Chapter 3
Level and Distribution of Payments

This chapter provides information on the size of farm program payments, the characteristics of producers that receive payments, and the distribution of payments across farms, States, and producers. Since actual data on payments under the 2002 Act were not available prior to the preparation of this report, much of the chapter focuses on farm program payments made under the 1996 Act that are similar to the payments that the 2002 Act directs the Commission to study. USDA's forecasts of future farm program payments are also included in this chapter. The data contained in this chapter are from two primary sources: USDA's FSA and USDA's Economic Research Service (ERS).

The first section of this chapter examines data on farm program payments as reported by the FSA. These data are typically reported by crop or fiscal year and include the size of farm program payments in recent years and USDA's projections of payments through the 2007 crop year. Information on payments and marketing loan benefits, including information on the use of certificates, are reported each year by crop. In addition, the FSA, at the request of the Commission, compiled data on the distribution of farm program payments by payee. USDA's forecasts of future farm program payments included in this chapter are from the FY 2004 President's Budget. The economic analysis supporting these projections was conducted in late 2002.

The second section of this chapter examines data on farm program payments as reported by the ERS. These data are reported by calendar year, corresponding with the time period used to report net farm income. When historical information on payments is available, monthly reports of farm program payments from the FSA are compiled to derive annual estimates of farm program payments. When historical information is not available, the ERS uses projections of payments by crop year to forecast calendar-year payments. The ERS uses the information on farm program payments to determine the value added by the agricultural sector and net farm income. In addition, the ERS conducts an annual survey to obtain information on producers and their farms and ranches. This survey, referred to as the Agricultural Resource Management Survey (ARMS), provides information on the characteristics of farms that receive payments. This information, including special tabulations of the survey data, as requested by the Commission, is contained in the second section of this chapter.

Farm Service Agency Data on Payments

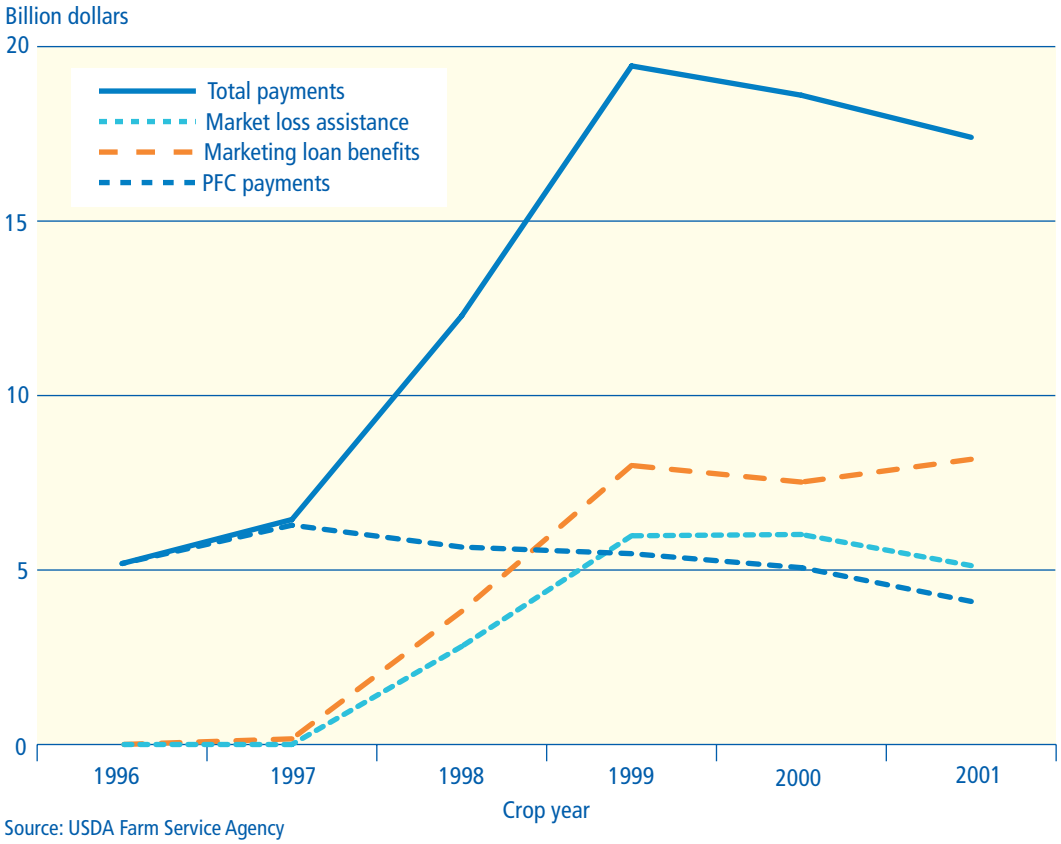
Under the 1996 Act, participating farmers with base acres of wheat, feed grains, upland cotton, and rice were eligible for production flexibility contract (PFC) payments. PFC payments are similar to direct payments under the 2002 Act in that PFC payment rates were unrelated to current market prices and payments were paid on historical production. Wheat, feed grains, upland cotton, rice, soybeans, and other oilseeds were also eligible for marketing assistance loan benefits under the 1996 Act. In addition, when market prices fell sharply beginning with the 1998 crops, Congress authorized market loss assistance in the form of supplemental PFC payments for wheat, feed grains, upland cotton, and rice and provided

direct payments to producers of soybeans, other oilseeds, peanuts, and other commodities. It is widely accepted that counter-cyclical payments under the 2002 Act were authorized by Congress to eliminate the need for market loss assistance payments to producers of wheat, feed grains, upland cotton, rice, soybeans, other oilseeds, and peanuts.

Payments by Crop Year

For the 1996-2001 crops, PFC payments, market loss assistance, and marketing assistance loan benefits averaged $13.2 billion per year for the crops that are eligible for direct and counter-cyclical payments and marketing assistance loan benefits under the 2002 Act (appendix table 3.1). Total payments to these crops more than tripled from $6.4 billion during the 1997 crop year to $19.4 billion during the 1999 crop year (figure 3.1). During this 2-year period, declining market prices caused marketing assistance loan benefits to increase from $0.2 billion during the 1997 crop year to $8.0 billion 2 years later. Also contributing to the sharp increase in payments from 1997 to 1999, Congress authorized market loss assistance of $2.8 billion for the 1998 crops and $6.0 billion for the 1999 crops to compensate for low prices. Between 1999 and 2001, payments to crops eligible for direct and counter-cyclical payments and marketing assistance loan benefits declined by $2 billion as PFC payments under the 1996 Act fell by $1.4 billion and market loss assistance declined by $0.9 billion, while marketing assistance loan benefits increased by $0.2 billion.

Figure 3.1. **Payments to crop producers, 1996-2001**



Source: USDA Farm Service Agency

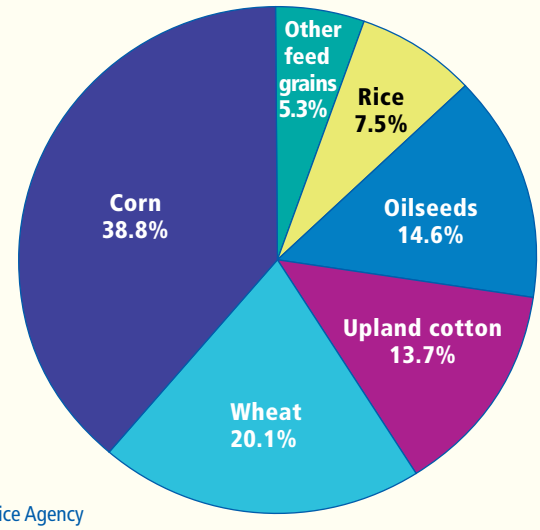
Payments to corn producers averaged slightly over $5 billion per year, accounting for nearly 40 percent of total PFC, market loss assistance, and marketing assistance loan benefits paid out for the 1996-2001 crops (figure 3.2). Over this period, one-fifth of total payments were paid to wheat producers. Soybean and upland cotton producers each received about 14 percent of total payments, followed by rice producers at 8 percent and other feed grain (grain sorghum, barley, and oats) producers at 5 percent. Other oilseed and peanut producers received about 1 percent of payments paid out for the 1996-2001 crops.

Peanut producers were not eligible for PFC payments and marketing assistance loan benefits for the 1996-2001 crops. Instead, the price of peanuts was supported through a two-tiered price support program in which quota peanuts were supported at a higher price than non-quota peanuts. Under the 2002 Act, the peanut price support program was replaced with direct and counter-cyclical payments, marketing assistance loans, and a buyout for quota holders.

The distribution of payments across the various crops eligible for payments tends to reflect the relative value of production. During calendar years 1996-2001, cash receipts received by farmers for feed grains, wheat, rice, upland cotton, soybeans, and peanuts averaged $47.6 billion. Over that period, cash receipts for corn averaged $17.5 billion or 37 percent of total receipts for all crops eligible for payments. Soybeans accounted for 30 percent of total cash receipts, followed by wheat and upland cotton, which accounted for 15 and 10 percent, respectively. Rice and other feed grains each comprised 3 percent and peanuts made up 2 percent of total cash receipts for all crops receiving payments during 1996-2001.

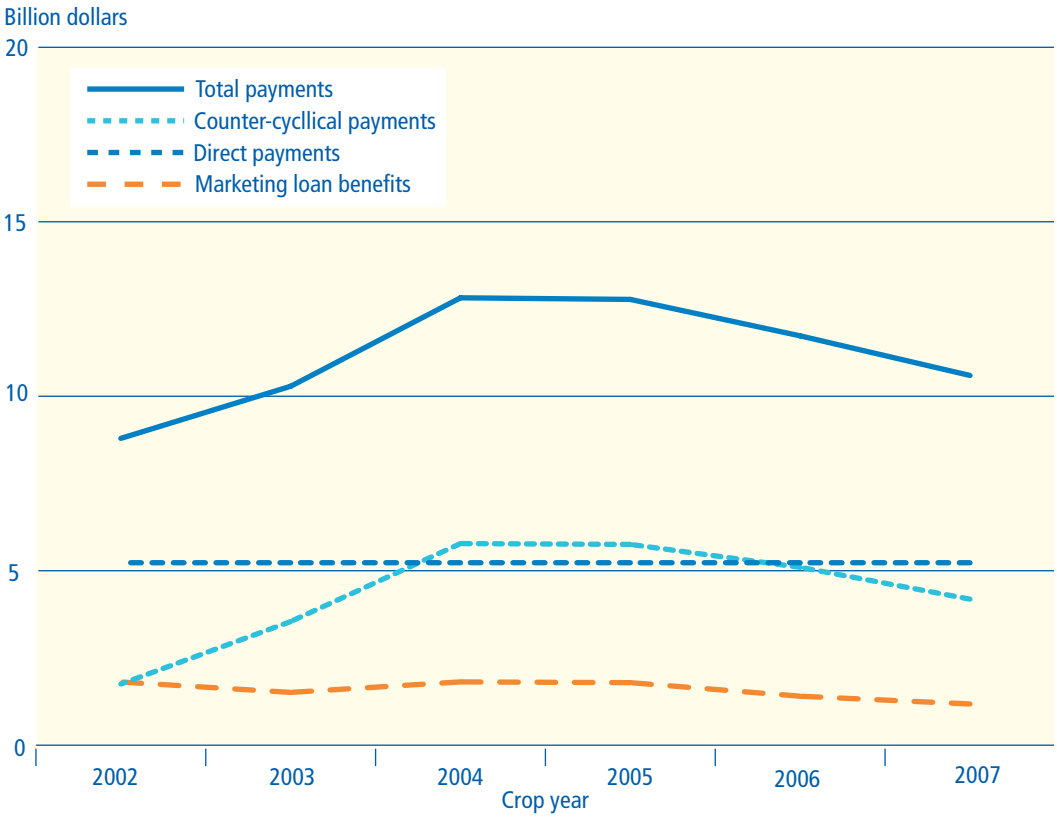
For the 2002-07 crops, payments to wheat, feed grain, upland cotton, rice, soybean, other oilseed, and peanut producers are projected in the FY 2004 President's Budget baseline to average $11.2 billion per year, down $2 billion from the 1996-2001 average and down about $7 billion from the average for 2000-01 crops (figure 3.3). The decline in payments primarily reflects sharply lower marketing assistance loan benefits. In 2002, adverse weather lowered crop production, causing prices to increase for major crops. The increase in market

Figure 3.2. **Distribution of payments by crop, 1996-2001**



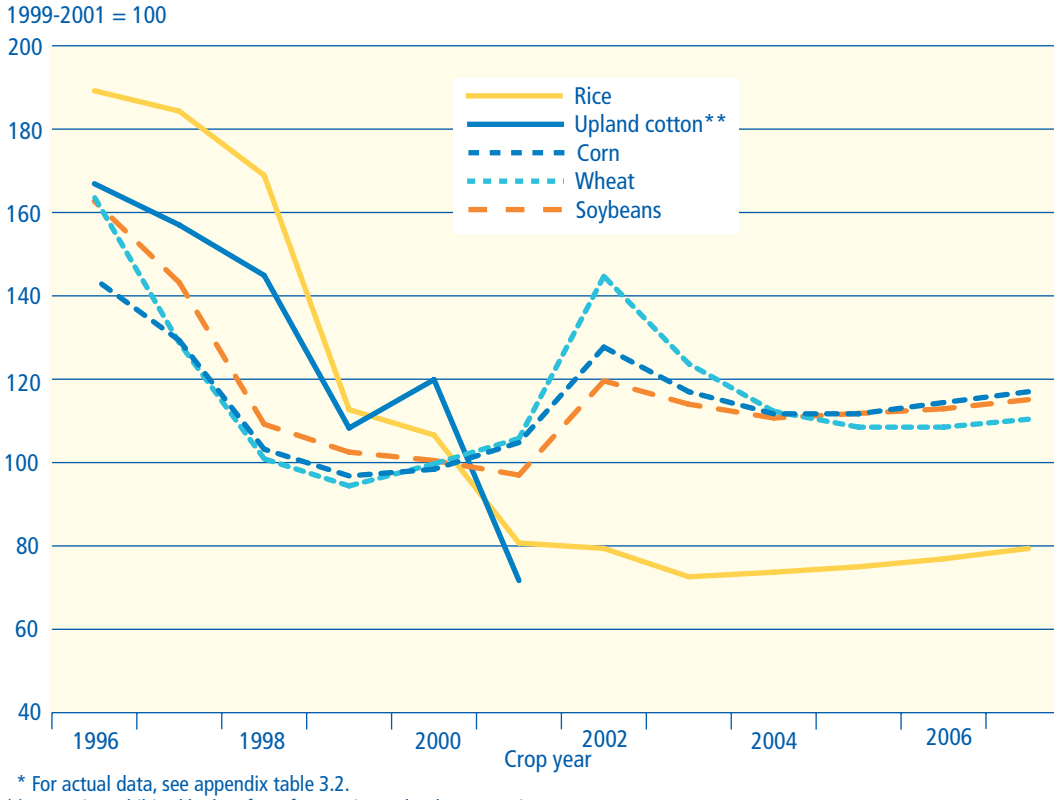
Source: USDA Farm Service Agency

Figure 3.3. **Projected payments to crop producers, 2002-2007**



Source: USDA Commodity Estimates Book FY2004 President's Budget

Figure 3.4. **Prices received for major crops, 1996-2007***



* For actual data, see appendix table 3.2.
** USDA is prohibited by law from forecasting upland cotton prices.
Source: USDA National Agricultural Statistics Service and USDA Commodity Estimates Book FY2004 President's Budget

prices is forecast to lower marketing assistance loan benefits from $8.2 billion for the 2001 crops to $1.8 billion for the 2002 crops. While prices for wheat, feed grains, and soybeans are expected to moderate as weather conditions return to normal, they are not expected to return to the lows experienced during 1999-2001 (figure 3.4).

For the 2002-07 crops, the proportion of payments going to corn producers is forecast in the FY 2004 President's Budget baseline to drop to 31 percent, while the proportion of payments going to upland cotton producers is forecast to increase to about 18 percent. Wheat producers are forecast to receive about 20 percent of payments for the 2002-07 crops; rice producers, 12 percent; soybean producers, 11 percent; other feed grain producers, 4 percent; and peanut producers, 3 percent. Other oilseed producers are forecast to receive less than 1 percent of total payments paid out for the 2002-07 crops.

PFC and direct payments

The 1996 Act specified the total amount of PFC payments that would be paid out for the 1996-2001 crops and how those payments would be allocated among eligible crops each year. Under the 1996 Act, PFC payments increased from $5.2 billion for the 1996 crops to $6.3 billion for the 1997 crops, declining thereafter. For the 2001 crops, PFC payments were $4.1 billion.

During 1996-98, the 1996 Act specified that the amount of PFC payments allocated to each crop be increased to reflect repayment of 1995-crop advance deficiency payments and be reduced to reflect deficiency payments paid on the 1994 and 1995 crops, causing the percentage of PFC payments going to each eligible crop to vary each year. Thereafter, the percentage of total PFC payments going to each eligible crop remained essentially fixed. For the 2001 crops, 46 percent of total PFC payments, or $1.9 billion, were paid to corn producers. Wheat producers received $1.1 billion; upland cotton producers, $0.5 billion; and rice producers, $0.4 billion. Sorghum, barley, and oats accounted for the remaining PFC payments of $0.3 billion made on the 2001 crops.

The 2002 Act replaced PFC payments for wheat, feed grains, upland cotton, and rice with direct payments for each commodity. In addition, the 2002 Act made soybeans, other oilseeds, and peanuts eligible for direct payments. According to the FY 2004 President's Budget baseline, producers will receive $5.2 billion annually in direct payments for the 2002-07 crops. Since payment rates and production eligible for payment are fixed through 2007, the amounts of direct payments paid out to each eligible crop are forecast to remain unchanged for the 2002-07 crops.

Direct payments for the 2002-07 crops are forecast to exceed 2001-crop PFC payments by 5 percent ($89 million) for corn, 6 percent ($68 million) for wheat, and 2 percent ($2 million) for barley, but fall below 2001-crop PFC payments for grain sorghum by 7 percent ($15 million). Direct payments for upland cotton and rice are expected to be 24 percent ($113 million) and 14 percent ($48 million) higher, respectively, than 2001-crop PFC payments. These changes in payments reflect differences in base acreage and payment rates under the two pay-

ment programs. For crops that were ineligible for PFC payments, soybean producers are forecast to receive annually $728 million in direct payments for the 2002-07 crops; other oilseed producers, $33 million; and peanut producers, $65 million. Corn producers are forecast to receive 38 percent of direct payments; wheat producers, 22 percent; soybean producers, 14 percent; upland cotton producers, 11 percent; rice producers, 8 percent; other feed-grain producers, 6 percent; peanut producers, 1 percent; and other oilseed producers, 1 percent.

Counter-cyclical payments

The 2002 Act replaced market loss assistance payments authorized for the 1998-2001 crops with counter-cyclical payments. Market loss assistance payments to wheat, feed grain, upland cotton, rice, soybean, other oilseed, and peanut producers ranged from $2.8 billion for the 1998 crops to $6.0 billion for the 2000 crops and averaged $5.0 billion annually during 1998-2001. Corn producers received slightly over 40 percent; wheat producers, 24 percent; upland cotton producers, 10 percent; rice producers, 8 percent; soybean and other oilseed producers, 7 percent; other feed-grain producers, 7 percent; and peanut producers, 1 percent of total market loss assistance payments made to crop producers during 1998-2001.

Counter-cyclical payments are forecast in the FY 2004 President's Budget baseline to average $4.4 billion per year for the 2002-07 crops. On average, about $1.4 billion per year or one-third of counter-cyclical payments for the 2002-07 crops are forecast to go to corn producers. Wheat and upland cotton producers are each forecast to receive about one-fifth ($0.9 billion annually) of counter-cyclical payments for the 2002-07 crops, while soybean and rice producers are projected to receive about 10 and 8 percent of counter-cyclical payments, respectively. Peanut and other feed grain producers are each forecast to receive 4 percent of total counter-cyclical payments.

Counter-cyclical payments vary from year to year, depending on market price levels for the various crops eligible for counter-cyclical payments. For the 2002 crops, the market price projections contained in the FY 2004 President's Budget baseline trigger counter-cyclical payments for three crops—upland cotton, rice, and peanuts. For each of these crops, counter-cyclical payment rates are forecast at the maximum rate permitted under the 2002 Act (target price minus the sum of the direct payment rate and the loan rate). For 2002 crops, upland cotton producers are forecast to receive $1.2 billion; rice producers, $0.3 billion; and peanut producers, $0.2 billion in counter-cyclical payments.

Increasing production and declining market prices for wheat, feed grains, and soybeans are expected to trigger counter-cyclical payments for those crops beginning with the 2003 crop year and counter-cyclical payments are forecast to reach a peak of $5.8 billion for the 2004-05 crops. However, if prices for all crops eligible for counter-cyclical payments fall below their respective loan rate, counter-cyclical payments could rise to $8 billion annually. Payments by crop could reach $3.5 billion for corn, $1.6 billion for wheat, $0.7 billion for soybeans and other oilseeds, and $0.2 billion for other feed grains in addition to the $1.2 billion for upland cotton, $0.3 billion for rice, and $0.2 billion for peanuts forecast to be paid out for the 2002 crops.

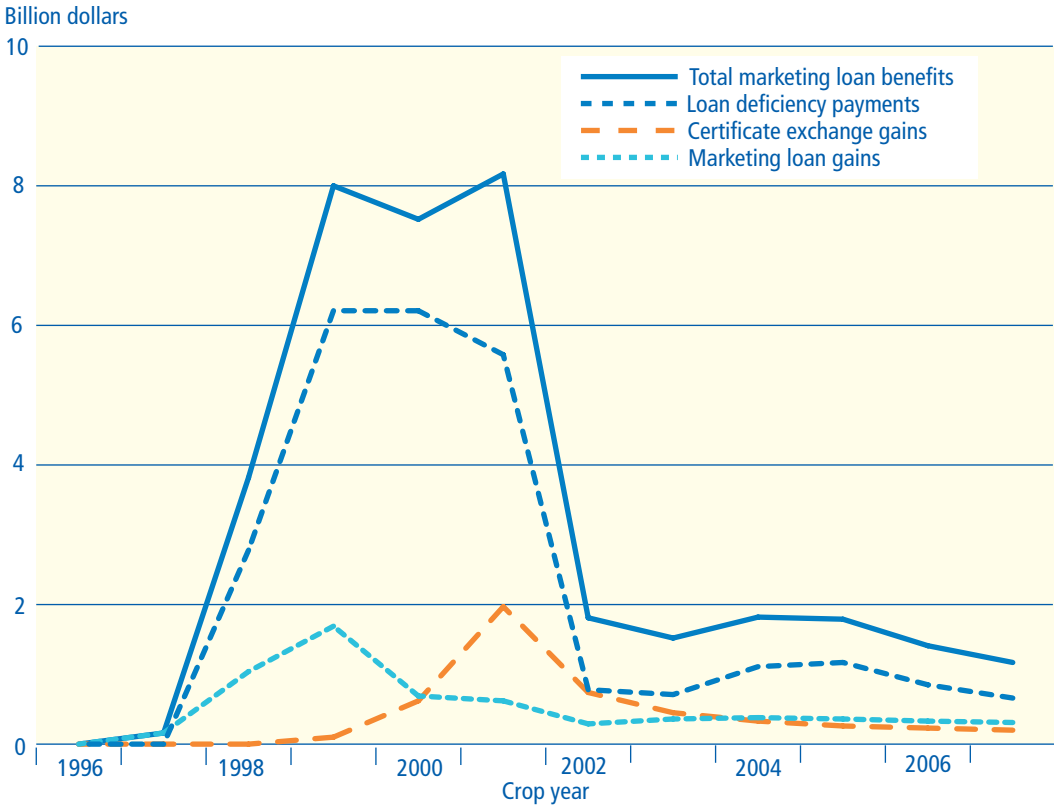
Marketing assistance loan benefits

Marketing assistance loans provide an additional safety net for producers when crop prices are low. The 1996 Act authorized marketing assistance loans for wheat, feed grains, rice, upland cotton, soybeans, and other oilseeds. The 2002 Act also made peanuts eligible for marketing assistance loans. For crops eligible for marketing assistance loans, producers receive benefits in the form of loan deficiency payments, marketing loan gains, certificate exchange gains, and loan forfeiture gains.

Marketing assistance loan benefits vary from year to year, depending on the level of market prices. For the 1996-2001 crops, marketing loan benefits averaged $4.6 billion per year, rising from zero in 1996 to a high of $8.2 billion in 2001 (figure 3.5). Marketing assistance loan benefits for corn reached a high of $2.6 billion for the 2000 crop and marketing assistance loan benefits for wheat peaked at $0.9 billion for the 1999 crop. In contrast, marketing assistance loan benefits for upland cotton, rice, and soybeans all peaked in 2001. In that year, low prices caused marketing assistance loan benefits to reach $2.5 billion for upland cotton, $3.4 billion for soybeans, and $0.7 billion for rice.

For the 1996-2001 crops, loan deficiency payments averaged $3.5 billion. Marketing loan and certificate exchange gains averaged $1.1 billion per year for the 1996-2001 crops. Congress amended the 1996 Act to authorize the issuance of commodity certificates in October 1999.

Figure 3.5. **Marketing assistance loan benefits, 1996-2007**



Source: USDA Farm Service Agency and USDA Commodity Estimate Book FY2004 President's Budget

Certificate exchange gains increased from $0.1 billion for the 1999 crops to $0.6 billion for the 2000 crops and reached $2.0 billion for the 2001 crops. In 2001, upland cotton and rice accounted for 99 percent of the total value of certificate exchange gains for all crops.

Marketing assistance loan benefits are forecast in the FY 2004 President's Budget baseline to drop from $1.8 billion for the 2002 crops to $1.2 billion for the 2007 crops. The decline reflects improvement in market prospects for wheat, feed grains, soybeans, and upland cotton. Certificate exchange gains are forecast to decline from $0.7 billion for the 2002 crops to $0.2 billion for the 2007 crops. Throughout this period, upland cotton and rice are projected to account for essentially all of the marketing assistance loan benefits realized from using certificates.

Marketing assistance loan benefits are forecast to average $1.6 billion per year for the 2002-07 crops in the FY 2004 President's Budget baseline, but this forecast is greatly influenced by assumptions on market prices for crops eligible for marketing assistance loans. Low prices pushed marketing loan assistance benefits to $8.2 billion for the 2001 crops, more than four times the peak projected for the 2002-07 crops. In addition to the potential for low prices to push marketing assistance loan benefits higher, the 2002 Act also increased loan rates for feed grains and wheat.

Adjusting marketing assistance loan benefits for the 1999-2001 crops for the change in loan rates under the 2002 Act suggests that marketing loan benefits could reach $3.5 billion for corn, $1.4 billion for wheat, and $2.6 billion for soybeans if market prices returned to the lows experienced for the 1999-2001 crops. Coupled with potential marketing assistance loan benefits of $2.5 billion for upland cotton, $0.7 billion for rice, and $0.7 billion for other feed grains, other oilseeds, and peanuts, total marketing loan benefits could eclipse $11 billion annually under the 2002 Act if market prices fall back to 1999-2001 levels.

The FSA could not provide the Commission with information on forfeiture gains. The FSA was able to provide information on the amount of each crop forfeited to the Commodity Credit Corporation (CCC) and the average marketing loan gain by crop year. The quantity of each crop forfeited was multiplied by the average marketing loan gain to provide an estimate of forfeiture gains for crop years 1999-2001.

Total forfeiture gains for all crops eligible for marketing assistance loans were estimated to be below $50 million for each of the 1999-2001 crop years, as forfeitures of wheat, feed grains, upland cotton, rice, and soybeans generally amounted to less than 1 percent of total production of each crop (table 3.1). Forfeitures of wheat exceeded 1 percent of production in 1999 and forfeitures of both rice and upland cotton exceeded 1 percent of production in 2001. In each instance, forfeitures did not exceed 2 percent of production.

Under the nonrecourse marketing assistance loan, producers may use commodity certificates to settle the loan and reestablish unencumbered control of all or a portion of the collateral used to secure the loan. This three-step process is outlined in Chapter 1 and further discussed in Chapter 4. In the absence of commodity certificates, producers reaching the payment limit on loan deficiency payments and marketing loan gains would have settled more mar-

keting assistance loans through forfeiture of the collateral to the CCC. The FSA could not provide the Commission with an estimate of the additional forfeitures that would have occurred had commodity certificates not been issued for the 1999-2001 crops.

Distribution of Payments by Person

The producers (persons) on a farm must meet certain requirements to be eligible for payments and marketing assistance loan benefits. These requirements include compliance with conservation and wetland provisions and restrictions on the planting of fruits, vegetables, and wild rice on base acres of crops eligible for payments. Payments to individuals and entities are recorded and tracked by the FSA to ensure that each person's payments do not exceed the specified limits.

For the 2001 crop year, the FSA indicates that $4.1 billion in PFC payments were paid to 1.2 million payees on 1.7 million farms. These payees include individuals, partnerships, corporations, public institutions, and other payment recipients. Nearly 1.1 million or 91 percent of the payees receiving PFC payments received $10,000 or less and these payees received 43 percent of all PFC payments (table 3.2). Six percent of the payees receiving PFC payments received $10,001-$20,000 and this group received 25 percent of all PFC payments. About 3 percent of all payees received $20,001-$40,000 and less than 1 percent received more than $40,000 in PFC payments in 2001. These two groups accounted for 22 and 10 percent of

Table 3.1 Crop forfeitures and estimated forfeiture gains, 1999-2001 crops

		Forfeitures			Avg. marketing loan gain			Estimated forfeiture gains		
		Million units			Dollars per unit			Million dollars		
Crop	Unit	1999	2000	2001	1999	2000	2001	1999	2000	2001
Corn	bushel	31.7	26.6	0.6	0.32	0.17	0.09	10.1	4.5	0.1
Sorghum	bushel	0.8	0.4	--	0.26	0.21	0.04	0.2	0.1	--
Barley	bushel	1.3	0.7	0.2	0.14	0.17	0.06	0.2	0.1	--
Oats	bushel	--	0.1	--	0.19	0.21	0.05	--	--	--
Wheat	bushel	30.0	12.7	9.6	0.41	0.43	0.12	12.3	5.5	1.2
Upland cotton	pound	2.2	33.2	112.2	0.20	0.09	0.27	0.4	3.0	30.3
Rice	hundredweight	0.1	--	4.4	2.18	3.29	3.29	0.2	--	14.4
Soybeans	bushel	11.5	5.7	1.4	0.80	0.95	1.04	9.2	5.4	1.5

Source: USDA Farm Service Agency

Table 3.2 Distribution of production flexibility contract payments by size of payment, 2001

	Payees	Payments
Size of payment	Percent	
$10,000 or less	90.9	42.6
$10,001-$20,000	5.9	24.7
$20,001-$30,000	2.0	14.6
$30,001-$40,000	0.8	7.9
$40,001-$50,000	0.1	1.8
$50,001-$100,000	0.3	5.1
More than $100,000	0.1	3.3

Source: USDA Farm Service Agency

PFC payments, respectively, in 2001. Since PFC payments were limited to $40,000 per person, payees receiving more than $40,000 in payments were either exempt from the payment limit (public schools) or payees that included multiple persons, such as partnerships.

For the 2001 crops, 730,234 payees received loan deficiency payments and marketing loan gains. Seventy-nine percent of the payees receiving loan deficiency payments and marketing loan gains received $10,000 or less (table 3.3). This group accounted for 23 percent of total loan deficiency payments and marketing loan gains paid that year. Ten percent of the payees receiving loan deficiency payments and marketing loan gains received $10,001-$20,000 in payments and 17 percent of payments went to this group. Seven percent of the payees receiving loan deficiency payments and marketing loan gains received $20,001-$40,000 and 3 percent received $40,001-$85,000. Twenty-three and 20 percent of payments went to these two groups, respectively. Seventeen percent of payments went to the less than 1 percent of payees that received more than $85,000 in loan deficiency payments and marketing loan gains.

Slightly over 1 percent of all payees received more than the current payment limit of $75,000 in loan deficiency payments and marketing loan gains. These payees received about one-fifth of total loan deficiency payments and marketing loan gains paid on 2001 crops. For the 2001 crops, loan deficiency payments and marketing loan gains were limited to $150,000 per person.

The Commission requested that the FSA provide information on certificate exchange gains by State and the size distribution of certificate exchange gains by payee. The information provided by the FSA excluded certificate exchange gains on loans administered by grain cooperative marketing associations, primarily rice, but included certificate exchange gains on loans administered by other cooperative marketing associations and loan servicing agents. The payee or recipient of the certificate exchange gain is the individual or entity who was identified on the loan agreement when the loan was obtained from the CCC and the "contact producer" identified on upland cotton loans administered by cooperative marketing associations and loan servicing agents. In the case of grain cooperative marketing associations, the FSA only has records pertaining to the grain cooperative marketing association, not for the individual or entity receiving the certificate exchange gain. The FSA requested that

Table 3.3 Distribution of loan deficiency payments and marketing loan gains by size of payment, 2001

Size of payment	Payees	Payments
	Percent	
$10,000 or less	79.0	22.5
$10,001-$20,000	10.1	17.3
$20,001-$30,000	4.6	13.3
$30,001-$40,000	2.3	9.7
$40,001-$50,000	1.3	7.0
$50,001-$60,000	0.8	5.2
$60,001-$70,000	0.5	3.8
$70,001-$85,000	0.5	4.2
More than $85,000	0.9	17.1

Source: USDA Farm Service Agency

grain cooperative marketing associations provide the Commission information on certificate exchange gains by State and the size distribution of certificate exchange gains by payee, but such information was not provided prior to the completion of this study.

The data provided by the FSA indicate that certificate exchange gains amounted to $1.7 billion for the 2001 crops, with upland cotton producers receiving 98 percent of certificate exchange gains. In contrast, the FY 2004 President's Budget baseline indicates that certificate exchange gains amounted to $2.0 billion for the 2001 crops, with upland cotton and rice producers receiving 99 percent of certificate exchange gains. The largest discrepancy between the distributional data provided by the FSA and the FY 2004 President's Budget baseline was for rice, followed by upland cotton.

The distributional data suggest that rice producers received $22 million in certificate exchange gains for the 2001 crop, whereas the FY 2004 President's Budget baseline indicated rice producers received $206 million in certificate exchange gains that year. This discrepancy reflects the fact that many producers market their rice through grain cooperative marketing associations and the FSA could not provide the Commission with information on payees receiving certificate exchange gains through grain cooperative marketing associations. For upland cotton, the distributional data provided by the FSA for the 2001 crops understated certificate exchange gains by $80 million or 4.6 percent. For wheat, feed grains, and oilseeds, the distributional data understated certificate exchange gains by less than $10 million in 2001.

The data provided by the FSA on certificate exchange gains by State generally reflect upland cotton marketings in 2001. Texas producers received $300 million in certificate exchange gains for the 2001 crops, the largest amount of any State (table 3.4). Mississippi producers received $256 million in certificate exchange gains in 2001, followed by Arkansas ($203 mil-

Table 3.4 Certificate exchange gains by State, 2001 crops

State	Dollars	State	Dollars
Alabama	61,498,002	**Mississippi**	256,015,002
Arizona	54,905,041	**Missouri**	80,542,801
Arkansas	202,854,504	**Montana**	121
California	188,807,391	**Nebraska**	517,020
Colorado	405,206	**New Mexico**	8,137,591
Delaware	92,422	**New York**	1,312
Florida	10,172,654	**North Carolina**	111,464,392
Georgia	145,799,675	**North Dakota**	83,589
Illinois	1,569,924	**Ohio**	260,240
Indiana	582,003	**Oklahoma**	15,825,007
Iowa	692,492	**South Carolina**	30,453,959
Kansas	3,580,883	**South Dakota**	1,079,445
Kentucky	526,939	**Tennessee**	99,677,152
Louisiana	113,348,009	**Texas**	299,663,184
Maryland	477,169	**Virginia**	9,948,798
Michigan	7,104	**Washington**	333
Minnesota	162,266	**Wisconsin**	1,435
		U.S. total	**1,699,153,065**

Source: USDA Farm Service Agency

lion), California ($189 million), Georgia ($146 million), Louisiana ($113 million), North Carolina ($111 million), and Tennessee ($100 million). Producers in each of the remaining States received less than $100 million in certificate exchange gains in 2001.

For the 2001 crops, the FSA data indicate that 23,465 payees received certificate exchange gains, averaging $72,412 per payee. Sixty-one percent or 14,419 payees received $50,000 or less in certificate exchange gains in 2001 and these payees accounted for 12 percent of certificate exchange gains (table 3.5). Payees receiving from $50,001 to $100,000 in certificate exchange gains accounted for 16 percent of all payees and 16 percent of certificate exchange gains received, while the 8 percent of payees receiving $100,001 to $150,000 in certificate exchange gains accounted for 14 percent of the gains. Fourteen percent of all payees received more than $150,000 in certificate exchange gains, and they accounted for 58 percent of all certificate exchange gains.

The FSA data on certificate exchange gains do not indicate the amount by which payments may have exceeded the per-person payment limit of $150,000 in loan deficiency payments and marketing loan gains for the 2001 crops, for several reasons. First, the contact producer or payee may be multiple persons, such as a partnership. Second, rice and upland cotton producers market a large portion of their production through cooperatives. These cooperatives may purchase and use certificates on behalf of their producer members. In order to avoid the cost and market disruption of tracking payments to individual producers, the cooperatives use certificates on a much larger portion of their marketings than would be subject to payment limits if producers individually marketed their crop. Lastly, in the absence of certificates, many producers reaching the payment limit on loan deficiency payments and marketing loan gains would likely forfeit the commodity placed under loan and receive a forfeiture gain. As mentioned earlier, the Commission was unable to determine how large forfeiture gains would have been if producers did not have the option of using certificates to settle their marketing assistance loans.

Table 3.5 Distribution of certificate exchange gains by size of payment, 2001 [1]

Size of payment	Payees	Payments
	Percent	
$50,000 or less	61.4	11.9
$50,001-$100,000	16.1	16.0
$100,001-$150,000	8.5	14.4
$150,001-$200,000	4.9	11.7
$200,001-$250,000	3.1	9.6
$250,001-$300,000	1.7	6.4
$300,001-$350,000	1.2	5.5
$350,001-$400,000	0.7	3.8
$400,001-$450,000	0.5	2.7
$450,001-$500,000	0.5	3.2
$500,001-$1,000,000	1.2	10.6
More than $1,000,000	0.2	4.1

[1] Excludes certificate exchange gains associated with grain cooperative marketing associations.
Source: USDA Farm Service Agency

Economic Research Service Data on Payments

This section provides an overview of government payments as reported in the ERS farm income accounts, information on the characteristics of farms receiving payments, and data on the distribution of payments across States and farms. In order to be comparable with other components of farm income, farm program payments are reported by the ERS on a calendar-year basis. The information presented on the characteristics of farms receiving payments and payments received by various types of farms are based on data from the ARMS. Many producers receive conservation payments but Congress did not direct the Commission to study these payments. Consequently, the Commission requested that the ERS make special tabulations of the ARMS data excluding conservation payments.

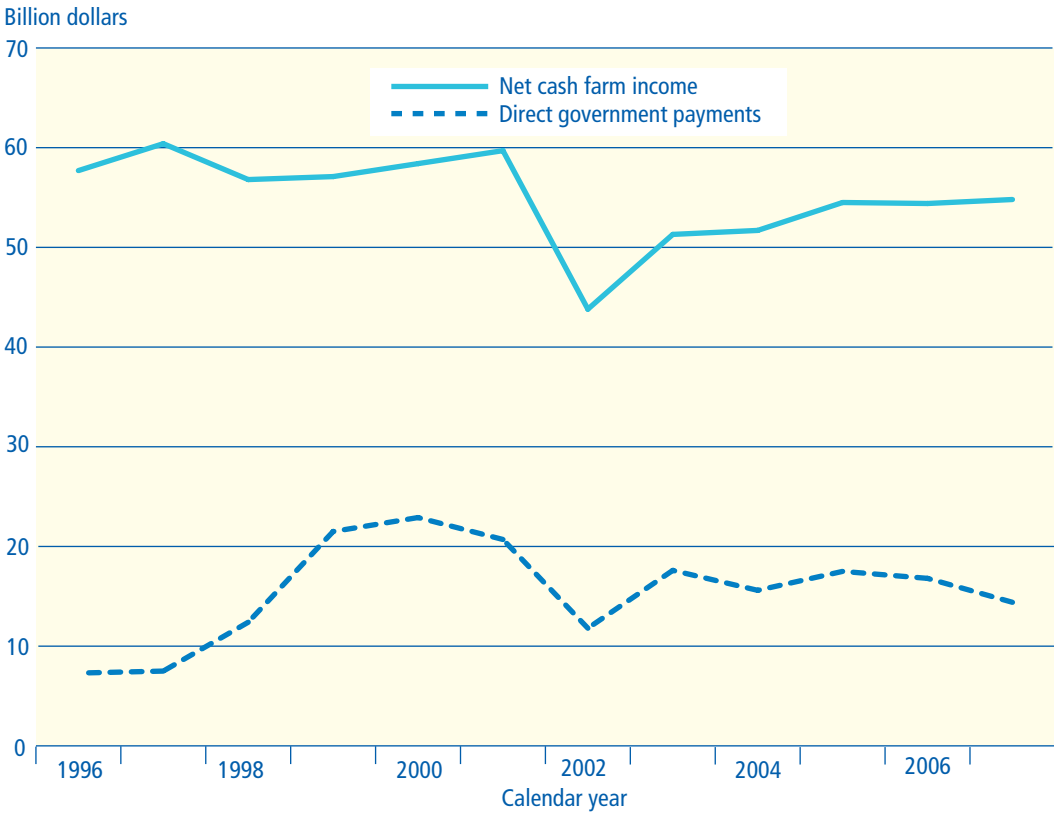
Data from the ARMS indicate that 726,062 farming operations received government payments, whereas data from the FSA indicate that 1.7 million farm units received PFC payments in 2001. The FSA relies on the operator to specify the acreage being farmed, while the ERS has adopted the USDA's National Agricultural Statistics Service (NASS) definition of a farming operation—any establishment from which $1,000 or more of agricultural products were sold or would normally be sold during the year. Since the farm definition used by the ERS leads to fewer farms receiving payments, average payments per farm are much higher than would be indicated by the FSA data.

Payments in Relation to Farm Income

During calendar years 1996-2001, direct payments to farmers and ranchers averaged $15.4 billion per year, but declining market prices and emergency assistance authorized by Congress in the form of market loss and disaster payments caused direct payments to average $21.7 billion per year during 1999-2001 (figure 3.6 and appendix table 3.3). Producers received on average $4.7 billion in PFC payments, $6.8 billion in marketing loan benefits, $8.2 billion in emergency assistance, and $2 billion in conservation and other payments during 1999-2001 (appendix table 3.4). Farm program payments averaged 11 percent of total farm cash receipts, 23 percent of total crop receipts, and 37 percent of net cash farm income over the period 1999-2001.

Direct payments dropped to slightly over $11.8 billion in calendar year 2002 (appendix table 3.4). In 2002, payments came from a mix of programs under both the 1996 and 2002 Acts. PFC payments in 2002 were $3 billion and direct payments under the 2002 Act amounted to $0.4 billion. Reduced production and higher market prices for wheat, feed grains, upland cotton, and soybeans reduced marketing loan benefits from $6.2 billion in 2001 to $2.6 billion in 2002. Peanut quota holders received $1 billion under the 2002 Act's quota buyout program, $0.9 billion in 2002 Act payments went to dairy producers to compensate for low prices, and producers participating in conservation programs received $1.8 billion in payments in 2002. In 2002, farm program payments were equivalent to 6 percent of total farm cash receipts, 12 percent of crop cash receipts, and 27 percent of net cash farm income.

Figure 3.6. **Net cash farm income and government payments, 1996-2007**



Source: USDA Economic Research Service and USDA Agriculture Baseline Projections to 2012

During calendar years 2003-07, direct payments to farmers and ranchers are projected under the FY 2004 President's Budget baseline to average $16.4 billion per year, reaching a high of slightly over $17.5 billion in 2003 and falling to a low of $14.4 billion in 2007. Payments are expected to increase in 2003 as increasing crop production is forecast to lower prices for wheat, feed grains, and oilseeds. In addition, many producers elected to sign up for payments under the 2002 Act after December 31, 2002, pushing a large portion of 2002 crop-year payments into calendar year 2003. Over the period 2003-07, farm program payments are forecast to average 8 percent of total farm cash receipts, 16 percent of crop cash receipts, and 31 percent of net cash farm income.

Government Payments by State

The ERS reports farm income and government payments by State and the NASS reports the number of farms by State. Information on the number of farms and government payments by State provides an indication of the diversity in the level of payments and payments per farm across States. In many States, conservation payments are a substantial share of government payments, but Congress did not direct the Commission to study conservation payments and they are not considered in the following discussion.

Farm program payments (excluding conservation payments) vary by State, reflecting the location of base acres and production of commodities eligible for payments. During 1999-2001, Iowa received, on average, more than $1.9 billion in PFC payments, marketing assistance loan benefits, and emergency assistance, the largest amount of any State; followed by Illinois, $1.8 billion; Texas, $1.6 billion; Nebraska, $1.3 billion; Minnesota, $1.3 billion; Kansas, $1.1 billion; North Dakota, $0.9 billion; Indiana, $0.9 billion; Arkansas, $0.8 billion; and Missouri, $0.7 billion (appendix table 3.5).

Comparing the dollar amount of payments per farm across States during 1999-2001 indicates that average farm payments per farm were the highest in North Dakota, $29,700; followed by Nebraska, $24,100; Illinois, $22,700; South Dakota, $21,100; Iowa, $20,200; Kansas, $17,600; Arkansas, $17,300; Minnesota, $16,200; Louisiana, $14,300, and Indiana, $13,600. Payments amounted to 96 percent of net cash farm income in Illinois, 81 percent in North Dakota, 77 percent in Indiana, and over 60 percent in Minnesota, Kansas, Louisiana, Iowa, Nebraska, Missouri, and Montana.

These figures indicate that payments are particularly important to the rural economies of several Midwest, Delta, and Northern and Southern Plains States. Producers in other States receive payments but payments tend to be smaller and tend to account for a smaller portion of net cash income. In States in which payments are relatively less important, livestock and fruit and vegetable production tend to account for a higher proportion of total farm receipts and farm income.

Government Payments by Farm

At the request of the Commission, the ERS made special tabulations of the ARMS data to provide information on the characteristics of farms that receive government payments. Since Congress did not direct the Commission to study conservation payments, these payments are excluded from government payments unless otherwise indicated.

The NASS reports that there were 2.15 million farms in the United States in 2001. The ARMS indicates that 41 percent of all farms, or 880,000 farms, received government payments, including conservation payments, in calendar year 2001. When conservation payments are excluded, the number of farms receiving payments falls to 726,062 and the percentage of farms receiving payments drops to 34 percent. On farms receiving government payments, the average payment per farm amounted to $18,374 in 2001. Government payments were the equivalent of 13 percent of gross cash income and 61 percent of net cash income on farms receiving government payments. The gross income of farms receiving government payments averaged $145,498 and net cash income averaged $30,063 in 2001. In comparison, the gross income of all farms averaged $85,612 and net cash income averaged $16,706 in 2001.

Payments by farm typology

ERS splits farms into three distinct categories—rural residence farms, intermediate farms, and commercial farms. Rural residence farms are defined as farms in which the farm operator's major occupation is something other than farming. Sixty percent of farms in the United States in 2001 fell into the category of rural residence farms. Twenty-one percent of these farms received government payments (excluding conservation) in 2001 (table 3.6). Rural residence farms receiving payments received on average $4,827 in government payments. These payments were equivalent to 17 percent of their gross cash income and over 200 percent of their net cash income. Rural residence farms accounted for 38 percent of all farms receiving government payments and they received 10 percent of total government payments in 2001.

Intermediate farms are farms in which the farm operator reports farming as the major occupation and the farm had sales of less than $250,000. Thirty-one percent of farms were in this category in 2001. One-half of all intermediate farms received government payments; payments averaged $13,865. Intermediate farms receiving payments accounted for 45 percent of all farms receiving payments and these farms received 34 percent of all payments. For farms in this category receiving payments, government payments were equivalent to 16 percent of gross cash income and 77 percent of net cash income.

Table 3.6 Number of farms, average government payments (excluding conservation), and the contribution of payments to farm income by farm typology, 2001

	Unit	All farms	Rural residence farms	Intermediate farms	Commercial farms
All farms	number	2,149,683	1,286,549	659,962	203,172
Average gross cash income	dollar	85,612	11,843	66,419	615,087
Average net cash income	dollar	16,760	-2,042	12,942	148,221
Average government payments	dollar	6,206	1,026	6,925	36,673
Percent of gross cash income	percent	7.2	8.7	10.4	6.0
Percent of net cash income	percent	37.0	-50.2	53.5	24.7
Farms receiving government payments	number	726,062	273,351	329,620	123,091
Percent of all farms	percent	33.8	21.2	49.9	60.6
Average gross cash income	dollar	145,498	28,647	88,353	558,019
Average net cash income	dollar	30,063	2,256	17,961	124,220
Average government payments	dollar	18,374	4,827	13,865	60,532
Percent of gross cash income	percent	12.6	16.8	15.7	10.8
Percent of net cash income	percent	61.1	213.9	77.2	48.7
Average PFC payments	dollar	5,853	1,275	4,606	19,357
Average loan deficiency payments	dollar	6,674	1,735	4,364	23,831
Average market loss and disaster payments	dollar	4,354	1,184	3,814	12,837
Average other payments [1]	dollar	1,493	633	1,081	4,507
Farms receiving no government payments	number	1,423,621	1,013,197	330,342	80,082
Percent of all farms	percent	66.2	78.8	50.1	39.4
Average gross cash income	dollar	64,870	9,109	46,423	715,586
Average net cash income	dollar	9,975	-3,202	7,933	185,110

[1] Certificate exchange gains included in other payments.
Source: USDA Economic Research Service, ARMS

Commercial farms are farms with sales of $250,000 or more and the farm operator reports farming as the major occupation. Ten percent of all farms were commercial farms in 2001. In 2001, 61 percent of commercial farms received government payments; payments averaged $60,532. Commercial farms receiving payments accounted for 17 percent of all farms receiving payments and these farms received 56 percent of all government payments. Government payments amounted to 11 percent of gross cash income and 49 percent of net cash income for commercial farms receiving government payments.

Characteristics of farms receiving government payments

Since government payments (excluding conservation) are determined by the number of base acres and the amount of production of crops eligible for payments, payments increase with farm size and sales. As a result, payments tend to be concentrated among the larger farms. Even so, government payments often make a significant contribution to farm income regardless of the farm's size and income.

Table 3.7 Characteristics of all farms and farms receiving government payments (excluding conservation), 2001

	Distribution of total payments	Percent of all farms	Percent receiving payments	Distribution of farms receiving payments	Payments as a percent of gross cash income[1]	Payments as a percent of net cash income[1]	Payments per farm receiving payments
	Percent						Dollars
All farms	100	100	34	100	13	61	18,374
Economic class							
$500,000 or more	30	3	66	6	9	41	89,419
$250,000 to $499,999	25	4	77	9	14	63	48,596
$100,000 to $249,999	25	9	70	18	15	63	24,681
$50,000 to $99,999	11	8	69	16	17	83	12,575
$10,000 to $49,999	8	21	49	30	17	370	4,991
Less than $10,000	1	55	12	20	19	-32	1,093
Farm type							
Cash grain	49	10	92	28	20	97	31,898
Oilseeds	8	4	85	9	22	94	15,784
Rice	3	--	100	1	29	97	116,614
Cotton	7	1	89	2	22	120	55,523
Other crops	12	28	23	18	11	46	12,073
Livestock	21	57	32	42	7	53	9,321
Farm typology							
Rural residence farms	10	60	21	38	17	214	4,827
Intermediate farms	34	31	50	45	16	77	13,865
Commercial farms	56	10	61	17	11	49	60,532
Net cash income							
$100,000 or more	35	5	67	9	10	27	69,951
$40,000 to $99,999	22	7	72	15	13	44	27,321
$10,000 to $39,999	18	13	59	22	16	67	15,219
$1 to $9,999	7	22	32	20	18	152	5,831
$0 to -$9,999	5	39	19	21	18	-100	4,488
-$10,000 to -$39,000	6	13	23	9	17	-59	11,562
Less than -$40,000	8	2	54	4	13	-26	38,608

[1]For farms receiving government payments.
Source: USDA Economic Research Service, ARMS

In 2001, 7 percent of all farms and 16 percent of farms receiving government payments had more than $250,000 in sales (table 3.7). Farms with sales of $250,000 or more received 55 percent of government payments in 2001 and they received on average $64,815 in government payments. On these farms, government payments amounted to 11 percent of gross cash income and 49 percent of net cash income.

Seventeen percent of all farms and 35 percent of farms receiving government payments had sales of $50,000 to $249,999 in 2001. These farms received 36 percent of government payments and they received on average $19,033 in government payments in 2001. On these farms, government payments amounted to 16 percent of gross cash income and 68 percent of net cash income.

Seventy-six percent of all farms and 50 percent of farms receiving government payments sold less than $50,000 in agricultural products in 2001. These farms received 9 percent of government payments and they received on average $3,437. Government payments amounted to 17 percent of gross cash income and exceeded net cash income on these farms.

Net cash farm income varies considerably across farms receiving government payments. In 2001, 9 percent of farms receiving government payments had net cash farm of $100,000 or more and they received 35 percent of government payments. These farms received on average $69,951 in government payments. Government payments amounted to 10 percent of their gross cash income and 27 percent of their net cash income.

Thirty-six percent of farms receiving government payments in 2001 had net cash income of $10,000 to $99,999 and they received 40 percent of all government payments. Government payments averaged $20,125 on these farms. For this group of farms, government payments were equivalent to 14 percent of gross cash income and 52 percent of net cash income.

Fifty-five percent of farms receiving government payments in 2001 had net cash income of less than $10,000 in 2001. These farms received 26 percent of all government payments and received on average $8,602. Government payments amounted to 16 percent of gross cash income and exceeded net cash income on these farms.

Government payments also vary by farm type. Specialized farms are those where one commodity accounts for 50 percent or more of the total value of production of all commodities. Farms specializing in the production of crops eligible for government payments receive more in payments than farms that specialize in the production of fruits, vegetables, or livestock. In addition, per-farm payments also vary considerably for farms that specialize in the production of crops eligible for payments. While payments vary considerably across farm types, government payments generally contribute significantly to the incomes of farms producing a wide range of commodities.

In 2001, farms receiving payments and specializing in cotton and rice production received on average $55,523 and $116,614, respectively, in government payments, greatly exceeding average payments to other specialized crop farms. Government payments on these two specialized crop farms exceeded 20 percent of gross cash income and amounted to 97 percent of net cash income for rice farms and 120 percent of net cash income for cotton farms.

Government payments averaged from $31,898 on farms specializing in cash grain (corn, wheat, and other feed grains) production to $15,784 on farms specializing in oilseed (soybean, other oilseed, and peanut) production. Government payments on specialized cash grain and oilseed farms ranged from 20 to 22 percent of gross cash income and 94 to 97 percent of net cash income. Many beef cattle, hog, and dairy producers also receive government payments. For specialized livestock producers receiving payments, government payments averaged 7 percent of gross cash income and 53 percent of net cash income.

Since government payments increase with farm size, farms with above-average net worth tend to receive larger than average government payments. In 2001, 59 percent of government payments went to producers on farms with a net worth of $600,000 or more. Twenty-

Table 3.8 Characteristics of farms receiving payments (excluding conservation) by size of payment, 2001

	No payments	Less than $10,000	$10,000-$19,999	$20,000-$39,999	$40,000-$79,999	Over $80,000
	Number					
Number of farms	1,423,621	445,333	104,154	87,899	52,677	35,999
	Dollars					
Average payment	0	3,051	14,605	27,915	55,924	138,958
	Percent					
Economic class						
$500,000 or more	2	1	3	10	14	55
$250,000 to $499,999	1	2	8	19	39	36
$100,000 to $249,999	4	9	27	49	41	9
$50,000 to $99,999	4	12	40	19	–	–
$10,000 to $49,999	16	43	22	–	–	–
Less than $10,000	73	32	–	–	–	–
Acres operated						
2,000 acres or more	1	3	7	13	22	50
1,000-1,999 acres	2	5	9	18	38	40
500-999 acres	3	9	27	37	34	8
250-499 acres	8	21	36	26	–	–
100-249 acres	20	34	17	5	–	–
Less than 100 acres	66	29	–	–	–	–
Net cash farm income						
$100,000 or more	2	2	6	14	28	60
$40,000 to $99,999	3	8	20	33	32	17
$10,000 to $39,999	8	18	38	27	16	7
$1 to $9,999	22	28	14	6	4	–
$0 to - $9,999	48	30	13	–	–	–
Less than - $10,000	17	13	9	15	18	13
Net worth						
$900,000 or more	7	12	19	36	43	58
$600,000-$899,999	7	10	21	20	17	11
$300,000-$599,999	24	23	29	25	24	17
$75,000-$299,999	47	41	28	17	13	9
Less than $75,000	15	13	–	–	–	–

– = Insufficient observations prevent estimation.
Source: USDA Economic Research Service, ARMS

one percent of all farms and 34 percent of farms receiving payments had a net worth of $600,000 or more in 2001. In contrast, 55 percent of all farms and 42 percent of farms receiving government payments had net worth of less than $300,000. These farms received 20 percent of government payments in 2001.

Distribution of payments

Farms that operate larger acreages of program crops and have higher-than-average sales, income, and net worth generally receive larger payments, but there are exceptions. Sixty-one percent of the farms receiving government payments received less than $10,000 in government payments in 2001. These farms received 10 percent of government payments and, on average, received $3,051. Seventy-five percent of these farms had less than $50,000 in sales and 71 percent had net cash income below $10,000 (table 3.8). The majority of these farms also had net worth in 2001 of less than $300,000. However, 17 percent of farms receiving less than $10,000 in payments were 500 acres or larger and 22 percent had net worth of $600,000 or more.

In 2001, 36,000 farms received more than $80,000 in payments; their payments averaged $138,958. These farms, which account for 2 percent of all farms and 5 percent of farms receiving government payments, received 38 percent of all government payments. Fifty-five percent of these farms had sales of more than $500,000 and another 36 percent had sales of $250,000-$499,999 in 2001. Sixty percent had net cash farm income of $100,000 or more and about the same percentage had net worth of $900,000 or more. In contrast, 9 percent of the farms receiving over $80,000 in payments had sales of less than $250,000 and many farms in this group also had low cash farm income and low net worth. One-fifth of the farms receiving $80,000 or more in payments had net cash farm income of less than $40,000 and 9 percent had net worth of $300,000 or less. Without government payments, over one-third of the farms receiving more than $80,000 in payments would have had negative net cash income in 2001.

Payments in relation to the value of production

Government payments increase with farm size and sales because of the link between payments, base acres, and production of crops eligible for government payments. As a result, the distribution of payments tends to reflect the distribution of agricultural production. In 2001, the 34 percent of farms that received government payments (excluding conservation payments) accounted for 55 percent of the value of agricultural production (table 3.9).

Even though government payments increase with farm size and sales, payments tend to be less concentrated among farms with large sales and higher net worth than total agricultural production. In 2001, 48 percent of the value of all agricultural production on farms that received government payments occurred on farms with sales of $500,000 or more, while farms in this sales category received 30 percent of all government payments (table 3.10). Farms with net worth of $900,000 or more accounted for 53 percent of the value of agricultural production on farms receiving government payments and they received 43 percent of government payments in 2001 (table 3.11).

Table 3.9. Distribution of farms, production, and government payments (excluding conservation) by size of payment, 2001

Size of payment	All Farms	Value of production on all farms	Farms receiving payments	Value of production on farms receiving payments	Payments
	Percent				
No payments	66.2	44.9	0	0	0
$1-$9,999	20.7	13.8	61.3	25.1	10.2
$10,000-$19,999	4.8	7.0	14.3	12.8	11.4
$20,000-$39,999	4.1	12.2	12.1	22.2	18.8
$40,000-$79,999	2.5	8.9	7.3	16.1	22.1
$80,000 or more	1.7	13.1	5.0	23.8	37.5

Source: USDA Economic Research Service, ARMS

Table 3.10. Distribution of farms, production, and government payments (excluding conservation) by sales class, 2001

Sales class	All Farms	Value of production on all farms	Farms receiving payments	Value of production on farms receiving payments	Payments
	Percent				
Less than $50,000	76.1	6.8	49.9	5.0	9.4
$50,000-$99,999	7.8	5.7	16.1	6.7	11.0
$100,000-$249,999	8.9	16.4	18.4	20.2	24.7
$250,000-$499,999	4.1	15.1	9.4	20.1	24.8
$500,000 or more	3.2	55.9	6.2	48.0	30.1

Source: USDA Economic Research Service, ARMS

Table 3.11. Distribution of farms, production, and government payments (excluding conservation) by net worth, 2001

Net worth	All Farms	Value of production on all farms	Farms receiving payments	Value of production on farms receiving payments	Payments
	Percent				
Less than $75,000	12.9	4.7	9.8	4.7	4.6
$75,000-$299,999	42.1	11.2	32.8	11.1	15.2
$300,000-$599,999	24.2	18.2	24.0	17.5	21.5
$600,000-$899,999	9.1	11.5	13.4	13.7	15.5
$900,000 or more	11.7	54.4	20.1	53.1	43.2

Source: USDA Economic Research Service, ARMS

Conclusions

- Government payments (PFC payments, marketing loss assistance, and marketing loan benefits) averaged $18.5 billion for the 1999-2001 crops. For the 2002 crops, government payments are forecast to decline to under $9 billion, as declining supplies due to adverse weather have bolstered crop prices. For the 2003-07 crops, government payments are projected to average $11.6 billion per year.

- Direct payments are forecast at slightly over $5 billion per year under the 2002 Act. Corn is expected to account for about 38 percent of direct payments; followed by wheat, 22 percent; soybeans, 14 percent; upland cotton, 11 percent; rice, 8 percent; other feed grains, 6 percent; and other oilseeds and peanuts, 1 percent each.

- The 2002 Act replaced market loss assistance, which averaged $5 billion annually for the 1998-2001 crops, with counter-cyclical payments. Counter-cyclical payments are projected to average $4.4 billion for the 2002-07 crops, but could reach nearly $8 billion per year if market prices fall to each eligible crop's loan rate.

- Marketing assistance loan benefits, including loan deficiency payments, marketing loan gains, and certificate exchange gains, reached a record of $8.2 billion for the 2001 crops. Certificate exchange gains also peaked for the 2001 crops at $2 billion. For the 2002-07 crops, marketing assistance loan benefits are projected to average $1.6 billion per year, but could surge to over $11 billion annually if crop prices fall back to 1999-2001 levels.

- FSA payment data for the 2001 crops indicate that 91 percent of the payees receiving PFC payments and 79 percent of the payees receiving loan deficiency payments and marketing loan gains received $10,000 or less. These payees received 43 percent of PFC payments and 23 percent of loan deficiency payments and marketing loan gains. The 1 percent of payees who received more that $30,000 in PFC payments received 18 percent of all PFC payments. About 1 percent of payees received more than $85,000 in loan deficiency payments and marketing loan gains. They accounted for 17 percent of all loan deficiency payments and marketing loan gains received.

- Upland cotton and rice producers are the primary users of certificates. Data provided by the FSA indicate that 23,465 payees received certificate exchange gains for the 2001 crops, averaging $72,412 per payee. Sixty-one percent of the payees received $50,000 or less and this group received 12 percent of all certificate exchange gains, while 14 percent of all payees received more than $150,000, accounting for 58 percent of all certificate exchange gains.

- Certificate exchange gains may not indicate how much payees exceed the per-person payment limit on loan deficiency payments and marketing loan gains, because payees may be multiple persons and marketing cooperatives may use more certificates than are needed to cover the marketings of those who reach the payment limit. Furthermore, producers could choose to forfeit the commodity and receive a forfeiture gain once the payment limit is reached.

- Payments tend to be concentrated in the Midwest, Plains, and Delta States—areas that tend to specialize in the production of crops eligible for government payments. Producers in other States receive payments but payments tend to be smaller and tend to account for a smaller percentage of net cash income.

- About 40 percent of all farms receive farm program payments, including disaster assistance and conservation payments. Excluding conservation payments, about one-third of all farms receive government payments. In 2001, farms receiving government payments received an average of $18,374.

- Government payments tend to be concentrated among the larger farms. In 2001, 9 percent of farms receiving government payments had net cash income of $100,000 or more and received 35 percent of all payments. Thirty-six percent of farms receiving payments had net cash income of $10,000 to $99,999 and received 40 percent of payments, while 26 percent of payments went to the 55 percent of farms receiving payments with net cash income of $10,000 or less.

- Even though payments tend to be concentrated among larger farms, government payments often make a significant contribution to farm income regardless of farm size and income. On farms receiving payments and with sales of $250,000 or more, government payments were equivalent to 11 percent of gross cash income and 49 percent of net cash income in 2001. Government payments equaled 16 percent of gross cash income and 68 percent of net cash income on farms with sales of $50,000 to $249,999 and payments amounted to 17 percent of gross cash income and exceeded net cash income on farms with less than $50,000 in sales.

- For farms specializing in the production of crops eligible for direct and counter-cyclical payments and marketing assistance loans, government payments averaged about 20 percent of gross cash income and about 100 percent of net cash income in 2001. Government payments are also important to farms specializing in livestock and other crops (crops not eligible for direct and counter-cyclical payments and marketing assistance loans) as well. For these farms, government payments averaged about 10 percent of gross cash income and about 50 percent of net cash income in 2001.

- Farms that operate larger acreages of program crops and have higher-than-average sales, income, and net worth generally receive larger payments, but there are many exceptions. In 2001, 38 percent of government payments went to the 36,000 farms (2 percent of all farms and 5 percent of farms receiving payments) that received $80,000 or more in payments. Of these farms, 9 percent had sales of less than $250,000, 20 percent had net cash income of less than $40,000, and 9 percent had net worth of $300,000 or less.

- Since direct and counter-cyclical payments are paid on historical production and total production of eligible crops is eligible for marketing assistance loan benefits, the distribution of payments tends to reflect the contribution of the largest farms to the total value of agricultural production. In 2001, 6 percent of farms receiving payments with sales of $500,000 or more received 30 percent of all payments and accounted for more than 48 percent of the value of agricultural production on farms receiving payments.