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**Submitted to**
**The United States Department of Agriculture**
**In Response to**
**Request for Official Comments on the 2007 Farm Bill**

**Submitted December 14, 2005**

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## Introduction

Farmers, taxpayers, consumers, and small businesses can all benefit from a 2007 Farm Bill that responds properly to our changing world. For three decades, the 350,000-member National Taxpayers Union (NTU) has been working for fairer farm policies that unleash the talent and potential of our men and women in agriculture in fiscally responsible ways, and policymakers should not miss this forthcoming opportunity for reform.

Because the farm business is subject to so many ups and downs, the federal government has long attempted to even out farmers' incomes. For most of the past century, this has meant various efforts such as direct payments, loans, and guaranteed prices for crops.

By 2007, the current five-year legislation that regulates and funds federal farm programs will expire. As Members of Congress and the Bush Administration prepare to draft and debate the next Farm Bill, it is important to remember that government agricultural policy affects *all* Americans: taxpayers, consumers, and small businesses as well as farmers and producers.

- **Question 1: The challenges facing new farmers and ranchers as they enter agriculture.**

*Some observers note that while farm policy has served agriculture and the country well in the past, there are "unintended consequences" that should be addressed, such as the capitalization of program benefits into land prices. These higher land prices are cited as a barrier to entry into agriculture for new farmers; a factor in reduced profit for existing farmers; and a cause of weakened competitive position on the part of U.S. farmers compared with farmers in countries with lower-priced land.*

*How should farm policy address any unintended consequences and ensure that such consequences do not discourage new farmers and the next generation of farmers from entering production agriculture?*

Formulators of the 2007 Farm Bill should minimize any new government interference in the agricultural sector while phasing out past policies that have served to distort food markets and shortchange taxpayers. Every public policy has unintended consequences by interfering with the efficiency of the free market, and trying to correct the harm of past decisions with new bureaucratic regulations will do little to solve the root problems. Policymakers will simply end up dealing with a new round of destructive consequences five years from now if we do not take steps today to free our agricultural markets from the machinery of government.

*Ending Crop Subsidies and Price Supports:* Primary among NTU's general recommendations for the 2007 Farm Bill is the phasing out of federal agricultural subsidies. While some say that ending crop subsidies and price supports would drive more farmers out of business, NTU believes that unshackling the market would encourage new entrants into America's farming communities.

This certainly was the case for Australia's and New Zealand's farmers, whose governments made the transition to more free-market agricultural systems in the early- and mid-1980s. Prior to reform those two countries had farm policies with many of the same flaws as our own. As Australian government official Bernard Wonder described, farmers in his country were encouraged to make "decisions based on assistance rather than commercial or production criteria." Before New Zealand reformed its farm programs, the situation was even worse: the level of subsidization was nearly twice that of farmers in the United States.

However, after eliminating its subsidies, New Zealand's farm output has increased 40 percent, while farm productivity growth has averaged 6 percent annually. Only about 1 percent of all farms faced forced sales after the reform program was completed. Today New Zealand is the only country in the world with more dairy farms than in 1980 and is now a world leader in dairy outputs. Best of all, most farmers prospered under the new system, by being allowed to make smart business moves free from government interference.

The United States also stands to reap many dividends by helping America's farmers escape from the thicket of government inefficiency and over-regulation. While clearing away the weeds of subsidies and price supports might prove politically difficult, agricultural producers and consumers will benefit from an increased harvest of economic prosperity.

*Eliminating the Death Tax:* One of the biggest threats to the family farm today does not come from foreign competition or agri-business, but from the U.S. Tax Code. The federal estate tax, or death tax, often hits family-owned farms the hardest. That is because big businesses can afford high-priced tax shelters, while personal estates often fall below the amount that is exempt from tax. Unless Congress acts to make repeal of the death tax permanent after the year 2010, many smaller farms and ranches could face punitive tax rates (up to 55 percent) after the owner passes away, or estate-planning burdens that sap the owner's income while he or she is still alive. Congress's Joint Economic Committee has concluded that getting rid of this tax entirely could actually benefit the government by allowing farms and businesses to survive intact for the next generation, as they continue to generate other revenues (from income and payroll taxes) that make up for any losses in death tax collections.

- **Question 2: The competitiveness of U.S. agriculture in global and domestic markets.**

*As bilateral, regional, and multilateral trade negotiations continue to result in reduced barriers to international trade, exports and imports of agricultural products are expected to become increasingly important factors in U.S. and global agriculture. Obtaining ever-greater access to growing foreign markets and being increasingly competitive in these and in domestic markets is essential for farm economic growth. One key factor in our ability to be competitive depends on the types of products demanded around the world in the next 10 to 20 years and our ability to produce products that meet this world demand.*

*How should farm policy be designed to maximize U.S. competitiveness and our country's ability to effectively compete in global markets?*

No other country sells as much food abroad as America does, but we risk destroying our competitive advantage because of trade policies that invite other countries to raise barriers of their own against our farm products. That is especially tough on American farmers with specialty crops who could get a good price – without big government's "help" – for their items in the global market.

*Free Trade:* Congress has already cleared away some pointless trade restrictions. According to the American Farm Bureau Federation, the recently-ratified Central American Free Trade Agreement will create important new opportunities for our farmers and ranchers, and could boost U.S. agricultural exports by $1.5 billion when fully implemented. Much more still needs to be done. Our elected officials are being pressured to block imports of "milk protein concentrates" (MPCs) – found in products ranging from snack foods to geriatric and infant formulas – because outside competition supposedly hurts domestic production and prices. Yet, the International Trade Commission (ITC) concluded that there is no "clear and direct relationship between imports of milk protein products and the all-milk price" in the U.S.

Once again, government interference is the real culprit for the dearth of domestic MPC production. The U.S. Dairy Price Support Program makes it more profitable to manufacture nonfat dry milk powder and sell it to the government rather than invest in the technology to make MPCs, casein, or caseinates. The ITC report concluded U.S. production of these specialized proteins is "limited, and likely to remain limited, so long as the current Federal Milk Marketing Order and Dairy Price Support Program prices remain in effect." Senior citizens on fixed incomes and single mothers struggling to make ends meet should not be forced to deal with higher prices or fewer choices for products that are vital to their families' lives for such a program.

While the U.S. continues to subsidize domestic agriculture at the expense of trading partners (including many developing nations), American taxpayers are stuck with annual bills exceeding $1 billion for food aid that is sent to many of these same struggling nations (including those in Africa, Asia, and Latin America). Rather than compelling American taxpayers to subsidize domestic producers, fund Food Stamp increases, pay higher prices for imported goods that face tariffs, and then spend billions in foreign aid, wouldn't we all be better off if Congress just phased out this whole scheme?

*Tariffs:* Reducing tariffs, which are essentially hidden taxes on American consumers, will result in more jobs, lower prices at the cash register, and a higher standard of living for U.S. families. For every person employed in growing and producing sugar in the U.S., there were 10 people employed in sweetener-using industries. But, because of subsidies and tariffs, U.S. sugar sold within our borders is priced almost twice as high as the world market. This huge overhead – made all the worse by dairy subsidies – is one big reason why many firms like candy makers have either shut down completely or moved overseas – taking with them good American jobs that ought to stay here.

From cheese to canned fruit, federal price supports and protectionist tariffs can make the processed foods we all buy more difficult to afford. For some low-income consumers, that means going to the government for nutrition assistance; other working-class and moderate-income households have no choice but to tighten their belts. We can reverse this destructive cycle by opening up our markets and encouraging free trade.

- **Question 3: The appropriateness and effectiveness of the distribution of farm program benefits.**

*A longstanding goal of farm policy has been to enhance and stabilize farm prices and incomes. Current farm programs, including crop insurance, distribute assistance based on past and current production levels. Some argue that the current farm support system encourages increases in farm size and results in the disproportionate distribution of program benefits to large farms. It has also been suggested that program incentives lead to increased production and lower market prices.*

*How should farm policy be designed to effectively and fairly distribute assistance to producers?*

*Subsidies:* Since passage of the 2002 Farm Bill, direct government payments to farmers have soared to more than $20 billion per year, up from an average of $9 billion per year in the early 1990s. Currently, the richest 10 percent of farm-subsidy recipients gobble up almost 2/3 of all government payments, while the bottom 80 percent receive less than 1/5 of the total. That is because big corporate farms are in a perfect position to pump out a flood of surplus goods that qualify for payments. Ending farm subsidies to large agri-businesses would likewise end a much-abused form of corporate welfare while saving taxpayers a large chunk of money.

*Dairy:* Paying billions for federal programs that do not work is hard enough for Americans to swallow; paying billions more for programs that work against each other is outrageous. One example is the government's dairy policy. First, farmers have received Milk Income Loss Contract payments to keep producing when prices are low (which means there is probably an oversupply of milk in the first place). Although this portion of the dairy program was mercifully allowed to sunset in October 2005, legislators are currently trying to resuscitate the MILC subsidies. Then, farmers can qualify for government Dairy Price Support buyouts of the extra milk. In other words, Washington encouraged large dairy farms to create the very same surpluses that the government is stuck with buying and storing!

*Sugar:* The sugar program continues to be an obstacle to freer trade and ultimately economic and societal well-being because of the price consumers and taxpayers are being forced to pay – literally – to prop up inefficient sugar producers. Congress's investigative agency estimates that sugar is one of America's most-heavily subsidized industries, at $1.4 billion per year or $500 per acre.

It is well known that through a combination of quotas and tariffs, loan programs, and marketing allotments, the federal government enables inefficient sugar producers to survive by artificially inflating the price of sugar. As a result, consumers pay an extra $2 billion-plus annually because domestic producers are effectively shielded from foreign competition. This federally sanctioned protectionism is a de facto tax on sugar consumers and sugar utilizing industries.

But the hit to taxpayers does not end there. Sugar interests like to make the claim that the federal sugar program is run "at no cost to the taxpayer." However, they are ignoring the cost of paying thousands of bureaucrats to run this monstrosity, not to mention outlays for its facilities, equipment, and other expensive needs. The sugar lobby also overlooks the cost to taxpayers for storing surplus sugar in government warehouses – an estimated $1 million a month – and fails to tally the countless hours (i.e., tax dollars) trade negotiators spend tweaking bilateral and multilateral trade agreements in order to satisfy the whims of the sugar industry.

The U.S. International Trade Commission estimated in 2002 that abolishing the sugar program would result in a net economic welfare gain to the U.S. of more than $1 billion. Statistics such as these only bolster the fact that now is the time for the U.S. Congress to muster the courage to say enough is enough and do away with the federal sugar program.

*Reform:* Even when Congress enacts laws that promise to "straighten out" farm problems, the bills often keep coming. Programs like government-backed crop insurance, and the whole range of subsidies in the 2002 Farm Bill, were supposed to ease the pressure on taxpayers over the long run by eliminating the need for yearly "emergency relief" actions from Congress. But less than a year after President Bush signed the last Farm Bill into law, he had given approval to a new farm rescue package with a price tag of $3.1 billion. At the end of the day, the market is the best way to fairly distribute appropriate benefits in the form of profits. Government manipulation only serves to undermine what markets can accomplish when left alone.

- **Question 4: The achievement of conservation and environmental goals.**

*While producing food and fiber are essential functions, agriculture also plays a major role in natural resource stewardship. Some have suggested that future farm policy might be anchored around the provision of tangible benefits such as cleaner water and air. Such an approach may be consistent with future World Trade Organization obligations on domestic support to agriculture, while also expanding farm programs to extend more broadly across agriculture, including private forest lands.*

*How can farm policy best achieve conservation and environmental goals?*

Scientists and interest groups often clash over the type and degree of damage that large-scale farming can have on the environment, but one thing is certain: government policies are working at cross-purposes. Price supports encourage widespread over-production, the use of chemicals, and cultivation of sensitive ecosystems. For example, farm subsidies reserved for large monocultures that rely on heavy doses of fertilizers and pesticides to produce sellable crops waste taxpayer dollars not once, but twice. In essence, taxpayers shell out for large agri-businesses to work the land through chemical-intensive husbandry, only to pay once again when the Environmental Protection Agency cleans up water sources it claims to be polluted with chemical runoff from farms.

The structure of current farm policy also has the effect of squeezing organic and niche producers, who by their definition tend to have smaller-scale farming operations. A recent Associated Press investigation found that as the Agriculture Department's "food pyramid" was encouraging Americans to eat more fruit and vegetables, the government's "subsidy pyramid" was delivering the most money to cotton, feed grains, and other crops. Organic farmers and ranchers, as well as those who produce fruits and vegetables of all kinds, could better compete for consumer dollars if Washington would quit underwriting producers of other (largely processed) foods.

Indeed, by their very predisposition toward larger farming operations, U.S. agricultural subsidies may be standing in the way of more innovative approaches that could satisfy both the consumer market and the concerns of environmental advocates. As a May 2003 "Assessment of the 2002 US Farm Bill & Doha Round" from the non-profit Unisfera International Centre noted, "subsidies may have a technology 'lock-in' effect which might impede the shift to less environmentally harmful policies."

Even "good-faith" attempts by the government to promote environmentally friendly policies usually end up having negative outcomes. The recently-enacted Energy Bill provides another round of government giveaways to promote ethanol fuel, which is mainly derived from corn (and more recently sugar). Because it can be costly to produce, transport, and blend with existing gasolines, ethanol rarely makes economic sense for consumers. In fact, some studies show that ethanol subsidies and "mandates" requiring its increased use in cars can raise prices when motorists fill up at the gas station. According to a 2003 analysis by Bishop Greenwell of the American Enterprise Institute, the corn-based portion of ethanol production has also increased soil erosion and aquifer mining, all while producing a fuel whose higher evaporation rate when blended in gasoline increases some of the environmental pollutants that produce smog.

Whatever one's position on the environmental stakes involved in agriculture, surely the interests of all participants would be better served by ceasing government's misguided attempts to square the circle.

- **Question 5: The enhancement of rural economic growth.**

*Farming and rural America once were almost synonymous. Over the years, the demographic and economic characteristics of rural areas have changed, as has farming's role in the rural economy. This raises the issue of whether more Government attention should be focused on investing in the infrastructure in rural America (for example, investing in new technologies).*

*How can Federal rural and farm programs provide effective assistance in rural areas?*

Farm subsidies are supposed to "preserve family farms," but they really just encourage their sale by inflating rural property prices. In effect, the government is pitting wealthy competitors against family farmers and luring those same farmers off the land they have owned for generations. In an attempt to rectify this situation, government "rural development" programs have sprung up to attend to the wants of rural residents. While such programs claim to "invest" in the future of rural America, they are really just using taxpayer money to satisfy narrow demands that would not naturally be filled by the free market.

Millions of small establishments and employees – from restaurants to corner convenience stores – are already burdened by high taxes and regulations at every level. Federal farm policies work the same way, by making the meals they serve costlier to produce and the groceries they offer less attractive to consumers. A 2002 study estimated that the Farm Bill enacted that year would ultimately come at a cost of $271 billion in government-inflated prices over the next decade. By forcing business owners and their workers to pay taxes for programs that in turn raise prices of the products they use and stock on their shelves every day, Washington, DC is undermining the small-town economies that serve rural areas.

- **Question 6: The opportunities to expand agricultural products, markets, and research.**

*Changes in farm and market structure over past decades have led to suggestions that farm policy could be more flexible by enabling greater support for a broader range of activities helpful to agriculture market expansion. Examples are: attention to product quality and new attributes; organic and specialty crops; value-added products, including renewable energy and bioproducts and new uses for farm products generally; expanded basic and applied research; domestic and foreign market development; and similar activities.*

*How should agricultural product development, marketing and research-related issues be addressed in the next farm bill?*

Taxpayers are currently footing the bill for crop manufacturers and food processors to market their goods for export – an activity that ought to be undertaken solely in the private sector. The USDA's Market Access Program (MAP), which funds overseas advertising for America's agricultural producers and manufacturers, has cost taxpayers hundreds of millions of dollars over the past twenty years. While the 1996 Farm Bill capped annual funding of MAP at $90 million for fiscal years 1996 to 2002, the Farm Security and Rural Development Act of 2002 sought to gradually increase annual MAP spending to $200 million by fiscal year 2006.

Simply put, MAP funds serve as a blatant source of corporate welfare and examples of waste abound. The California Raisin Advisory Board spent $3 million of MAP money in 1989 to market raisins in Japan. The venture proved a flop when Japanese consumers, especially children, were confused or scared by the singing "claymation" raisin figurines. In 1993, $1.5 million was spent promoting mink fur and another $120,000 was spent on advertising alligator hide as raw materials for luxury goods. While the 1996 Farm Bill geared MAP handouts toward small businesses and trade associations, major companies (like Campbell Soup Co. and Burger King) continued to cash in with MAP giveaways. Sunkist received $75.5 million to market their products to Asian countries until 1997 and the U.S. Poultry and Egg Export Council (whose members include Tyson Foods and Perdue Farms) received $3.2 million in fiscal year 2004.

The taxpayer's wallet should not be viewed as an "ATM" for special interests, and agricultural producers should not be in the business of forcing taxpayers to finance international marketing schemes, regardless of risk concerns. If companies can reasonably project a potential for profit in a foreign market, funds for the effort should come from internal sources. Conversely, producers who cannot project a profit in a foreign market shouldn't be there in the first place and certainly should not be asking taxpayers to underwrite such misguided ventures. MAP and similar programs are shameless examples of taxpayer abuse and should be eliminated immediately.