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# Highlights

Highlights of GAO-12-640, a report to congressional requesters

July 2012

# FARM PROGRAMS

## Direct Payments Should Be Reconsidered

### Why GAO Did This Study

Through one facet of the farm safety net, USDA provides farmers and other producers with fixed annual payments, called direct payments, based on their farms' historical crop production. Direct payments do not vary with crop prices or crop yields. In March 2011, GAO reported on observations and options regarding direct payments and suggested to Congress that they be eliminated or reduced. GAO was asked (1) to provide information regarding the geographic distribution and ownership characteristics of payment recipients, as well as the dollar amount of direct payments made for farms with acreage that qualified, and the amount and types of crops grown on such acreage for years 2003 to 2011, and (2) to examine whether direct payments are aligned with principles significant to integrity, effectiveness, and efficiency in farm bill programs. To conduct this work, GAO analyzed USDA data and interviewed agency officials.

### What GAO Recommends

Congress should consider eliminating or reducing direct payments. GAO also recommends that USDA take four actions to improve its oversight of direct payments including developing a systematic process to report on land that may no longer be usable for agriculture, and considering ways to increase the number of cases selected for end-of-year reviews and completing these reviews in a timely manner. USDA generally agreed with two of GAO's recommendations and disagreed with two others, stating that it believes its current processes or practices are adequate. GAO continues to believe that it is important for USDA to take the recommended actions.

View GAO-12-640. For more information, contact Lisa Shames at (202) 512-3841 or shamesl@gao.gov.

### What GAO Found

From 2003 through 2011, the U.S. Department of Agriculture (USDA) made more than $46 billion in direct payments to farmers and other producers. These producers planted varying percentages of acres that qualified for payments based on their historical planting yields and designated payment rates (qualifying acres). Cumulatively, USDA paid $10.6 billion—almost one-fourth of total direct payments made from 2003 through 2011—to producers who did not, in a given year, grow the crop associated with their qualifying acres, which they are allowed to do. About 2,300 farms (0.15 percent of farms receiving direct payments) reported all their land as "fallow," and producers did not plant any crops on this land for each year for the last 5 years, from 2007 through 2011; in 2011, these producers received almost $3 million in direct payments.

Direct payments generally do not align with the principles significant to integrity, effectiveness, and efficiency in farm bill programs that GAO identified in an April 2012 report. These payments align with the principle of being "distinctive," in that they do not overlap or duplicate other farm programs. However, direct payments do not align with five other principles. Specifically, they do not align with the following principles:

- *Relevance:* When the precursors to direct payments were first authorized in 1996 legislation, they were expected to be transitional, but subsequent legislation passed in 2002 and 2008 has continued these payments as direct payments. However, in April 2012, draft legislation for reauthorizing agricultural programs through 2017 proposed eliminating direct payments.
- *Targeting:* Direct payments do not appropriately distribute benefits consistent with contemporary assessments of need. For example, they are concentrated among the largest recipients based on farm size and income; in 2011, the top 25 percent of payment recipients received 73 percent of direct payments.
- *Affordability:* Direct payments may no longer be affordable given the United States' current deficit and debt levels.
- *Effectiveness:* Direct payments may have unintended consequences. Direct payments may have less potential than other farm programs to distort prices and production, but economic distortions can result from these payments. For example, GAO identified cases where direct payments support recipients who USDA officials said own farmland that is not economically viable in the absence of these payments.
- *Oversight:* Oversight of direct payments is weak. With regard to oversight, USDA has not systematically reported on land that may no longer be eligible for direct payments because it has been converted to nonfarm uses, as required for annual reporting to Congress. In addition, GAO identified weaknesses in USDA's end-of-year compliance review process. For example, USDA conducts relatively few reviews and generally does not complete these reviews within expected time frames.

Continuing to provide payments that generally do not align with principles significant to integrity, effectiveness, and efficiency in farm bill programs raises questions about the purpose and need for direct payments.