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The Implications of Binding Farm Program Payment Limits Associated with Income Means Testing

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**Last updated
May 2011**

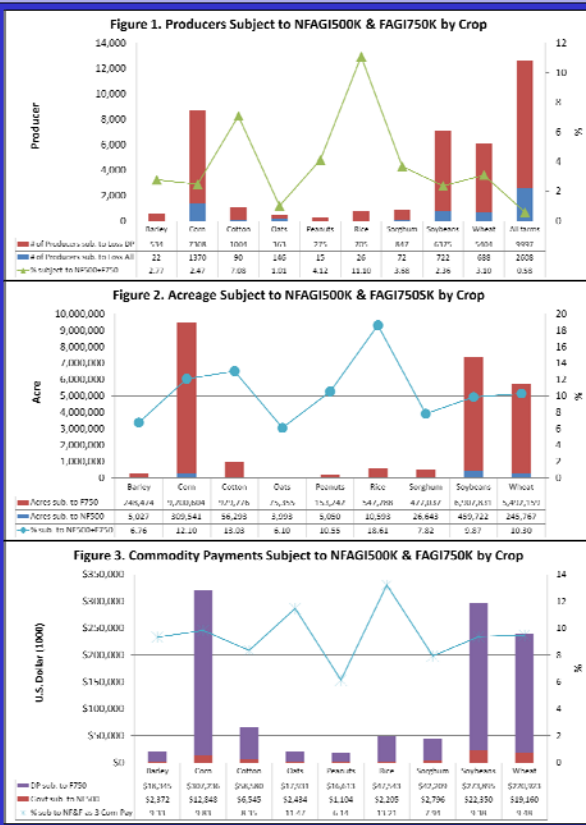
Poster prepared for presentation at the Agricultural & Applied Economics Association's 2011 AAEA & NAREA Joint Annual Meeting, Pittsburgh, Pennsylvania, July 24-26, 2011

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INTRODUCTION

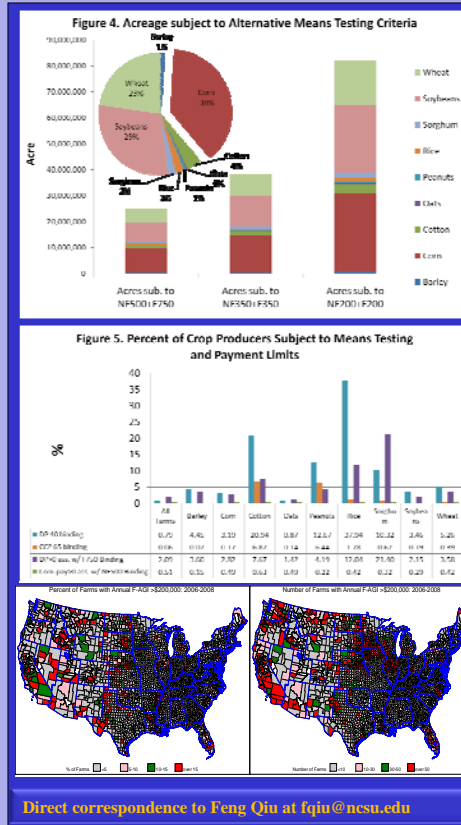
- Current agricultural program payments are highly concentrated toward large farms. Top 10% U.S. farmers received 66% of all farm subsidies. Five crops (corn, cotton, wheat, rice, and soybean) account for 90% of commodity payments. The provision of taxpayer-funded support to a group that tends to be relatively wealthy has been subject to considerable debate.
- In spite of the prominent role played by payment limits and means testing, little research has been conducted
 - Durst (2007); Goodwin (2008); Goodwin (2009)
- Two types of limits exist for the farm commodity programs. One sets the maximum amount of farm program payments that a person can receive – payment limits. The other sets the maximum amount of income that an individual can earn and still remain eligible for program payments – means testing (also known as adjusted gross income limit or AGI limit).
- The 2008 Farm Bill criteria for commodity-related payments:
 - Adjusted Farm Gross Income (FAGI) \leq \$750K and Adjusted Non-farm Gross Income (NFAGI) \leq \$500

DATA & METHODOLOGY

- We use the 2002-2008 Agricultural Resource Management Survey (ARMS) data (construction of the variables and related issues need to be discussed).
- In the first stage, we utilize an ex post evaluation of realized payments in 2006-2008 to investigate the numbers and proportions of producers, harvested acreage, and commodity payments that would be impacted by the current and alternative AGI criteria for each of the major program crops.
- In the second stage, we use Tobit models to investigate the factors that affect binding situations. For the majority of farms, the amount that AGI exceeds the cap is censored at zero; while for those farms with AGI greater than the cap, we evaluate the factors impacting the binding amount.
- We take the rational reactions of farmers subject to AGI limits into account in the empirical stage.

RESULTS & IMPLICATION

- Figures 1-3 present the numbers and proportions of producers, harvested acreage, and commodity payments that would be impacted by the current AGI caps for each of the major program crops.
- Current AGI limits have very limited impacts on the U.S. farm in general (0.6%); however they could have significant influences on certain major crops. Compared with FAGI, impacts of NFAGI on these major crops are trivial.
- The largest two PROPORTIONS (%) of producers and acreage subject to AGI limits are: RICE and COTTON.
- However the largest three of total numbers of producers and acreage are: CORN, SOYBEAN, and WHEAT.
- Other important findings (e.g., Figures 4-5)
- Impacts vary by regions (e.g., Maps)
- Implication will be discussed



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