USDA Outlines a Plan To Cut Farm Subsidies

Proposal Would Close Many Loopholes

By Dan Morgan and Gilbert M. Gaul
Washington Post Staff Writers
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The Bush administration yesterday proposed ending farm subsidies for an estimated 80,000 wealthy individuals as part of a broad plan that would close loopholes and cut traditional farm programs by $4.5 billion over the next 10 years.

The proposal unveiled by Agriculture Secretary Mike Johanns was the administration's opening move in what will be a lengthy tug of war with Congress over a new multi-year farm bill. The current bill, one of the most generous to farmers in history, expires Sept. 30.

Debate on the new legislation comes at a time of major changes in agriculture. Booming demand from new ethanol plants has pushed corn prices to near-record levels. At the same time, U.S. trade partners are threatening retaliation unless the United States curbs crop subsidies that are said to promote overproduction here and low prices for farmers abroad.

"Times have changed," Johanns said, adding that commodity prices are strong, exports are up and farmers have the lowest debt-to-asset ratio in history.

The administration proposal addressed a number of problems raised last year in a nine-part series in The Washington Post.

The Post found, for example, that wealthy commercial farmers were easily able to legally avoid the limits on government subsidy payments. The Johanns plan would save $1.5 billion over 10 years by eliminating subsidies to people with adjusted gross incomes of more than $200,000 -- income after subtracting farm expenses and certain deductions. Deputy Agriculture Secretary Charles F. Conner said that if a farmer is at that level "you're the richest guy in the county."

The administration also promised to tighten rules that have enabled distant relatives of a farmer or a friend in a far-off city to collect payments on the farmer's behalf while doing little or no work.

The plan would close a major loophole highlighted by The Post that in 2005 allowed corn farmers to receive $3.8 billion more than needed to ensure they got the government-guaranteed price. Farmers would no longer be able to collect these "loan deficiency payments" when prices are low and then sell later when prices rise.

Johanns also proposed changes in a program that since 2000 has enabled some landowners who do not farm to still collect $1.3 billion in "direct" farm payments. The Post detailed how some Texas homeowners were drawing these payments on back yards once used as rice fields and known as "cowboy starter kits." The new plan reduces the amount of land eligible for the direct payments after farmland is sold.

Offsetting the reductions in traditional subsidies is nearly $10 billion in new spending for conservation, wetlands restoration and the development of new biofuels.

The current farm programs, which favor large growers of a few crops in a handful of states, retain strong backing in the congressional agricultural committees.

We've got a long way to go to the finish line," Johanns acknowledged.

Senate Agriculture Committee Chairman Tom Harkin (D-Iowa) said in a statement that there were "a number of good ideas" but also complained that the proposal shortchanged a key conservation program he had created as well as spending on biofuels.

The administration plan appeared to be a delicately balanced attempt to parry complaints from U.S. trading partners while at the same time broadening political support in Congress for reforms.

Under the proposal, the safety net for producers of traditional crops such as cotton and corn would be retooled. The new plan would work by increasing income supplements to farmers while reducing price guarantees, which are under attack by Brazil, Canada and other countries.

For example, cotton growers, a key political constituency in Southern states dominated by the Republican Party, would face a reduced price guarantee. But they would be compensated by a 66 percent increase in the annual "direct payment" income supplement from the Agriculture Department.

"This safety net will actually work better across commodities to provide a true safety net," Johanns said. He noted that even in some recent years of soaring farm income, government subsidy payouts were high. The new plan would change that.

At the same time, the plan would offer beefed-up benefits to growers of fruits and vegetables, including $5 billion more through stepped-up government purchases for the school lunch program, as well as more money for research and the development of new markets abroad.

Some voiced concerns about the plan. "It continues to deliver most of the funds to a handful of farmers in a handful of states," said Scott Faber of Environmental Defense.

Steve Ellis of Taxpayers for Common Sense said he had "concerns that the federal government is in the business of providing revenue insurance to farmers."

The administration's proposal also recommends key changes to the Federal Crop Insurance Corp., one of the largest pieces of the nation's sprawling farm-subsidy system, costing taxpayers more than $20 billion in premium subsidies and losses over the past two decades.

The Post reported that private insurance companies that help administer the program made $927 million in profit in 2005, a record, and received an additional $829 million in fees. In some years, the companies have collected hundreds of millions of dollars in profit even as the USDA lost hundreds of millions.

The proposal recommends giving the USDA authority to renegotiate contracts more frequently with the 16 companies, potentially allowing the government to recoup a larger share of profits when times are flush.

"Changes are necessary to ensure a balance of potential gains and losses," the proposal stated.

Database editor Sarah Cohen contributed to this report.

Powerful Interests Ally to Restructure Agriculture Subsidies

By Dan Morgan, Sarah Cohen and Gilbert M. Gaul
Washington Post Staff Writers
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There may be no better sign of the changing debate over the nation's farm subsidies: A Midwestern governor running for president calls for cuts in a system that has steered hundreds of millions of dollars a year to his state.

"I didn't get much of a reaction from farmers," said Iowa Gov. Tom Vilsack (D), "because deep down most of them know the system needs to be changed."

Politicians such as Vilsack have joined a host of interest groups from across the political spectrum that are pressing for changes in government assistance to agriculture. They want the money moved from large farmers to conservation, nutrition, rural development and energy research. Vilsack, for example, favors programs that improve environmental practices on farms.

Bread for the World, an anti-hunger organization, has brought religious leaders to Washington to lobby for cuts in subsidies, which they argue can lead to a glut on world markets that hurts poor farmers abroad. The Republican-leaning Club for Growth says subsidies stand in the way of a global trade deal that would help U.S. business. A politically potent coalition of unsubsidized fruit and vegetable growers from California and Florida want their share of the pie. Even the National Corn Growers Association, with 33,000 members, advocates an overhaul.

But these groups will be going up against one of Washington's most effective lobbies as Congress takes up a new farm bill next year.

The farm bloc is an efficient, tightknit club of farmers, rural banks, insurance companies, real estate operators and tractor dealers. Many of its Washington lobbyists are former lawmakers or congressional aides. Harnessed to dozens of grass-roots groups, such as the American Farm Bureau Federation, the National Cotton Council and the USA Rice Federation, farm-state lawmakers -- the "aggies," as they call themselves -- fight with the fervor of the embattled.

About 1.2 million farmers and farmland owners got $15 billion in income support or price guarantees in 2005, according to a Washington Post analysis of Agriculture Department payment records. The benefits are heavily tilted to large commercial farmers growing a few row crops in a handful of states. But the money also is widely distributed to a middle group of more than 130,000 farms, each receiving $25,000 to $100,000. The federal dollars ripple through local economies, adding to purchasing power at stores and businesses -- and creating a political constituency for the programs.

The farm bloc, says former congressman Cal M. Dooley (D-Calif.), now an executive with a food industry trade group, is "committed and focused."

Opening Loopholes

Ever since subsidies began in the New Deal, Farm Belt politicians from the Dakotas to the Gulf of Mexico have worked to expand the payments. They have repeatedly thwarted efforts to scale subsidies back by trading political favors, manipulating the USDA or strong-arming opponents.

In 1987, for example, Congress tried to close loopholes that allowed larger farms to exceed the limit on how much each could receive in annual federal payments. Some set up complex legal structures, such as dividing a single farm into many paper corporations, each eligible for the maximum payment. Congress decided that to get the money, a farmer or partner would have to be "actively engaged" in farming.

Lawmakers left it to the USDA to define active engagement. It proposed a standard of 1,000 hours a year spent managing the farm. But the language was drastically watered down after an objection from Rep. Thomas J. "Jerry" Huckaby (D-La.), then head of the subcommittee overseeing the rice program.

"We got direction from the author of the bill that what we were putting in the regulations was not what they intended," said former USDA official William Penn, referring to Huckaby. At the USDA, Penn drafted rules for complying with the legislation.

Huckaby, now president of a McLean real-estate company, explained his 1988 action in a recent e-mail: "The thinking was probably that you could make all the management decisions of a farming operation in significantly less time" than 1,000 hours.

The softer language meant that the structured corporate farms could continue almost unabated. In 2004, the most recent year available, at least 1,900 of these organizations collected $312 million more than they would have if their farms were held to strict limits, the Washington Post analysis shows.

Republicans critical of big government frequently tried to pare back the subsidies, with little success until the GOP gained control of the House and Senate. In 1996, Congress passed a landmark bill, nicknamed "Freedom to Farm." It was intended to wean growers off some traditional subsidies. But a couple of years later, when crop prices dropped, farm-bloc lawmakers earmarked billions of dollars for supplemental payments to farmers.

Then in 1999, Congress and the USDA, lobbied by Southern cotton interests, opened another loophole enabling farmers to keep unlimited proceeds under the government's main price-support program. An analysis of payment records shows that cost taxpayers more than $500 million for the 2004 crop, the most recent full crop year for which data are available.

Combest's Bill

One of the most remarkable examples of the farm lobby's power came in 2001 and 2002, when the existing farm bill was written, expanding payments again over the opposition of the White House and key lawmakers. Reformers see it as a cautionary tale.

The architect of the legislation was Rep. Larry Combest, an aggie through and through, a West Texas Republican who came from three generations of cotton farmers and who took control of the House Agriculture Committee in 1999.

Others on Combest's committee included a cattle rancher and tobacco farmer from Tennessee, a Missouri corn and hog farmer, and a government-subsidized rice farmer from Arkansas. The ranking Democrat, Charles W. Stenholm of Texas, had an ownership interest in cotton farms that got more than $300,000 in subsidies between 2001 and 2005, USDA records show.

With help from a generous mandate from the House Budget Committee -- chaired by Jim Nussle (R-Iowa) -- Combest produced a new farm bill in 2001 authorizing an eye-popping $50 billion, 10-year increase in price supports and income supports for farmers. He boasted that the measure was "a major step away from Freedom to Farm."

For one thing, the bill restored a key pillar of the pre-1996 program: cash payments that compensate for low crop prices. Thousands of farms were eligible even if they never grew crops. Budget officials estimated that change alone would cost $37 billion over a decade.

The Bush White House disliked Combest's bill. Chief political adviser Karl Rove saw it as the antithesis of fiscal responsibility. "We're Republicans," aides remember Rove grumbling. The White House budget office issued a stinging critique, saying the bill was too costly and failed to help farmers most in need.

Combest also faced strong opposition from a disgruntled group of Eastern and Midwestern lawmakers, and from senators who wanted tighter limits on what a farm could collect each year.

But Combest had a strong hand. "He hijacked the process," said a former USDA official who spoke on the condition of anonymity because he still deals with Congress.

At a meeting in Rove's office soon after the Sept. 11, 2001, attacks, Combest delivered a warning, according to several people with knowledge of the session. Unless the administration backed off, Combest warned, he and his farm-bloc allies would sink a top priority of President Bush's: legislation giving the president a free hand to negotiate a global trade treaty strongly favored by big corporations. "You have to ease up," one participant remembers Combest saying.

Over the next several months, the administration laid off its public criticism of Combest's farm bill. Combest withdrew his opposition to trade-promotion authority, and it squeaked through the House by a single vote. He declined to comment for this article.

'$275,000 Is Enough'

In the House, Reps. Ron Kind (D-Wis.) and Sherwood L. Boehlert (R-N.Y.) had 145 signatures for an amendment that would tear up Combest's handiwork and force him to start over. It proposed shifting billions of federal dollars from large farms to conservation programs that could help livestock operations and small farmers.

Among Kind's allies were "green Republicans" such as Rep. Wayne T. Gilchrist (R-Md.) and hunting and fishing groups championed by Rep. John D. Dingell (D-Mich.). But Combest's forces also had big guns behind them: more than 100 groups, such as the U.S. Canola Association and the American Bankers Association.

The Agriculture Committee's control over food-stamp funding -- a top priority for the black and Hispanic caucuses -- provided additional leverage. Combest's supporters "made it known that nutrition would be the victim" if the bill was rewritten, said Rep. Eva Clayton (D-N.C.), a member of the Congressional Black Caucus and the Agriculture Committee. "I encouraged members of the black caucus to vote against" the amendment, she said, "because of the nutrition impact."

Kind's amendment was defeated 226 to 200, with the black caucus providing 10 critical "no" votes. The next day the House overwhelmingly approved Combest's farm bill.

The farm bill passed the Senate, too. But not before an amendment sponsored by Sens. Charles E. Grassley (R-Iowa) and Byron L. Dorgan (D-N.D.) was approved 2 to 1. It aimed to close loopholes, including the 1999 provision that enabled Southern cotton planters to escape price-support limits. The same legislation set a hard ceiling of $275,000 annually for a farmer and spouse.

"$275,000 is enough," Grassley, a corn and soybean farmer who never collected more than $35,000 a year, told the Senate.

As House and Senate negotiators met to reconcile the two versions of the farm bill, Combest chaired the meetings. When the final bill emerged, the Grassley-Dorgan changes had all but vanished.

The bill did add a requirement that the USDA begin tracking payments more carefully so that in the future lawmakers could see the effects of changes in payment limits. A review of that data, released this week for the first time, suggests that Grassley's proposed limit would have saved taxpayers about $390 million for the 2004 crop.

"The simple fact of the matter is our Senate leaders let themselves be outmaneuvered," said Grassley, who voted against the final compromise version of the farm bill. "They were run over by Southern forces in the House, and they ended up with what the House wanted."

Grassley was not quite finished. He called the White House to lobby for a veto. "My reason was that the Senate had been sold out on everything," he said.

But White House aides, aware of the importance of the farm-bill money to red states with midterm elections nearing, did not recommend a veto. Before signing the legislation, Bush praised Combest for a "job well done."

Combest's legislative victory turned out to be his last big farm battle. He resigned from the House for personal reasons in 2003. Shortly before he left, the National Cotton Council paid for him and his wife to travel to its annual meeting in Tampa. There Combest was awarded the Harry S. Baker Distinguished Service Award for Cotton for his "invaluable assistance to the U.S. cotton industry."

The New Battle

Combest, now a lobbyist for the USA Rice Federation, has called on Congress to extend the bill he helped write -- which expires Sept. 30, 2007 -- rather than draft new legislation. That is also the position of the American Farm Bureau Federation, which has 5.2 million members. "You have programs that have been in place for 60 years," said the group's president, Bob Stallman, a Texas rice grower. "You have to be careful or you can have very destructive effects in farm country."

The farm groups are counting on the new Democratic chairmen of the Senate and House agriculture committees, Sen. Tom Harkin (Iowa) and Rep. Collin C. Peterson (Minn.), who have long supported the subsidy system.

But a number of political and economic forces have changed since the last farm bill, and those seeking reform think the tide is flowing in their direction.

Corn farmers are making record profits because of their sales to ethanol plants across the Midwest. That calls into question whether it is politically sustainable for them to continue receiving billions of dollars a year in automatic federal allowances.

International pressure also has been building against U.S. subsidies. The World Trade Organization, the Geneva-based supreme court of the global economy, ruled last year that key U.S. cotton subsidies are illegal. The United States must remove the subsidies, or Brazil, which filed the complaint, can retaliate. Other foreign challenges to other subsidies are possible.

Another difference is that money for a new farm bill will be tighter than in 2001 because the government is facing big budget deficits. "Expect a smaller pie," the House Agriculture Committee's chief economist recently told members in a briefing paper.

Vilsack, the Iowa governor, said emerging markets for crops, such as corn-based ethanol, make it more likely there will be sustained demand and good prices "without the necessity of subsidizing crops to the extent we have."

Vilsack, who once represented farmers in his law practice, said many farmers are uneasy about the subsidy system and how it can distort the market for crops and land. "They'll take the checks," he said, "but most would prefer a system where the market sets prices."

Kind and Grassley plan to renew their efforts to cut some subsidies and redistribute others. Kind's new bill would offer incentives to farmers to expand conservation efforts and bring U.S. policy in line with WTO rules.

"It ain't an easy fight," said Rick Swartz, a Washington lawyer who works with the Alliance for Sensible Agriculture Policies, an informal grouping of diverse organizations lobbying for change. "There's a lot of inertia, and you've got ag committee members whose states get the bulk of the money."

Swartz has said the alliance participants, which include the well-heeled Club for Growth, plan to spend about $10 million over the next 18 months lobbying for changes in the farm bill.

The involvement of groups such as Oxfam America and Bread for the World "enables lawmakers who oppose subsidies to use the moral argument" against farm-state members who trot out images of struggling American family farmers, said a senior congressional aide.

Oxfam America President Raymond C. Offenheiser said the group will step up its lobbying. "We think there is a vision for American agriculture that doesn't just deliver benefits to a small group of people," he said.

Offenheiser said Oxfam already has brought farmers from Africa to meet U.S. farmers in the Midwest.

"We wanted to show," he said, "how they're both victims of the last farm bill."

Research editor Alice Crites contributed to this report