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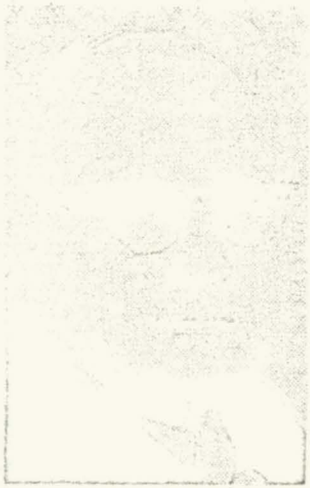
Rich Farmers Split Holdings to Save Subsidies



SEN. JAMES O. EASTLAND
... 8 new businesses.

By Nick Kotz
Washington Post Staff Writer

Hundreds of the country's richest farmers, including Sen. James O. Eastland (D-Miss.) and movie actor John Wayne, have reshuffled their businesses in ways that avoid the effects of a 1970 law designed to limit their federal farm subsidy payments.

The law limits each farmer to a $55,000 per crop maximum federal subsidy check. But Agriculture Department regulations and the law itself have produced a bumper crop of legal loopholes.

Congressional supporters of the payment ceiling had hoped it would save taxpayers $60 million this year, principally on cotton, where the biggest subsidies are concentrated.

Contrary to their expectations:

- Total farm subsidies, more than $3 billion last year on cotton, wheat and feed grains, will not be lowered as a result of the payment restriction.
- Many big farmers, like Eastland, have legally circumvented the subsidy limit. The senator and his family will receive about $160,000, only slightly less than payments last year. The Eastlands avoided the $55,000 maximum payment by creating eight new business entities to farm their 5,200-acre plantation in the cotton-rich Mississippi Delta.
- Actor Wayne and his partners will get about $218,000—far less than their 1970 payments of $810,000 — for Arizona cotton ranches named "Red River," "Rio Bravo," and "El Dorado" after Wayne movies. The government, however, won't save any money. More than $500,000 in federal checks that formerly went to the Wayne group will be paid instead to other farmers and investors.

See PAYMENTS, A2, Col. 2

JOHN WAYNE
... 3 separate ranches.

PAYMENTS, From A1

They, in turn, paid Wayne at least several hundred thousand dollars to lease his valuable federal cotton allotments.

• The J. G. Boswell Co., which last year received $4.4 million, the country's biggest single farm payment, this year won't receive anything from the government. Instead, most of the payments that would have gone to Boswell will go to a combine of 53 investors. This combine and others paid Boswell about $1.3 million for a one-year lease of the firm's cotton allotments. They also will pay Boswell to farm their leased land. Each of the more than 50 investors can receive the maximum $55,000 subsidy. Again, the government won't save any money.

• Far more cotton will be grown this year, as giant operators like Boswell continue to plant their own land, but without federal subsidies. Boswell and other large corporate farmers may this year experience some reduction in total income. But they now, in effect, have the farm program "both ways." They get substantial cash by leasing their cotton allotments to others, for use on other land, and then are free to grow as much cotton on their own land as they want without any of the restrictions of the farm program. Boswell has planted 25 per cent more cotton this year.

Critics contend that the new Boswell approach runs counter to the basic intent of the farm program, which was designed to support farm prices by limiting production. Farmers were paid federal income supplements in return for their pledge to divert some land from production.

USDA officials say the business maneuvers of Eastland, Wayne and Boswell are legal variations on a theme employed by most of the 1,353 largest farm operations that are affected by the $55,000 per farmer limit.

Agriculture Secretary Clifford Hardin told congressional critic Paul Findley (R-Ill.) in May that USDA never expectcritic Paul Findley (R-Ill.) in May that USDA never expected to achieve substantial government savings. Hardin said he became even more pessimistic about any savings after he decided that the law required USDA to issue regulations that permitted a wide variety of farm reorganizations.

Findley had originally proposed a much-tighter writeen $20,000 limit and warned of loopholes in the final bill. It was written as a defensive maneuver by USDA officials, together with congressional farm committees, of which Eastland is a member. Nevertheless, Findley believes USDA has widened the loopholes in its regulations interpreting the law.

Findley said: "I believe most members of Congress thought they were getting a payment limit in which less money would be spent on the program. I'm disappointed in the whole thing, but I expected to be because the law and regulations were written by people who don't believe in any payment limitation. These short-term leases strike me as a subterfuge and clear evasion of the intent of Congress."

George Hansen, a former Republican congressman from Idaho and now the USDA deputy administrator charged with overseeing the new regulations, disagrees. He said Congress did not intend "to destroy farmers" by prohibiting them from farm reorganizations. "This is a tough apple," Hansen said. "Some people think our regulations are too easy. Others say they are too tough."

Hansen emphasized that USDA now is spotchecking 50 already-approved farm reorganizations to make certain that farmers are not illegally avoiding the payment limit.

Only 1,353 of several million American farmers received subsidies of more than $55,000 per crop in 1970 and thus are affected by the new payment limit this year. Their 1970 payments totalled $142 million, of $3 billion total payments. Only 153 of the 1,353 were wheat or feed grain farmers. The vast majority are big cotton growers in Arizona, California, Mississippi and Texas.

These cotton planters had received the huge federal subsidies because they operated highly productive land with many acres of federally assigned cotton allotments. These allotments are needed to qualify for government payments.

The family of Sen. Eastland, for example, is assigned 1,125 acres in cotton allotments this year. The Eastlands' $159,925 in USDA-estimated 1971 payments are determined by multiplying their allotment acres (1,125) times their cotton yield (a rich 945 pounds per acre) times the federal subsidy payment rate (15 cents per pound).

Wealthy Arizona and California planters such as Boswell and Wayne get payments based on even higher yields — more than 1,000 pounds of cotton per acre.

The Eastlands are not limited to a $55,000 payment this year because of the wording of the new law and the way USDA has interpreted it.

The law specified only that "a person" was limited to $55,000 per crop. The drafting of "fair and reasonable regulations" defining "a person" was left up to the Agriculture Secretary. The law also permitted cotton farmers to continue the past practice of selling or leasing their federal cotton allotments.

The USDA regulations propartnership qualifies as a separate "person," entitled to a $55,000 payment. In addition to this $55,000 payment, the regulations also permit a farmer to share subsidy payments from corporations in which he is a minority stockholder.

USDA officials told The Washington Post how Sen. Eastland reorganized his plantation in compliance with provisions of the new law and regulations.

In 1970, Eastland Plantation, Inc., in which Eastland, his wife, and his four children were stockholders, had received $162,967. In addition, the senator received an $11,487 subsidy from a partnership with his cousin.

If the Eastlands had not altered their two business entities, they would have been limited to $65,000 in subsidies this year.

A business reorganization was carried out early in 1971. The family corporation and partnership with his cousin were both dissolved. The corporation was replaced by six new entities: individual farms for the senator, for each of his four children (for land willed them by a grandparent), and by a new family corporation, which leased land owned by the senator. A new family partnership will farm all this land (two of the senator's daughters live outside the state and his son is in the Navy). Eastland's partnership with his cousin was transformed into another new corporation.

Payments to the senator and his four children will total $160,000, less than their payments in 1970 because of another change in the USDA payment formula.

The Eastlands also will receive a small feed grain payment, probably less than $2,000, from the Double O. Ranch, Inc., a cattle operation in which they have a 50 per cent interest.

Sen. Eastland said in an interview that the new payment limitation law "had nothing to do" with his family's business reorganization early this year. He said the new business entities were created because his mother's will called for dividing up his children's property when the youngest reached 21. Another reason, said Eastland, is because "we're going into ... cattle feeding ... a big way."

The senator's youngest child is his son, Woods, now 25. USDA records show that Eastland still owns 62 per cent of the family plantation land, but his children hold a majority of stock in the farming corporation.

Eastland said one advantage of the new farm law is that it provides greater flexibility to grow more cotton. "We planted more cotton this year," he said, "because it's a commodity in short supply."

Other large cotton planters have carried out similar business reorganizations. For example, Roy Flowers, another major Mississippi Delta planter, divided two family farming operations into five, thus avoiding any loss from 1970 payments of $196,000.

Kirby Hughes, who in 1970 received $711,000, the largest payment to any single Arizona cotton farmer, this year formed a new 15-man partnership. The partners are Hughes, his son, brother, brother-in-law, and 11 former employees. Hughes sold or leased land and allotments to the partnership, which USDA says will receive $782,000 in 1971 payments—about $52,100 for each partner. The new operation is financed by a major cotton broker and ginning corporation.

The very largest farm corporations, which cannot subdivide their subsidies among enough family members or employees, have taken another course, which has benefited either smaller farmers or nonfarmer business investors.

Delta and Pine Land Co., a British-owned company in which Queen Elizabeth II reportedly has an interest, received $805,000 last year, the biggest payment in Mississippi. This year, for several hundred thousand dollars, the Delta firm leased its cotton allotments to 57 other farms. These individual or corporate farmers will receive the subsidies, permitting some to expand their farm operations. ... British-owned firm will farm its more than 10,000 acres of prime cotton land without any government restrictions.

The giant Boswell firm has similarly leased its California cotton allotments, but Boswell has retained a greater financial interest. Its payments will generally go to business investors rather than to other planters.

Boswell has leased most of its allotments to a combine of five partnerships with more than 50 investors. The combine will not only pay Boswell about one-half the cash value of the allotments but also will pay the firm the land for the investors. Boswell continues to farm its own land.

William E. Young Jr., a member of USDA's California state farm committee, is rankled that more subsidies now are being paid to non-farmer business investors. Of the Boswell investors, he said: "It's pretty much of a cinch they are going to make money, unless there is a disaster."

Young says farmers like himself, who do not have an endless supply of relatives with whom to split subsidies, have been hurt by the new regulations. In an effort to prevent the use of "strawmen" to help spread a farmer's subsidies, USDA has ruled that wives, minor children and persons who cannot prove some contribution to a farm enterprise are ineligible to receive payments. Each corporation is limited to a $55,000 payment.

Young said the payment ceiling will cost him about $50,000 this year. He had to give up cotton allotments he formerly leased from others. Young, his father and his son still will receive about $147,000 in cotton subsidies and $28,000 in sugar beet payments (not subject to the subsidy limit). Young's minority interest in a farm corporation and his creation of a new farm for his son will help him avoid larger payment cuts.

Farm experts disagree about whether efficient cotton planters can make money without the benefit of cotton payments. Kenneth Frick, the Nixon administration's director of farm commodity programs, says the new payment limit is providing a test of whether corporate giants such as Boswell are efficient enough to earn a profit in the open market. USDA officials acknowledge, however, that the test is not a complete one because the big corporate farmers still receive in allotment lease fees about one-third to one-half the money formerly paid directly to them in subsidies. It is expected that Boswell will have only slightly reduced income this year if present cotton prices are maintained.

John Schnittker, who was under Secretary of Agriculture in the Johnson administration, says that two-thirds of the formerly unlimited cotton subsidy payments merely represented added profit to big farmers, thereby encouraging them to plant more cotton rather than less. He believes production could be effectively controlled and farmers could still earn a fair profit with a $20,000 subsidy limit.

However, USDA staffers such as Howard Cox insist that the payments mean the difference between profit or loss for most farmers, including the big ones.

Meanwhile, congressional opponents of big farm subsidy payments are trying to reduce the payment limit to $20,000. The House already has taken this action, in an amendment to the 1972 agriculture appropriations bill. But the House bill did not close any of the present loopholes permitting farm reorganizations.

Farm Administrator Frick said the imposition of a $20,000 limit would be grossly unfair, since the 1970 farm law promised a three-year program with a $55,000 payment limit.

"Farmers just can't make another adjustment," Frick said.