

GAO

Testimony

Before the Committee on Agriculture,
Nutrition, and Forestry
United States Senate

For Release on Delivery
Expected at
9:30 a.m. EST
Thursday
March 16, 1995

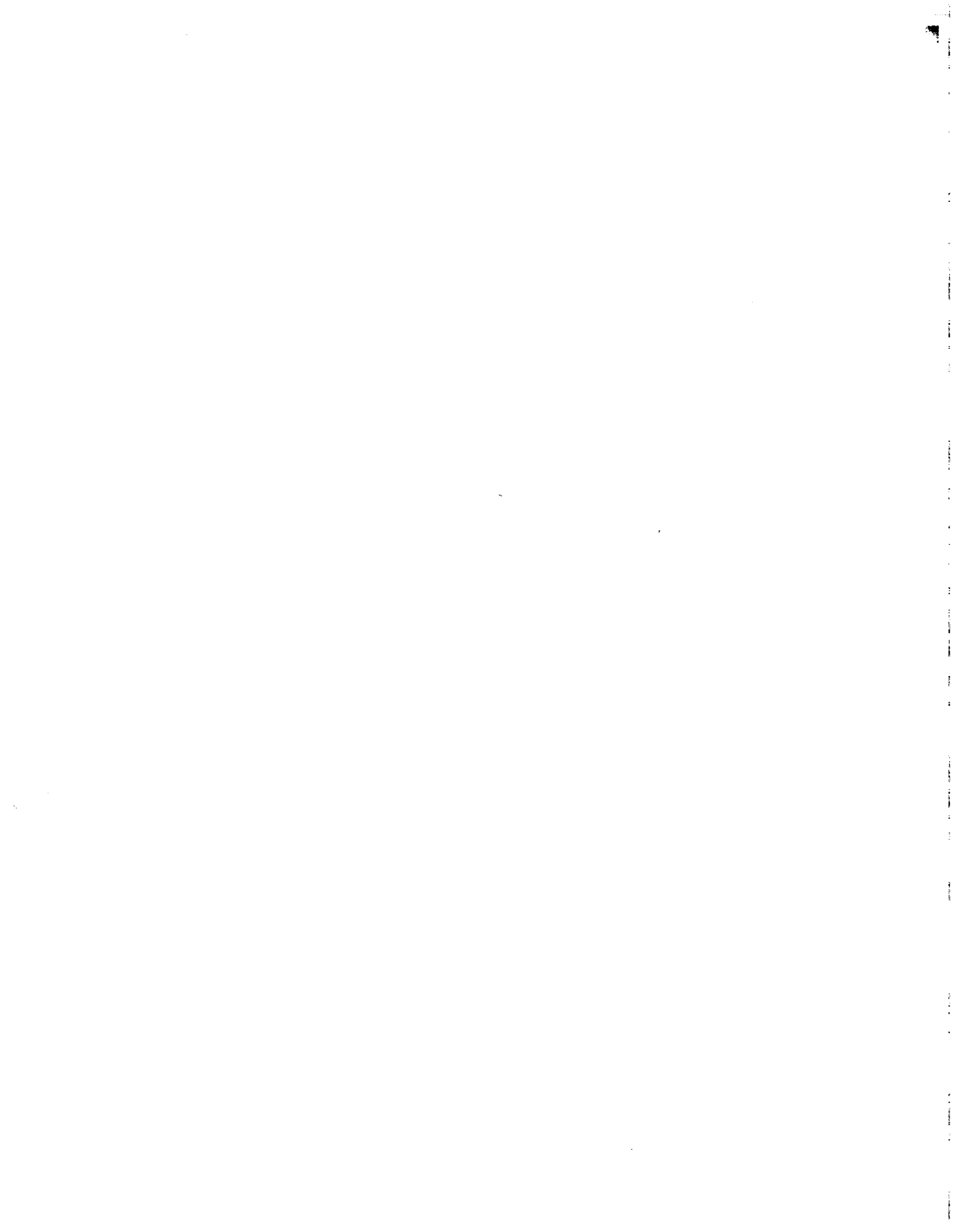
FARM PROGRAMS

Distribution of USDA Income
Support Payments

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063056/153745



Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the distribution of the U.S. Department of Agriculture's (USDA) income support payments. Income support payments, commonly referred to as deficiency payments, are intended to protect producers' income when crop prices fall below set prices. Today we will present data concerning the value and distribution of these payments and discuss the extent to which they may be concentrated among relatively few farms. Our testimony, based primarily on an ongoing analysis of USDA's automated payment files, focuses on the approximately \$5.4 billion in deficiency payments that farms received for crop year 1993,¹ the most current year for which complete data were generally available.

In summary, we found the following:

- Payments to individual farms ranged from less than \$100 to almost \$1.8 million. Most farms collected comparatively small amounts--about 75 percent of the 989,000 farms receiving payments received \$5,000 or less. In contrast, fewer than 1 percent of the farms received payments over \$100,000.

- Deficiency payments to farms averaged about \$5,500. Average payments varied between commodities, with payments for rice and cotton among the largest at \$31,200 and \$10,300, respectively.

¹A crop year is the year in which a crop is harvested and is not necessarily the year in which a deficiency payment is made.

-- Deficiency payments are concentrated among relatively few farms. Overall, about 54 percent of the payments went to about 10 percent of the farms.

BACKGROUND

Under its income support program, USDA provides deficiency payments to producers to support their incomes and ensure that they receive a minimum return from their crops. The deficiency payment rate is the difference between a legislatively established target price and either the national average market price or the loan rate,² whichever is higher. Deficiency payment rates vary between crops and can also vary considerably over time. For example, in 1992, the deficiency rate for corn was 73 cents per bushel, while the rate for wheat was 81 cents per bushel. In 1990, the deficiency rates for these commodities were considerably different--51 cents and \$1.26 per bushel, respectively.

The Food Security Act of 1985 limits deficiency payments to \$50,000 per person annually. For the act's purposes, a person is broadly defined to be an individual; an entity (such as a corporation, limited partnership, association, trust, or estate); or a member of a joint operation (such as a general partnership or a joint venture). A member of a joint operation may be an individual or an entity.

Despite the \$50,000 limit, an individual may qualify for deficiency payments of up to \$100,000 annually. That is, an individual could receive deficiency payments (1) as an individual and as someone

²USDA supports certain commodity prices through its nonrecourse loan program. Under the program, producers can obtain loans from USDA's Commodity Credit Corporation (CCC) using their crops as collateral. Producers then have the option of repaying the loans and redeeming their collateral or forfeiting their crops to the CCC.

owning a substantial interest in no more than two entities that qualify for payments or (2) as someone owning a substantial interest in no more than three entities that qualify for payments. Total payments received by a farm can exceed \$100,000 because many individuals may be involved in a farm's operation.

Deficiency payments are the largest category of USDA's farm program payments. For crop year 1993, deficiency payments amounted to about \$5.4 billion, or about 50 percent of the \$10.8 billion that USDA expended for all farm programs. Other categories of farm program payments included disaster assistance, conservation reserve, and agricultural conservation. These payments, when combined with deficiency payments, accounted for over 90 percent of total farm payments.

PAYMENTS TO FARMS VARY, WITH MOST RECEIVING \$5,000 OR LESS

Most farms receive relatively small payments. Table 1 shows the distribution of deficiency payments by farm for 1993. Of the approximately 989,000 farms receiving payments, about 738,000, or 75 percent, received \$5,000 or less. By comparison, considerably fewer farms--9,749--received payments exceeding \$50,000 annually. Eighty-eight of these farms received payments greater than \$500,000. Nine had payments of more than \$1 million. All nine farms received payments for two or more types of commodities, one of which was always rice. The largest set of payments associated with a single farm totaled almost \$1.8 million and included payments for wheat, rice, corn, and grain sorghum.

Table 1: Distribution of Payments by Farm (Crop Year 1993)

Farm payment range	Number of farms	Percent of farms	Total payments ^a (millions)	Percent of total
\$5000 and less	737,679	74.6	\$1,362	25.2
\$5001-10,000	131,725	13.3	920	17.0
\$10,001-20,000	70,655	7.2	979	18.2
\$20,001-30,000	22,215	2.3	539	10.0
\$30,001-40,000	10,264	1.0	353	6.6
\$40,001-50,000	6,312	.6	285	5.3
\$50,001-100,000	7,192	.7	491	9.1
\$100,001-200,000	1,981	.2	269	5.0
\$200,001-500,000	488	.1	136	2.5
Over \$500,000	88	<.1	65	1.2
Total	988,599		\$5,397 ^b	

^aIncludes estimates for final corn and grain sorghum payments.

^bDoes not total due to rounding.

AVERAGE PAYMENT SIZE DIFFERS BY COMMODITY

Average payments varied widely between different commodities. Table 2 shows that the average payment a farm received for 1993 was about \$5,500. Payments for rice and cotton were considerably larger than payments for other commodities, averaging about \$31,200 and \$10,300, respectively. The next largest average payment, which dropped to about \$4,200, was for wheat. Payments for oats were the lowest, averaging about \$130 per farm.

Table 2: Average Farm Payment by Type of Commodity (Crop Year 1993)

Commodity	Total payments (millions)	Total number of farms	Average payment
Rice	\$ 571	18,319	\$31,172
Cotton	1,056	102,147	10,341
Wheat	1,904	456,957	4,166
Corn ^a	1,503	649,159	2,316
Barley	200	92,212	2,170
Grain Sorghum ^a	151	183,573	822
Oats	12	90,718	131
All crops	\$5,397	988,599 ^b	\$ 5,460

^aEstimated; final payment data are not yet available.

^bDoes not total because farms can receive payments for more than one commodity.

SIZEABLE BENEFITS GO TO FEW FARMS

Large amounts of deficiency payments are concentrated among relatively few farms. Overall, about 54 percent of all 1993 deficiency payments went to about 10 percent of the 989,000 farms receiving benefits. Some variation occurred between commodities. Payments for cotton appeared to be the most concentrated, with 10 percent of the farms acquiring about 52 percent of the cotton payments. Payments for grain sorghum, wheat, and barley, followed, with 10 percent of the farms obtaining between 49 percent and 50 percent of the total payments for their respective commodities. The next highest concentration of payments was for rice, with 10 percent of the farms receiving 44 percent of the rice payments. Finally, 10 percent of the corn and oat farms received 42 percent and 40 percent, respectively, of the payments for their commodity. Attachment I contains additional information on how payments for

each of the commodities were distributed.

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I hope this information will facilitate your deliberations on the 1995 farm bill and would be pleased to answer any questions you may have. I would add that while our testimony today focused on deficiency payments, we have also reported on the distribution of benefits to producers in other farm programs that provide price supports in ways other than deficiency payments, such as peanuts and sugar. I have summarized the results of those reports in attachment II.

DISTRIBUTION OF CROP YEAR 1993 DEFICIENCY PAYMENTSTable I.1: Distribution of Crop Year 1993 Deficiency Payments for Rice

Payment range	Number of farms	Percent of farms	Deficiency payments (thousands)	Percent of deficiency payments
\$5,000 and less	2,749	15.0	\$ 8,743	1.5
5001 - 10,000	3,443	18.8	25,220	4.4
10,001 - 20,000	4,226	23.1	61,123	10.7
20,001 - 30,000	2,426	13.2	59,562	10.4
30,001 - 40,000	1,503	8.2	51,987	9.1
40,001 - 50,000	1,086	5.9	48,892	8.6
50,001 - 100,000	1,918	10.5	133,293	23.3
100,001 - 200,000	715	3.9	95,521	16.7
200,001 - 500,000	225	1.2	64,588	11.3
Over 500,000	28	.2	22,113	3.9
Total	18,319		\$571,041	

Note: Columns may not add to totals due to rounding.

DISTRIBUTION OF CROP YEAR 1993 DEFICIENCY PAYMENTSTable I.2: Distribution of Crop Year 1993 Deficiency Payments for Cotton

Payment range	Number of farms	Percent of farms	Deficiency payments (thousands)	Percent of deficiency payments
\$5,000 and less	55,187	54.0	\$ 124,204	11.8
5,001 - 10,000	20,570	20.1	146,191	13.8
10,001 - 20,000	14,164	13.9	198,208	18.8
20,001 - 30,000	5,138	5.0	124,749	11.8
30,001 - 40,000	2,478	2.4	85,517	8.1
40,001 - 50,000	1,613	1.6	72,838	6.9
50,001 - 100,000	2,085	2.0	144,739	13.7
100,001 - 200,000	733	.7	99,867	9.5
200,001 - 500,000	154	.2	42,801	4.1
Over 500,000	25	<.1	17,215	1.6
Total	102,147		\$1,056,329	

Note: Columns may not add to totals due to rounding.

DISTRIBUTION OF CROP YEAR 1993 DEFICIENCY PAYMENTSTable I.3: Distribution of Crop Year 1993 Deficiency Payments for Wheat

Payment range	Number of farms	Percent of farms	Deficiency payments (thousands)	Percent of deficiency payments
\$5,000 and less	356,789	78.1	\$ 580,130	30.5
5,001 - 10,000	55,670	12.2	389,172	20.4
10,001 - 20,000	29,188	6.4	401,348	21.1
20,001 - 30,000	8,374	1.8	202,965	10.7
30,001 - 40,000	3,474	.8	119,450	6.3
40,001 - 50,000	1,701	.4	75,903	4.0
50,001 - 100,000	1,523	.3	100,149	5.3
100,001 - 200,000	209	.1	26,891	1.4
200,001 - 500,000	29	<.1	7,894	.4
Over 500,000	0	0	0	0
Total	456,957		\$1,903,903	

Note: Columns may not add to totals due to rounding.

DISTRIBUTION OF CROP YEAR 1993 DEFICIENCY PAYMENTSTable I.4: Distribution of Crop Year 1993 Deficiency Payments for Corn

Payment range	Number of farms	Percent of farms	Deficiency payments (thousands)	Percent of deficiency payments
\$5,000 and less	581,288	89.5	\$ 854,474	56.8
5,001 - 10,000	48,509	7.5	330,803	22.0
10,001 - 20,000	15,788	2.4	211,533	14.1
20,001 - 30,000	2,488	.4	58,975	3.9
30,001 - 40,000	657	.1	22,517	1.5
40,001 - 50,000	229	<.1	10,092	.7
50,001 - 100,000	175	<.1	11,588	.8
100,001 - 200,000	24	<.1	2,942	.2
200,001 - 500,000	1	<.1	277	<.1
Over 500,000	0	0	0	0
Total	649,159		\$1,503,202	

Notes: Payment information is estimated because final data are not yet available. Columns may not add to totals due to rounding.

DISTRIBUTION OF CROP YEAR 1993 DEFICIENCY PAYMENTSTable I.5: Distribution of Crop Year 1993 Deficiency Payments for Grain Sorghum

Payment range	Number of farms	Percent of farms	Deficiency payments (thousands)	Percent of deficiency payments
\$5,000 and less	179,884	98.0	\$119,554	79.3
5,001 - 10,000	2,962	1.6	19,815	13.1
10,001 - 20,000	615	.3	7,988	5.3
20,001 - 30,000	85	.1	1,975	1.3
30,001 - 40,000	13	<.1	448	.3
40,001 - 50,000	5	<.1	219	.2
50,001 - 100,000	8	<.1	483	.3
100,001 - 200,000	0	0	0	0
200,001 - 500,000	1	<.1	376	.3
Over 500,000	0	0	0	0
Total	183,573		\$150,859	

Notes: Payment information is estimated because final data are not yet available. Columns may not add to totals due to rounding.

DISTRIBUTION OF CROP YEAR 1993 DEFICIENCY PAYMENTSTable I.6: Distribution of Crop Year 1993 Deficiency Payments for Barley

Payment range	Number of farms	Percent of farms	Deficiency payments (thousands)	Percent of deficiency payments
\$5,000 and less	82,023	89.0	\$ 96,987	48.5
5,001 - 10,000	6,800	7.4	46,885	23.4
10,001 - 20,000	2,744	3.0	36,944	18.5
20,001 - 30,000	458	.5	10,907	5.5
30,001 - 40,000	118	.1	4,069	2.0
40,001 - 50,000	40	<.1	1,734	.9
50,001 - 100,000	22	<.1	1,445	.7
100,001 - 200,000	6	<.1	890	.4
200,001 - 500,000	1	<.1	242	.1
Over 500,000	0	0	0	0
Total	92,212		\$200,103	

Note: Columns may not add to totals due to rounding.

DISTRIBUTION OF CROP YEAR 1993 DEFICIENCY PAYMENTSTable I.7: Distribution of Crop Year 1993 Deficiency Payments for Oats

Payment range	Number of farms	Percent of farms	Deficiency payments (thousands)	Percent of deficiency payments
\$5,000 and less	90,714	100	\$11,836	99.8
5,001 - 10,000	4	<.1	26	.2
10,001 - 20,000	0	0	0	0
20,001 - 30,000	0	0	0	0
30,001 - 40,000	0	0	0	0
40,001 - 50,000	0	0	0	0
50,001 - 100,000	0	0	0	0
100,001 - 200,000	0	0	0	0
200,001 - 500,000	0	0	0	0
over 500,000	0	0	0	0
Total	90,718		\$11,862	

Note: Columns may not add to totals due to rounding.

RELATED GAO PRODUCTSSugar Program: Changing Domestic and International Conditions Require Program Changes (GAO/RCED-93-84, Apr. 16, 1993)

GAO concluded that the sugar program, through loans supporting prices of sugar and import quotas restricting the supply of foreign sugar, protected producers from lower world sugar prices. However, GAO also pointed out that because the program keeps sweetener prices higher than they otherwise would be, it costs sweetener users an average of \$1.4 billion annually. Benefits from higher prices were distributed among a relatively small number of farms-- GAO estimated that in 1991, 42 percent of the sugar grower benefits went to 1 percent of the farms. Furthermore, about 17 cane farms received about 58 percent of the estimated 1991 benefits for sugar cane growers. The 33 farms with the largest benefits each received over \$1 million in benefits during 1991. These benefits represented the amounts growers could earn beyond the amount they would earn without a sugar program.

Peanut Program: Changes Are Needed to Make the Program Responsive to Market Forces (GAO/RCED-93-18, Feb. 8, 1993)

GAO concluded that the peanut program, through a combination of loans supporting peanut prices and a quota system that guaranteed producers holding quota rights minimum prices for domestic peanut sales, provided income to producers and generally stabilized the U.S. peanut supply. The report also pointed out that the program added, on average, between \$314 million and \$513 million annually to the cost of buying peanuts. Furthermore, this report stated that producers selling peanuts under the quota had an opportunity for substantial benefits--about \$234 per ton above the average cost of producing peanuts. These benefits were concentrated among a relatively few producers because less than 25 percent of the producers held over 80 percent of the available peanuts produced under the quota.

Rice Program: Government Support Needs to Be Reassessed (GAO/RCED-94-88, May 26, 1994)

GAO concluded that the rice program's deficiency payments and loans supporting rice prices were costly to the government and to rice buyers. GAO noted that government costs for the program averaged \$863 million annually between 1986 and 1992. It also noted that the program increased the percentage of producer income from government support rather than from the market. While the program benefited all rice producers, GAO concluded that the benefits were concentrated among a few. For the 1990 crop year, 15 percent of

ATTACHMENT II

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the rice farms received 52 percent of the deficiency payments.

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