

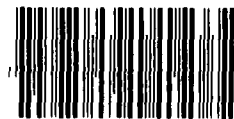
GAO

Briefing Report to Congressional Requesters

April 1987

FARM PAYMENTS

Farm Reorganizations and Their Impact on USDA Program Costs



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Resources, Community, and  
Economic Development Division

B-225866

April 1, 1987

The Honorable Byron L. Dorgan  
The Honorable Dan Glickman  
The Honorable Leon E. Panetta  
House of Representatives

In a June 18, 1986, letter, you requested that we obtain information on the extent of farm reorganizations related to the \$50,000 limitation on direct support payments. These payments are made to eligible U.S. producers by the U.S. Department of Agriculture (USDA) under the crop subsidy and acreage reduction programs for wheat, corn and other feed grains, cotton, and rice, administered by USDA's Agricultural Stabilization and Conservation Service (ASCS). Specifically, you asked that we provide national data on the number of new producers, resulting from farm reorganizations, paid in crop years 1984, 1985, and 1986 and estimate the additional costs which might be incurred over the next three crop years if the trend in reorganizations since 1984 continues. These issues are covered in this briefing report.

In summary, the information we collected shows that

- The number of producers paid under USDA's crop programs increased by 49 percent from 1984 to 1986. At the same time, USDA estimates that total payments that are subject to the \$50,000 limitation are estimated to more than double to almost \$8.8 billion in 1986. (See section 2.)
- The number of new producers from 1984 to 1986 that were the result of farm reorganizations involving a producer nearing the payment limit (i.e., paid \$40,000 or more), increased from about 1,400 in 1984 to almost 5,700 in 1986. Cumulative payments to these new producers in the 1984 to 1986 period were about \$328 million. (See section 2.)
- Continuation of the 1984 to 1986 trend over the 1987 to 1989 crop years could result in about 22,300 new producers by 1989 from voluntary farm reorganizations related to the payment limit. Cumulative payments to these new producers for crop years 1987-89 could total about \$1.23 billion. (See section 3.)

-- As a result of this trend, government costs for payments to the estimated 31,280 new producers created from farm reorganizations for 1984-89 could be almost \$900 million per year in 1989. Cumulative costs of new producers from 1984 to 1989 could be as much as \$2.3 billion. (See section 4.)

Section 1 of this report provides details on our objectives, scope, and methodology. The information for sections 2, 3, and 4 is based on our analysis of USDA's payment files for crop years 1983 through 1986 and on the results from 1,800 questionnaires comprising a statistically representative, nationwide random sample of new producers paid for the first time in 1984, 1985, and 1986. We used the questionnaire results and payment information to project the number of estimated new producers resulting from voluntary farm reorganizations for crop years 1984 to 1986 and the amount of payments they received. On the basis of an assumption that this trend will continue, we also projected the number of new producers for the 1987, 1988, and 1989 crop years and the payments to those producers. We adjusted these payments to reflect changes in farm programs and payment provisions under the Food and Security Act of 1985.

The appendixes to this report contain (1) two case studies illustrative of the kind of farm reorganizations covered by our examination, (2) the statistical sample methodology, and (3) the survey questionnaire from the nationwide sample used to obtain the data on which the new producer and cost projections are based.

You also requested that we examine the statutes, regulations, policies and procedures under which USDA administers the \$50,000 payment limitation and determine if USDA has allowed farmers to avoid the payment limitation by taking advantage of legal and administrative loopholes that might exist. As agreed with your offices, these issues are being examined under another assignment and will be reported to you separately.

We discussed the contents of this report with ASCS officials who agreed with the figures presented in the report. However, as agreed with your offices, we did not obtain official agency comments on a draft of this report.

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As agreed, we plan to release this report at the same time it is presented to you. At that time, we will send copies to the

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Director of the Office of Management and Budget, the Secretary of Agriculture, and other interested parties. Copies will be available to others upon request. Should you need further information, please contact me at (202) 275-5138.

Major contributors are listed in appendix IV.



Brian P. Crowley  
Senior Associate Director



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#### ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
GAO	General Accounting Office
RCED	Resources, Community, and Economic Development Division
USDA	United States Department of Agriculture

## SECTION 1

### INTRODUCTION

#### SUMMARY

- Total payments subject to the \$50,000 limitation under USDA's 1984 to 1986 crop programs for wheat, feed grains, cotton, and rice are expected to increase from \$4.2 billion in 1984 to \$8.8 billion in 1986 (1986 payments are not yet complete). This in turn could lead to more producers reaching the \$50,000 per-person payment limitation in 1986 and beyond and to higher program costs if existing farm operations are reorganized to create new producers to avoid the limit (see p. 10).
- Our objectives were to (1) provide information on the number of new producers nationwide resulting from reorganized farm operations for the 1984 to 1986 crop programs and (2) estimate the costs that might be incurred under current farm legislation if the trend in new producers from farm reorganizations since 1984 continues into crop years 1987 to 1989 (see p. 11).
- To accomplish our objectives we (1) identified new producers for crop years 1984 to 1986 that received payments for the first time in those years, (2) used a statistical sample to estimate the number of those new producers that were the result of farm reorganizations for 1984, 1985, and 1986 and estimated the amount of payments they received, and (3) on the basis of our sample results, estimated the number of new producers that would be created from farm reorganizations for crop years 1987 to 1989 and the total government payments to those producers, adjusted to reflect program changes required by the Food Security Act of 1985 (see pp. 11 and 13).

## BACKGROUND

The U.S. Department of Agriculture (USDA) is authorized by the Agricultural Act of 1949, as amended, to make direct income support payments to farmers under annual commodity and acreage reduction programs for wheat, feed grains, cotton, and rice.<sup>1</sup> Since 1973, these payments have been made in the form of deficiency payments. Beginning in 1978, land diversion payments were added under acreage set-aside provisions covering specific program crops. In 1986, for example, participating corn producers received \$0.63 per bushel in deficiency payments based on the difference between the government-established target price of \$3.03 and the original loan rate of \$2.40, for each bushel produced. A diversion payment of \$0.73 per bushel was also paid to participating corn producers in 1986 to compensate them for acreage voluntarily idled. This acreage would otherwise have been planted to the program crop. Total combined deficiency and diversion payments are limited under current law to a maximum of \$50,000 per producer per year.<sup>2</sup>

For the 1984 and 1985 programs, total deficiency and diversion payments (those subject to the limit) to producers for wheat, feed grains, cotton, and rice were \$4.2 billion and \$5.9 billion, respectively. Under the 1985 Food Security Act, covering crop years 1986-90, it is possible that direct support payments could reach historical highs. This in turn could lead to more producers reaching the \$50,000 per-person payment limitation in 1986 and beyond and to higher overall program costs if those producers reorganized their farming operations to create new producers to avoid the limit. Preliminary USDA estimates for those 1986 program costs are \$8.8 billion.

In a fact sheet issued on October 18, 1985, we pointed out that some producers were already exceeding the \$50,000 per-person

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<sup>1</sup>These payments are made in the form of deficiency and diversion payments. Deficiency payments are based on the difference between the government-established target price for a commodity and the higher of the commodity's average market price or its loan rate. Diversion payments compensate farmers who agree to take a percentage of their acreage out of production for the commodities that they would have grown on the idled acres.

<sup>2</sup>Besides the \$50,000 limit on combined deficiency and diversion payments, separate payment limits have been placed on total payments from other agricultural programs. For example, the October 30, 1986, Joint Resolution Making Appropriations for Government Agencies for the Fiscal Year 1987 (Public Law 99-591) imposes an overall maximum limitation of \$250,000 on combined payments for 1987 crops and beyond. This includes the \$50,000 limitation on regular deficiency and land diversion payments.

limitation by reorganizing their farming operations to take advantage of USDA's payment limitation controls.<sup>3</sup> Specifically, we found that farm organizations and operating characteristics were being changed in ways that would enable more producers to get up to \$50,000 in deficiency and diversion payments. Two case studies illustrative of the kind of farm reorganizations covered by our examination are summarized in appendix I.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

In a June 18, 1986, letter, Representatives Byron L. Dorgan, Dan Glickman, and Leon E. Panetta asked for information on the extent and the potential cost of new producers resulting from farm reorganizations. Their principal concerns were (1) the magnitude of the increase in new producers from farm reorganizations that are eligible for crop program payments each year under current farm legislation and (2) the possible future costs that might result from crop program payments to new producers that might have been created to avoid the \$50,000 payment limitation. Specific objectives of our review, which was conducted from October 1986 through February 1987, were

- to make a year-to-year comparison of the numbers of new producers nationwide which were the result of reorganized farm operations and which were approved to receive program payments for the first time for crop years 1984, 1985, and 1986 and
- to estimate the costs that might be incurred under current farm legislation if the trend in the increase in new producers since 1984 continues over crop years 1987, 1988, and 1989.

#### New producers that originated as the result of farm reorganizations

USDA has no central source of data on either the number of new producers occurring each year or those that were the result of farm reorganizations.<sup>4</sup> Accordingly, we devised our own methodology to obtain this data. We matched USDA's computerized producer payment and address files for crop years 1983 through 1986 against each other to identify a universe of new producers paid for the first

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<sup>3</sup>Examples of USDA's Application of the \$50,000 Payment Limitation (GAO/RCED-86-29FS, Oct. 18, 1985).

<sup>4</sup>Program administration and record keeping are the responsibility of USDA's Agricultural Stabilization and Conservation Service (ASCS) and are concentrated at the county level. The information we needed on new producers and their origins was not tracked by USDA and could be obtained only from ASCS county office files.

time in 1984, 1985, or 1986. From the new producer listings, we randomly selected a sample of 600 producers each year to determine the number of new producers occurring each year as the result of farm reorganizations. To obtain the data needed to make these determinations, we sent questionnaires to 986 of USDA's Agricultural Stabilization and Conservation Service (ASCS) county offices. These offices are responsible for reviewing and approving farm reorganizations and crop program payments involving the sampled producers.

The questionnaire focused on determining the origin of each new producer in our sample and included a question to determine if a new producer had resulted from a voluntary reorganization or another cause (e.g., estate settlement, bankruptcy, or litigation). Where new producers were the result of voluntary reorganizations, the questionnaire also asked for

- the total crop program payments made to the producers comprising the old farm operation and, for those at the \$50,000 payment ceiling,
- the total payment the producer would have been entitled to if no ceiling existed.

Answers to the above questions--coupled with additional payment information, obtained from ASCS county offices and its Kansas City Management Office, on the producers comprising the new farm organization--provide the basis for determining whether new producers resulting from voluntary reorganizations appear to be related to the \$50,000 limit on such payments.

For 1984-86, we assumed that \$40,000 in payments to any producer in a farming operation was the point at which a producer might reorganize a farming operation in anticipation of reaching the payment limit in subsequent years. Where such conditions existed, we classified the reorganization as one potentially related to avoiding the \$50,000 payment limitation.

Based on the results obtained from our sample, we projected the total number of new producers resulting from farm reorganizations related to the payment limit for crop years 1984-86 to the universe of all new producers in those years. We also projected the effect on total program costs of these reorganizations for crop years 1984, 1985, and 1986. Because we reviewed a statistical sample of producer IDs, each projection developed from the sample has a measurable precision or sampling error. The sampling error is the maximum amount by which the projection obtained from a statistical sample can be expected to differ from the true universe value we are estimating. Sampling errors are stated at a certain confidence level, and we used the 95 percent level. Sampling errors for our projected results are

shown in appendix II. To provide a perspective of the costs associated with these new producers, we developed a lower bound estimate, based on our sample results, to show total program costs if no reorganizations had occurred. In addition, we calculated an upper bound estimate to show what 1984-86 costs would have been if all producers had reorganized to maximize payments.

Estimated cost of new producers  
for crop years 1987-89

To estimate the number of new producers resulting from farm reorganizations from 1987 to 1989, we first determined the total number of producers who would reach the \$50,000 payment limit and therefore have an economic incentive to reorganize. Our sample results showed that for the years 1983-85, producers could maximize their payments by reorganizing their operations once payments were at or greater than \$40,000, because of high program payment growth during those years. However, program growth has since slowed, pushing fewer operations automatically into higher payment ranges. Therefore, we assumed that for the years 1987-89, producers will have an economic incentive to reorganize only when payments actually reach \$50,000, not in anticipation of higher payments in future years. After determining the number of producers receiving \$50,000 or more, we estimated the number that would reorganize, based on trend data developed from our questionnaire. We assumed that the trend would remain constant at the 1984-86 level.

Our estimation of the producer payments for 1987-89 are based on built-in program changes in the Food Security Act of 1985 and the USDA budget documents for those years. We assumed that program participation and crop yields would remain constant at the 1986 level. Using these elements, we calculated an upper bound estimate of the costs if all producers affected by the payment limitation reorganized (essentially the maximum payment = acres planted x crop yield x payment rate for each crop totaled). We also estimated the costs if the reorganization trend since 1984 continues and a lower bound estimate of the costs as if no reorganizations occur.

Specifics on the statistical sample methodology we used, and the sample results, are detailed in appendix II. A sample questionnaire is in appendix III.