ERS Report Summary

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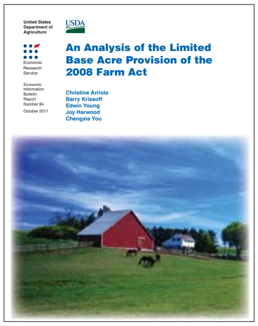


This is a summary of an ERS report.

Find the full report at *www.ers.usda.gov/publications/eib84*

# An Analysis of the Limited Base Acre Provision of the 2008 Farm Act

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## What Is the Issue?

The Food, Conservation, and Energy Act of 2008 eliminates direct and countercyclical payments (DCP) and average crop revenue election (ACRE) payments to farms, as defined by USDA's Farm Service Agency (FSA), with 10 or fewer base acres. Farms owned by "limited-resource" and "socially disadvantaged" farmers are exempt from this provision. Additionally, under limited circumstances, producers with interests in more than one farm could shift their base acres so that each of their farms would contain acreage above the 10-acre base limit and thus ensure continued eligibility for DCP or ACRE payments. Eliminating payments to farms under the "base-10" provision reduces program payments and administrative costs.

The number of FSA farms, the administrative unit to which FSA applies the 10-base-acre provision, and the share with 10 or fewer base acres have increased over the last decade by 4 percent and 13 percent, respectively. These changes likely stem from two factors: (1) ad hoc disaster provisions for crops, which were paid on an individual FSA farm basis (meaning that the smaller the geographic unit, the more likely the farm would be to qualify for a disaster payment); and (2) the division of farms among multiple owners as land is passed down to the next generation. By 2009, 2.2 million FSA farms were eligible to receive DCP or ACRE payments, of which nearly 17 percent had 10 or fewer base acres (not including exempt farms). This study analyzes the effects of the base-10 provision on the U.S. farm sector.

## What Did the Study Find?

- ***The base-10 provision affects a large number of farms but has little effect on total program payments.*** In 2009, nearly 371,000 FSA farms became ineligible for payments under the provision, with prohibited payments equaling an upper bound of $29.1 million, or about 0.5 percent of total DCP. Many of these farms, however, chose not to participate in DCP in prior years. For example, 60 percent of nonexempt farms with 10 or fewer base acres in 2008—before implementation of the provision—were eligible to enroll in the DCP program but declined to participate likely because the payments were small relative to the administrative costs of enrolling. As a result, the annual payment savings associated with the provision are likely considerably lower than the $29.1 million upper-bound estimate. Assuming only 40 percent of base-10 farms were affected by the provision in 2009, the more likely annual program savings from forgone payments are $11.7 million.

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- ***The East Coast is more affected by the base-10 provision than the Midwest and the West Coast.*** Farms in the Midwest and along much of the West Coast typically have more base acres per farm than farms in other parts of the United States; thus, the provision has had little effect within these high-base-acre areas. In contrast, regions along or near the East Coast tend to have a high proportion of farms with small base acre holdings and are more affected by the provision.

- ***The provision is not expected to affect the fruit and vegetable sector.*** Only 1 percent of the acreage operated by base-10 farms was planted to fruit and vegetables in 2009. However, some operators of these farms increased fruit and vegetable production, resulting in an additional 20,000 acres devoted to these crops, mostly on farms in Maine and Idaho. Market conditions—anticipated higher vegetable prices in 2009—and relaxed planting constraints as a consequence of the provision likely influenced the decisions of farmers to change their crop mix. When viewed against the U.S. total of 11 million planted fruit and vegetable acres in 2009, an increase of 20,000 acres suggests no aggregate market effects.

- ***FSA farms for which payments were prohibited were generally part of larger operations.*** Seventy-six percent of FSA farms for which payments were prohibited were part of a multifarm operation in 2009, and 50 percent of these multiple-unit operations had at least three FSA farms. While these farms may have had the opportunity to reconstitute, the transaction costs may have prevented them from doing so, particularly given that prohibited payments averaged only $102 for these farms. Even if a multiple-farm operation was prohibited from receiving a payment for a farm with 10 base acres or less in 2009, the operator would have the option to reconstitute in future years.

- ***Government budgetary savings would accrue from reducing administrative costs.*** Operators must enroll their FSA farms annually in the DCP/ACRE program and comply with reporting requirements, which includes submitting various forms, and FSA must calculate and process any farm-specific payments that are made. Reducing the number of eligible FSA farms eases the Government's administrative burden. Estimated savings associated with the provision in 2009 include $3.5 million in personnel costs to FSA and $0.2 million in mailing and paperwork costs. Based on reductions in payment outlays to farms ($29.1 million) and administrative costs ($3.7 million), budgetary savings from the provision are estimated at as much as $32.8 million for 2009. Given the previous year's enrollment rate, however, the more likely amount is estimated at $13.2 million, based on reductions of $11.7 million in program costs and $1.5 million in administrative costs.

## How Was the Study Conducted?

FSA maintains records based on FSA farms, which are the basis for analyzing the effects of the base-10 provision. This report relies on DCP farm crop, DCP contract, and 578 compliance detail files, which are administrative databases maintained by FSA. These databases enable researchers to track farm-level acreage and owner/operator program participation by FSA farm across geographic locations and over time and calculate annual DCP.