Farm Program Payment Limits: The Evolution of a Contentious Government Policy

AFPC Research Report 06-4

October 2006

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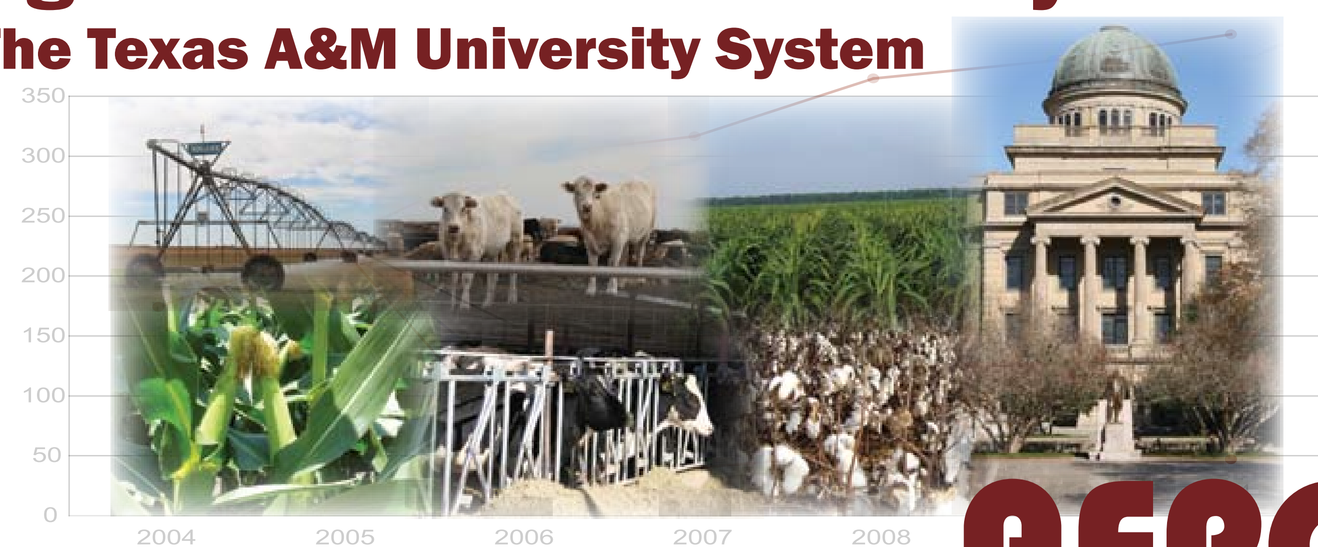

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David Anderson, Joe Outlaw, Ronald Jenkins and David Ernstes

For the past 70 years, the major goals of US agricultural policy have been supporting and stabilizing agricultural prices and incomes and adjusting production to market needs. To accomplish those goals, a variety of policies have been prescribed. Most have legislatively supplemented farm income through price or income support. Additionally, production has been controlled through acreage reduction and conservation programs. In recent years, many programs have been implemented as a "one size fits all" solution to a multifaceted problem. However, these policies have not been correlated to the size or scale of the operation. Larger, more economically efficient farms have the potential to garner farm program benefits proportional to their output.

Payment limits were instated more than 30 years ago to restrict the amount of government benefits any individual farmer could receive. While they were designed to protect smaller producers and combat the perception that farmers were getting rich from government programs, payment limits have been controversial since their inception. In fact, they were a major source of contention in the 2002 farm bill debate and resulted in a commission to study the matter.[1]

While payment limits have been a significant part of every farm bill debate since 1970, surprisingly, they were never even considered prior to *the Food and Agriculture Act of 1965.* The 1965 farm bill harkened a significant change in US agricultural policy. For the first time, provisions were set for a four-year period for the major commodity crops. This provided farmers with expectations as to how the policy would affect their production decisions for more than one or two years in advance.

More important, the 1965 farm bill fundamentally changed the way farm program benefits were received. Rather than just supporting agricultural prices or restricting supply, which allowed the farmer to receive benefits through the market, the government also began significantly supplementing incomes with direct payments. In other words, instead of receiving a larger payment at harvest, farmers began receiving checks directly from the government.

The new cotton program developed in the 1965 farm bill created the most concern. It was modeled after the existing wheat and feed grain programs, which combined a low price support level with direct payments to growers, providing they reduced their acreage. The new cotton program combined the "one price" cotton system which was begun in 1964, with the acreage reduction and direct payment aspects of wheat and feed grain programs.[2]

The cotton program allocated a mere 35 percent of total payments made to farmers for the purpose of supply control and the remaining 65 percent for the purpose of income supplements. This paled in comparison to existing payment splits for other commodity crops, which allotted more payments toward managing and controlling supplies. Feed grains for example, allotted 89 percent of payments toward supply control, and 11 percent toward an income supplement while the wheat programs distributed 51 percent of payments for resource adjustment and 49 percent of payments for income purposes.[3]

To no ones surprise, the potential for significant direct payments to be made to cotton farmers without the benefit of supply control attracted the attention of some members of Congress. The first legislative attempt at farm program payment limits occurred on July 15, 1966, when Senator Daniel B. Brewster (D-MD), attempted to limit the amount of price support loans or direct payments any one person, firm, or corporation could receive under *the Food and Agricultural Act of 1965* (Table 1). Brewster's amendment to the agricultural appropriations bill was swiftly rejected by the Senate. The US Department of Agriculture (USDA), ominously argued that Brewster's proposal would, "probably result in the breakdown or death of the entire structure of farm programs."[4]

The next year, on June 6, 1967, Representative Paul Findley (R-IL) submitted an amendment to the annual agricultural appropriations bill to limit the amount paid to any single recipient under certain specified farm programs to $25,000. This attempt was not only in response to a growing opinion that large farms were receiving too much government funding, but also growing pressure to reduce government expenditures.

In rebuttal to this idea, House Agriculture Committee Chairman W.R. Poage (D-TX), argued that, ". . . when those large farms cease to be a part of the program and produce without any limitation… the amount of production is going to destroy the income of these small farmers."[5] Findley's amendment was defeated by a 47-136 vote. The debate reflected the need to keep large farmers in the farm program due to the acreage reduction facet of farm policy. Without an effective supply control, lower prices were believed to place a larger burden and risk on small farms which payment limits were, in part, intended to protect.

In 1968, President Johnson requested a permanent extension of the 1965 farm bill. While the Senate was in agreement for a four-year extension, the House was fiercely opposed and also sought to implement amendments placing caps on farm program payments. Secretary of Agriculture Orville L. Freeman agreed with the permanent extension, but rejected the idea of limiting payments.

In Congressional testimony, Tony T. Dechant, president of the National Farmers Union, urged the Senate to extend the program and proposed that some limitation be placed on price support, acreage diversion, and other payments made to large farms as a means to preserve "family-type farms."[6] Once again, the Senate rejected any and all Republican amendments attempting to reduce the length of the farm bill extension and limiting the total amount paid to any farmer for participating in agricultural programs. Among the amendments rejected were, John J. Williams (R-DE), and Daniel B. Brewster's (D-MD) limit of $25,000 on total payments (except under *the Sugar Act*) to any one producer for any given year. Also rejected was an amendment by Williams, Brewster, and Frank J. Lausche (D-OH) limiting the total payments to $75,000.[7]

Supporters of limitations argued that the farm program was making millionaires out of a few large farms. Opponents of payment limits countered that without the farm payments, big farmers would leave the program and flood the market, thus depressing farm prices such that small farmers could no longer survive. Secretary Freeman responded to this argument in a letter printed in the July 19, 1968, *Congressional Record;* ". . . under free enterprise those who cooperate by withdrawing land from production deserve equal payment per acre no matter what the size of their holdings."[8] While the "millionaire argument" continues to be made today, decoupled programs and the elimination of supply controls in 1996, has eliminated the contention that farmers will leave the program and flood the market.

In an attempt to compromise, HR 17126 was introduced in the House to extend all programs of the 1965 act for one year. During debate on July 31, 1968, an effort to extend farm programs for four years, as in the Senate bill, was defeated and various proposals to limit payments to individual farmers were defeated. Ray J. Madden (D-IN), who opposed payments to corporate farms, asserted that like many subsidy programs, the farm program had developed ". . . into an operation where the wealthy and powerful recipients gradually accumulate the major share of the money."[9] Claiming that large farmers had forced over three-quarters of a million farmers off the land, House Agriculture Committee Chairman Poage reiterated that with payment limits, large operators would discontinue participation in the program and flood the market hanging small farmers out to dry.[10]

The debate also saw several amendments to HR 17126 rejected including an Albert H. Quie (R-MN) proposal to reduce payments exceeding $10,000 on a sliding scale; an amendment by Findley to set a $10,000 limit on payments; and an Archer Nelsen (R-MN) proposed sliding scale reduction of farm payments that exceed $10,000 coupled with a 5 percent increase in payments to those farmers receiving less than $1,000.

Silvio O. Conte (R-MA), then offered an amendment to set a $20,000 limit on all payments, except price support loans, under the wool, feed grain, cotton, and wheat programs. He indicated that there was “no justification” for a program in which the percent of farmers who gross more than $100,000 a year “receive some 20 percent of farm subsidies.”[11] Conte’s amendment was defeated by voice vote, but later accepted when offered as a recommittal motion. When the House passed HR 17126, it would place a $20,000 limit on federal payments.

Conte’s amendment was thrown out when HR 17126 went to conference with the Senate. After several attempts by Findley (R-IL) to block unanimous consent motions sending the farm bill without payment limits back to conference with the Senate, the Senate took up the House bill, substituted the language of the Senate bill and passed HR 17126. The Senate then sent HR 17126 back to the House with a conference request. House Agriculture Committee Chairman Poage delivered the bill to conference after one last attempt by Findley to block the action. Conferees filed their report and compromised with a simple one-year extension of the 1965 farm bill, eliminating all Senate and House committee and floor amendments.

While payment limit proponents had failed in their efforts to add restrictions in the 1969 bill, the fight was taken up anew in the debate for the agricultural appropriations bill which would fund the legislation. While the House passed HR 11612, an agricultural appropriations bill for fiscal year 1970 activities on May 27, 1969, the two-day House debate largely focused on payment limits and not the funding details. Only two amendments were accepted. One was a subsidy limitation proposal sponsored by Silvio Conte (R-MA). Before passage of the Conte amendment, the House defeated a substitute amendment by Albert H. Quie (R-MN) to reduce subsidy payments greater than $20,000 on a gradual proportional basis. The Conte amendment would later be abolished in conference with the Senate.[12]

Major opponents of limitations, at this time, were Jamie L. Whitten (D-MS) and House Appropriations Committee Chairman George H. Mahon (D-TX). They claimed that the amendment would cost the government more in fiscal year 1970 than the $300 million Conte said it would save. If payments weren't made under the formula of present law, payments for cotton would revert to the 1958 minimum parity of 65 percent. This "snap back," as it was called, would increase the existing support price 43 percent.[13]

The Senate Agriculture Appropriations Subcommittee held open session hearings to take testimony from Secretary of Agriculture Clifford M. Hardin on the proposed subsidy limitation plan voted on by the House on May 27. The proposal, tacked onto the agricultural appropriations bill, set a ceiling of $20,000 on subsidy payments to any individual farmer. In Hardin's testimony, he discussed the "snap back" effect testifying that it would cost the government an additional $160 million in fiscal year 1970 because payment limits would require the government to offer price supports at a no less than 65 percent parities. Subsequently, the Senate committee dropped a $20,000 ceiling on subsidy payments added to HR 11612 on the

House floor, stating that the limitation would increase costs for the cotton program.

Prior to full Senate passage of HR 11612, on July 7, 1969, John J. Williams (R-DE), led an effort to defeat the Appropriations Committee amendment, which eliminated the $20,000 subsidy ceiling imposed by the House. Williams charged that subsidy payments failed to help the small farmer. He cited five farming operations who received payments in excess of $1 million and 15 recipients who received payments between $500K and $1 million. Williams' proposal was defeated in the Senate. After the payment ceiling amendment was defeated, Charles E. Goodell (R-NY) offered an amendment to limit payments to $10,000 for each cotton, wheat, and feed grain crop of a farmer. His amendment also provided for repeal of the "snap back" provision in existing law. A point of order had been raised that the amendment was legislation and could not be considered with an appropriations bill and was consequently defeated.

On October 9, 1969, the House tabled a motion to order its conferees with the Senate on HR 11612 to insist on a payment ceiling of $20,000 on annual subsidies.[14] Consequently, when HR 11612 was signed by President Nixon on November 21, 1969, it did not contain payment limitations.

Two events in 1969, though, finally tipped congressional opinion toward payment limits. First, on May 21, 1969, Paul Findley (R-IL) compiled data, which listed 1968 recipients of farm subsidies of $25,000 or more, and submitted it into the *Congressional Record*. Findley's list indicated that 16,430 persons received a total of $518 million in direct payments. Of that total, 20 farmers received a combined $20.4 million with one producer receiving more than $3 million.[15]

Secondly, in November 1969, Library of Congress economist Walter W. Wilcox, released a report quantifying the impacts that several proposed payment limitations would have on farmers and production decisions. In his report, Wilcox broke down the 1968 payments made to farmers under the cotton, feed grain, and wheat programs into two categories: supply management, and income supplement. With data from HR 11612, Wilcox elaborated on the number of farmers that would be hit by several proposed amendments, what change would occur in government expenditures, program participation, and possible changes in the supply of crops. It is quite likely that this analysis led to the acceptance of payment limitations in the 1970 farm bill.

Since HR 17126 was merely a one-year extension of the 1965 farm bill provisions, the agricultural policy debate began anew. Not surprisingly, payment limits were once again an issue of contention the following year. Final passage of the 1970 farm bill came after much debate and challenge.

The Nixon Administration lobbied for a $110,000 payment limit per crop, but because of congressional effort to instate a $20,000 limit, was forced to compromise. Ultimately, a $55,000 limit gained favor under HR 18546. The House rejected many efforts to lower the payment ceiling and attach criteria for farmers to receive program benefits. Among these rejections was Charles M. Teague's (R-CA), motion to recommit HR 18546 with instructions to remove payment limitations and land requirement programs. A Findley-Conte amendment to replace the Agricultural Committee's recommendation of $55,000 with a $20,000 ceiling was also rejected.

Findley, Conte, and Belcher sought to limit payments to $20,000. Belcher, (R-OK) was ranking minority member of the Agricultural Committee at that time. Agriculture Committee Chairman Poage stood in defense of the $55,000 limit and claimed that farm program success depended on farmer participation. Limiting payments to $20,000 would create an imbalance between supply and demand under this bill by a widespread dropout of farmers in the program. In total, eight amendments were offered relating to subsidy payments that sought to lower the ceiling and attach conditions to receipt of payments.[16]

With a $55,000 limit intact after House passage, HR 18546 was sent to the Senate. On September 4, 1970, the Senate Agriculture Committee reported with amendments HR 18546 (S Rept. 91-1154), *the Agricultural Act of 1970* to establish a three-year price support programs for wool, wheat, feed grains, and cotton. The final legislation set $55,000 per producer, per crop under the wheat, feed grain, and cotton programs for the 1971 through the 1973 crops (Table 2). Lands owned by states and public agencies were excluded from payment limitation as long as they were farmed primarily for public function.[17]

The payment limit debate once again surfaced in 1972 in anticipation of the new farm bill. The Nixon Administration favored the existing $55,000 payment limit level. The Senate and House agriculture committees favored a $37,500 payment limit per crop.

On June 6, 1973, prior to the passage of S 1888, the Senate's farm bill proposal, Birch Bayh (D-IN) offered an amendment to lower the payment limit from $55,000 per producer, per crop, to $20,000 total, per producer. Baye's amendment was accepted by a 45-37 vote and was part of the agricultural legislation passed by the Senate. The debate then shifted to the House.

While the House Agriculture Committee had recommended reducing the payment limitation from $55,000 per crop to $37,500 per crop, Paul Findley (R-IL) and Silvio O. Conte (R-MA) worked to reduce the payment limitation to $20,000 per farmer. Findley charged that the $50,000 limit had "appearance but no substance."[18]

On July 10, 1973, during the House debate on HR 8860, the House's farm bill proposal Bob Bergland (D-MN) offered an amendment to limit payments to $20,000 per crop. Adopted on a 319-89 vote, Bergland's amendment was an effort to find a middle ground between the Committee's $37,500 per crop position and Findley's $20,000 per farmer position. Bergland's amendment survived challenges by Robert Price (D-TX) to restore the $37,500 payment limitation and Frank E. Denholm (D-SD) to allow payments only to farmers who receive at least 25 percent of their income from agriculture.[19]

The debate intensified when Findley's amendment to reduce payment limitation to $20,000 per farmer was introduced. Almost no one spoke in favor of Findley's amendment on the floor and it was opposed by Speaker of the House Carl Albert (D-OK), Minority Leader Gerald Ford (R-MI), and Agriculture Committee Chairman W.R. Poage (D-TX). Yet, it passed by a 246-163 vote on July 10, 1973, through the action of a coalition northern urban Democrats and Republicans. HR 8860 was passed by a 226-182 margin on July 19, 1973, with the $20,000 payment limitation intact.

HR 8860 and S 1888 conferees maintained the $20,000 limit. *The Agriculture and Consumer Protection Act of 1973* created target prices and deficiency payments to replace former price support payments and authorized disaster payments. Because of exceptionally low market prices, the new payment limitation in the 1973 farm bill disproportionally affected cotton. It was calculated that about one third of the nations cotton farmers received subsidies greater than $20,000 compared to less than five percent of grain farmers.

The Rice Production Act of 1975 established a payment limit of $55,000 per producer for rice in 1976 and 1977. Prior to this legislation, rice had not been subject to payment limits. Additionally, this legislation was separate to the 1973 farm bill payment limitation provisions, so a farmer growing rice and another program crop had a conceivable $75,000 payment limit.

When the next farm bill was debated in 1977, payment limits were an established part of agricultural legislation. The 1973 farm bill lowered the $55,000 ceiling on payments to $20,000 per person at a time when farm prices were relatively high and payments were relatively low. When program crop surpluses developed in the late 1970's, however, the 1977 farm bill increased the payment limit to $40,000 per person. Additionally, disaster payments were excluded from payment limitations.

The Agricultural Adjustment Act of 1980 amended the 1977 farm bill to establish a separate annual $100,000 limit per person for disaster payments. The next year, the 1981 farm bill raised payment limits to $50,000 per person and continued the $100,000 cap per person on disaster payments. Later, this set of payment limits was continued by *the Food and Security Act of 1985* for another four years.

It soon became apparent that farmers were utilizing several methods to avoid payment limits. One way was to form new legal entities, such as corporations, that qualified as new persons to operate parts of their farming operations. Another method consisted of arranging joint venture operations that added new individuals or other legal entities who qualified as new persons, but who otherwise were not engaged in farming. In another way, individuals or entities who had previously farmed their own land, leased their land to investors who qualified for separate payments.

A classic example of how savvy producers were able to evade the intent of the law is the "Mississippi Christmas Tree."[20] In 1985, a six-member group of producers, a father, his four adult sons and an adult daughter, operated a joint venture consisting of 5,481 acres of farmland. Each member, being qualified as a person for payment limitation purposes, was able to receive up to $50,000 in direct payments. While total operations would have qualified for $595,000 in payments during the 1985 farm year, payment limits under the joint venture's structure qualified them for only $285,000 in direct payment support. By restructuring their joint venture to include 15 corporations and the original six individuals for the next year, their operations earned $1,050,000 in direct support payments on 6,870 acres of farmland in 1986. The result of restructuring their operation was a $50,000 payment to 21 entities, essentially rendering payment limits ineffective. In fact, farm reorganization increased to such an extent that between 1984 and 1987, the number of entities receiving payments increased from 600,000 to 1.9 million.

Steps were taken in *the Farm Disaster Assistance Act of 1987* and *the Omnibus Budget Reconciliation Act of 1987* to address the farm reorganizations. The new laws required a "person" eligible to receive program payments to be actively engaged in the farming operation. Additionally, a three-entity provision limited a "person" to qualifying for payments as a qualifying person ($50,000) and up to $25,000 for each of two entities in which the person held a 50 percent interest. So, an individual could qualify for up to $100,000 in payments per crop year.

The Food, Agriculture, Conservation, and Trade Act of 1990 further overhauled payment limits. Payment limits for deficiency payments could not exceed $50,000, marketing loan gains could not exceed $75,000, and a $250,000 limit was introduced to cover all payments.

Payment limits were changed again in *the Federal Agricultural Improvement and Reform Act of 1996*. AMTA payments were limited to $40,000 on production flexibility contract payments, and loan deficiency payments were set at a maximum of $75,000 on marketing loan gains and loan deficiency payments for one or more contract commodities or oilseeds. Supplemental legislation increased limits on marketing loan gains to $150,000 for 1999, 2000, and 2001 in conjunction with disaster relief legislation.

The 2002 farm bill continued payment limitations at $40,000 per person for direct payments and set a limit of $65,000 for counter cyclical payments. Marketing loan gains and loan deficiency payments were limited to $75,000. The 2002 farm bill implemented means testing for the first time making producers with adjusted gross income of more than $2.5 million averaged over three years ineligible for payments unless more than 75 percent of adjusted gross income is from agriculture. Peanuts are subject to separate limits under the counter cyclical payment, direct payments, and marketing loan benefits. The 3-entity rule was maintained, in which an individual farmer could receive up to twice the payment per year in total contract payments and marketing loan gains on three separate farming operations.

One of the surprising facets of the almost 40-year farm program payment limitation debate, is the lack of a consensus of the policies' impact. Determining who receives the majority of farm program payment is a debate in itself. In fact, agricultural economists take the brunt of the criticism for their lack of rigorous research in the area.[21] Several different approaches have been attempted over the years to make benefit comparisons. Wide discrepancies exist between each approach depending on how benefits are defined and measured. The three most common methodologies are the total receipts approach, net cash returns approach, and the payment rate approach. Both proponents and opponents of payment limitations have used these methodologies to justify their cases.

Perhaps the most commonly used method of measuring benefits is the total receipts approach. This method averages the direct payments made to certain size farms, with farm sizes usually ranked in groups by either nominal receipts or percentage terms. While the total receipt approach requires little manipulation of raw data, and presents numbers in a straightforward and easily understandable manner, it is not an entirely honest portrayal of government payments. Farms are included in the averages which may not receive program payments. Additionally, the number of midsize farms may be overstated due to the restructuring of larger farms to comply with payment limitations. Also, this method fails to give any indication as to the cost of production or farm structure. In other words, there is no indication of the government payment's relationship to the profitability of the operation.

A recent study by Clark Williams-Derry and Ken Cook, *Bumper Crop*, used this methodology. Based on USDA payment data for 1999, this study related average payments received by farms in various sales classes. The report indicated that 1,373,515 farms and farm businesses received subsidies under USDA farm programs, including production flexibility contracts, marketing loan assistance, and loan subsidy programs. Of those recipients, 883,183 received some type of loan subsidy during 1999. In this group of loan subsidy payment recipients, 770,039 individuals and 113,144 farm businesses, averaged $7,677 each in payments. Only 2,486 were paid more than the $75,000 limit on loan deficiency and marketing loan gains in place at the time. The most elite of those farm businesses, 876 or approximately 0.064 percent of all farm payment recipients in the country (1,373,515), received $256 million in loan subsidies and $215 million in other USDA subsidies. Final numbers indicated that the top 10 percent of loan subsidy recipients received 56 percent of the total loan subsidy payments in 1999. These farms represented less than 5 percent of total subsidized farms in 1999.[22]

It should be noted that the inclusion of loan subsidies is a red herring in the payment limit debate because it includes payments and loan operations to value-added cooperative agribusinesses. These are different types of programs than the commodity programs which are subject to payment limits. Their inclusion skews the level of payments to few large recipients and paints an unrealistic picture of who receives payments. Cooperatives pass the money back to their producer members. That function is not captured by the data. In addition, the cotton and rice industries have large marketing cooperatives whose inclusion in this debate further shears the data.

Williams-Derry and Cook categorized payments according to crop and geography, indicating that $4.8 of the $6.8 billion in loan subsidies paid during calendar year 1999 went to corn and soybeans because of low market prices. While the total payments made to cotton and rice producers were smaller, however the average payment per recipient was the highest of all program crops. A cotton farm in 1999 received on average $13,142 in program payments. The average rice farm received approximately $10,491. When comparing payment receipts by geography, the authors of this study concluded that states producing mostly cotton and rice received the highest payments per recipient while states producing corn and soybeans received the most subsidization. This again highlights the regional nature of the payment limit debate. The incidence of payments to cotton producers during the 1960s prompted the examination of payment limits. Depending on how one looks at the issue, crops like corn receive more total payments, while individuals producing cotton receive larger payments than individual corn producers on average.

Another method of looking at who receives farm program benefits is the net cash returns approach. This method is used to measure the profitability of farm businesses. While this more precisely distinguishes between total receipts from gross sales and total costs, it doesn't define farm structure and size. The net cash return method has many of the same pitfalls as the total receipts approach. It also tends to overstate the number of small farms and gives no indication of each farm's contribution to total production of farm commodities. However, in contrast to total receipts, it does provide some measure of profitability in relation to those receiving payments. Shortly after the Census of Agriculture in 1987, the USDA's Economic Research Service released *The Distribution of Farm Program Payments, 1987*. It reports that one-third of all farms counted by the Census of Agriculture in 1987 received some program payments. However, 30 percent of program payments went to only 1.8 percent of all farms. Of that 1.8 percent, payments averaged $79,000. It should be noted that these numbers are misleading because they include nonparticipating farms. If only farm program participating operations are considered, payments would be distributed across a much higher percentage of producers.[23]

Additionally, this report used the 1987 census to show payments received by each main program crop. It reported that while only 33 percent of all farms received payments, 72 percent of cash grain farms and 87 percent of cotton farms received payments. Cash grain farms, as a group, received the most payments, $5.7 billion, while on average individual cotton farms received the largest payments. Eighteen percent of farms receiving government payments had a negative net cash return in 1987 after receiving payments and sixty one percent of farms that received government payments had a net cash return between zero and $50,000. Those farms received 41 percent of the total government payments accounted for by the census. Farms with net cash receipts of $250,000 or more accounted for only about 1 percent of farms receiving payments, but they received about 7.6 percent of the payments. This report indicated that while the farms whose net cash returns are $50,000 or more constitute a small portion of all farms, they receive a large portion of all payments. Farms with less than $50,000 net income received 49 percent of farm program payments. From that perspective, payments may be going to producers that need them.

An additional methodology of measuring farm program benefits is the payment rate approach which measures the amount of farm program payments per unit of production. Under current agricultural policy, this method shows little or no bias between farm size and structure. Each farm producing the same commodity under the program operates under the same program provisions with some deviation due to location and transportation fees. Therefore, each farm regardless of size receives the same program payment for each unit of production. Richardson, Smith, and Knutson calculated 1986 farm program payments as a percent of sales revealing that farms with sales of $20,000-$100,000 receive $0.13 to $0.14 of direct government support for each dollar of sales. Direct payments per dollar of sales, is the least for those farms with sales exceeding $500,000. This methodology suggests that small-scale farms receive more benefit from farm programs than do large-scale farms.[24]

The reintroduction of the target price system in the 2002 farm bill rekindled interest in the payment limit debate. Concerns within the farming community, as well as the political arena, prompted legislation in the 2002 farm bill to included a commission to investigate the effects of payment limitations on various facets of agricultural production and income.

The Commission on the Application of Payment Limits for Agriculture[25] conducted an exhaustive examination of the issue. Perhaps surprising to some, they issued a report with a broad amount of consensus. The commission recommended that any substantial changes should take place as part of the farm bill rather than as ad hoc legislation. Substantial changes should allow a phase in period. This recommendation was made with particular sensitivity to landowner-tenant leases to prevent changes from adversely affecting tenant farmers.

From a production and business organization standpoint, the commission recommended that limits not be constructed in such a way that caused producers to change business organization. Limit changes should avoid creating incentives to take on more risk than would otherwise occur.

The commission recognized a need for more research on the impacts of further limits. As noted earlier, a criticism of the agricultural economics profession in this area has been the lack of research on important issues surrounding the payment limit issue. The impact on rural communities is not well understood and there is no research on social costs and benefits.

For all their agreement, the commission differed on the application of limits on the benefits of the non-recourse loan program some argued for the program to work, government could not effectively limit benefits while other commission members argued that benefits should be limited anyway. Interestingly, the report was praised by politicians on both sides of the issue. But, the issue has continued to be raised in the ensuing year since the report’s release.

Perhaps the most important element in understanding the impacts of these limits can be found in the rich history surrounding the issue. Many of the historic arguments for and against such limitations continue to be used in today’s debates, yet others are no longer relevant.

The question remains whether or not such a policy achieves the goals it was intended to support, and whether it will accomplish future goals set forth by policy makers. Evidence exists both for and against the limitation of payments made to producers. In either case, results are highly contingent on methodology used to identify beneficiaries of farm payments. Who benefits from payment limits may be the most relevant question those interested in this debate should ask themselves.

Table 1. Legislative Proposals to Limit Farm Program Payments (1966-1970).

Date	***Sponsor***	***Limit***
July 15, 1966	Sen. Daniel B. Brewster (D-MD)	$50,000 limit on the amount of price support loans or direct payments any one person, firm, or corporation could receive.
June 6, 1967	Rep. Paul Findley (R-IL)	$25,000 limit to any single recipient under certain farm programs.
July 20, 1968	Sen. John J. Williams (R-DE) and Sen. Daniel B. Brewster	$25,000 limit in total payments (except sugar) under incentive, price support and cropland adjustment programs.
July 20, 1968	Sen. John J. Williams, Sen. Daniel B. Brewster, and Sen. Frank J. Lausche (D-OH)	$75,000 limit in total payments (except sugar and wool) to any one producer under certain farm programs.
July 31, 1968	Rep. Silvio O. Conte (R-MA)	$20,000 limit on wool, feed grain, cotton and wheat payments (except price support loans).
July 31, 1968	Rep. Albert H. Quie (R-MN)	Sliding-scale reduction in payments exceeding $10,000.
July 31, 1968	Rep. Paul Findley	$10,000 limit on farm payments.
July 31, 1968	Rep. Archer Nelson (R-MN)	Sliding-scale reduction in payments exceeding $10,000 with a supplemental increase of 5 percent to farmers who receive less ant $1,000 in payments.
May 26, 1969	Rep. Silvio O. Conte	$20,000 limit to any single recipient for all price support programs (except sugar).
May 26, 1969	Rep. Albert H. Quie	Sliding-scale reduction in payments exceeding $20,000.
July 7, 1969	Sen. Charles E. Goodell (R-NY)	$10,000 limit on price support and acreage payments for cotton, wheat and feed grains.
August 5, 1970	Rep. Paul Findley and Rep. Silvio O. Conte	$20,000 limit per crop.

Table 2. Major Legislative Action to Limit Farm Program Payments (1971-2002).

Legislation	***Limit***
The Agricultural Act of 1970	Limited subsidy payments to $55,000 per producer per crop under the wheat, feed grain and upland cotton programs for the 1971 through 1973 crops. If a producer grew all three crops, the maximum limit ($55,000 per crop) was $165,000.
The Agriculture and Consumer Protection Act of 1973	Payment limit per producer set at $20,000 for the 1974 through 1977 crop years for wheat, feed grains and upland cotton.
Rice Production Act of 1975	Set an additional payment limit for rice at $55,000 per person for 1976 and 1977 crop years.
Food and Agriculture Act of 1977	Payment limits set at $40,000 for all wheat, feed grains and upland cotton and $52,250 for rice in 1978. Payment limits were raised to $45,000 for all wheat, feed grains and upland cotton and $50,000 for rice in 1979. A $50,000 payment limit was set for wheat, feed grains, upland cotton, and rice for the 1980 and 1981 crop years.
Agricultural Adjustment Act of 1980	Amended the 1977 farm bill to establish a separate annual $100,000 limit per person for disaster payments for the 1980 and 1981 wheat, feed grains, upland cotton and rice crops.
Agriculture and Food Act of 1981	Continued limits on total payments for program crops at $50,000 per year and a cap of $100,000 on disaster payments for the 1982 through 1985 crop years for all program crops.
Food Security Act of 1985	Payment limits set at $50,000 for all program crops per person and $100,000 limit on disaster payments for the 1986-1990 crop years. Amended in 1986 to include a $250,000 limit on all payments.
Food, Agriculture, Conservation, and Trade Act of 1990	Limits for deficiency and diversion payments set at $50,000, $100,000 limit on disaster payments, and a $250,000 limit on all payments for the 1991 through 1995 crop years.
Federal Agricultural Improvement and Reform Act of 1996	AMTA payments were limited to $40,000 on production flexibility contract payments, and loan deficiency payments were set at a maximum of $75,000 on marketing loan gains and loan deficiency payments for one or more contract commodities or oilseeds for 1996-2002.
Farm Security and Rural Investment Act of 2002	Payment limits set at $40,000 per person for direct payments and set a limit of $65,000 for counter cyclical payments. Marketing loan gains and loan deficiency payments were limited to $75,000.

Endnotes

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2. "Congress Extends Federal Farm Program One Year." *Congressional Quarterly Almanac 1968*, Washington, DC: Congressional Quarterly, Inc., 459.

3. Walter W. Wilcox. *Economic Aspects of Farm Program Payment Limitations*. Washington, D.C.: The Library of Congress Legislative Reference Service, November 6, 1969, 1.

4. "Major Legislation – Appropriations." *Congressional Quarterly Almanac 1966,* Washington, DC: Congressional Quarterly, Inc., 160.

5. "Major Legislation – Agricultural Appropriations." *Congressional Quarterly Almanac 1967,* Washington, DC: Congressional Quarterly, Inc., 377.

6. "Congress Extends Federal Farm Program One Year." 460.

7. *Ibid*., 460-461.

8. *Ibid.*, 461.

9. *Ibid.*, 463.

10. *Ibid.*

11. *Ibid.*

12. "Major Congressional Action – Agricultural Appropriations." *Congressional Quarterly Almanac 1969*, Washington, DC: Congressional Quarterly, Inc., 329.

13. *Ibid.*

14. *Ibid.*, 331.

15. *Ibid.*, 332.

16. "Major Congressional Action – 1970 Act Cleared After 16-Month Debate." *Congressional Quarterly Almanac 1970*, Washington, DC: Congressional Quarterly, Inc., 637.

17. *Ibid.*, 634.

18. "Omnibus Farm Bill: New Target Price System Voted." *Congressional Quarterly Almanac 1973*, Washington, DC: Congressional Quarterly, Inc., 299.

19. The use of “means tests” for farm program payments continued in the 2002 farm bill with limits set on adjusted gross income for eligibility and a percentage of income that must come from agricultural enterprises.

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21. Smith, E.G. *The Payment Limit Commission Report*. Texas A&M University, Department of Agricultural Economics Departmental Seminar, August 2003.

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25. Commission on the Application of Payment Limitations for Agriculture.