The Bush administration threatened to veto a multibillion-dollar farm package on Monday, saying the Senate bill doesn't cut farm subsidies enough and would threaten World Trade Organization negotiations.

The veto threat came as the Senate started debate on the $288 billion bill, with opponents vowing to reduce the billions of dollars in annual subsidies paid to growers of corn, wheat, cotton, rice and other major crops.

The veto threat came from acting Agriculture Secretary Charles Conner, who said he and other senior advisers to President Bush would recommend the action. The White House has not officially commented yet, but Bush threatened to veto the House version that passed in July.

Conner criticized as "budget gimmicks" a delay in some payments to farmers until after the five-year life of the bill. He also criticized a proposed crackdown on tax shelters under the "economic substance" doctrine.

According to that measure, for a company to claim a tax deduction for a specific transaction, the transaction must yield a profit or have some other clear economic benefit separate from the tax effect.

"We believe this bill simply makes a mockery of the budget process," Conner told reporters.

Conner also said the legislation would "paint a bullseye on the back of American farmers" by raising some thresholds that trigger payments to farmers. That could threaten World Trade Organization talks, he said.

Senate Agriculture Committee Chairman Tom Harkin, D-Iowa, said Monday he is "hopeful we will be able to work through many of the administration's concerns."

The Senate legislation does attempt to limit subsidies by eventually banning payments to "nonfarmers" whose income averages more than $750,000 a year. The bill defines farmers as those who earn more than two-thirds of their income from agriculture.

There would be no income-based limits on what a farmer could collect, though the bill would ban individual farmers from collecting payments for multiple farm businesses.

The House measure would ban payments to all who earn an average $1 million a year or more. The administration has proposed reducing payments to individuals who make more than $200,000. The current cap is $2.5 million.
Sens. Byron Dorgan, D-N.D., and Charles Grassley, R-Iowa, are planning an amendment on the Senate floor that would limit a married couple to $250,000 in subsidies per year. Current law allows $360,000 annually.

The farm legislation would also extend federal nutrition programs, including food stamps, and boost conservation programs to protect environmentally sensitive land. 11-05-07

2. Veto Threats Loom Over Farm Bill
(Wall Street Journal)
By DAVID ROGERS

Veto threats and new cost estimates cloud passage of a Senate farm bill, adding to the pressure for tighter limits on payments to growers and a greater shift of funds to nutrition programs.

The White House is expected to issue its formal veto warning Tuesday, but Charles Conner, the acting Agriculture secretary, began spelling out the administration's case Monday, telling the reporters that the Senate measure makes a "mockery of the budget process" and paints "a bulls eye on the back of American farmers" by inviting retaliation by U.S. trading partners.

"I was hoping that they wouldn't do that until we finished the bill," said Senate Agriculture Committee Chairman Tom Harkin (D., Iowa.), citing the bipartisan support for the measure. Budget Committee Chairman Kent Conrad dismissed Mr. Conner's rhetoric as more designed to lay down markers for the final House-Senate negotiations on the five year, estimated $289 billion package.

"If the president wants to turn states like mine into solid Democratic states, it would be a good way to do it," said the North Dakota Democrat of the veto threat. "They're not going to veto this bill. They know it and we know it. What they're trying to do is get leverage for the negotiation."

While trade is always part of farm bill debates, the White House appears focused most on the costs of the package and whether artificial "cliffs" are created by cutting off funding for some initiatives, like disaster aid, after five years. This helps reduce the 10-year costs of the package but also begs the question of whether a future Congress will let the programs run out or demand more spending to keep them alive.

By the administration's account, about $11.9 billion for disaster aid and nutrition programs falls into this category. Another $14.9 billion can be attributed to expiring tax provisions in the bill if they were extended to run 10 years. On top of this, the Congressional Budget Office now says that $9.8 billion is "saved" ostensibly by shifting costs beyond 2017 or outside the 10-year budget window.
Added together these pieces come to $36.6 billion, but Mr. Conrad said all but the CBO numbers are "fanciful" and a distortion.

"These provisions are not 10 year provisions. They are five year provisions. They sunset," Mr. Conrad said, much as the White House done in the past. "Gee, does this same principle apply to (the president's) tax bills that all sunset in 2009 and 2010 at the cost of trillions of dollars?" Mr. Conrad said.

Nonetheless, the fine print of new CBO cost estimates is a potential problem as Democrats try to reconcile competing interests in their rural-urban coalition. At a time of high farm income, commodity-support programs are under siege from a coalition of religious leaders and antipoverty groups, and the choices are especially difficult for the new majority.

The Agriculture Committee rejected an effort by Sen. Richard Lugar (R., Ind.) to trim just $1.7 billion over five years from direct payments to farmers to help pay for nutrition benefits. Democrats have scrambled since to fill this gap before the floor debate, and Mr. Lugar said a "battle fortress" mentality has set in as the committee tries to buy its way out of the problem.

A key part of the deal making involves savings from a new crop revenue support program, initiated by the corn growers lobby. But CBO now says that the initiative will actually increase government costs by billions of dollars even though it shows a short-term savings by shifting payments from one year to the next.

The result could be more pressure for floor amendments making real cuts in subsidies or imposing tighter limits on payments to producers, including proposals to cut off government support entirely for the wealthiest farmers.

The House-passed farm bill sets an adjusted gross income limit of $1 million for full-time farmers and $500,000 if an individual earns less than 66% of his or her income from farming. The Senate bill is much looser as now drafted, but two freshman Democrats, Sens. Amy Klobuchar of Minnesota and Ohio Sen. Sherrod Brown, have proposed going taking the House limits down to $750,000 and $250,000 respectively.

By CBO's count, as much as 70% of the savings which come from shifting costs into future years can be attributed to commodity programs. Jim Wiesemeyer, the veteran Washington writer for the Pro Farmer newsletter, has nicknamed the arrangement "pay slow," a pun on the "pay-as-you-go" budget discipline promised by Democrats.

The clearest single example is the new Average Crop Revenue or ACR program, designed as an alternative to traditional farm support programs indexed to prices. The new option reflects yields as well as prices and seeks to assure farmers a steady revenue stream, either when markets turn down or disasters wipe out crops.
Economists have long argued this makes sense as a way to deal with the swings in agriculture. And beginning in 2010, the goal would be to establish a floor roughly equal to 90% of the expected average revenue per acre by state for an eligible crop.

Corn growers have long been attracted to the revenue approach, but the idea picked up steam after the ethanol boom drove up corn prices to a point where producers were no longer qualifying for most government support payments. Adjustments made in the Senate committee tipped the scales more to wheat and soybeans, and the lure of budget savings was a huge incentive for senators, hoping to forestall subsidy cuts.

But CBO's more recent and detailed estimates paint a different picture. The choice between traditional farm programs and ACR will actually increase government costs by $4.7 billion over 10 years, when measured on a crop year basis. The savings exist only on a fiscal year basis, since ACR payments are slower than the current schedule and therefore come at harvest time after Sept. 30 each fall.

Thus CBO estimates that ACR payments will have a value of $14 billion for crop years 2008-2012 but only $4 billion of that cost will be paid in the corresponding fiscal years. Over 10 crop years, ACR payments would have a value of $40 billion but only $29 billion would be paid out in fiscal years 2008-2017.