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Numbers, Numbers And More Numbers: Sorting Out Farm Bill Payment Proposals

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In looking at agricultural policy issues, we deal with lots of numbers every day. It is a part of the job. However, when it comes to sorting out the various numbers dealing with farm bill payment proposals, we have to admit that our heads are spinning.

In an attempt to sort out the payment-limit numbers, let's start with the easy stuff.

Three-entity rule – This rule allows a grower to effectively double the various payment limits by receiving payments directly (100 percent) and through two affiliated operations (50 percent) each. The "three-entity rule" is a part of the 2002 farm bill.

The White House has called for the elimination of the "three-entity rule" and both the House and the Senate have agreed.

At the same time the House and Senate bills include provisions that explicitly allow husbands and wives to have separate payment limits, effectively doubling payment limits for married farmers but not for single farmers (Garrison Keillor's proverbial Norwegian bachelor farmers).

Generic certificates – Under current legislation, farmers who bump up against the payment limits for marketing loan payments (LDPs to the general public) can purchase generic certificates that effectively allow them to circumvent these limits. Both the House and the Senate bills abolish the use of generic certificates.

Direct payments – The Senate legislation maintains the current $40,000 limit on direct payments while the house bill increases them to $60,000. In both bills, peanuts have a separate limit that is $40,000 in the Senate legislation and $60,000 in the House bill.

Counter-cyclical payments – The current limit is $65,000 which the House maintains in its legislation. The Senate reduces that limit to $60,000. In both bills, peanuts have a separate limit that is $65,000 in the House legislation and $60,000 in the Senate bill.

Marketing loan program – Both the House and Senate legislation eliminate the $75,000 limit that is in effect under current law.

Total payments – The current total payment limit is $180,000 ($40,000 in direct payments, $65,000 in counter-cyclical payments, and $75,000 through the marketing loan program) that can effectively be doubled to $360,000 by the "three-entity rule." The White House would include payments for dairy, peanuts, honey, wool, and mohair under the $360,000 limit.

The House bill sets a limit of $125,000 that can be received as direct and counter-cyclical payments with no limit for marketing loan payments. With the current high prices, the expectation is that the marketing loan program will not come into play. Husbands and wives are subject to separate limits, effectively doubling the household limit to $250,000.

In the Senate legislation the payment limitation is a lower $100,000, with husbands and wives subject to separate limits.

Adjusted Gross Income (AGI) – The White House wants an income means test for receiving commodity payments, setting the annual limit at $200,000 in adjusted gross income. The current limit of $2.5 million would remain for those receiving land stewardship program payments.

For both commodity payments and land stewardship payments, the House bill sets a "hard cap" of $1 million for producers who receive at least 66.66 percent of their income from agriculture. For those who receive less that 66.66 percent of their income from agriculture the cap is $500,000 in adjusted gross income.

In the Senate bill, the AGI limit for crop payments is $1 million in 2009 and $750,000 for 2010 and subsequent years. The AGI limit for conservation programs is $2.5 million with not less than 75 percent of the income coning from agriculture.

Conference Committee -Most observers expect that the legislation that comes out of the Conference Committee will split the difference between the House and Senate bills. There is little indication that they will come closer to the requests coming from the White House. But then time will tell. ∆