

CED-77-77
5-24-77

REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES



LM102133

Federal Deficiency Payments Should Not Be Made For Crops Not Grown

Department of Agriculture

The Commodity Credit Corporation is making an estimated \$135 million in deficiency payments to rice farmers for the 1976 rice crop. These payments are based on the extent that the national average market price received by rice farmers was below a target price established by law. About \$5 million of this amount will be paid for rice not grown and thus not marketed.

The situation in which payments would be made on unplanted and thus unmarketed crops could arise under the 1977 rice, wheat, and feed grain programs and under future programs for these crops should current legislation be extended.

Legislative proposals have been made to preclude deficiency payments on unplanted crops. Some such legislation should be enacted.

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MAY 24, 1977

FEDERAL DEFICIENCY PAYMENTS
SHOULD NOT BE MADE FOR CROPS
NOT GROWN /
DEPARTMENT OF AGRICULTURE

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Under the Rice Production Act of 1975, the Commodity Credit Corporation, Department of Agriculture, was paying about \$135 million in so-called deficiency payments to rice farmers because the average market price of the 1976 rice crop was below the target price established by the act. The rice deficiency payments were based on acreage allotments. Farmers having allotments, but who did not plant rice, could receive payments. We estimated that about \$5 million of the total amount would be paid to farmers who had rice acreage allotments but who did not plant rice on some or all of their allotments and thus did not have rice to market from such acreage.

The 1976 rice crop was the first crop on which deficiency payments based on the target price concept were being paid. Similar payments were authorized for wheat, feed grains, and cotton but, because market prices for these crops had been above their target prices, no deficiency payments were necessary. The situation in which payments would be made to farmers who do not plant could also arise under the 1977 rice, wheat, and feed grain programs, and under future programs for these crops if existing legislation is extended, because deficiency payments on these crops would be based on allotted rather than planted acreage. For cotton, deficiency payments were specifically based on planted acreage within the allotment so the same situation could not occur.

We recommended to the Congress that, if the target price concept was continued beyond the 1977 crops, the Congress should adopt legislation that would preclude deficiency payments on crops not grown.

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7 CROP DEFICIENCY PAYMENTS

~~The Congress should adopt legislation, if the target price concept is continued, that would preclude deficiency payments on crops not~~
grown

LEGISLATION SUGGESTED

Department of Agriculture:

The Congress should adopt legislation, if the target price concept is continued, that would preclude deficiency payments on crops not grown

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

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Under the Rice Production Act of 1975 (Public Law 94-214, 90 Stat. 181), the Commodity Credit Corporation, A 600250
Department of Agriculture, is paying about \$135 million in so-called deficiency payments to 25,000 to 30,000 rice farmers because the average market price of the 1976 rice crop was below the target price established by the act. The rice deficiency payments, which can range up to \$55,000, the maximum permitted by law, are based on acreage allotments. Farmers having allotments, but who do not plant rice, may receive payments.

On the basis of our review of these payments, we estimate that about \$5 million of the total amount will be paid to farmers who had rice acreage allotments but who did not plant rice on some or all of their allotments and thus did not have rice to market from such acreage. Our interviews indicated that the sentiment at the local level was that, if a farmer did not plant and thus did not market rice, he had no need for Government assistance to attain a target price. One farmer, for example, who did not plant rice but received a payment of almost \$14,000 on his allotment, told us that it was ridiculous for the Government to pay him if he did not plant rice. An official of a farmers' association told us that such payments on unplanted rice allotments gave the rice program a bad image.

The 1976 rice crop is the first crop on which deficiency payments based on the target price concept are being paid. Similar payments have been authorized for wheat, feed grains, and cotton since the 1974 crop year but, because market prices for these crops through the 1976 crop year have been above their target prices, no deficiency payments have been necessary. The situation in which payments would be made to farmers who do not plant could also arise under the 1977 rice, wheat, and feed grain programs, and under future programs for these crops should current legislation be extended, because deficiency payments on these

crops are or would be based on allotted rather than planted acreage. For cotton, deficiency payments are specifically based on planted acreage within the allotment so the same situation could not occur.

Legislative proposals have been made to preclude deficiency payments on unplanted rice and other crops. We are recommending that the Congress adopt some such legislation.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). It was made at the Department's Agricultural Stabilization and Conservation Service headquarters in Washington, D.C.; at three of the Service's State offices--Arkansas, California, and Louisiana; and at a total of 10 of the Service's county offices in these States and Texas. The Service administers the Corporation's programs. We also visited some farms in the four States.

We reviewed the legislation on the rice and other target price programs as well as pertinent regulations, procedures, reports, and records. Also, we interviewed national, State, and county Service officials; some rice farmers; an official of a rice farmers' association; and agricultural economists.

TARGET PRICE CONCEPT

The Agriculture and Consumer Protection Act of 1973 (Public Law 93-86, 87 Stat. 221) introduced a new concept to assist farmers--target prices for the 1974-77 crops of wheat, feed grains, and upland cotton. The Rice Production Act of 1975 extended the concept to the 1976 and 1977 rice crops. Under this concept, the Corporation makes payments--called deficiency payments--to farmers if the national average market price of a crop is below the target price established by law.

The purpose of the target price concept is to provide a basis for varying income supplements to farmers inversely with the market price and thus moderate the effects of short-term price fluctuations.^{1/} The concept enables price-support loan rates to be set at competitive market levels and at the

1/ J.B. Penn and W.H. Brown, Target Price and Loan Rate Concepts for Agricultural Commodities, Economic Research Service, Department of Agriculture, ERS AFPR-1, January 1977, p. 69.

same time guarantees participating producers a supplemental return through direct Government payments if prices should become depressed.

The rationale for payments to farmers seems to be that the Government each year should estimate the anticipated needs for the crop and guide production in such a way as to enable farmers to achieve a target price. If the Government's estimates turn out to be wrong or if production is overstimulated, the farmer's income would be protected to the extent of the target price, rather than asking the farmer to bear the whole risk.^{1/}

The deficiency payment is based on the difference between the target price and the average market price (or price-support loan rate, if higher) multiplied by the farm's established yield and the allotted acreage (or planted acreage in the case of cotton). Acreage allotments are historically evolved planting goals used by the Department to support farm income through price-support operations and direct payments or to control crop production when deemed necessary. The established yield is determined on the basis of the yield per harvested acre for the 3 preceding years.

Farmers have planting flexibility. They do not necessarily lose their allotment if they do not plant the specific crop and shift to other crops. Legislation protects their allotment by allowing them to plant specified substitute crops.

ALLOTMENT AND PRODUCTION DATA

The national rice acreage allotment established by the Rice Act for the 1976 crop year was 1.8 million acres. The Department distributed this allotment to the farming level on the basis of allotments established for the preceding year. The allotment is not a control over production, as in previous programs, but serves as a basis for determining deficiency payments and other benefits (price-support loans or disaster payments). A farmer with no rice allotment may produce rice but is not eligible for deficiency payments or other benefits under the rice program.

^{1/} Claude T. Coffman, Target Prices, Deficiency Payments, and the Agriculture and Consumer Protection Act of 1973, North Dakota Law Review, Vol. 50, No. 2, Winter 1974, p. 299.

The rice program is considered to be market oriented because a farmer with a rice allotment may plant rice in excess of his allotment or may plant other crops, if he considers it desirable, without acreage limitation and without losing his allotment.

Substantially all of the Nation's rice production comes from four States as shown in the following table.

<u>State</u>	<u>Production</u>	
	<u>1975</u>	<u>1976</u> (note a)
	(1,000 cwt.)	
Arkansas	40,053	40,362
California	30,436	23,388
Louisiana	25,064	22,203
Texas	24,996	24,430
Mississippi--Missouri	<u>7,423</u>	<u>6,636</u>
Total, excluding minor production in sev- veral Southern States	<u>127,972</u>	<u>117,019</u>

a/ Preliminary.

Program data reported by the Agricultural Stabilization and Conservation Service county offices for the 1976 rice crop is shown in the table on page 5. The data shows that allotment holders, as a group, exceeded their allotments by a total of 519,000 acres. Some allotment holders planted within their allotments or did not plant rice at all. This underplanting of allotments, totaling 56,000 acres, was more than offset by allotment holders who planted more than their allotments. This overplanting of allotments totaled 575,000 acres. Farmers with no allotments planted 258,000 acres of rice.

	<u>Allotted acreage (note a)</u>	<u>Planted rice acreage (note a)</u>	<u>Acreage planted over or under (-) allotment</u>
Allotment holders:			
Planting within allotment			
Arkansas	51,395	46,623	-4,772
California	143,066	139,124	-3,942
Louisiana	282,139	242,219	-39,920
Texas	216,981	211,710	-5,271
Mississippi--Missouri	<u>7,378</u>	<u>4,841</u>	<u>-2,537</u>
Subtotal	<u>b/700,959</u>	<u>644,517</u>	<u>-56,442</u>
Planting more than allotment			
Arkansas	379,657	704,470	324,813
California	183,096	251,082	67,986
Louisiana	227,666	285,355	57,689
Texas	242,886	304,913	62,027
Mississippi--Missouri	<u>47,505</u>	<u>110,056</u>	<u>62,551</u>
Subtotal	<u>1,080,810</u>	<u>1,655,876</u>	<u>575,066</u>
Total, allotment holders	<u>1,781,769</u>	<u>2,300,393</u>	<u>518,624</u>
Nonallotment holders:			
Arkansas	-	145,118	145,118
California	-	10,960	10,960
Louisiana	-	39,900	39,900
Texas	-	13,306	13,306
Mississippi--Missouri	<u>-</u>	<u>48,552</u>	<u>48,552</u>
Total, nonallotment holders	<u>-</u>	<u>257,836</u>	<u>257,836</u>
Total	<u>b/c/1,781,769</u>	<u>2,558,229</u>	<u>776,460</u>

a/ Excludes States having minor allotments.

b/ Excludes some farms that were not planted to rice.

c/ Total allotment was 1.8 million acres.

RICE DEFICIENCY PAYMENTS

The target price for the 1976 rice crop was \$8.25 a hundredweight. This amount was determined by the Department on the statutory basis of \$8.00, adjusted for changes in the index of prices paid by farmers for production items, interest, taxes, and wages from February 1976 (when the Rice Act was approved) to July 31, 1976 (up to the beginning of the rice marketing year).

The Department computes the payment rate by subtracting from the target price the higher of (1) the national average market price received by farmers or (2) the price-support loan amount. For the purpose of computing the payment, the average market price received by farmers covers the first 5 months of the rice marketing year (August through December). The Department's Statistical Reporting Service ascertained that the average market price for the 5-month period in 1976 was \$6.55 a hundredweight. This was higher than the support rate of \$6.19, thus the deficiency below the target price was set at \$1.70 a hundredweight (\$8.25 less \$6.55).

The Department initially estimated rice deficiency payments at about \$140 million on a projected payment rate of \$1.75 a hundredweight. On the basis of each State's rice acreage allotment and average acreage yield and the final deficiency rate of \$1.70 a hundredweight, we estimate that final payments will total \$135 million with distribution of payments among the States approximately as follows.

<u>State</u>	<u>Government payment</u>
Texas	\$ 34,000,000
Arkansas	34,000,000
Louisiana	32,000,000
California	31,000,000
Other	<u>4,000,000</u>
Total	<u>\$135,000,000</u>

DEFICIENCY PAYMENTS ON ACREAGE
NOT PLANTED TO RICE

Under the rice program, a farmer who has a rice allotment but plants no rice or less rice acreage than the allotment may receive a deficiency payment on the whole allotment. On the basis of Agricultural Stabilization and Conservation Service records, we estimate that, of the total rice

deficiency payments being made on the 1976 crop, about \$5 million will go to farmers to attain the target price on rice that they did not plant and thus did not market. Some examples of such payments are shown below.

Rice acreage allotment	Planted rice acreage	Unplanted allotment acreage (col. 1 minus col. 2)	Estab- lished yield per acre	Calculated production on unplanted allotment (col. 3 x col. 4)	Deficiency amount on unplanted allotment (col. 5 x \$1.70 cwt.)
(1)	(2)	(3)	(4)	(5)	(6)
				-----pounds-----	
13.3	1.4	11.9	5,184	61,690	\$ 1,048.72
30.1	-	30.1	4,002	120,460	2,047.82
154.1	125.4	28.7	5,724	164,279	2,792.74
103.0	-	103.0	3,507	361,221	6,140.76
239.6	-	239.6	4,255	1,019,498	17,331.47
1,359.5	-	1,359.5	3,827	5,202,807	a/55,000.00

a/ Maximum amount allowed by law.

POTENTIAL FOR DEFICIENCY
PAYMENTS ON 1977 CROPS

There are indications that deficiency payments could be necessary on the 1977 wheat crop as well as on the 1977 rice crop. During the early part of 1977, the national average market price received by farmers for wheat was about \$2.45 a bushel. The target price for the 1977 wheat crop, for which the marketing year begins in June, is \$2.47 a bushel. Thus, deficiency payments will be necessary on that crop if the average price for the June-October period does not reach the \$2.47 level.

During the early part of 1977, the national average market price received by farmers for rice was about \$6.78 a hundredweight. The target price for the 1977 rice crop will be \$8.25 a hundredweight, adjusted to reflect any changes in the index of prices paid by farmers for farming costs. Thus, deficiency payments will be necessary on rice if the average price for the August-December period does not reach the target price.

PROPOSALS FOR ELIMINATING DEFICIENCY
PAYMENTS ON UNPLANTED CROPS

We discussed the rice situation with the staffs of the House Agriculture Subcommittee on Oilseeds and Rice and the Senate Committee on Agriculture, Nutrition, and Forestry on April 1, 1977. On April 6, 1977, the House Subcommittee approved a bill (H.R. 5994, 95th Cong., 1st sess.) that would link deficiency payments on rice to that portion of the allotment that is planted to rice.

The concept of House bill 5994 is that farmers would be eligible for deficiency payments only on that portion of their allotments on which they plant specific crops--in this case, rice. While the concept would generally preclude payments on crops which are not grown, it may also have an undesirable side effect in that it could be an incentive to plant a crop which is or could be in a surplus situation. Also, it may conflict with the market-oriented concept of allowing farmers flexibility in deciding which crops to plan

The Administration's proposed farm program, which the Department of Agriculture transmitted to the House and Senate Agriculture Committees on March 30, 1977, included a proposal that deficiency payments on rice and other crops be based on the ratio of planted acreage needed for domestic and export use to the acreage actually planted. For example if the Department determined that 50 million acres of a crop were needed and farmers planted 55 million acres, farmers would be given deficiency payments (if the market price was below the target price) on the ratio of 50/55 of their planted acreage.

The Administration's proposal would discontinue the use of acreage allotments in determining deficiency payments. It would not provide an incentive to plant a crop which is or could be in a surplus situation and it would allow farmer flexibility in deciding which crops to plant.

CONCLUSIONS

The objectives of the target price concept are to (1) guarantee farmers a supplemental income if market prices fall below target levels and (2) allow farmers flexibility to make their planting decisions on the basis of market conditions. Under the rice program, farmers can plant crops other than rice on their rice allotments but, because deficiency payments are based on allotted acreage, farmers can receive payments on rice that they do not plant and market.

For the 1976 rice crop, such payments will amount to about \$5 million.

Because deficiency payments under the wheat and feed grain programs also would be based on allotted acreage, it is conceivable that, if these programs are continued in their present form and if market prices should fall below target prices, Government payments on unplanted wheat and feed grain allotments, as well as on unplanted rice allotments, could be substantial.

RECOMMENDATION TO THE CONGRESS

We recommend that, if the target price concept is continued beyond the 1977 crops, the Congress adopt legislation that will preclude deficiency payments on crops not grown.

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We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of Agriculture.



Comptroller General
of the United States

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