergency Assistance	H.R. 2646	S. 1731
Fixed, Decoupled Payments	$80,000	$50,000	na
Counter-Cyclical Payments	na	$75,000	na
Sum of Fixed, Decoupled Payments and Counter-Cyclical Payments	$80,000	$125,000	$75,000
Marketing Loan Gains and Loan Deficiency Payments (Marketing Loan Benefits)	$150,000	$150,000	$150,000
Three Entity Rule / Spouse Allowance	$230,000	$275,000	$50,000
Sum of Above Items	$460,000	$550,000	$275,000
Commodity Certificates	No Limit	No Limit	Counted As Marketing Loan Benefit
Loan Forfeiture Gains	No Limit	No Limit	Counted As Marketing Loan Benefit
Overall Limit on Direct Payments and Loan Forfeitures	None	None	$275,000

While current law and the House bill set explicit limits on marketing loan gains and LDPs, the use of "commodity certificates" and forfeiture of loan collateral makes it possible for farmers to circumvent the limits. So, as a practical matter , marketing loans benefits are not limited. However, the Senate bill applies all gains from the use of commodity certificates as well as all gains from forfeiture of loan collateral toward the $150,000 limit on marketing loan payments.

Under current law, farmers can double the payment limit by using the "husband & wife rule" or by using the "three entity rule" – but not both. Generally, a husband and wife are treated as one person for payment limit purposes. However, they can request to be treated as separate persons and thereby double the payment limit for the farm. The three entity rule provides that one person is eligible for payments on up to three farm entities. The payment limit on each of the second and third farms is half the amount on the first farm. Therefore, the limit doubles if an individual receives payments on three farms instead of one farm. The House bill preserves current law on spouses and the three entity rule. The Senate bill eliminates the three entity rule, replacing it with direct attribution of payments to the individual from any and all farms, and sets the additional spouse benefit at $50,000.

Since payments are related to production and therefore size, just how large can a farm be before it reaches the payment limits? The following table helps to answer that question, but in a simplified and hypothetical way. First, the analysis assumes that a farm produces a single commodity. In fact, all farms receiving fixed, decoupled payments and counter-cyclical payments are free to plant any crop or combination of crops except fruits and vegetables on the payment acres. These planting flexibility rules in the current law are preserved in the House and Senate bills. For example, a farm that receives fixed, decoupled and counter-cyclical cotton payments might produce peanuts and soybeans and corn and receive payments on these crops. Second, the analysis uses national average yields, while actual payments are based on each farm's own yield experience. Finally, the analysis in Table 2 does not attempt to determine how many acres are needed to reach the payment limit for marketing loan benefits. Rather, it calculates how low the price of a commodity would have to go for a farm that reaches the limit on fixed, decoupled and counter-cyclical payments also to reach the limit on marketing loan benefits. The price calculation is for an expanded operation, which means it assumes the greater payment limit for the spouse or 3-entity situation.

Table 2 below, for example, shows that the H.R. 2646 limit, of $125,000 for fixed, decoupled payments and counter-cyclical payments, would be reached at 3,217 wheat payment acres. The same farm could have 6,434 wheat payment acres before reaching the payment limit under the husband and wife rule or if it were divided into three entities. For a 6,434 acre wheat farm to reach the $150,000 limit on marketing loan benefits, the posted county price would have to drop to $2.03 per bushel or lower. However, under the House bill, as under current law, a farmer reaching the $150,000 limit on marketing loan benefits can purchase marketing certificates at the posted county price with which to pay off nonrecourse commodity loans without limit. In contrast, the Senate bill counts commodity certificate gains, as well as loan forfeiture gains, against the limit.

Peanuts require special mention. In the House bill, the payment limits on peanuts are separate from the limits that apply to the collection of "covered crops." In the Senate bill, the limits apply to all crops combined, which means grains, oilseeds, cotton, and peanuts. This is an important difference, as some peanut producers also grow sizable cotton crops.

Under the House bill the potential payments to a peanut/cotton farm are twice as high as under the Senate bill.

Table 2. Comparison of Payment Limit Proposals, by Commodity

	H.R. 2646	S. 1731
Wheat		
Fixed, Decoupled and Counter-Cyclical Payment Acres Limit		
Acres to Reach Individual Limit (1 person, 1 entity)	3,217	3,876
Acres to Reach Expanded Limit (Spouse, or 3 entities)	6,434	6,461
PCP to Reach Marketing Loan Benefit Limit ($/bu)	$2.03	$2.45
Corn		
Fixed, Decoupled and Counter-Cyclical Payment Acres Limit		
Acres to Reach Individual Limit (1 person, 1 entity)	1,911	1,981
Acres to Reach Expanded Limit (Spouse, or 3 entities)	3,822	3,303
PCP to Reach Marketing Loan Benefit Limit ($/bu)	$1.61	$1.76
Cotton		
Fixed, Decoupled and Counter-Cyclical Payment Acres Limit		
Acres to Reach Individual Limit (1 person, 1 entity)	1,470	881
Acres to Reach Expanded Limit (Spouse, or 3 entities)	2,940	1,468
AWP to Reach Marketing Loan Benefit Limit ($/lb)	$0.4411	$0.2892
Rice		
Fixed, Decoupled and Counter-Cyclical Payment Acres Limit		
Acres to Reach Individual Limit (1 person, 1 entity)	930	487
Acres to Reach Expanded Limit (Spouse, or 3 entities)	1,860	812
AWP to Reach Marketing Loan Benefit Limit ($/cwt)	$5.19	$3.84
Soybeans		
Fixed, Decoupled and Counter-Cyclical Payment Acres Limit		
Acres to Reach Individual Limit (1 person, 1 entity)	5,656	3,384
Acres to Reach Expanded Limit (Spouse, or 3 entities)	11,312	5,641
PCP to Reach Marketing Loan Benefit Limit ($/bu)	$4.60	$4.55
Peanuts		
Fixed, Decoupled and Counter-Cyclical Payment Acres Limit		
Acres to Reach Individual Limit (1 person, 1 entity)	1,206	543
Acres to Reach Expanded Limit (Spouse, or 3 entities)	2,412	905
AWP to Reach Marketing Loan Benefit Limit ($/lb)	$0.15	$0.14

Primary data for calculations are in Tables 4 at the end of this report.

Another indicator of how a $150,000 the limit on marketing loan benefits relates to farm size can be developed from past prices and loan rates as shown in Table 3. In the case of rice, for example, the December 2000 average price received by farmers was $5.60 per hundredweight (cwt) compared to the national loan rate of $6.50 per cwt. If this difference of $0.90 were received as an LDP on a farm with a yield of 62.81 cwt per acre (6,281 pounds), it would take 2,654 acres to reach $150,000. However, the November 2001 average price received by farmers was $4.08 per hundredweight (cwt) compared to the national loan rate of $6.50 per cwt. With an LDP of $2.42 per cwt., an average yielding farm would reach the LDP limit with 988 acres.

Table 3. Acres Needed to Receive $150,000 in LDP Benefits Based on Average Harvest Period Prices

Commodity Crop Year	Average Yield	Marketing Loan Rate	Season Avg Price	Harvest Period Price	Hypothetical LDP Payment	Production Acres To Reach LDPs of $150,000
	Units/Acre	$/Unit	$/Unit	$/Unit	$/Unit	Acres
Wheat (bu)						
2001/02	40.4	$2.58	$2.80	$2.63	-$0.05	na
2000/01	41.9	$2.58	$2.62	$2.32	$0.26	13,769
1999/00	42.7	$2.58	$2.48	$2.22	$0.36	9,758
1998/99	43.2	$2.58	$2.65	$2.38	$0.20	17,361
Corn (bu)						
2001/02	133.5	$1.89	$1.90	$1.84	$0.05	22,472
2000/01	137.1	$1.89	$1.85	$1.61	$0.28	3,907
1999/00	133.8	$1.89	$1.82	$1.69	$0.20	5,605
1998/99	134.4	$1.89	$1.94	$1.84	$0.05	22,321
Sorghum (bu)						
2001/02	61.2	$1.71	$1.85	$1.83	-$0.12	na
2000/01	60.9	$1.71	$1.89	$1.55	$0.16	15,394
1999/00	69.7	$1.74	$1.57	$1.40	$0.34	6,330
1998/99	67.3	$1.74	$1.66	$1.60	$0.14	15,920
Cotton (bu)						
2001/02	679	$0.5192	$0.3140	$0.2950	$0.22	985
2000/01	632	$0.5192	$0.4980	$0.5030	$0.02	14,651
1999/00	607	$0.5192	$0.4500	$0.4280	$0.09	2,710
1998/99	625	$0.5192	$0.6020	$0.5810	-$0.06	na
Rice (cwt)						
2001/02	62.72	$6.50	$4.20	$4.08	$2.42	988
2000/01	62.81	$6.50	$5.61	$5.60	$0.90	2,654
1999/00	58.66	$6.50	$5.93	$5.78	$0.72	3,552
1998/99	56.63	$6.50	$8.89	$9.02	-$2.52	na
Soybeans (bu)						
2001/02	38.2	$5.26	$4.25	$4.09	$1.17	3,356
2000/01	38.1	$5.26	$4.54	$4.45	$0.81	4,861
1999/00	36.6	$5.26	$4.63	$4.43	$0.83	4,938
1998/99	38.9	$5.26	$4.93	$5.18	$0.08	48,201

Prices and yield are from USDA, World Agricultural Supply and Demand Estimates, April 10, 2002, and previous issues. Season average prices for 2001/02 are mid-points of forecast price ranges published in USDA, World Agricultural Supply and Demand Estimates, April 10, 2002

Table 4. Calculation of Acreage Related to Payment Limits in H.R. 2646 and S. 1731

H.R. 2646, Analysis of Payment Limit Provisions	Wheat(bu)	Corn(bu)	Sorghum(bu)	Barley(bu)	Cotton(lb)	Rice(cwt)	Soybeans(bu)	Peanuts(lb)
Commodity Support Levels and Maximum Payment Rates								
Target Price	$4.04	$2.78	$2.64	$2.39	$0.7360	$10.82	$5.86	$0.24
Loan Rate	$2.58	$1.89	$1.89	$1.65	$0.5192	$6.50	$4.92	$0.175
Fixed, Decoupled Payment Rate (max. at 85%)	$0.45	$0.26	$0.31	$0.21	$.0567	$2.00	$0.36	$0.015
Counter-Cyclical Payment Rate (max. at 85%)	$0.79	$0.50	$0.33	$0.42	$0.1276	$1.67	$0.44	$0.40
Acres to Reach $125,000 Fixed, Decoupled and Counter-Cyclical Payment Limit								
Bu, cwt, lb to Reach $50,000 Limit	110,988	196,078	163,399	235,294	881,912	25,031	140,056	3267974
Bu, cwt,lb to Reach $75,000 Limit	94,877	149,551	226,244	180,072	587,843	44,789	169,683	1877347
Average Program Payment Yield*	34.5	102.6	56.9	46.7	600	48.2	30.0	2710
Acres to Reach Fixed Limit of $50,000	3,217	1,911	2,872	5,038	1,470	520	4,669	1,206
Acres to Reach Counter-Cyclical Limit of $75,000	2,750	1,458	3,976	3,856	980	930	5,656	693
Acres to Reach $125,000 Limit (1 entity)	*3,217*	*1,911*	*3,976*	*5,038*	*1,470*	*930*	*5,656*	*1,206*
Acres to Reach $250,000 Limit (3 entities)	*6,434*	*3,822*	*7,952*	*10,077*	*2,940*	*1,860*	*11,312*	*2,412*
Implied Posted County Price to Reach Marketing Loan Gain of $150,000 on Farms Comprised of 3 Entities (larger farms)								
Yield/Harvested Acre**	42.1	141.9	69.2	64.0	653	61.36	41.0	2,680
Loan Rate	$2.58	$1.89	$1.89	$1.65	$0.5192	$6.50	$4.92	$0.175
Marketing Loan Benefit to Reach $150,000	$0.55	$0.28	$0.27	$0.23	$0.08	$1.31	$0.32	$0.02
Implied PCP or AWP	*$2.03*	*$1.61*	*$1.62*	*$1.42*	*$0.4441*	*$5.19*	*$4.60*	*$0.15*
S. 1731, Analysis of Payment Limit Provisions	Wheat(bu)	Corn(bu)	Sorghum(bu)	Barley(bu)	Cotton(lb)	Rice(cwt)	Soybeans(bu)	Peanuts(lb)
Commodity Support Levels and Maximum Payment Rates								
Target Price	$3.446	$2.3472	$2.3472	$2.1973	$0.6739	$9.2914	$5.7431	$0.26
Loan Rate	$2.996	$2.0772	$2.0772	$1.9973	$0.5493	$6.4914	$5.1931	$0.20
Direct and Counter-Cyclical Payments (max.)	$0.4500	$0.2700	$0.2700	$0.2000	$0.1246	$2.8000	$0.5500	$0.051
Acres to Reach $75,000 Fixed, Decoupled and Counter-Cyclical Payment Limit								
Bu, cwt, lb to Reach Limit	166,667	277,778	277,778	375,000	576,923	26,786	136,364	1,470,588
Average Program Payment Yield*	43.0	140.2	67.8	54.7	655	55.0	40.3	2,170
Acres to Reach $75,000 Limit (one person)	*3,876*	*1,981*	*4,097*	*6,856*	*881*	*487*	*3,384*	*543*
Acres to Reach $125,000 Limit (spouse allowance)	*6,461*	*3,303*	*6,830*	*11,428*	*1,468*	*812*	*5,641*	*905*
Implied Posted County Price to Reach Marketing Loan Gain of $150,000 on Farms with Spouse Allowance (larger farms)								
Yield/Harvested Acre**	42.1	141.9	69.2	64.0	653	61.36	41.0	2,680
Loan Rate	$3.00	$2.08	$2.08	$2.00	$0.5500	$6.85	$5.20	$0.20
Marketing Loan Benefit Rate to Reach $150,000	$0.55	$0.32	$0.32	$0.21	$0.15	$3.01	$0.65	$0.07
Implied PCP or AWP	*$2.45*	*$1.76*	*$1.76*	*$1.79*	*$0.40*	*$3.84*	*$4.55*	*$0.14*