



United States General Accounting Office
Washington, DC 20548

Resources, Community, and
Economic Development Division

B-285418

June 30, 2000

The Honorable Dan Glickman
The Secretary of Agriculture

Subject: Farm Programs: Observations on Market Loss Assistance Payments

Dear Mr. Secretary:

Since October 1998, the Congress has authorized about \$13.8 billion in ad hoc financial assistance to help farmers deal with losses due to drops in crop prices—about \$2.8 billion in 1998 and \$5.5 billion in both 1999 and 2000. This assistance—called Market Loss Assistance (MLA)—was targeted to growers of the seven crops that have traditionally been supported by farm programs.¹ To expedite the delivery of this assistance and to avoid influencing farmers' planting decisions, the payments were distributed to farmers on the basis of the same formula used for distributing production flexibility contract payments under the 1996 Farm Bill—scheduled to expire in 2002. In essence, this formula distributed MLA payments to individual farmers on the basis of the type and amount of crops planted (or that were otherwise considered as planted under farm programs that limited acreage in order to maintain farm prices) from the 1980s through 1995.

Because many farmers have changed their production patterns over the past two decades, you and others have raised concerns about whether the resultant MLA payments were distributed to those who have been most adversely affected by recent price declines. However, it was not known precisely how payments would have differed if they had been based on current-year planting information rather than historical data. To help address this information gap, we calculated how MLA payments would have changed if they had been based on current-year planting information instead of the current funding formula. We did not, however, assess the extent to which MLA recipients faced economic hardships due to declining crop prices. We performed this analysis by recalculating MLA payments using the most current planting information rather than historical data. Planting data for 1999 were available for most (over 80 percent) of the MLA payment recipients (representing about \$4.5 of the \$5.5 billion in total payments) because of reporting requirements

¹ The seven program crops are corn, wheat, oats, barley, grain sorghum, cotton, and rice.

associated with their participation in other farm assistance programs.²

Results in Brief

If MLA payments had been based on current-year planting information instead of historical data, some farmers would have received less assistance while others would have received more. In 1999, about 27 percent of the \$4.5 billion in ad hoc MLA payments included in our analyses went to farms that would not have received this assistance if the payments had been based on current-year plantings. Specifically, about 893,000 farms received about \$1.22 billion more than they would have received had the payments been based on the type or amount of crops planted during 1999. Conversely, some farmers adversely affected by price losses received less in MLA payments than they would have received had the payments been based on current-year planting, rather than historical, information. For example, in 1999, about 400,000 farms adversely affected by falling prices would have received about an additional \$300 million in MLA payments if the payments had been based on that year's plantings.

Basing MLA payments on acres planted in the current year rather than on historical information would better target payments to those farmers affected by declining prices. However, because this approach would more directly link the types and quantities of crops actually grown with government payments, it may create incentives that run counter to the philosophy underlying the 1996 Farm Bill, namely, encouraging farmers to base their planting decisions on market signals rather than on government payment levels. The Congress will have an opportunity to examine policy options to address this dilemma during the upcoming deliberations on the next Farm Bill.

Background

In enacting the 1996 Farm Bill, the Congress suspended key provisions of key, long-standing income support programs so that farmers' planting decisions would be based more on market signals than on government payment levels. To help ease the change to a more market-oriented system, the bill provided farmers with 7 years of declining Agricultural Market Transition Act (AMTA) payments that were based on the crops recipients planted (or were otherwise considered as planted in accordance with congressional legislation) from the early 1980s to 1995. Between 1996 and 2002, AMTA payments are expected to total about \$35.6 billion.

In 1998, the prices of many crops declined significantly, and these declines have continued to the present. For example, the average price of corn fell from \$3.24 per bushel in 1996 to \$2.43 in 1998 and further declined to \$1.80 per bushel in 2000. In the face of such price declines, in 1998 and 1999, the Congress provided emergency MLA

² Although USDA has current planting data for about 90 percent of the MLA recipients, our analysis is based on about 83 percent, or \$4.5 billion of the \$5.5 billion in 1999 MLA payments, or 1,556,749 of the 1,715,044 farms that received payments. Our methodology is explained in greater detail later in this report.

payments. These payments were based on a very simple formula: For example, in 1999, for each dollar farmers received in AMTA payments, they would also receive a dollar in MLA payments.

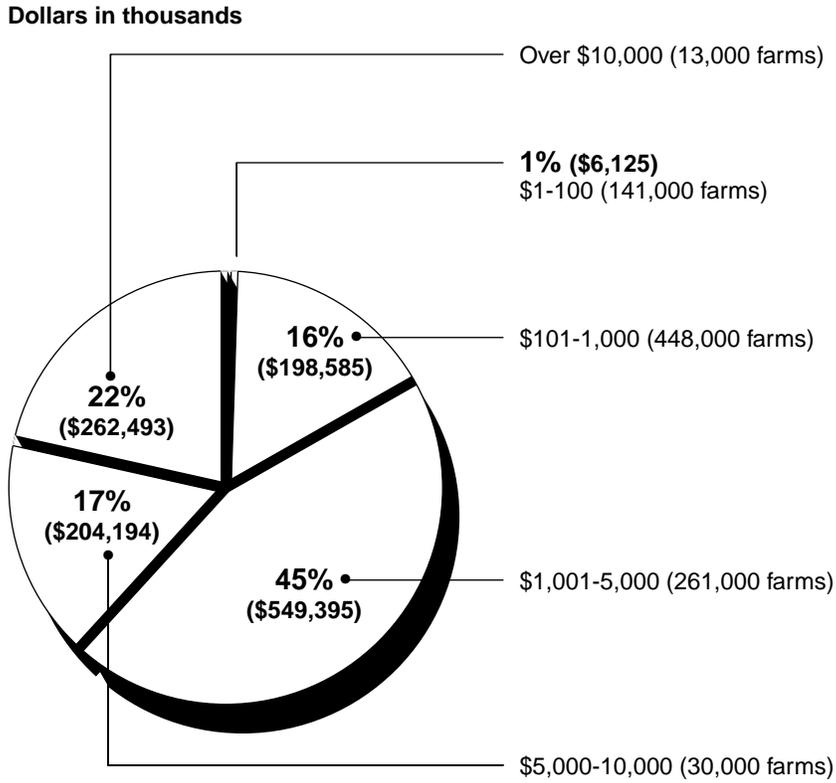
Although some in the Congress and the administration acknowledged that this reliance on historical information was not an ideal targeting mechanism, two aspects of this mechanism were believed to outweigh this drawback. Because the payments would be based on a simple funding mechanism that used historic information rather than current crop production, the payments could be made quickly. Furthermore, for the same reason, the mechanism was believed to minimize the potential that farmers' planting decisions would be influenced by federal payments instead of market signals. Other, alternative, long-term remedies have been proposed that would eliminate the need for ad hoc assistance altogether. For example, the administration favors replacing the MLA program with its proposed Supplementary Income Assistance Program, which would provide assistance to farmers when their projected gross income for crops fell below 92 percent of the preceding 5-year average.

MLA payments totaled about \$2.8 billion in 1998 and \$5.5 billion in 1999. Because crop prices are expected to remain low in the near future, the Congress authorized another \$5.5 billion for MLA payments later this year.

Basing Payments on 1999 Plantings Would Have Reduced Assistance to Many Farmers

We estimate that about 893,000 farms received over \$1.2 billion more in 1999 MLA payments than they would have received if the payments had been calculated using information on that year's plantings, rather than on historical information. While these payment differences ranged from \$1 to over \$600,000, nearly half were in the range of \$1,001 to \$5,000. Figure 1 shows the distribution of and the number of farms receiving these payments.

Figure 1: 1999 MLA Payments for Crops Not Grown



Of the 893,000 farms receiving payments above what they would have received had the payments been calculated on 1999 plantings, about 340,000 had not planted any of

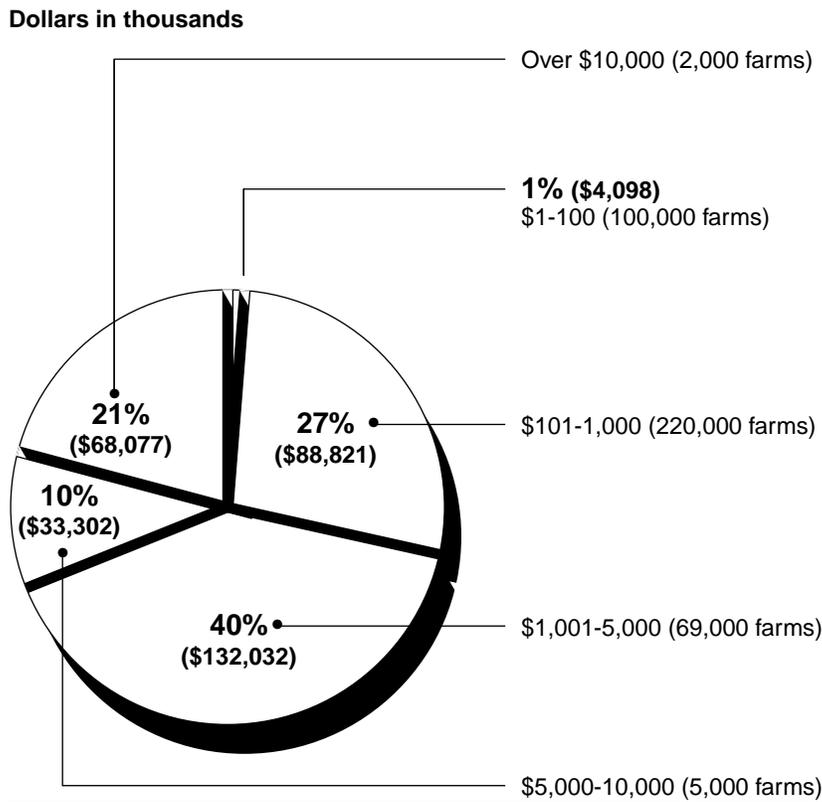
the crop on which their payments were based. These payments totaled about \$380 million and ranged from \$1 to over \$178,000; about half of these payments were in the \$1,001 to \$5,000 range.

Enclosure 1 provides information on the 1998 MLA payments for crops not grown. These payments totaled about \$576 million.

Basing Payments on 1999 Plantings Would Have Benefited Many Farmers

While over \$1.2 billion in MLA payments were made to nearly 900,000 farms in 1999 for crops not grown, nearly 400,000 farms could have received about an additional \$300 million if the payments had been based on 1999 rather than on historical plantings. While these “underpayments” ranged from less than \$1 to over \$400,000, as shown in figure 2, 40 percent of these underpayments were in the \$1,001 to \$5,000 range.

Figure 2: MLA Underpayments for 1999



Enclosure 1 contains information on MLA underpayments for 1998, which totaled about \$150 million.

Observations

Given that low crop prices are predicted to continue, MLA assistance may continue to be used in future years. If so, our analysis quantifies the previously unknown consequences of using current-year planting information instead of the historical planting information currently used. However, basing MLA payments on current-year planting information could influence farmers' planting decisions, a problem the Farm Bill was intended to rectify. The dilemma associated with using either historical or current-year planting information to distribute MLA payments underscores the need to have farm policies that minimize reliance on ad hoc assistance. The Congress will have an opportunity to examine policy options that might better avoid such dilemmas as it begins deliberations over the next farm bill.

Agency Comments

We provided a draft of this report to USDA for review and comment and held discussions with the Deputy Administrator for Farm Programs and other officials from the Department's Farm Service Agency, the agency responsible for administering the MLA program. The agency generally agreed with the information presented in the report but expressed concern with our description of the MLA funding mechanism. Specifically, the officials asked us to clarify that the current MLA funding formula is based both on historical planting information and on crops otherwise considered as planted under farm programs that limited acreage in order to maintain crop prices. We agreed with this comment, as well as several other technical comments and clarifications suggested by USDA, and made corresponding revisions throughout the report as appropriate.

Scope and Methodology

To assess the extent to which ad hoc MLA payments would change if they were based on current-year planting information rather than on historical data, we obtained and analyzed USDA's data on the MLA payments made during 1998 and 1999. We found that farmers received about \$8.3 billion in MLA payments during these 2 years. However, to ensure the accuracy and reliability of this information, we matched farms that reported both planted acres and cropland acres (land generally used for growing crops). We identified about 1.56 million farms in 1999 and about 1.52 million in 1998 that met these criteria. Of these farms, we examined the data for ones whose planted acres equaled their cropland acres, plus or minus 20 percent. For 1999, about 1.3 million farms met this criterion. These farms received about \$4.53 billion in MLA payments, or about 83 percent of the total MLA payments for 1999. For 1998, about 1.2 million farms met this criterion. These farms received about \$2.29 billion in MLA payments, or about 81 percent of the total MLA payments for 1998.

To calculate what these farms would have received had the MLA payments been based on current-year planting information rather than on historical data, we substituted current-year planted acres for historical base acres in the formula used by USDA to calculate AMTA payments. We also verified selected planting information derived from USDA's database by comparing it with current planting information in

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USDA's county office files. We did not assess the economic hardships MLA recipients faced because of declining crop prices for either the seven MLA program crops or other crops the recipients may have planted.

We performed our analysis from January through May 2000 in accordance with generally accepted government auditing standards.

We will provide copies of this report to congressional committees with responsibility for appropriations and legislative matters for USDA and to others on request. Please call me at (202) 512-5138 if you or your staff have any questions concerning this report. Key contributors to this report are listed in enclosure 2.

Sincerely yours,

Robert E. Robertson
Associate Director, Food
and Agriculture Issues

Enclosures – 2

Information on 1998 MLA Payments

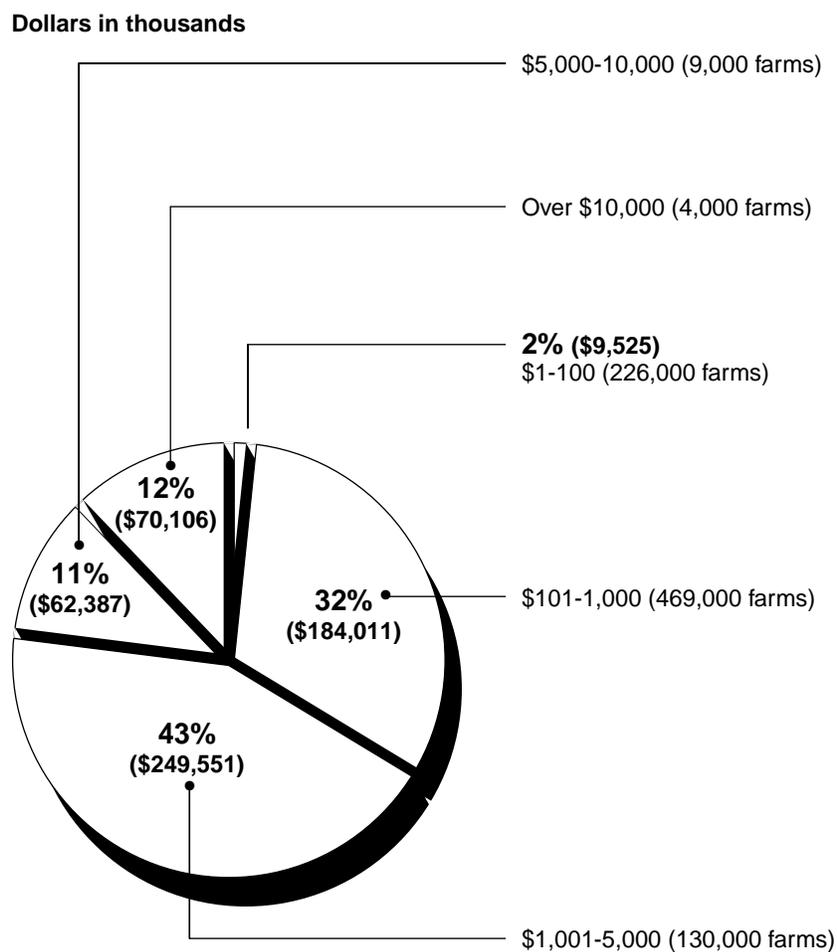
In October 1998, the Congress authorized about \$2.8 billion in Market Loss Assistance (MLA) payments. The following analysis provides information on how MLA payments would have differed if current-year planting information had been used instead of historical data. For this analysis, as for our analysis of 1999 MLA payments, the results were mixed: While most farms would have received smaller payments, a significant number would have received larger payments.

Basing Payments on 1998 Plantings Would Have Reduced Assistance to Many Farmers

In 1998, about 838,000 farms received about \$576 million more in MLA payments than they would have received if the payments had been calculated using current-year planting information rather than historical data. While these payments ranged from \$1 to over \$254,000, almost half were in the range of \$1,001 to \$5,000. Figure 3 shows the distribution of and the number of farms receiving these payments.

Enclosure I

Figure 3: 1998 MLA Payments for Crops Not Grown



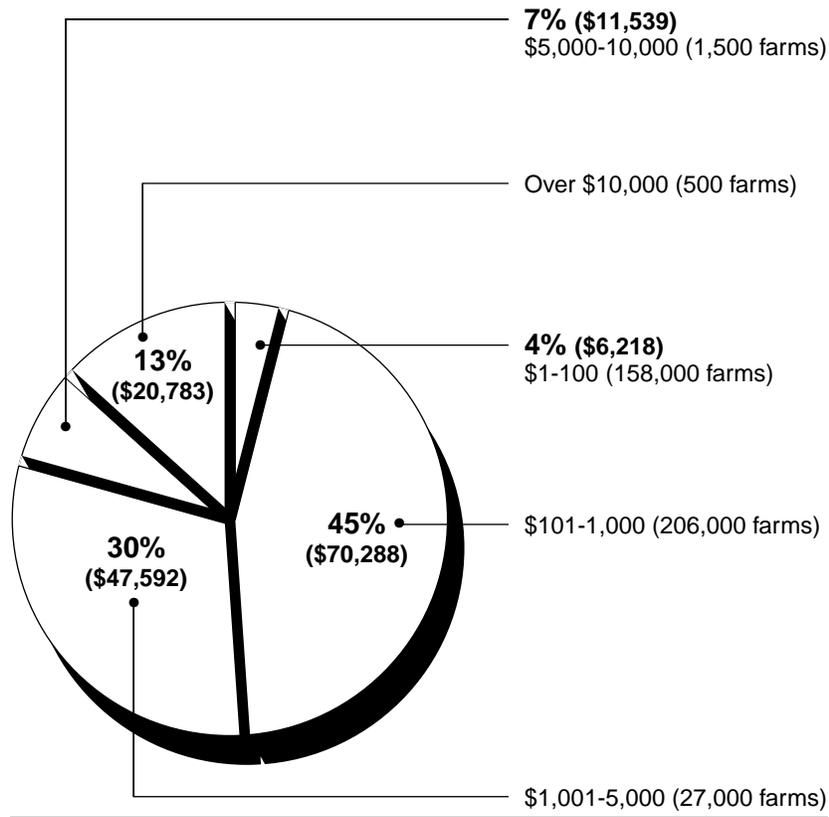
Some Farms Would Have Benefited If Payments Had Been Based on Current Plantings

In 1998, about 393,000 farms would have received about \$150 million in additional MLA payments if the payments had been based on current-year planting information rather than on historical data. While these underpayments ranged from \$1 to over \$250,000, as shown in figure 4, nearly half were in the \$101 to \$1,000 range.

Enclosure I

Figure 4: 1998 MLA Underpayments

Dollars in thousands



Enclosure II

GAO Contacts and Staff Acknowledgments

GAO Contacts

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