Michael T. Scuse
Under Secretary, Farm and Foreign
Agricultural Services
U.S. Department of Agriculture
1400 Independence Ave., S.W. Washington, DC 20250

RE: Implementation of Agricultural Act of 2014

Dear Under Secretary Scuse:

Taxpayers for Common Sense (TCS) appreciates the opportunity to provide comments to the Farm Service Administration (FSA) and the Risk Management Agency (RMA) on the implementation of the Agricultural Act of 2014. Taxpayers for Common Sense is a non-partisan budget watchdog serving as an independent voice for American taxpayers. Our mission is to achieve a government that spends taxpayer dollars responsibly and operates within its means.

The current agricultural subsidy system is a maze of market distorting and highly parochial policies that generally reward a handful of large farm businesses or well-connected industry segments at the expense of taxpayers. The system results in costly inefficiencies that detract from program goals and produce numerous unintended consequences. The federal government bears a disproportionate amount of the financial risks for agribusinesses to the detriment of taxpayers, consumers, and agriculture as a sector making it less competitive, less resilient, and less accountable for its impacts.

TCS has long advocated for reforms to make the agricultural safety net more cost-effective, transparent, accountable to taxpayers, and responsive to current needs (see the attached document *Reforming the Farm Safety Net: Principles for Accountability*). While the Agricultural Act of 2014 fails to take the necessary steps to achieve this reformed safety net, instead expanding the role of Washington in agriculture through new business income entitlement programs and increasing spending on federally subsidized crop insurance, there is an opportunity to make progress in the implementation of some farm programs.

TCS strongly encourages RMA and FSA to remember that while the agencies may look at producers and other agricultural businesses as "clients," it is taxpayers who are footing the bill. Farm bills are notorious for vastly exceeding their estimated costs – the last two farm bills are on pace to exceed by $400 billion their Congressional Budget Office (CBO) scores at passage. The decisions RMA and FSA make in developing and administering the programs under their jurisdictions play an important role in determining whether taxpayer-funded agricultural programs will continue to be vastly over budget.

TCS strongly encourages RMA and FSA to implement the Agricultural Act of 2014 while being cognizant of the reality that federal taxpayers are responsible for more than $17.5 trillion in debt and are facing annual deficits of $500 billion. RMA and FSA must not simply attempt to maximize spending, but follow the will of Congress in prioritizing federal support only where necessary and in a manner that is cost-effective and transparent.

1. **New Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) Programs (2014 Farm Bill sections 1111-1118**)

Eliminating the discredited direct payments and ACRE programs but then plowing the bulk of potential savings into new shallow loss income entitlements and Agriculture Committee-determined minimum prices is a Faustian bargain that never should have been forced on taxpayers.

To minimize the costs and market distortions of these programs, TCS encourages specific payment limits for each program, not just an overall limit of $125,000 for PLC, ARC, marketing loan gains, or loan deficiency payments. Participants in each of these programs should be disclosed to taxpayers in an easily accessible manner. In addition, FSA must strictly enforce the accountability provisions – "conservation compliance" – to ensure producers who are receiving taxpayer subsidies protect the figurative and literal downstream interests of taxpayers who are funding these programs.

2. **Common provisions for payment limits & payment eligibility for 2015 and subsequent crops (2014 Farm Bill sections 1603 and 1605) and actively engaged requirements for payment eligibility (2014 Farm Bill section 1604)**

Last year, a majority of both the House and Senate supported small steps to rein in unlimited subsidy payments to agribusinesses and landowners who have never stepped foot on a farm. However, these identical provisions, championed by Senators Grassley (R-IA) and Johnson (D-SD) and Representative Fortenberry (R-NE), were stripped from the final Agricultural Act of 2014 at the eleventh hour. Instead of stricter requirements about who can qualify as an "actively engaged" farmer, the decision about eligible subsidy recipients will be left to United Stated Department of Agriculture (USDA). We strongly urge FSA to close loopholes which have previously allowed deceased individuals, millionaires, city dwellers, children of wealthy producers seeking to maximize subsidies, and landowners who are not engaged in the day to day agribusiness to receive taxpayer subsidies. Years of inaction, fraud, waste, and abuse in these commodity subsidy programs must end.

Numerous detailed suggestions on ways to close these loopholes and tighten eligibility requirements have been provided by USDA's Office of Inspector General (OIG) and the Government Accountability Office (GAO). OIG recently found that crop insurance and farm subsidy programs are among 16 USDA's programs most "susceptible to significant improper payments." GAO has released numerous reports detailing how dead farmers and millionaires have been able to receive taxpayer subsidies. We urge USDA to act on OIG and GAO recommendations to ensure that the next five years of farm subsidy payments are more accountable and transparent to taxpayers. Making all taxpayer subsidies available to the public in an open and easily accessible manner would also be a welcome step in the right direction.

3. **Highly erodible land and wetland conservation for crop insurance (2014 Farm Bill section 2611)**

The Agricultural Act of 2014 requires agricultural producers to meet a set of minimum conservation standards in exchange for generous crop insurance subsidies, in addition to commodity and conservation programs. The premise of these accountability standards – "conservation compliance" – is that receipt of federal funding is a two-way street and subsidies should not be used to tear up sensitive land, drain wetlands, and shift costs onto others. These farm bill provisions reduce the cost of agricultural pollution and limit long term liabilities by ensuring producers minimize soil erosion on highly erodible land and forgo draining wetlands.

Unfortunately, the implementation and enforcement of these minimum conservation practices has varied from one area to another and has been poorly enforced and monitored in others. FSA, RMA, and Natural

Resources Conservation Service (NRCS) should work together to ensure these accountability provisions are properly implemented, monitored, and enforced in the future. Adequate resources should also be provided to local officials for monitoring and enforcement efforts, and staff members should be well trained to ensure consistent enforcement from county to county and state to state.

4. **New Supplemental Coverage Option (SCO) and Stacked Income Protection (STAX) programs (2014 Farm Bill sections 11003 and 11017)**

The federally subsidized crop insurance program is an overly generous, gold-plated program, with taxpayers covering on average 62% of the premiums for participants. The Agricultural Act of 2014 makes it even more complex and costly through creation of two new shallow loss income entitlement programs layered on top of premium-free catastrophic policies and highly subsidized buy-up coverage.

To truly be tools of "risk management" as opposed to means of simply shifting financial risk from producers to taxpayers, the existing federally subsidized crop insurance program and new shallow loss income entitlements must be significantly reformed. RMA can take a number of steps in this direction. RMA should err on the side of caution and ensure premiums under SCO and STAX are adequately high enough to cover losses if commodity prices revert to their historic averages. Policies should be designed to incorporate best management practices that increase the resilience of the land to actual crop loss rather than simply compensate producers for their financial losses. Approved Insurance Providers should be required to keep a greater share of these policies to ensure the policies are adequately priced. And accountability standards – "conservation compliance" – must be strongly enforced to ensure taxpayer interests are protected.

Thank you for the opportunity to comment on implementation of the Agricultural Act of 2014. Through proper implementation RMA and FSA have the opportunity to help create a more cost-effective, accountable, transparent, and responsive farm safety net.

Sincerely,

Joshua Sewell
Senior Policy Analyst
Taxpayers for Common Sense

Enclosure

Reforming the Farm Safety Net: Principles for Accountability

May 2013

Overview

Every five or so years, Congress has an opportunity to reform agriculture policy in the farm bill, a massive piece of legislation that has been frequently updated since the Great Depression. Last year, the farm bill expired when a new five-year bill was not passed before the end of the year, but a short-term extension of the 2008 farm bill was enacted instead. Nonetheless, the full Senate and the House Agriculture Committee voted to continue status quo proposals that guarantee income for profitable agribusinesses, reward special interests with lavish subsidies, shift risks onto taxpayers' backs, distort agricultural markets, redistribute wealth, and crowd out the private sector. No other sector would dare ask for $1 trillion of lavish taxpayer supports while our country faces a $16.8 trillion national debt, but agriculture is not any other industry. The entire agricultural safety net is in dire need of meaningful and lasting reforms that will make federal subsidies and agricultural programs more accountable to the public and taxpayers. Here, we offer reform principles that should guide upcoming debates in the full House and Senate about the future of agricultural subsidies.

Background - Current Agricultural Policy Structure

The current agricultural subsidy system is a maze of market distorting policies that reward a handful of large farm businesses at the expense of taxpayers. The system results in costly inefficiencies that detract from program goals and produce numerous unintended consequences. The federal government subsidizes a disproportionate amount of the risks agribusinesses face to the detriment of taxpayers, consumers, and agriculture as a sector making it less competitive, less resilient, and less accountable for its impacts. These programs and policies are made up of direct federal expenditures, programs that shift business risk from producers to taxpayers, and mandates that create or influence market conditions. Examples include direct payments, government-set target prices, industry specific programs, highly subsidized crop insurance, disaster programs, trade policies, biofuels mandates, subsidized loans, and many more.

Agriculture Subsidy Accountability – Principles for Reform

A more adequate, effective, and efficient agriculture safety net can be created by meeting the following four reform-minded principles: cost-effective, accountable, transparent, and responsive.

(1) *Cost-effective*

- **Eliminate duplicative and wasteful subsidies:** With numerous agricultural subsidy programs striving to achieve similar goals and cover the same risks, agribusinesses ultimately receive duplicative payments that waste taxpayer dollars. Outdated subsidies must be eliminated once and for all.
- **Cut income guarantee subsidies:** Washington should not guarantee any industry's profits – including agriculture. Subsidy programs must only pay out during true times of

need, not every year or after a bountiful harvest or record profits. Because new "shallow loss" income guarantee subsidies would only increase the government's role in the everyday business decisions of agricultural producers, at great cost and with little public benefit, they should be rejected outright.

- **Allow agribusinesses to assume more risk:** Instead of shifting nearly all risks onto taxpayers, agribusinesses should assume more of their own business risks. Numerous unsubsidized private risk management options exist, like hedging, private crop insurance, off-farm income, diversification, contracting, and vertical integration.
- **Allow private sector to compete on level playing field:** The federal role in the agricultural safety net is to help protect against risks that the private sector is incapable of effectively managing, not crowd out the private sector out of convenience or the benefit of parochial interests.
- **Only pay for additional conservation practices:** Instead of paying agribusinesses to implement conservation practices that they would employ on their own, either as routine business practice or in response to reasonable health and welfare regulations, millions of taxpayer dollars could be saved by only paying for additional practices that produce measurable public benefits and reduce downstream and future costs of the agriculture industry's impacts. To achieve full cost-effectiveness, payments must be targeted to areas most in need and to practices with the greatest measurable impact.

(2) Accountable

- **Limit market intrusions:** Subsidy programs should not distort agricultural markets, perpetuate unintended consequences, inflate land prices, alter planting decisions, or promote excessive risk taking at taxpayer expense. Subsidies shouldn't incentivize agribusinesses to plant crops on marginal lands where success is unlikely and that would likely not be cultivated in the absence of federal subsidies.
- **Meet minimum accountability standards:** Agribusinesses must use best management conservation practices in exchange for any taxpayer support. Rotating crops, conserving wetlands, using conservation tillage practices, and other time-tested industry-standard means should be employed to reduce downstream costs of agricultural pollution, conserve land for future generations, and reduce taxpayer liabilities.
- **Achieve measurable results:** Taxpayers have a right to know which agriculture programs receiving federal dollars are achieving measurable results. Agricultural programs must have improved performance measures and metrics in order that spending can be prioritized and targeted toward the most effective projects with the best return on investment.
- **Target subsidies to the needy:** Federal taxpayers cannot afford to dispense unlimited agricultural subsidies to profitable agribusinesses or landowners that are divorced from the actual risks involved in agricultural production. Reasonable limits and stricter definitions on which agribusinesses qualify for subsidies must be utilized to ensure that federal programs do not work at cross-purposes.
- **Eliminate corporate welfare subsidies:** Corporate subsidies that place taxpayers in the position of covering the expected and inevitable costs of business decisions should be eliminated (like subsidizing crop insurance companies to sell and service subsidized policies, paying for swine odor reduction research, or mitigating pollution caused by large animal feeding operations). Businesses must be accountable for the inevitable

ramifications of their business decisions.

(3) *Transparent*

- **Make agricultural subsidy programs transparent:** At one point or another, all taxpayer subsidies have been shielded from the public eye. It's time all subsidies became transparent and available in an easily accessible and understandable format. If agribusinesses object to the public's right-to-know, they can turn down federal subsidies and instead utilize unsubsidized risk management options.

(4) *Responsive*

- **Make agriculture responsive to current needs by repealing permanent farm bill law:** Agriculture policy should not be based on outdated policies developed decades ago that no longer meet modern needs. Keeping permanent law in place serves one purpose: forcing lawmakers to choose bad policies over disastrous ones. This cynicism must end.
- **Separately consider farm and nutrition policies:** Lawmakers should separate farm policies from nutrition policy in order to separately debate the merits of each. Tying nutrition policy to agricultural policy provides a disservice because the needs of producers don't necessarily intersect with the needs of nutrition program participants. For too many years, the special interest wishes of farm subsidy proponents have dictated the outcome of agricultural and nutrition policies rather than the needs of average farmers and consumers.
- **Eliminate special interest subsidies and parochial programs:** Provide an adequate and appropriate agricultural safety net that provides public benefits rather than special interest subsidies and parochial programs. Taxpayers cannot afford to insulate individual agricultural businesses from the physical and market conditions impacting their operations.

Conclusion/Recommendations

The time has come that U.S. agricultural policies become more cost-effective, transparent, accountable to taxpayers, and reflective of today's modern production practices. Taxpayers and America's farmers alike deserve an adequate, effective, and efficient agricultural safety net that limits unintended consequences, eliminates long-term liabilities, and allows private risk management options to compete on a level playing field. Taxpayers have a right to know where their taxpayer dollars are going and which programs produce the best return on investment. Producers should strive to operate under free markets that aren't littered with unnecessary distortions and arbitrary special interest carve-outs that pick winners and losers. Making federal agricultural policies more accountable to taxpayers and the public will not only save billions of federal dollars, but will also reduce barriers for beginning farmers, conserve land for future generations, and promote a more resilient American agriculture.

For more information, visit www.taxpayer.net, or contact Joshua Sewell, josh@taxpayer.net.