National Sustainable Agriculture Coalition

NSAC's 2012 Farm Bill Platform:

Budget Chapter

Background

The farm bill is about far more than just the farm bill budget. The full farm bill platform we will be presenting in October therefore contains many recommendations for moving farm and food policies forward in a positive direction for the health of the farm, food, and rural economy and the protection of the environment.

The farm bill, however, is in part about how direct (mandatory) farm bill resources are divided and targeted. That is always true, and funding considerations are particularly salient in the current economic and fiscal climate with its dual emphasis on economic growth and job creation and controlling federal deficits.

With the adoption of special deficit reduction procedures as part of the debt ceiling deal that became law in August 2011, the budget debate surrounding the farm bill reauthorization also has become more complex than usual. Unlike the traditional congressional budget reconciliation process in which a deficit reduction number is provided to the Agriculture Committees, which in turn fashions a plan to reach the specific deficit reduction target, the new 12-member Joint Select Committee on Deficit Reduction (hereafter Joint Committee) process is uncharted territory. While the Agriculture Committees, like all other authorizing committees with authority over mandatory spending, may make recommendations to the special Joint Committee, ultimately it will be a majority of those 12 members who determine the size and shape and specific policies for reducing farm bill spending.

If the Joint Committee succeeds in its task of presenting a plan to the full Congress, the resulting bill will be subject to an up or down vote with no amendments allowed. Hence, the traditional role of the authorizing committees will be side-stepped and, should the Joint Committee so desire, most of the major farm bill funding decisions for the 2012 Farm Bill will have been made ahead of time in 2011 by the special limited group of 12 making up the Joint Committee. [1]

Should the Joint Committee process fail, either because the Committee cannot reach agreement or because its agreement is shot down by the House or Senate, a budget sequestration process automatically kicks in. Under sequestration, farm bill spending gets ratcheted down on a pro rata basis across the board, with exemptions only for the Conservation Reserve Program [2] and nutrition programs for low-income families and children, most notably the SNAP or food stamp program.

The differences between the two options -- targeted cuts to a few programs in the bill produced by the Joint Committee versus across-the-board cuts on a pro rata basis under sequestration -- are quite striking. Under the first scenario, many if not most of the major farm bill funding decisions will have been made before work begins on the actual farm bill itself. While the farm bill under that option might make further shifts in funding, those funding changes will likely pale in comparison to what the Joint Committee does.

Under the second scenario (sequestration), by contrast, no decisions will have been made on new policies and funding priorities. Rather, everything will be reduced proportionally and debate over the farm bill proper will be the sole venue for all the decisions about new funding priorities and shifts.

While there is a sharp contrast between the two options, the farm bill funding proposals we are presenting here are not really affected by the ultimate path forward. Our proposals are such that they could be adopted by the Joint Committee, or by the Agriculture Committees under the sequestration option, or by some combination of the two processes.

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[1] In our opinion, Congress and the nation are not well served by this new budget process. It would have been far preferable to have used the traditional budget reconciliation process in which the authorizing committees of Congress develop, by date certain, the policies that match the funding reduction levels agreed to by a budget bill. Unfortunately, that more time-tested, logical and workable process has become anathema to some in Congress for reasons that have little to do with the process itself.

The farm bill is a large, comprehensive piece of legislation with funding and policy very closely and intricately intertwined. It does not lend itself easily to simple budget cuts made without reference to complex policy revisions to achieve the reductions. Attempting to alter the funding baseline for the next two farm bills (i.e., the next ten years) during the incredibly short time period between now and November, via a brand new select committee, could well be a recipe for disaster. We hope not, but we do believe it is virtually guaranteed that any action adopted by through the Joint Committee process pertaining to farm bill spending will almost certainly need to be revisited and perhaps adjusted by the authorizing (Agriculture) committees during the actual farm bill process.

While it might theoretically be possible for the Joint Committee to decide to adopt essentially the same process and send a bill to the floor of the House and Senate that sets funding cut levels and directs authorizing committees to develop the requisite policies to enact those cuts by a set date early in 2012, it does not seem likely given the decisions made in August in adopting the Budget Control Act. We note for the record, however, that we would strongly support such a change in plans.

[2] The Wetlands Reserve Program is exempt according to the existing farm bill, but not according to the Budget Control Act. The conflict is somewhat of a moot point in any case as the WRP lacks a budget baseline beyond the next couple years.

In a nutshell, we call on the Joint Committee and Congress to:

- Resist disproportionate cuts to farm bill spending.
- Not cut anti-hunger programs.
- Account for the very substantial cuts already made to farm conservation programs by holding the line on any further reductions.
- Reverse the decline in investments in rural economic and job growth.
- Restore mandatory funding budgets for key farm bill programs that spur jobs, innovation, economic growth, and sustainable development.
- Make reductions to commodity and insurance programs in a manner that is fair and that supports economic opportunity, including meaningful and effective caps on all subsidies to large farms.

Our Budget Recommendations

.Do Not Make Farm Bill Bear Disproportionate Cuts

We understand that in the current budget context cuts need to be made to mandatory spending programs. We join with other farm organizations, however, in recommending that cuts be roughly proportional to the contribution of food and agriculture programs to overall government spending. We realize the farm bill cannot be completely exempt from cuts, but we also believe it should not be singled out for disproportional cuts. We do not believe the current distribution of farm bill dollars to particular programs is fair or well-aligned with widely shared public policy goals, but correcting these distributional problems would become even more difficult with unbalanced and outsized cuts.

Do Not Cut Anti-Hunger Programs

Deficit reduction should not come at the expense of the poor. With nearly 50 million Americans struggling with hunger during this economic downturn, we need our major anti-hunger programs, including SNAP and child nutrition, now more than ever. Congress recognized these important principles by exempting nutrition and other low-income programs from sequestration should the Joint Committee process prove unsuccessful. The Joint Committee and the Agriculture Committees should follow the same principle as they take up the deficit reduction measure and then the farm bill. Reducing the deficit by increasing hunger quite simply should not be an option on the table.

Exempt Conservation from Further Cuts– It Has Already Paid Its Fair Share

Mandatory funding for conservation programs, unlike all the other large categories of mandatory funding in the farm bill, has been subject to “changes in mandatory program spending” (CHIMPS) in the appropriations process every year since the last farm bill was enacted. Combined, the farm conservation spending Congress approved and paid for in the 2008 Farm Bill has been cut in the appropriations process by over $2.0 billion assuming the final FY 12 bill resembles the bill passed out of the Senate Appropriations Committee on September 7, or nearly $2.5 billion assuming the final FY 12 bill resembles the bill passed by the House in August.

These cuts have happened at the worst possible time for our nation, in the face of severe soil erosion due to environmental conditions (including both heavy rains and flooding and drought) and an increase in marginal land in row-crop production, leaving the land bare and vulnerable to erosion for many months. To safeguard our national security and our future, we must not unwisely continue to cut conservation.

In our view, making "changes to mandatory program spending" in appropriations bills is a bad practice that should cease. It is one more sign that the federal budget process is not working the way it should. If such "chimps" continue as part of the annual appropriations process, however, we believe all farm programs must be on the table, including commodity, insurance, and export subsidies, not just the programs that help farmers protect natural resources, improve the public health and the environment, and make our collective long-term food security possible.

While we hope this practice will come to an end, Congress has allowed it to go on throughout the current farm bill cycle, and the conservation budget has suffered as a result. It would be the height of unfairness if now, with reductions to farm bill spending on the table for the Joint Committee, conservation programs were cut for a second time. Farm conservation has already paid its share of deficit reduction, and now the commodity, insurance, and export subsidies must shoulder their fair share of any further reductions.

Don't Destroy Rural Job Growth

We call particular attention to the steady and very substantial erosion in discretionary federal resources committed to rural business and community development. Appropriations for rural economic and community development have fallen by one third in ten years, and the cuts have not only continued but accelerated during this severe economic downturn. Moreover, this trend of abandoning rural America will likely only accelerate with the discretionary funding cuts already enacted in the Budget Control Act in August.

In light of this steady and continuing erosion, and given the urgent need to improve job and economic growth in rural America, additional mandatory spending is urgently needed. While rural development has historically been largely excluded from farm bill mandatory spending allocations, there has been mandatory economic development funding in each of the last three farm bills, including in 1996, the last farm bill written simultaneously with deficit reduction legislation. It would be a serious mistake to exclude it from farm bill funding consideration at this critical moment for the economy. Accepting further rural economic decline is not a tolerable option.

To be sure, the Agriculture Committees should use the upcoming farm bill to improve policy and streamline and strengthen existing rural development programs. The jobs portion of the Joint Committee's proposal, however, should first include a significant **Rural Community Prosperity Fund**, with flexibility for USDA to invest the fund, via existing programs (as amended and streamlined in the farm bill), in high job growth projects. We recommend at least $100 million per year over five years.

There is a significant advantage to placing mandatory money for rural job, business, and community development in a single Rural Community Prosperity Fund, rather than dividing it among rural development programs. Doing so would establish a baseline for rural development in the next farm bill rather than leaving it out of the out in the cold again in the next iteration of the farm bill. It will also create significant flexibility to ensure the funding is put to its highest and best use at any moment in time. It will also provide time for the farm bill to streamline rural development programs and for USDA to implement those forthcoming shifts. For all the reasons, we urge the Agriculture Committees to work with the Joint Committee to create the Rural Community Prosperity Fund.

Restore Funding Baseline for Innovative High Priority Programs

The combined efforts of the Joint Committee and the Agriculture Committees should result in renewed funding baselines (funding amounts presumed and secured over time) for newer, innovative, high priority farm bill programs that are making a real difference in the countryside and are undergirding the growth of the emerging sustainable farm and food system.

The new farm bill will only be worthy of our support if the following programs – all of which currently receive direct farm bill funding but which do not have a funding baseline to draw on after 2012 -- are supported and enhanced as part of the new farm bill budget.

- Beginning Farmer & Rancher Development Program
- Outreach & Assistance to Socially Disadvantaged Farmers and Ranchers

- Rural Micro-Entrepreneur Assistance Program
- Value-Added Producer Grants

- Farmers Market Promotion Program
- National Organic Certification Cost Share Program

- Specialty Crop Research Initiative
- Organic Agriculture Research & Extension Initiative

- Wetlands Reserve Program
- Grassland Reserve Program

- Rural Energy for America Program

Congress should not make the mistake of assuming that newer, more innovative, pro-growth farm bill programs should come to an end because of budget pressures. Programs should not be judged by their age or baselines, but by their merits. These programs are highly meritorious and deserve to continue and grow.

Now more than ever we need to:

- give new beginning farmers the tools they need to prosper and grow to help revitalize agriculture and farming communities;
- reverse the historic discrimination that has plagued agricultural programs with proactive outreach and assistance;
- invest in family farm and non-farm small rural businesses that are the linchpin to economic recovery;
- begin to level the playing field for organic farmers, to enable them to keep up with steadily growing demand;
- help landowners restore wetlands to help keep flooding in check while improving water quality and wildlife habitat at the same time; and
- promote energy conservation and renewable homegrown energy production.

Restored funding for these programs is a top priority and fundamental to our support for a new farm bill. From the start, it should be built into all the farm bill budget assumptions by the Joint Committee and by the Agriculture Committees. Combined, they will need approximately $2.7 billion over the 5-year life of the new farm bill. A farm bill budget, whether emerging from the Joint Committee process or from the traditional farm bill process, or some combination of the two, must include renewed funding for these programs.

Make Farm Program Spending Reductions Fair and Supportive of Economic Opportunity

Any deficit reduction cuts to farm programs should be achieved in a manner that preserves a meaningful safety net, targets cuts in a fair manner, fosters new economic opportunities in agriculture, conserves natural resources, and improves prospects for the whole of agriculture, not just for the basic commodities. These principles will be the key test for whether a farm program budget deal deserves public support.

Commodity Programs

Offering a measure of protection against wide price swings and market declines with respect to basic commodities is a legitimate function of government. The resulting safety net, however, should be just that – a safety net, not a subsidy system that encourages land price inflation, soil-depleting farming practices and systems, farm consolidation, and declining farming opportunities. The current subsidy system is badly broken and needs to be fixed. Deficit reduction may not be the ideal context for making the needed fixes, but does nonetheless offer a realistic opportunity to create better policies while also saving money.

Direct Payments -- We strongly favor moving away from direct payments. Making government payments regardless of what is happening to commodity prices or farm income is the antithesis of the very concept of a safety net. It is high time to bring that kind of wasteful spending to an end.

Eliminating direct payments would allow their $5 billion a year cost to be invested more wisely while contributing to deficit reduction. A portion of the direct payment baseline could make a substantial contribution to deficit reduction. A portion should be re-invested in an improved, less costly and more targeted safety net. A portion should also be invested in conservation, rural development, renewable energy, specialty crop, organic, research, and marketing programs. This third portion should include a Rural Community Prosperity Fund as well as the innovative pro-growth programs that have no baseline beyond 2012 (see above).

While the exact contours and details of the new safety net created to replace direct payments are beyond the scope of this document, we do note our general support for a safety net that:

- is counter cyclical;
- is revenue-based;
- caps support per farm at moderate levels;
- retains maximum planting flexibility;
- does not allow base building or conversion of grassland;
- discourages pollution through overuse of chemical fertilizers to prove up yields;
- provides for a basic degree of stocks management to help prevent extreme price swings; and
- requires a basic level of conservation for all participating farms with land eroding above the sustainable level to safeguard national security and long-term productivity

Payment Limits -- The first and most fundamental requirement in any reform that aims to reduce spending but maintain an effective safety net is to eliminate the biggest legal loophole that has been built into the support system over the last two decades. That loophole allows individual farming interests to secure nearly unlimited taxpayer support. The loophole -- allowing people to dodge the requirement to be "actively engaged in farming" to be eligible for support -- would be bad enough if it just invited cynicism about government subsidies, but the damage is far greater. This loophole reduces entrepreneurial opportunity in farming. Every unwarranted dollar that flows to mega farms over and above the nominal legal limit is another taxpayer-created dollar used to bid land away from young, beginning farmers trying to get a start in farming and farmers with mid-size operations to maintain their farms. Unlimited payments over-inflate land values, increasing the land carrying costs for all farmers. This abusive, wasteful, and counterproductive policy must come to an end.

The easiest, fairest, and most overdue farm program spending reduction strategy is therefore to reform the actively engaged in farming requirement by clarifying the definition of "active management." Active management, as the term implies, should require substantial ongoing and direct involvement in farm activities, as opposed to current law that simply requires any activity at all that even remotely contributes to the profitability of the farm. It should require the payment recipient to either farm at least half time or provide at least half the labor and management on his/her share of the operation.

It is this loophole that forms the basis of annual government payments in the hundreds of thousands and even millions of dollars to single farming operations. This reform is thus the linchpin to stopping current evasion of the statutory payment limits and restoring basic fairness to the programs. Without this reform, any provision that saves money from farm commodity programs will ensure that the cuts are entirely focused on rank and file farmers, while the largest farms are off scot-free, able to use the loopholes to avoid the cut entirely. Importantly for the Joint Committee and for the farm bill budget deliberations, closing the loopholes also results in significant cost savings. Those savings should be part of the Joint Committee's proposal.

Beyond fixing the actively engaged in farming rules, additional savings could be garnered by making the payment limitation itself counter cyclical to price and production, reducing the per farm benefit cap when prices are high. This is especially relevant if anything like the current direct payment system is continued. At high commodity price levels, it is good common sense to reduce payment limits in a progressive manner.

Graduated reductions in the limitation could be geared to the farm bill target price for each commodity, such that the limit gets smaller as the price level increases. To ensure adequate protection for farms with crop losses, the payment limit reduction can be adjusted by the amount of actual crop or revenue loss by the producer as determined by the FCIC.

Another needed reform is to cut payments in half on cash rented land owned by high income landlords who exceed the Adjusted Gross Income (AGI) cap. Knowing the operator will be receiving only half the payment would force cash rent landlords to lower rents, thereby reducing a negative outcome of the current program.

If direct payments are ended or greatly reduced and commodity programs are redesigned in any significant way -- as we hope they will be -- steps must be taken to ensure the resulting new program has strong and loophole-free payment limitation provisions. Limits on revenue-based programs should be considerably lower than the current nominal limits, and the existing loopholes should be closed, bringing an end to decades of exploitation of the public trust and treasury.

Conservation Compliance -- Ensuring that sodbuster, swampbuster, and conservation compliance requirements remain attached to whatever new commodity program system emerges not only is good environmental policy and good food security policy, but also results in a degree of deficit reduction. The positive effects are increased if compliance is applied to all farms with land eroding at a rate greater than the tolerable level, a reasonable and overdue expansion of the current compliance regime that is a smart conservation choice and smart budget control choice.

Crop Insurance Programs

A major and growing fundamental flaw in the design of current farm programs relates to the crop insurance side of the ledger. Taxpayer subsidies for crop insurance are now the largest single item in the farm part of the farm bill budget, with the federal government paying 60 percent of crop insurance premiums on behalf of the farmer or landlord. Despite their high costs, the program has never had payment limitations. Hence the taxpayer is on the hook for subsidies no matter how large the farm or how wealthy the farmer. If a landowner buys and farms an entire county, the public, under current law, is expected to pay for a majority of the owner's insurance costs, right on through to the final acre.

Also, unlike commodity programs, not even the most basic of conservation requirements are attached to insurance subsidies. Congress eliminated the previous farm bill requirements to control excessive erosion and protect wetlands back when more farmers were needed to enroll in crop insurance to make the program viable from an insurance standpoint. That problem, however, has long since been cured, as the escalating participation rates and escalating costs of the program attests. There is absolutely no valid policy reason for the public to shell out insurance subsidies with no assured natural resource protection in return.

Coverage Limits – The new reality is that crop and revenue insurance, very small programs just a dozen years ago, have become the biggest farm safety net programs. The Joint Committee and the

Agriculture Committees need to deal with the new reality head on. We cannot and should not be in the business of providing insurance subsidies on every last acre no matter how large a farm grows. The insurance subsidy system should be a safety net, not a farm consolidation promotion mechanism.

We recommend phasing out subsidies on crop and revenue insurance coverage, starting at a 50 percent reduction on production exceeding $1 million and reaching 100 percent on production exceeding $2.5 million. This reform will both save money now and increasing taxpayer exposure in the future. It will align insurance subsidies with commodity program policy and target spending in a manner that reduces subsidies to farm consolidation and the destruction of family farming in America.

Whole Farm Insurance -- As crop and revenue insurance reform takes shape, we also urge consideration for highly diversified farms that currently lack an effective insurance option. We do not oppose the continuation of products that serve agricultural monocultures, but we do believe there at least must be a level playing field for those who use diversified systems to reduce risk and create environmental benefits.

We therefore recommend that the Risk Management Agency be given authority to establish a new Whole Farm revenue insurance product that is available in all states and all counties and is relevant to all diversified operations including but not limited to specialty crops, mixed grain/livestock or dairy operations, contract growers, and organic and conventional farms. The new Whole Farm product should be offered at same buy-up coverage levels and options as other revenue products, with a strong risk management-through-diversification bonus. The product should be tailored to work for farmers engaged in value-added agriculture and alternative marketing and should enable beginning farmers to access the program in a fair and equitable manner.

Conservation Compliance and Sodsaver -- The 2012 Farm Bill should re-establish compliance requirements for federal crop and revenue insurance benefits so that all existing or new crop and revenue insurance or other risk management programs are subject to conservation compliance provisions. These subsidies are now the largest farm program public benefits and should be part of the same social contract that applies to commodity, credit, and conservation programs.

In order to protect prairie, critical habitat and biodiversity, reduce the cost of subsidy programs, and take the pressure off of already over-subscribed conservation incentive programs, "sodbuster" rules should be strengthened by prohibiting all commodity and insurance subsidies on all native prairie and permanent grasslands and other remaining native land that does not have a cropping history if such land is cropped in the future. This "sodsaver" provision was included in the last farm bill, but only as a voluntary pilot project that never got off the ground. The time has come to enact it as permanent, nationwide law, reducing government outlays and protecting vital natural resources in the process.

Conclusion

A Joint Committee farm bill budget deal should include strong, serious payment limitations and conservation requirements for both commodity and crop insurance programs of all types. Our support for any budget or farm bill proposal that emerges hinges on these provisions to create economic opportunity in farming and to preserve natural resources and protect future food security.