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WASHINGTON POST 1-6-87

# Agriculture Programs Facing $5 Billion Cut

By Ward Sinclair
Washington Post Staff Writer

President Reagan, calling for major changes in farm legislation that was enacted less than 13 months ago, has proposed a fiscal 1988 budget that would cut more than $5 billion from some of the most politically popular federal programs in rural America.

The Reagan budget released yesterday would make major cuts in federal spending on such programs as rural housing, child nutrition and feeding, soil conservation, special agricultural research and rural electric and telephone loans, and calls for more than $800 million in user fees for such traditionally government-funded services as grain and meat inspection.

If enacted by Congress, the $50.7 billion Agriculture Department budget would be about 8 percent less than the $55.1 billion anticipated for farm support and related programs. That administration estimate of current outlays assumes that Congress will approve a number of controversial additional cuts proposed for fiscal year 1987.

Administration spokesmen said that details of proposed changes in the farm support programs have not been completed, but that they will include these steps aimed at more quickly reducing spending for such programs, which hit a record $25.8 billion in fiscal 1986:

- A "decoupling" of subsidy payments from production requirements—a step that in effect would pay farmers not to farm, which department officials say would be cheaper than the current system that stimulates surpluses and drives up federal storage costs.
- A 10 percent annual reduction in the "target prices" that determine the amount of direct subsidy a farmer receives for producing grain, cotton and rice. Congress in its 1985 farm bill froze target prices for this year and last, but agreed to drop them 5 percent by 1990.
- A limit of $50,000, instead of today's $250,000, on farm program payments to an individual farmer.

The proposals, certain to ignite controversy in the Democratic-controlled Congress, would have no impact on farm support spending this year or next, but could cut costs of the programs to about $10.5 billion by 1992, according to USDA budget estimates.

Robert L. Thompson, assistant secretary for economics, conceded that the proposals ran counter to earlier administration resistance to changing the 1985 farm legislation. But he said the prospect of continued high spending made revision urgent.

"It will be controversial, yes," he said in an interview, "but there is general frustration with the large cost of the program payments."

Thompson also said that paying farmers not to produce and requiring them to devote idled acreage to conservation use "brings a clear-cut net savings . . . with the surpluses we have in the bins today it definitely is cheaper to pay the farmer not to produce."

The Office of Management and Budget said the proposals are intended "to solve the farm program problems once and for all . . . economic conditions in agriculture are not good, in large part because of contradictory and counterproductive farm programs. This situation is untenable and must be changed."

The administration argued that the proposed changes, along with as-yet undecided revisions of the sugar support program, would retain basic farm price support mechanisms while saving $24 billion between 1988 and 1992.

But Michael L. Hall, executive vice president of the National Corn Growers Association, noted the failure of the administration to persuade Congress with similar proposals in the past. "They're putting this dog on the tracks for a third time, when its legs already have been cut off twice," Hall said.

A number of the administration's other proposals for cutting the USDA budget are on similar footing—repeated efforts to cut them in the past have been rejected by Congress. Some of the highlights:

- Farmers Home Administration (FmHA) operating loans to farmers would remain at $3.5 billion, but the bulk would be in the form of guarantees rather than direct loans. Most of FmHA's rural housing activities would end, which Robert A. Rapoza of the National Rural Housing Coalition called "more SOS—the same old stuff."
- Funding of most traditional soil conservation programs would stop and staff would be cut by 4 percent, despite heavy new demands placed on the Soil Conservation Service by the 1985 farm bill. The budget instead proposes $1.4 billion for payments to farmers who put highly erodible land in the soil conservation reserve.
- Farm export credit guarantees would be cut by $2.1 billion; the Food for Peace program, food stamps, nutrition aid to Puerto Rico, child nutrition and supplemental feeding all would be cut slightly; direct loans for rural electric and telephone projects would be replaced by loan guarantees.

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WASH.POST: 12-24-86

# Farm Support Overhaul Predicted

## *'Catastrophic' Health Plan Due in '88 Budget, OMB's Miller Says*

By Spencer Rich
Washington Post Staff Writer

President Reagan's fiscal 1988 budget is "almost certain" to propose a major overhaul of the farm-support system, including a "tight cap" on a farmer's total subsidies and a plan to discourage overproduction by basing subsidies on capacity rather than production, Office of Management and Budget Director James C. Miller III said yesterday.

Miller told reporters that a proposal for "catastrophic" health-insurance protection has not been completed but will be included in the budget or State of the Union messages.

Farm-support costs have soared to an estimated $76 billion over the next three years, so subsidies must be better targeted, Miller said.

"A lot of money goes to people that are not Jessica Lange on the farm," he said, referring to a movie depicting the sufferings of a family going broke on a small- to medium-sized farm. He said government savings from the farm proposals would be small in the first year.

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**Miller: "A lot of money goes to people that are not Jessica Lange on the farm."**

Miller gave these details of the fiscal 1988 budget expected to be released Jan. 5:

- Overall, it calls for $1.022 trillion in outlays and $915 billion in revenues, meeting the Gramm-Rudman-Hollings law requirement that the deficit not exceed $108 billion.
- New authority sought for all defense accounts will be $312 billion.

The "base amount" of $289.6 billion appropriated by Congress for fiscal 1987 was increased 3.6 percent to offset inflation, then raised 3 percent to achieve real after-inflation growth, yielding about $308 billion. Added funds for retirement changes raised the figure another $4 billion.

- To hold the deficit at $108 billion, the budget will propose net cuts of about $52 billion in what otherwise would have been spent in fiscal 1988.
- About $30 billion of those cuts would result from program reductions and terminations, of which $18 billion would come from various discretionary programs and the rest from entitlements and related programs, with Medicare taking "substantial" reductions below amounts that would otherwise be spent under current law.

About $22 billion would come from new revenues. These include proposals for $3 billion in user fees; $5 billion for "privatization" of Amtrak, power-marketing facilities, the Northeast rail corridor and other such actions; $8 billion for sale of government loan assets, and $6 billion in other receipts, largest of which would be "a couple of billion" in extra tax collections through improved Internal Revenue Service collections.

- The budget will not include proposals to freeze cost-of-living increases for Social Security or other federal pension systems or a specific proposal to implement the concept of a "capital budget," in which capital costs would be calculated apart from annual program operating costs.
- No major tax increase will be proposed.

Miller and the Agriculture Department declined to give details on the farm proposals, but Miller said one problem with the current system is poor targeting.

There is a legal annual limit of $50,000 for each person in direct subsidies to farmers on payments for wheat, feed grains, cotton and rice and an annual limit of $200,000 on certain related payments that can be made for some of these crops under certain conditions.

But some farmers receive much more because of loopholes. For example, a farmer can obtain more than $50,000 in direct subsidies by subdividing a farm and sharing operations with other farmers or operating a separate property with another farmer.

Miller said he "wouldn't be surprised" if the final administration proposal includes a "tight cap" on total payments. He gave no details, but sources speculated that such a cap might include, for example, closing the loopholes or imposing a $100,000 limit on direct subsidies and the other payments combined.

On production, Miller said the current system, which "ties the subsidy to how much is produced" on the farm, simply encourages continued overproduction in order to obtain the maximum subsidy.

Instead, he said, the government should base the payment on capacity instead of production. The farmer could then stop producing, reducing the overall surplus, without losing the payment.

Miller's office had no comment on a report that the administration would propose a 10 percent cut in "target" prices used to calculate farm subsidies.

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