Farm Commodity Proposals in the President's FY2010 Budget

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Summary

President Obama's budget outline for FY2010—in the context of fiscal discipline—includes several proposals to reduce federal spending by $16 billion over 10 years on the farm commodity and crop insurance programs. Reaction to the proposal has been generally negative from groups that are affiliated with or supportive of agriculture. The most vehement reaction has been to a proposal to eliminate direct payments to farms with more than $500,000 of sales.

Any change would require legislative action by Congress; it would not be part of the annual appropriations process. Such action would be viewed as "reopening" the 2008 farm bill, which most in the agriculture community see as a five-year contract with farmers. The agriculture committees are neither obligated nor likely to take up the proposal. If budget reconciliation is ordered by the budget committees, and the agriculture committees are tasked to find savings, then the President's farm proposals may draw more attention—but even then, the proposal likely would be modified or a different budget-saving approach could be chosen.

Specifically, the President's FY2010 budget proposes four reductions in the farm subsidies:

- **Prohibit "direct payments" to farmers with sales exceeding $500,000 per year.** This would add a new type of "payment limit." About 76,500 farms in 2007 receiving government payments had sales over $500,000 (11% of farms receiving government payments). They received 47% of government payments. Midwestern farms would be affected in the greatest number. Four states (Iowa, Illinois, Minnesota, and Nebraska) account for one-third of the number of farms affected nationally. But the proportion of cotton and rice farms affected would be greater than for corn, soybean, and wheat farms (36%-43% compared to 17%-21%, respectively). The Administration estimates savings of $9.8 billion over 10 years, a reduction of about 22% of expected direct payments.
- **Tighten payment limits (the maximum amount of subsidies paid) to $250,000 per person.** The proposal is not detailed, but indications suggest it would re-impose limits on the marketing loan program and tighten the limit on direct and counter-cyclical payments. The Administration estimates $126 million of savings over 10 years.
- **Eliminate storage payments for cotton.** Only cotton has a payment program to pay storage costs for crops placed under government loan. The Administration estimates savings of $570 million over 10 years.
- **Reduce crop insurance subsidies.** The proposal is not detailed, but savings could be achieved by reducing the subsidy on premiums that farmers pay, reducing underwriting gains to insurance companies that sell policies, or reducing administrative and operating expense reimbursements. The Administration estimates savings of $5.2 billion over 10 years, about 7.2% of expected outlays.

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President Obama's budget outline for FY2010[1] includes several proposals to reduce federal spending by $16 billion over 10 years on the farm commodity and crop insurance programs. The issue was highlighted in the President's address to Congress on February 24, 2009, when he said, "In this budget, we will ... end direct payments to large agribusinesses that don't need them."[2] Mr. Obama also highlighted the farm commodity programs when, as president-elect, he cited a GAO report[3] on improper payments to farmers by remarking that, "There's a report today that, from 2003 to 2006, millionaire farmers received $49 million in crop subsidies even though they were earning more than the $2.5 million cutoff for such subsidies. Now, if this is true ... it is a prime example of the kind of waste that I intend to end as president."[4]

Criticism over parts of the farm subsidy program from an Administration is not new. Throughout the 2008 farm bill debate, the Bush Administration wanted tighter income eligibility limits on farm subsidies, and it vetoed the farm bill—albeit unsuccessfully—partly for such reasons.[5]

Reaction to the proposal has been generally negative from groups affiliated with or supportive of agriculture. The most vehement reaction has been to a proposal to eliminate direct payments to farms with more than $500,000 of sales. Several members of the House and Senate agriculture committees have spoken out against the proposal in part or in whole. Support, although not explicitly expressed, would likely originate from some groups or individuals who supported tighter payments limits in the 2008 farm bill and would want tighter payment limits in any form.

Farm Commodity Proposals in the FY2010 Budget

The FY2010 budget proposal for the farm commodity and crop insurance programs is separate from the discretionary budget that funds USDA operations. The discretionary budget usually is the centerpiece of the Administration's annual proposal, but that element of the budget is delayed in the first year of a President's term,[6] and is not expected until April. Pending that submission, the Administration has proposed a budget outline that, in the context of fiscal discipline, includes several proposals to reduce mandatory spending programs.

The mandatory farm commodity programs are not subject to annual appropriations, but are part of the five-year 2008 farm bill (P.L. 110-246). The FY2010 budget indicates that most of the proposed $16 billion in farm commodity reductions would be used to offset $9.9 billion of proposed increases in child nutrition, although the savings could be used in any number of ways throughout the federal government.

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[1] Office of Management and Budget, "A New Era of Responsibility: Renewing America's Promise," February 26, 2009, at http://www.whitehouse.gov/omb/assets/fy2010_new_era/A_New_Era_of_Responsibility2.pdf.

[2] The White House Briefing Room, "Remarks of President Barack Obama, Address to Joint Session of Congress," February 24, 2009, at http://www.whitehouse.gov/the_press_office/remarks-of-president-barack-obama-address-to-joint-session-of-congress/.

[3] Government Accountability Office, Federal Farm Programs: USDA Needs to Strengthen Controls to Prevent Payments to Individuals Who Exceed Income Eligibility Limits, GAO-09-67, October 24, 2008, at http://www.gao.gov/products/GAO-09-67.

[4] Washington Post, "GAO, Obama Hit Farm Subsidy Abuse," November 25, 2008, at http://voices.washingtonpost.com/washingtonpostinvestigations/2008/11/gao_obama_hit_farm_subsidy_abu.html.

[5] U.S. Department of Agriculture Newsroom, Transcript of press conference with Deputy Secretary of Agriculture Chuck Conner on the Presidential Veto of the Farm Bill," May 21, 2008, at http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1OB?contentidonly=true&contentid=2008/05/0134.xml.

[6] CRS Report RS20752, *Submission of the President's Budget in Transition Years*, by (name redacted).

Given the nature of the mandatory programs, it is important to note—relative to the Administration's proposal—that:

- any changes would require legislative action by Congress and would likely need to originate in the agriculture authorizing committees. They would not be part of the annual appropriations process.
- such action would be viewed as "reopening" the 2008 farm bill, which most in the agriculture community see as a five-year contract with farmers. The agriculture committees are neither obligated nor likely to take up the proposal (some committee members have spoken out against the proposal in part or in whole).
- if budget reconciliation is ordered by the budget committees, and the agriculture committees are tasked to find savings of a certain magnitude, then the President's farm proposals may draw more attention from Congress. Even then, the proposal likely would be modified or a different budget-saving approach chosen, given the reaction by farm groups and agriculture committee members.

Specifically, the President's FY2010 budget proposes four reductions in the farm subsidies, including direct payments, payment limits, cotton storage payments, and crop insurance. The savings are estimated by the Administration to total $16 billion over 10 years (**Table 1**).

1. **Prohibit "direct payments" to farmers with sales exceeding $500,000 per year.**[7]
    - This would be a new and different type of "payment limit." About 76,500 farms in 2007 receiving government payments had sales over $500,000 (11% of farms receiving government payments, **Table 4**). Midwestern farms would be affected in the greatest number, but the proportion of cotton and rice farms affected would be greater than for corn, soybean, and wheat farms.
    - The Administration estimates savings of $9.8 billion over 10 years. Relative to the $44 billion of direct payments that USDA expects to pay from FY2010-FY2019 in the baseline under the 2008 farm bill, the proposal would reduce total direct payments by 22% over 10 years (**Table 2**, **Figure 1**).
2. **Tighten payment limits (maximum amount of subsidies paid) to $250,000 per person.**
    - The proposal is not detailed, but indications suggest it would re-impose limits on marketing loan benefits and tighten the limit on direct and counter-cyclical payments. This would be similar to prior-year proposals for the same amount (e.g., S.Amdt. 3695, 110th Congress).
    - Current law has a per-person limit of $210,000 for direct and counter-cyclical payments, with no limit on marketing loan benefits. Prior law had a $360,000 limit that included marketing loans (although the limit could be avoided).[8]

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[7] Direct payments are a fixed, annual payment to farmers based on their historical production of a subsidized commodity, regardless of prices or yields (corn, soybeans, wheat, cotton and rice are the primary commodities). For more background, see CRS Report RL34594, *Farm Commodity Programs in the 2008 Farm Bill*, by (name redacted).

[8] For more background, see CRS Report RL34594, *Farm Commodity Programs in the 2008 Farm Bill*, by (name redacted).

- The Administration estimates $126 million of savings over 10 years.

3. **Eliminate storage payments for cotton.**

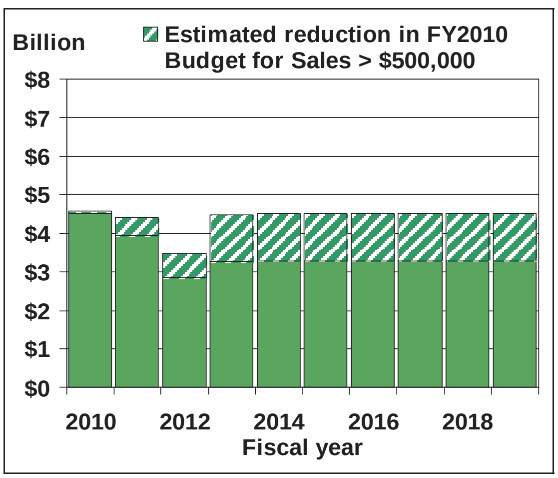
   - Only cotton has a payment program to pay storage costs for crops placed under government loan. The Administration estimates savings of $570 million over 10 years.

4. **Reduce crop insurance subsidies.**

   - The proposal is not detailed, but savings could be achieved by reducing the subsidy on premiums that farmers pay, reducing underwriting gains received by the insurance companies that sell the policies, or reducing administrative and operating expense reimbursements to the insurance companies.[9]
   - The Administration estimates savings of $5.2 billion over 10 years. Relative to the $72 billion of crop insurance subsidies estimated from FY2010-FY2019 in the CBO baseline, the proposal would reduce the crop insurance baseline by 7.2% over 10 years (**Table 3**, **Figure 2**).

The budget also mentions reductions in the Market Access Program (MAP) and elimination of the Resource Conservation and Development (RC&D) program, both of which are outside the scope of the farm commodity programs.

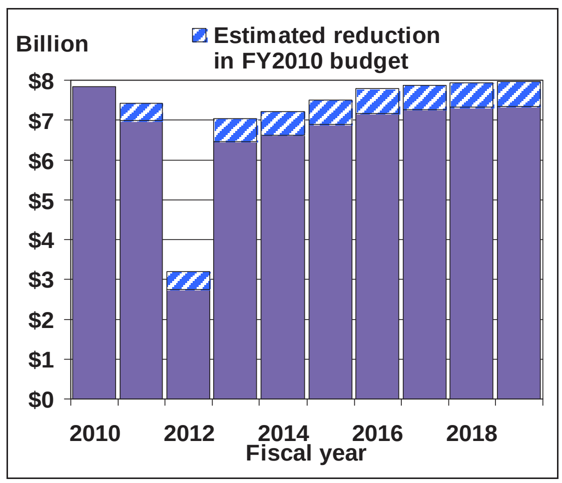
Figure 1. Direct Payments in the FY2010 Budget Proposal



Source: CRS.

Notes: Baseline is from USDA Farm Service Agency, *Commodity Estimates Book*, July 2008. Reduction is the Administration's estimate in *A New Era of Responsibility*, p. 124.

Figure 2. Crop Insurance in the FY2010 Budget Proposal



Source: CRS.

Notes: Baseline is from CBO Baseline, January 2009. Reduction is the Administration's estimate in *A New Era of Responsibility*, p. 124.

[9] For more background, see CRS Report RL34207, *Crop Insurance and Disaster Assistance in the 2008 Farm Bill*, by (name redacted) and (name redacted).

Table 1. Mandatory Farm Programs in the Administration's FY2010 Budget Proposal

(millions of dollars)

Commodity Program Proposals	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	5-year	10-year
Reduce direct payments	-85	-480	-625	-1,225	-1,225	-1,225	-1,225	-1,225	-1,225	-1,225	-3,640	-9,765
Reduce crop insurance	0	-429	-427	-595	-599	-610	-620	-627	-634	-642	-2,050	-5,184
Tighten payment limits	-58	-24	-10	-9	-7	-5	-4	-3	-3	-3	-108	-126
Eliminate cotton storage pmts.	-52	-58	-56	-56	-57	-57	-58	-58	-59	-59	-279	-570
Reduce Market Access Program	-4	-34	-40	-40	-40	-40	-40	-40	-40	-40	-158	-358
Total											-6,235	-16,003

Source: CRS, compiled from Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise*, p. 124.

Table 2. Direct Payments Baseline and the Administration's FY2010 Budget Proposal

(millions of dollars)

Direct Payments	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	5-year	10-year
Direct payment baseline	4,578	4,406	3,469	4,487	4,504	4,504	4,504	4,504	4,504	4,504	21,444	43,964
Administration proposed change	-85	-480	-625	-1,225	-1,225	-1,225	-1,225	-1,225	-1,225	-1,225	-3,640	-9,765

Source: CRS, using USDA Farm Service Agency, *Commodity Estimates Book*, July 2008, and OMB *A New Era of Responsibility: Renewing America's Promise*, p. 124.

Table 3. Crop Insurance Baseline and the Administration's FY2010 Budget Proposal

(millions of dollars)

Crop Insurance	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	5-year	10-year
Crop Insurance baseline	7,842	7,421	3,186	7,052	7,227	7,517	7,798	7,878	7,947	7,976	32,728	71,844
Administration proposed change	-0	-429	-427	-595	-599	-610	-620	-627	-634	-642	-2,050	-5,184

Source: CRS, using CBO Baseline, January 2009; and OMB *A New Era of Responsibility: Renewing America's Promise*, p. 124 .

Farms with $500,000 of Sales

Much of the attention given to the Administration's budget proposal has centered on the proposal to eliminate direct payments to farms with sales of more than $500,000. Several observations may be made about the effect of using a limit on sales, and on the number and types of farms that would be affected.

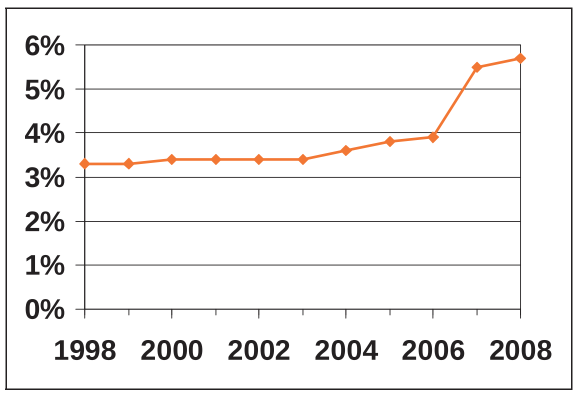
- A limit on sales would add a new type of "payment limit" for farm commodity support. Currently there is (1) a limit on amount of payments that a farmer can actually receive, and (2) an adjusted gross income (AGI) limit to determine eligibility. The proposal would add a third type of payment limit—an eligibility test of $500,000 of gross farm sales.
- A $500,000 limit on sales generally would be more restrictive than the existing AGI limit of $750,000 of "farm AGI" (after expenses) and $500,000 of "nonfarm AGI." The AGI measure is after expenses are subtracted from income; farms with $750,000 of farm AGI likely have sales exceeding $1-$2 million or more. The proposed limit on sales would be on a gross basis—that is, before expenses.
- Gross farm sales may be more variable than net farm sales ("farm AGI"). Net farm sales are less variable because higher expenses may offset higher sales. Thus, many opponents to the proposal have argued that farms exceeding a $500,000 sales limit may have very little profit or even a loss.

  The high magnitude of commodity price increases during 2007-2008 changed the share of farms with sales over $500,000 from the 3%-4% share of the previous nine years to 5.5% in 2007-2008. (**Figure 3**). Although this share may decline in the future given the drop in commodity prices since the fall of 2008, it highlights that sales may be variable and more subject to "bracket creep" than net measures of income.

  Sales vary directly with prices and yields. Years with high prices or yields could push farms over the limit. In contrast, a net income measure may be more constant if higher production expenses occur or tax management tools are used.

  For example, expenses may vary in proportion to production (e.g., costs per acre, fertilizer-to-yield). Some expenses may be fixed regardless of production (e.g., land costs or sunk production costs). Other expenses may be manipulated to manage taxable income (e.g., purchasing equipment, and prepaying expenses), or delayed to reduce outlays in low-income years (e.g., postponing repairs or capital improvements, reducing withdrawals for family living expenses).

Figure 3. Share of Farms with Sales over $500,000 from 1998 to 2008



Source: CRS, using USDA-NASS, "Quick Stats" on farm numbers.

- USDA data show about 76,500 farms in 2007 receiving government payments and having sales over $500,000. They accounted for 11% of farms receiving government payments, and they received 47% of government payments (**Table 4**).

  When estimating the number of farms affected, it is important to look both at farms receiving government payments and farms with sales greater than $500,000. About 116,000 farms (5.3% of all farms in 2007) had sales over $500,000, but only about 38% of all farms received government payments (**Figure 4**). Many large fruit, vegetable, or livestock farms have sales over $500,000 but do not receive subsidies that accrue primarily to grains, oilseeds, and cotton.

  Large farms, although fewer in number, account for most of the production and government payments. The 116,000 farms with sales over $500,000 produced 74% of the value of production and received 47% of government payments.

Table 4. Farms with Government Payments and Sales Greater than $500,000

		Government Payments		Sales > $500,000			Government Payments AND Sales > $500,000		
Rank	**State**	**Number of farms**	**Pct. of farms in row**	**Number of farms**	**Pct. of farms in row**	**Pct. of $ Sales**	*(ranked column)* **Number of farms**	**Pct. of farms with Gov't Pmts.**	**Pct. of $ of Gov't Pmts. in row**
	United States	**687,434**	**31%**	**116,286**	**5.3%**	**74%**	**76,496**	**11%**	**47%**
1	Iowa	58,664	63%	9,478	10.2%	66%	8,159	14%	43%
2	Illinois	47,130	61%	7,160	9.3%	63%	6,484	14%	52%
3	Minnesota	41,951	52%	6,426	7.9%	65%	5,299	13%	42%
4	Nebraska	31,590	66%	5,921	12.4%	74%	5,069	16%	50%
5	Texas	40,463	16%	6,046	2.4%	78%	3,644	9%	45%
6	Indiana	30,467	50%	4,027	6.6%	67%	3,559	12%	53%
7	North Dakota	20,169	63%	3,625	11.3%	62%	3,409	17%	53%
8	Kansas	37,548	57%	4,015	6.1%	78%	3,356	9%	41%
9	California	7,084	9%	8,580	10.6%	90%	2,906	41%	72%
10	Wisconsin	36,940	47%	3,458	4.4%	57%	2,905	8%	36%
11	South Dakota	19,689	63%	2,844	9.1%	61%	2,574	13%	45%
12	Ohio	32,987	43%	3,087	4.1%	58%	2,531	8%	38%
13	Arkansas	10,331	21%	4,599	9.3%	82%	2,231	22%	72%
14	Missouri	36,882	34%	3,197	3.0%	57%	2,171	6%	40%
15	North Carolina	11,537	22%	4,606	8.7%	87%	1,957	17%	51%
16	Michigan	18,545	33%	2,420	4.3%	68%	1,791	10%	45%
17	Georgia	12,131	25%	3,359	7.0%	84%	1,324	11%	42%
18	Idaho	7,675	30%	1,655	6.5%	85%	1,240	16%	55%
19	New York	9,480	26%	1,750	4.8%	65%	1,223	13%	45%

		Government Payments		Sales > $500,000			Government Payments AND Sales > $500,000		
Rank	State	Number of farms	Pct. of farms in row	Number of farms	Pct. of farms in row	Pct. of $ Sales	(ranked column) Number of farms	Pct. of farms with Gov't Pmts.	Pct. of $ of Gov't Pmts. in row
20	Mississippi	11,316	27%	2,645	6.3%	85%	1,202	11%	65%
21	Washington	5,370	14%	2,436	6.2%	83%	1,172	22%	64%
22	Pennsylvania	13,424	21%	2,242	3.5%	57%	1,157	9%	28%
23	Oklahoma	24,061	28%	1,837	2.1%	64%	1,067	4%	23%
24	Kentucky	26,163	31%	1,613	1.9%	63%	1,020	4%	34%
25	Colorado	8,513	23%	1,503	4.1%	81%	1,000	12%	49%
26	Alabama	10,806	22%	2,340	4.8%	76%	861	8%	32%
27	Montana	10,763	36%	1,133	3.8%	46%	852	8%	34%
28	Oregon	4,494	12%	1,662	4.3%	77%	832	19%	49%
29	Louisiana	8,897	30%	1,405	4.7%	73%	817	9%	51%
30	Virginia	8,422	18%	1,381	2.9%	66%	627	7%	33%
31	Tennessee	15,037	19%	1,215	1.5%	54%	600	4%	43%
32	Maryland	3,109	24%	970	7.6%	76%	532	17%	48%
33	South Carolina	5,709	22%	961	3.7%	84%	442	8%	36%
34	Florida	3,144	7%	2,067	4.4%	85%	356	11%	43%
35	Arizona	1,139	7%	551	3.5%	94%	329	29%	73%
36	Delaware	828	33%	708	27.8%	91%	298	36%	68%
37	New Mexico	2,547	12%	554	2.6%	81%	278	11%	42%
38	Vermont	1,293	19%	291	4.2%	62%	229	18%	47%
39	Utah	2,635	16%	431	2.6%	69%	224	9%	28%
40	Wyoming	2,555	23%	395	3.6%	55%	200	8%	22%
41	Maine	1,008	12%	198	2.4%	69%	133	13%	32%
42	New Jersey	810	8%	400	3.9%	74%	106	13%	29%
43	West Virginia	2,105	9%	259	1.1%	56%	94	4%	14%
44	Nevada	327	10%	203	6.5%	76%	62	19%	30%
45	Connecticut	335	7%	178	3.6%	80%	61	18%	37%
46	Massachusetts	576	7%	194	2.5%	58%	58	10%	24%
47	New Hampshire	410	10%	65	1.6%	58%	32	8%	<1%
48	Hawaii	218	3%	148	2.0%	70%	18	8%	<1%
49	Rhode Island	101	8%	29	2.4%	53%	4	4%	<1%
50	Alaska	56	8%	19	2.8%	65%	1	2%	<1%

Source: CRS, compiled from USDA National Agriculture Statistics Service, *2007 Census of Agriculture*, Volume 1, Chapter 1, Table 6 and Table 59.

Notes: Government payments in this table exclude conservation payments and crop insurance.

- The effect on farms by region is visible in **Table 4**. Overall, the states with the highest number of farms affected are Iowa (about 8,200 farms), Illinois (6,500 farms), Minnesota (5,300 farms), and Nebraska (5,100 farms). About one-third of the 76,500 affected farms in the nation are in these four states. About 13%-16% of farms in these states receive government payments and have sales over $500,000.

  The table also shows the importance of combining information about high sales and government payments, and the effect of producing non-subsidized commodities. For example, in California the effect of fruit and vegetable production on large farms is apparent with only 9% of farms receiving government payments. More California farms have sales over $500,000 (8,600 farms) than receive government payments (7,100 farms). Delaware has the highest ratio of farms (28%) with sales exceeding $500,000, likely an indicator of the state's concentrated poultry production on a relatively small amount of land (compare **Figure 6** and **Figure 7**).

- By commodity, a limit on sales would affect a higher percentage of cotton and rice farms (in the southern tier of the United States) than corn, soybean, or wheat farms. Cotton and rice farms on average are larger than corn, soybean, or wheat farms, and their value of production per acre is much higher—making them more likely to exceed a sales threshold. Government payments to cotton and rice farms also are higher (**Figure 5**, **Figure 7**). This comparison is similar to arguments that have been made in the payment limits debate for many years.

  Specific to the Administration's proposal, about 17%-21% of farms selling corn, soybeans, or wheat have sales over $500,000. Their sales account for 51%-59% of the national production of corn, soybeans, and wheat (**Table 5**).

  About 36% of farms selling cotton, and 43% of farms selling rice have sales over $500,000. Their sales account for 75% of the national production (**Table 5**).

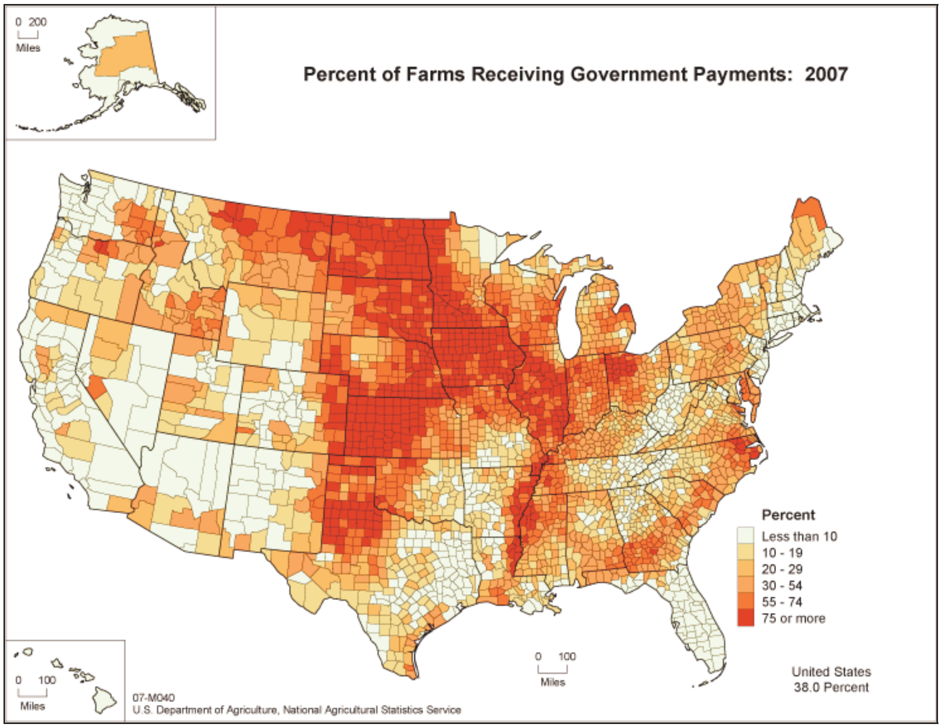
  But given the predominance of acreage devoted to corn, soybeans, and wheat compared with cotton and rice, the sheer number of corn, soybean, and wheat farms affected is larger than for cotton and rice. This is indicated by the number of farms with sales over $500,000 (**Table 5**) and the rank of states like Iowa, Illinois, Minnesota, and Nebraska in **Table 4**.

Table 5. Farms with Sales Greater Than $500,000, by Commodity

	Farms with Sales >$500,000 Selling This Commodity		Sales of This Commodity by Farms with Sales >$500,000	
	Number of farms	Percent of farms by commodity	$ Million of Sales	Percent of sales by commodity
Corn	58,565	17%	23,373	59%
Soybeans	48,095	17%	10,378	51%
Wheat	32,743	21%	5,856	55%
Cotton	6,731	36%	3,664	75%
Rice	2,610	43%	1,501	74%

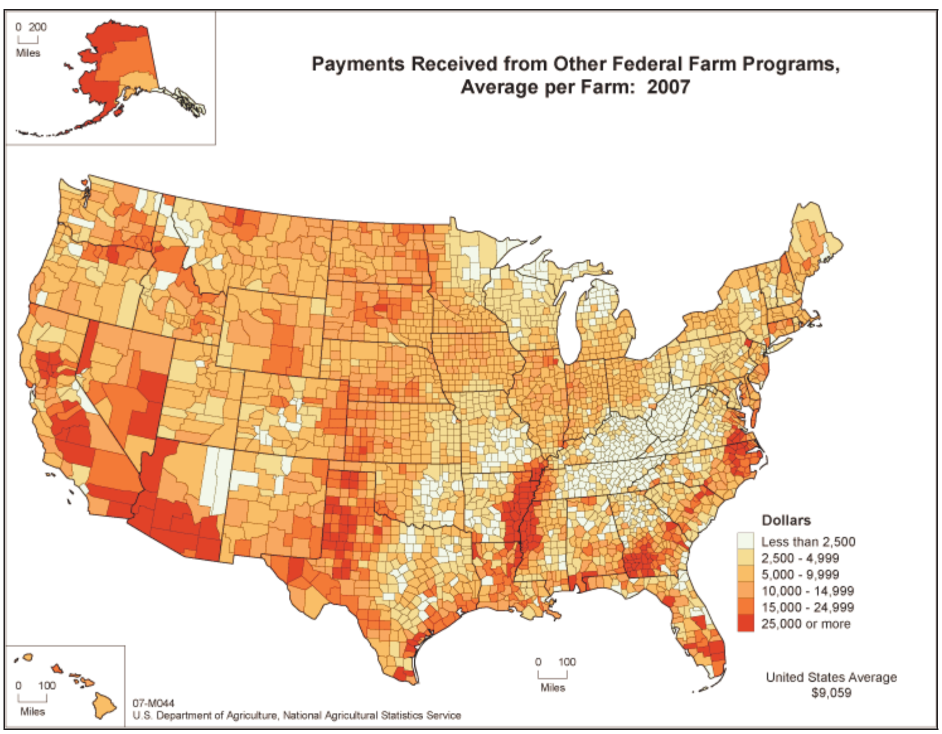
Source: CRS, compiled from USDA National Agriculture Statistics Service, *2007 Census of Agriculture*, Volume 1, Chapter 1, Table 59.

Figure 4. Percent of Farms Receiving Government Payments



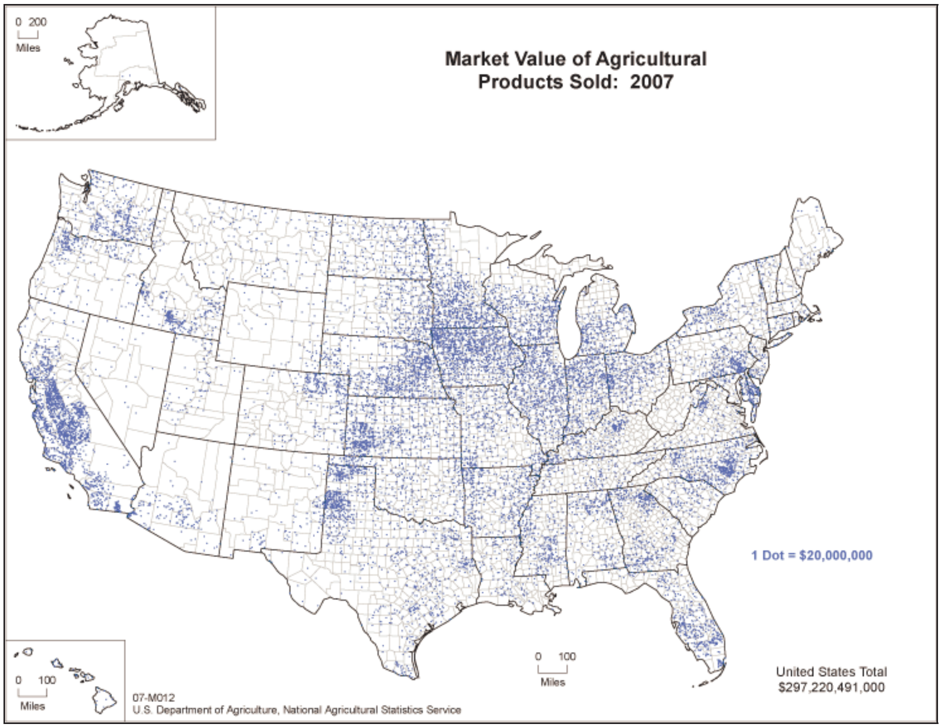
Source: USDA-NASS, *2007 Census of Agriculture*, Map 07-M040.

Figure 5. Government Payments: Average Per Farm



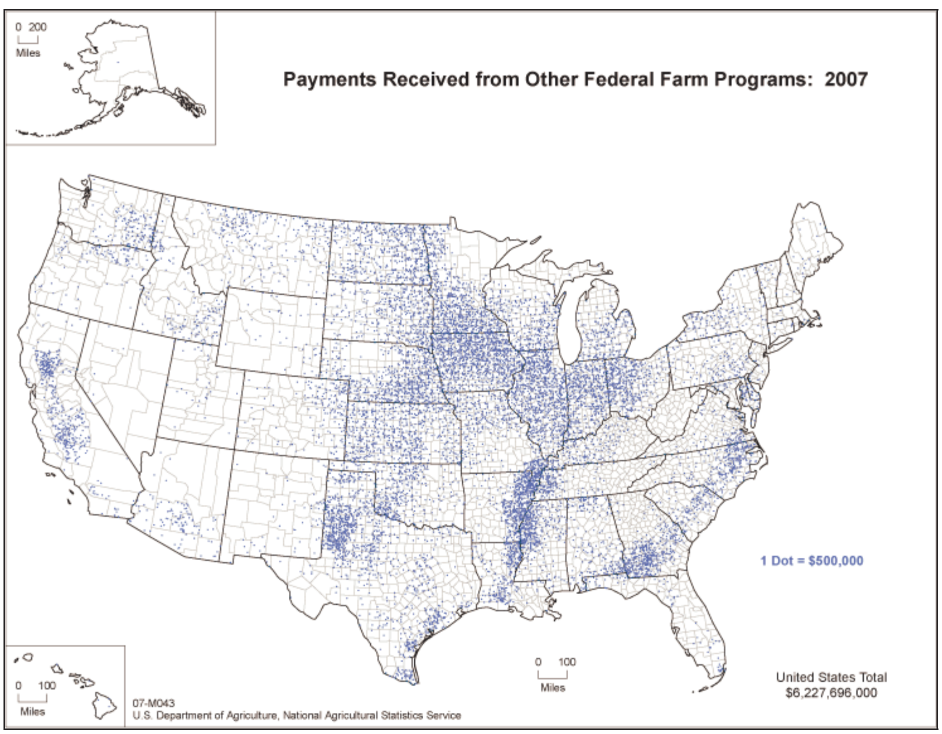
Source: USDA-NASS, *2007 Census of Agriculture*, Map 07-M044.

Figure 6. Market Value of Agricultural Products Sold



Source: USDA-NASS, *2007 Census of Agriculture,* Map 07-M012.

Figure 7. Government Payments Received



Source: USDA-NASS, *2007 Census of Agriculture*, Map 07-M043

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