

Facilitator's Resources

Farm Programs

Payment Limitation Reform as proposed by Senator Charles Grassley

The single most effective thing Congress could do to strengthen family farms is to stop subsidizing mega farms to drive them out of business by bidding land away from them. This legislation would do just that.

Lower Limits - The Grassley Bill would establish effective caps of \$35,000 on direct (fixed) payments, \$65,000 on counter cyclical payments and \$175,000 on loan deficiency payments and marketing loan gains, including gains on generic certificates and forfeited commodities. The nominal limits would be half these amounts.

Simplification – Qualifying for the maximum legal payment would be greatly simplified. Farmers would not need to reorganize under the three entity rule. An individual who participates in just one farming operation could receive double the nominal limit, just like an individual who reorganizes his/her farm under the three entity rule. That would reduce farmers' legal costs by allowing them to receive the maximum payment without hiring a lawyer to restructure the farm.

Spouse Equity Rule – The spouse equity rule would be retained in its entirety. Married couples who qualify under the spouse rule would receive up to twice the nominal payment limitations, as under current law. They would continue to be eligible for the same maximum payment as producers who reorganize under the three-entity rule, just like current law.

Loophole Closings –The Secretary of Agriculture would be directed to promulgate regulations to prevent schemes to get around these limits, in part by counting all payments on production under the primary control of a single person toward that person's limitations, under certain circumstances. This would prevent mega farms from avoiding the limitations by constructing business relationships that allow them to control production but put crop ownership and payments in the name of other parties.

These regulations would come into play only when payments on the production controlled by a person exceed the effective limits established by this Act. They would apply to large farmers who 1) share rent land for more than the usual and customary rate in return for other concessions to shift payments to the land owner, 2) provide custom farming services to family members or entities that have less than an arms length relationship; or 3) have primary control over a joint operation or multiple entities.

Rationale for the Act - Farmers are not well served by current law. It imposes no real limit on marketing loans gains and its loopholes ensure that limits on direct and counter cyclical payments affect almost no one who spends money on a good lawyer. Thus, it subsidizes the nation's largest farms to drive their neighbors out of business by bidding land away from them.

Large, aggressive operations use their payments to bid up land prices to get more acres. In the process, virtually all of the program benefits are bid into higher land prices – increasing cash rents, land payments and property taxes. As a result, farm program payments are offset by increased production costs and, in the end, do nothing to improve the income of farmers except on previously owned land.

In short, the farm program encourages farmers to do things that drive down agricultural profitability. In the book *Competitive Advantage*, Harvard Business professor Michael Porter observes that when multiple firms engage in aggressive competition to become the high-volume,

low-margin producer in an industry, the result for profitability can be “disastrous”. That is happening in counties across the American farm belt, fueled by uncapped federal payments.

With foreign competition and uncompetitive markets driving down commodity prices, the last thing we need is policy that unnecessarily inflates land costs. Not only does it lower farm profitability. It lays the groundwork for a land price collapse, should the federal spigot tighten.

This proposal would have a moderating impact on land prices. It keeps the basic program in place to stabilize land prices, but it removes the fuel of uncapped federal payments from land price inflation, thus improving the profitability and competitiveness of our farms.

This legislation would leave farmers free to farm as much land as they want. Those who choose to farm big would still receive bigger payments than most farmers, but they would not be offered unlimited federal assistance to expand at the expense of their neighbors.

Neither farmers nor rural America are well served when federal dollars fuel the consolidation of farming into fewer hands. It is destroying mid-size farms and depriving us of an entire generation of young farmers, undermining the rural communities in which all farmers have a stake. That’s bad for all of us.

Finally, cutting payments to mega farms is far preferable way to meeting federal budget constraints that cutting programs that offer a future to rural America. Recent budget cuts have taken significant funds from conservation programs and eliminated most of the new money invested in rural development by the 2002 farm bill. For example, the Value Added Producer Grants Program that helps farmers launch new value added initiatives has been cut by 60 percent.

Without effective payment limitations, there simply will not be funding available for this and other programs that offer a future to rural America.

Fixed Direct Payment Limit	Fixed Direct Payment Limit		Counter Cyclical Payment Limit	
	Husband/Wife	Parents/2 Sons or Daughters	Husband/Wife	Parents/2 Sons or Daughters
Corn/Soybeans (50/50)	2,303	6,908	3,255	9,765

For more information on how you can help make a difference, please call Chuck Hassebrook, Executive Director, at the Center for Rural Affairs 402-687-2100, ext 1018 or by email chuckh@cfra.org.