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How Does the Limited Base Acre Provision in the 2008 Farm Act Affect Small Farms?

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The base 10 provision

Under the Food, Conservation, and Energy Act of 2008 (Farm Act), U.S. farms with 10 or fewer base acres became ineligible to receive Direct and Countercyclical Payment (DCP) or Average Crop Revenue Election (ACRE) program payments (Section 1101(d) and 1302(d)) from USDA. Limited resource and socially disadvantaged owners are exempt from this "base 10" provision.

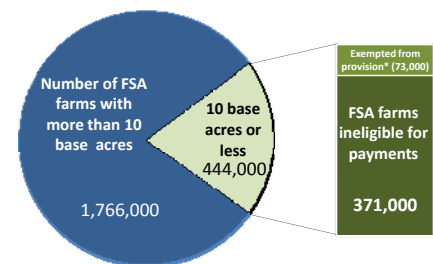
Eliminating payments on farms with 10 or fewer base acres reduces payments made by USDA Farm Service Agency (FSA) and the cost of administering the DCP and ACRE programs. We examine the characteristics of the farms affected by the limited base acre provision and answer the question: How does the provision affect small farms?

PRIMARY RESULTS

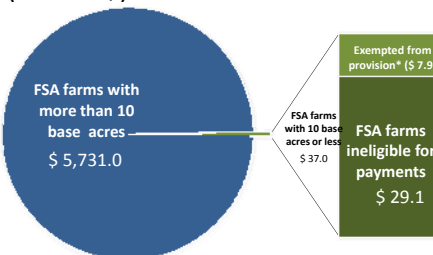
FSA farms with limited base acres are small farms in terms of their planted acres. The average size of the FSA farms ineligible under the base 10 provision was 48.6 planted acres (including plantings on both base and non-base acres). This is about one-fifth the national average of 269 planted acres across all FSA farms. Thus, the base 10 or fewer acre farms are considerably smaller than the average FSA farm.

By 2009, 2.2 million FSA farms were entitled to receive DCP and ACRE program payments. Nearly 371,000 FSA farms out of those 2.2 million became ineligible for payments under the base 10 provision. The dollar amount of payments prohibited was small (\$29.1 million) compared to over \$5 billion total DCP payments in 2009, since the affected farms control only 1.6 million, or 0.6 percent, of base acres.

Total number of FSA farms with base acres, 2009



Total potential Direct and Countercyclical Payments, 2009 (Million \$)



*FSA farms owned by socially disadvantaged or limited resource farmers are exempted from the limited base acre provision.

Source for the two figures above: USDA, Economic Research Service, calculated from USDA, Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop database.

How many base-10 and under farms would no longer collect payments?

Historically, not all eligible operators of FSA farms have enrolled in the DCP/ACRE program in any given year. In 2008, prior to implementation of the base 10 provision, 60% of FSA farms with 10 or fewer base acres did not enroll in the DCP program. For these farmers, the transaction cost of enrolling may outweigh the benefits—operators affected by the base 10 provision would have forgone an average of \$79 per farm in 2009, compared with the average DCP/ACRE payment across all FSA farms of \$2,620. Using a 40% enrollment rate and applying it to 2009 data results in 148,400 farms no longer receiving payments.

What is the size of a farm operation?

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The FSA farm with 10 or fewer base acres may or may not represent a "small" farming operation. An FSA farm is the administrative unit to which the Farm Service Agency applies the 10 base acre rule. However, an agricultural producer may work several FSA farms under one farming operation. While the individual FSA farms that are ineligible for DCP/ACRE payments under the base 10 provision are small in terms of planted acres, a majority of these FSA farms are part of larger, multifarm operations.

FARM OPERATIONS:

Seventy-six percent of FSA farms for which payments were prohibited were part of a larger farm operation in 2009. Those larger operations averaged 5.5 FSA farms each, totaling 554.2 acres per operation. Twenty-eight percent of these producers with prohibited payments operate on more than six FSA farms. In regions where farms are large and agricultural producers operate multiple FSA farms (in the Heartland, for example), the impact of the provision is less likely to eliminate all DCP payments to the operation.

Size of farming operations, 2009*

	All operations					Operations with prohibited payments				
	Farms per operation			Operation size (acres) [†]		Farms per operation			Operation size (acres) [†]	
	Number	Average	Median	Average	Median	Number	Average	Median	Average	Median
Nationwide	660,425	2.6	1	614.6	198.5	43,118	5.5	3	554.2	186.3
Indiana	26,148	4.0	2	448.6	174.3	2,838	8.8	6	762.6	442.9
Michigan	15,656	3.1	1	354.3	150.0	1,733	7.2	5	589.0	272.9
Kentucky	34,794	1.2	1	143.3	70.7	2,408	1.4	1	101.5	37.68
West Virginia	1,423	1.5	1	184.8	110.7	204	2.3	1	183.5	84.8

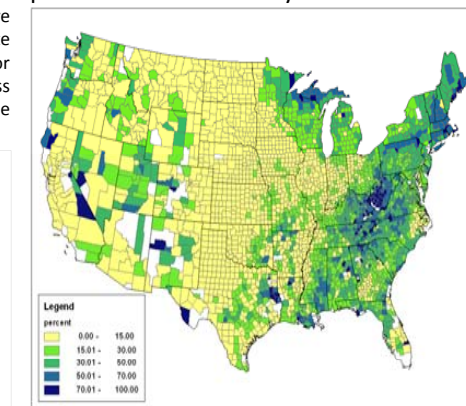
* Data are based on the 1,703,822 FSA farms for which compliance and contract information are available. If an operation consists of farms across multiple States, the operation is recorded as being located in the State with the largest total planted acres across an operation's farms. [†] Acres include land planted for hay or grass as well as land enrolled in conservation programs. Source: USDA, Economic Research Service, calculated from USDA, Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop, contract, and compliance databases.

What are the characteristics of farms affected by the provision?

CROP ALLOCATION: Among operators of FSA farms affected by the provision, the highest proportion of acres were planted to grass or enrolled in conservation programs. Only 1% of the acreage operated by ineligible farms was planted to fruit and vegetables, despite the fact that operators of these small base acres farms are no longer subject to the fruit and vegetable restriction.

LOCATION: Regions along or near the East Coast have a higher percentage of ineligible farms than other parts of the country because farms in this area tend to have small base acre holdings. In contrast, farms in the Heartland region and along much of the West Coast often hold a larger number of base acres per farm, and the provision has had little effect within these regions.

Percent of FSA farms ineligible under the provision in each county in 2009



Source: USDA, Economic Research Service, calculated from Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop database.

Disclaimer: The views expressed in this poster are of those of the authors and do not necessarily reflect those of the Economic Research Service or USDA.