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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.