

To: Senator Tom Harkin

February 12, 2005

Re: S. 667, To amend the Food Security Act of 1985 to Strengthen Payment Limitations for Commodity Payments and Benefits

Dear Senator Harkin,

S. 667, a bipartisan bill recently referred to the Committee on Agriculture, is a first step in responsibly limiting commodity payments to America's largest producers. Although the bill does not divert substantially from current law, it contains important clarifications that will help discourage abuse of commodity payments by corporate mega-farms while keeping a safety net in place for smaller operations. I urge you to support the bill.

S. 667 makes the following changes to existing commodity payment law:

- Establishes lower limits on direct payments to farmers, reducing the total amount available to a person during any crop year from \$40,000 to \$20,000;
- Reduces the total amount of counter-cyclical payments available to a person during any crop year from \$65,000 to \$30,000;
- Amends existing law on the gains an individual is allowed to accrue through loan deficiency payments and marketing loan gains (currently capped at \$75,000 per crop year) by including gains realized from the use of Commodity Credit Corporation certificates and marketing loan gains from loan settlement by forfeiture under the cap. To account for the additional categories of gains now included under the cap, the legislation raises the allowable amount of gains from \$75,000 to \$87,500 per crop year;
- Retains the three-entity rule, allowing participants to receive, in one crop year, up to twice the applicable dollar amount for the payment categories specified above, but stipulates that the total amount of payments or gains that an individual or entity may receive during any one crop year may not exceed \$275,000 (a reduction from the current cap, set at \$360,000);
- Clarifies payment law for married couples, stipulating that payments jointly received by spouses may not exceed twice the dollar amounts specified above during one crop year, unless the couple qualifies for exemption under existing law;
- Closes some of the loopholes by which farm owners or operators and non-farm businesses circumvent payment limitations by clarifying existing regulations, and counts payments attributed to these other entities under the cap of the farm owner or operator.

Background: S. 667 is a bi-partisan bill cosponsored by farm state Senators Grassley, Dorgan, Hagel, Johnson, and Daschle that amends titles to the U.S. Code established with the passage of the 1985 Food Security Act. As noted above, current law limits payments to farmers through the three payment categories to \$360,000 per crop year.

Why support the bill?

It maintains the safety net for small and medium producers. During debate on the Grassley amendment to the 2002 farm bill, and again in response to limitations proposed by President Bush in the FY06 budget, you expressed concern that payment limitations would unfairly target small and medium producers. S. 667 protects these producers by allowing individuals or entities to receive up to \$275,000 per crop year. According to the Environmental Working Group, the vast majority of farms receiving government subsidies receive payments far below this level. Between 1995 and 2003, the bottom eighty

percent of commodity payment recipients in the United States collected, on average, \$6,918 total for the period, or \$768 a year. In Iowa, only three farms out of 122,000 received more than \$275,000 in payments in 2003. The modest limits set by S. 667 will thus affect only a small number of extremely large farms.

Even these modest cuts will result in significant budgetary savings. Since 1995, commodity payment programs have cost U.S. taxpayers almost \$104 billion. A Congressional Budget Office report cited during the debate over the 2002 Farm Bill found that limiting commodity payments to \$275,000 per crop year, as S. 667 would do, could save taxpayers \$1.3 billion a year. In an era of record deficits, reducing payments to the largest farm operations is a fiscally responsible decision.

S. 667 helps restore legitimacy to the commodity payment program. In the 2004 report to the Senate Finance Committee, the General Accounting Office recommends that USDA “clarify regulations and guidance as to what constitutes a scheme or device to effectively evade payment limitations.” The report makes special mention of a recent rise in transactions between farm owners and non-farm operations controlled by the same entity, which have been used to channel farm payments to non-farm operations that “may significantly exceed the limit that would have applied to these individuals had they received the payments directly as sole owners of the farming operation.” Clarifying language in S. 667 will ensure that total payments through joint operations or multiple entities controlled by a person, in combination with payments received directly by the person, will not exceed \$275,000. Furthermore, according to the Congressional Research Service, commodity certificate gains have served as a major loophole allowing farm operations to circumvent payment limits. S. 667 addresses this issue by including certificate gains under the loan commodities cap of \$87,500 per crop year.

Farmers support payment limitations. In a 2001 survey conducted by 27 land grant colleges from around the country, 81 percent of farmers and ranchers polled agreed that farm income support payments should be limited to smaller farmers. Excluding respondents from farms with less than \$100,000 in annual income, a majority—61 percent—still supported commodity payment limitations. The poll found that three-quarters of farmers in every region, including 80 percent in the South, supported targeting income support to small farms. Such widespread support for reform highlights the unfortunate consequences of the current payment system, including overproduction, suppressed crop prices, and rising rental costs. In their 2003 report, members of the USDA Payment Limitations Commission argued that limitations would have the net effect of lowering land values and slowing farm consolidation, benefiting small farms and rural communities. While S. 667 is only a first step in this direction, it is a step deserving of your support.

Recommendations: I urge you to support the bill when it comes before the Agriculture Committee for debate. Prior to the debate, a hearing on S. 667 should be scheduled to take advantage of the window created by the release of the president’s budget. The hearing should include the perspectives of corporate and small and medium producers, address budget issues (including the amount saved through payment limits, where those savings would be spent, and what additional costs the FSA may accrue from implementing the changes), and encourage a broader discussion of national agricultural policy priorities. Possibilities for testimony include a representative from the Environmental Working Group; a member of the USDA Payment Limitations Commission; an economist such as Daryll Ray of the Agriculture Policy Analysis Center of the University of Tennessee; an FSA representative involved in day-to-day commodity payment operations; and representatives from the American Farm Bureau and the National Family Farm Coalition.

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