CENTER *for* RURAL AFFAIRS

VALUES WORTH ACTION

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The top priority of the next farm bill should be to create genuine opportunity for rural people, consistent with conserving our soil, water and other natural assets.

Family Farms

A primary objective of farm policy should be to foster genuine opportunity for modest-size family farms to earn decent incomes that enable them to contribute to building strong communities. Agriculture is a significant element in building strong communities. That makes strengthening family farms that contribute to strong communities a legitimate policy objective – a social good.

A substantial body of research demonstrates that social good. University of California researcher Dean McCannell summarized the research for the Congressional Office of Technology Assessment. He wrote, "All the serious studies reach the same conclusion .... Communities that are surrounded by farms that are larger than can be operated by a family unit have a bi-polar income distribution, with a few wealth elites, a majority of poor laborers and virtually no middle class."

That is not progress. That is social decay. Current farm policy reinforces that decay. Its basic rule – the bigger a farm grows, the more money it gets from the government – ensures three outcomes.

1. The farm program will do at least as much to help mega farms drive family farms out of business by bidding land away from them; as it does to help family farms. The effect is particularly pernicious on beginning farmers who have few assets to use as a financial base in bidding for land against heavily subsidized mega farms.
2. The program will do little to support the income of farm operators except on previously owned land. As the long as aggressively expanding mega farms are promised more government money for every acre they add, virtually every nickel of farm payments will be bid into higher cash rents and land purchase prices.
3. As long as we squander billions on such dubious purposes as helping mega farms drive land prices up family farms out, little money will be left to invest in programs that offer a future to rural America.

Growing Support for Targeting Farm Payments

That's why 81 percent of farmers nationwide and even 70 plus percent of southern farmers support more effectively targeting payments to small and mid-size farms, according to an Extension Service poll prior to the last farm bill. It also accounts for growing cynicism toward farm programs among farmers. Many farmers, who in the

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past supported farm programs, now tell me they would be as well off with no program as with the current program providing unlimited payments to mega farms.

Reducing payments to mega farms could provide the fiscal basis for a serious investment in the future of rural America. Payment limitations that reduce the cost of farm programs by 10 percent would free up sufficient funds to double the USDA investment in rural development. It could launch an unprecedented set of initiatives to create genuine opportunity for rural people.

The need is great. Our report *Swept Away: Chronic Hardship and Fresh Promise on the Rural Great Plains* demonstrates that per capita income in the farm dependent counties of Iowa, Kansas, Minnesota, Nebraska and the Dakotas is just 73 percent of income in the region's metropolitan counties. Poverty rates are 60 percent higher.

Entrepreneurship Is Key to Rural Revitalization

Fixing agricultural policy is one element in addressing these problems, but only one. A key to rural revitalization is entrepreneurship. In the most rural farm-dependent counties, we found the majority of new jobs are non-farm proprietorships – people creating their own job by starting a small business. Small entrepreneurship is the one development strategy that consistently works in these communities.

It is also the strategy that has the capacity to bring back young people – including those who gain higher education. Our surveys of rural youth in three northeast Nebraska communities demonstrated that half would like to one day own their own farm or business. That opportunity has the potential to draw them back to rural America. Eight dollar per hour jobs in call centers won't.

The next farm bill should make a major investment in small entrepreneurship. For example, our Rural Enterprise Assistance Program (REAP) has helped 4,000 rural small businesses statewide get started or improve by providing loans, technical assistance and training. It can provide those services because the U.S. Small Business Administration Micro Loan Program funds it with additional support provided by the Nebraska Department of Economic Development.

But the federal funding is fully subscribed. And currently, Nebraska is the only state where rural microenterprise development services are available statewide. Even here, we are unable to fully extend our services to the all the potential rural entrepreneurs that would benefit. The next farm bill should establish and fund a rural micro enterprise program within USDA to make grants to intermediary organizations to support small entrepreneurship across rural America.

Such grants could support loans, technical assistance, training and a host of other initiatives. For example, support is needed to develop rural small business networks for marketing.

In rural Italy, major metropolitan manufacturers have long relied on an informal network of small rural businesses to provide components and other outsourced goods and services. We need to build networks of micro businesses in rural America to provide corporate America a single point of entry to gain access to small firms that can provide outsourced goods and services in the volume they need when they need them.

The next farm should also provide funding for research and education on rural entrepreneurship. It should provide funding for rural "individual development accounts" (IDAs) – as proposed by the New Homestead Opportunities Act introduced by Senators Chuck Hagel (R-NE), Byron Dorgan (D-ND) and 17 others. It would provide federal matching funds for savings accounts established by low and moderate-income rural people for use in buying a home, gaining education or starting a business.

Farmers Must Be Agricultural Entrepreneurs

We must also invest in entrepreneurship within agriculture. The future opportunities for small and mid-size farms are in market niches, made up of consumers willing to pay. premium prices for products with unique attributes and food produced in ways they support. For example, two-thirds of participants in a Better Homes and Gardens consumer panel said they would pay more for pork produced on environmentally responsible, humane, small farms.

The USDA Value Added Producer Grants Programs created by the 2002 farm bill funds efforts to build cooperatives and other initiatives to link those consumers with family farmers who have what they want. But congressional appropriators have cut over 60 percent of the $40 million in annual funding originally provided for the program.

A similar fate has met other programs designed to support entrepreneurial small and mid size-farms. The Initiative for Future Farm and Food Systems initially provided $18 million of grants annually for research and education to enhance the profitability and competitiveness of small and mid size farms – but 70 percent of those funds have been lost to appropriators.

The last farm bill also authorized funding for linking beginning farmers with retiring farmers and innovative research and education strategies to open the doors of opportunity to a new generation of farmers. But funding has been withheld. The next farm bill should change that.

It should also include a "family farm innovation fund" – to provide seed capital for innovative initiatives to strengthen family farm opportunities. For example, an agricultural bank in eastern Iowa is sponsoring a series of forums on machinery cooperatives as a means of enabling small and mid-size farms to lower machinery costs to competitive levels. But it takes legal work and research to launch such initiatives. USDA innovation funds could support that.

Base Environmental Policy on Rewarding Good Stewardship
Each of us has a moral obligation to leave the land at least as well as we receive it. But the public also has an obligation to share in the cost of protecting the land and water on which all of us – current and future generations – rely for survival.

To effectively protect the environment, the arm bill must address working lands as well as land retirement. The Conservation Security Program established by the 2002 farm bill is the basis on which to build. It has several key strengths.

It rewards farmers who practice environmental stewardship year in and year out. That is far better than only paying the worst actors to change, which places the nation's best environmental stewards at a competitive disadvantage in competing for land. Its ultimate outcome is to shift landownership toward those who care little about stewardship and practice it only when paid.

CSP takes the far better approach of both rewarding those who have always practiced stewardship as well as those making improvements. That will yield more far reaching and lasting environmental gains.

CSP is also good for farmers. If it's implemented correctly, it will base payments on how intensively the operator manages the land to protect the environment. Payments based on what farm and ranch operators do are far more likely to remain in their pockets than payments based on how much land they operate. The latter are inevitably transferred to the landowner. Payments based on the operator's management are far more likely to remain with the operator.

Combine Conservation with Community Development
Finally, we must get much better at designing conservation programs to support communities as they protect the land and water. The Conservation Reserve Program was of clear environmental benefit, but of dubious community impact. It was especially damaging to opportunities for beginning farmers in high enrollment areas.

We can do better in integrating conservation and community development objectives. What if, for example, our conservation programs offered a five or ten-year stream of conservation payments to beginning farmers in one upfront lump sum payment in return for a legally binding five or ten-year conservation commitment. That would enable one program to establish both stewardship and resource stewards on the land.

We can also make better use of conservation programs to make rural communities more attractive places to live and visit. The rural communities that have grown in the nation's midsection are largely those with environmental amenities – lakes and mountains. In the future, uncrowded natural space may become a key environmental amenity – and many farm and ranch communities could provide it.

What if, for example, our land retirement based conservation programs provided bonus payments for enrollments that allowed public access as part of a community plan to build tourism or attract young families to live? That would provide rural communities the basis to draw young educated people to raise their families close to nature. And it could also provide the basis for some tourism-based small businesses – such as bed and breakfasts and businesses that service people seeking opportunities to ride horses, experience working farms and ranches, hunt, hike, bike, view wildlife, etc.

Attachments

Attachment A summarizes proposed rural development proposals for the next farm bill. **Attachment B** provides detailed responses to the questions posed by the Secretary.

Attachment A

Rural Development Initiative for the Next Farm Bill

Entrepreneurial Development - There is great potential to enhance rural community viability through entrepreneurship. Agricultural communities in the heartland have extraordinarily high rates of self-employment two to three times higher than metropolitan areas.

In the region encompassed by Iowa, Kansas, Minnesota, Nebraska and the Dakotas the majority of the job growth over the last decade was from non-farm proprietorships – people creating their own job by starting a small business for self-employment. But funding is sparse for programs that support rural entrepreneurship and small business.

- *Micro Enterprise* - The Small Business Administration provides funds to nonprofit intermediaries for loans, technical assistance and training programs for micro enterprises – businesses with five or fewer employees. But funding is not nearly sufficient to reach all of the rural areas that need assistance. The Senate 2002 farm bill provided $15 million for such programs in rural communities, but that was dropped in the final version. It is urgently needed and should be included in the next farm bill.
- *Beginning Farmers* - The 2002 farm bill authorized a Beginning Farmer and Rancher Development Authority to support research, education and linking programs to assist beginning farmers and ranchers. But it was never funded. The next farm bill should provide money for the program. The 2002 farm bill also established a pilot program to allow USDA to provide loan guarantees to sellers who self-finance the sale of land to beginning farmers. That should be expanded beyond the pilot phase. If we can also gain tax law changes to allow guaranteed beginning farmer loans to gain tax-exempt status – we could offer land sellers tax-free interest and guaranteed repayment for selling to beginners on contract. This provision could also be expanded to provide incentives for transfer of non-farm rural businesses to beginners.
- *Individual Development Accounts* – The New Homestead Act Introduced by Senators Dorgan, Hagel, Johnson, Brownback and ten others would provide tax incentives to people living in rural population loss counties to establish savings accounts for use in starting a business, buying a home or gaining an education. In addition, low and moderate-income savers would receive federal matching funds for these accounts. This provision should be rolled into the next farm bill.
- *Community Grants for Entrepreneurial Development in Depressed Areas* – The next farm bill should establish a program offering grants to collaborating rural communities for initiatives to spur entrepreneurial development including small business education and technical assistance, leadership programs, youth retention, local philanthropy and intergenerational business transfer of business. The Nebraska Legislature created a very small program for these purposes this year.

High Value Agricultural Markets – Opportunities in commodity production are shrinking. Twenty first century opportunities for small and mid size farms lie primarily in value-added agriculture and niche markets composed of consumers willing to pay premium prices for unique products and foods produced in ways they support.

The 2002 farm bill established the Value Added Producer Grants Program to support such initiatives through grants for legal services, feasibilities studies and other costs of farmers working together to pursue such markets. But the Program has been under funded and not well targeted.

It was established at $40 million annually, but cut to $15 million after one year. And USDA has not implemented the clearly stated Congressional intent that grants be selected with an emphasis on strengthening small and mid size farms and increasing self-employment opportunities in farming and ranching. Funding should be increased for the program and the emphasis on family farms and ranches strengthened.

A Family Farm Innovation Fund could provide seed grants for initiatives to strengthen family farm opportunities. For example, machinery cooperatives could help small and mid-size farms lower machinery costs. But it takes legal work and research to launch such initiatives. USDA innovation funds could support that.

Conservation-Based Development - There is a profound need to create effective conservation programs that protect the environment as they contribute to genuine opportunity for rural people.

Public access to natural space can be a development asset for communities. It can draw young family to start businesses, populate the schools and revitalize communities. In some instances, it can provide the basis for new tourism related self-employment opportunities involving bed and breakfasts, hunting, horseback riding, hiking, biking, wildlife viewing and other activities.

The next farm bill should refine existing conservation programs and create new conservation programs to work in concert with community initiatives to use public access to natural space as a development asset.

For example, landowners who enroll land in the Conservation Reserve Program, Wetland Reserve Program or the Grassland Reserve Program could receive bonus payments if they restore natural space and provide public access as part of a community plan to use natural space as a development asset.

In addition, conservation programs could be designed to help beginning farmers get started. For example, programs that provide a ten-year stream of payments could, for beginning farmers, provide one up-front, lump-sum payment in return for a binding 10-year conservation commitment. So structured, conservation payments could help finance farm entry and help establish both stewardship and resource stewards on the land.

Attachment B

Responses to Secretary Johanns' Questions

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?
Our response:

Several things can be done in the next farm bill to address the issue of beginning farmers and ranchers.

- Congress needs to enact (and USDA needs to implement) effective payment limitations on the commodity program so that mega farms are not allowed to drive their neighbors off the land and raise land rental/sale values beyond reachable limits for beginning farmers. Some of the money saved from enacting effective payment limits can then be used to fund programs focused on beginning farmers and ranchers.
- Congress passed the Beginning Farmer and Rancher Development Program in the last farm bill, a competitive grants program to fund initiatives directed at new farming opportunities in the areas of education, extension, outreach, and technical assistance, but failed to fund it. This program should again be part of the new farm bill and should be funded appropriately.
- We need the traditional credit programs for beginners, but we also need new approaches. Support efforts to link beginning and retiring farmers. Help develop new incentives for retiring farmers to rent or sell land and other assets to beginners on favorable terms. Focus research, marketing, conservation, and risk management programs on meeting the unique needs of beginning farmers.

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?
Our response:

Current farm policy promotes farm consolidation Its basic rule – the bigger a farm grows, the more money it gets from the government – ensures three outcomes.

1. The farm program will do at least as much to help mega farms drive family farms out of business by bidding land away from them; as it does to help family farms stay in business.
2. The program will do little to support the income of farm operators except on previously owned land. As long as aggressively expanding mega farms are promised more government money for every acre they add, virtually every nickel of farm payments will be bid into higher cash rents and land purchase prices.
3. As long as we squander billions on such dubious purposes as helping mega farms drive up land rents and drive out family farms, little money will be left to invest in programs that offer a future to rural America.

The single most effective thing Congress could do to strengthen family farms is to stop subsidizing mega farms to drive them out of business by bidding land away from them. For example, the bill that Senator Grassley has introduced would establish effective payment limitations and close down the loopholes.

Enacting effective payment limitations not only allows the commodity program to be targeted in a manner that will actually support small and mid-size farms, it would also free up money that could be directed towards the policies we have mentioned that focus on beginning farmers, rural development, and conservation.

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 forestlands.

How can farm policy best achieve conservation and environmental goals?
Our response:

To effectively foster conservation and environmental stewardship goals, farm policy must address working lands and not focus solely on land retirement. It must also focus on whole-farm planning rather than focusing on one conservation practice at a time. The Conservation Security Program established by the 2002 farm bill is the basis on which to build. It has several key strengths.

It rewards farmers who practice environmental stewardship year in and year out. That is far better than only paying the worst actors to change – which has perverse and unintended consequences. For example, the shift in direction of the Environmental Quality Incentives Program (EQIP) from a program that focused on true environmental quality with a reasonable cap of $50,000 to one that provides cost-share to bad actors to help them meet regulations and has a new limit of $450,000, which can yet be multiplied, provides many unintended consequences.

By paying only bad actors, it places the nation's best environmental stewards at a competitive disadvantage in competing for land. Its ultimate outcome is to shift landownership toward those who care little about stewardship and practice it only when paid. Second, it creates an incentive to damage the environment to build eligibility for payments to protect it.

CSP takes the far better approach of both rewarding those who have always practiced stewardship as well as those making improvements. That will yield more far reaching and lasting environmental gains.

CSP is also good for farmers. If it's implemented correctly, it will base payments to farmers and ranchers on how intensively they manage to protect the environment. Payments based on what farmers do are far more likely to remain in the pockets of farm operators than payments based on how much land is farmed. Payments based on the latter are inevitably transferred from the operator to the landowner. Payments based on the farmer's management are far more likely to remain with the operator.

The CSP needs to be fully funded and implemented correctly – in a manner that supports true sustainable, conservation-based systems.

Ultimately it should be the goal of farm policy to not only protect natural resources but to enhance them as well. That can only be achieved through continued creation and support of policies that reward conservation-based farming practices and systems rather than production. The Conservation Security Program is the best and most logical opportunity to achieve this end.

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?
Our response:

A serious attempt to reduce payments to mega farms could provide the fiscal basis for a serious investment in the future of rural America. Payment limitations that reduce the cost of farm programs by just 10 percent would free up sufficient funds to double the USDA investment in rural development. It could launch an unprecedented set of initiatives to create genuine opportunity for rural people.

The need is great. Our report Swept Away: Chronic Hardship and Fresh Promise on the Rural Great Plains demonstrates that per capita income in the farm dependent counties of Iowa, Kansas, Minnesota, Nebraska, and the Dakotas is just 73 percent of income in the region's metropolitan counties. Poverty rates are 60 percent higher.

The key to rural revitalization is entrepreneurship. In the most rural farm-dependent counties, we found the majority of new jobs are non-farm proprietorships – people creating their own job by starting a small business. Small entrepreneurship is the one development strategy that consistently works in these communities.

It is also the strategy that has the capacity to bring back young people – including those who gain higher education. Our surveys of rural youth in three northeast Nebraska communities demonstrated that half would like to one day own their own farm or business. That opportunity has the potential to draw them back to rural America. Eight dollar per hour jobs in call centers won't.

The next farm bill should make a major investment in rural development based on small entrepreneurship. For example, our Rural Enterprise Assistance Program (REAP) has helped 4,000 rural small businesses statewide get started or improve by providing loans, technical assistance, and training. It can provide those services because the U.S. Small Business Administration Micro Loan Program funds it.

But that funding is fully subscribed. And currently, Nebraska is the only state where rural microenterprise development services are available statewide. The next farm bill should establish and fund a rural micro enterprise program within USDA to make grants to intermediary organizations to support small entrepreneurship across rural America.

Such grants could support loans, technical assistance, training, and a host of other initiatives. For example, support is needed to develop rural small business networks for marketing.

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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?
Our response:

We must invest in entrepreneurship within agriculture. The future opportunities for small and mid-size farms are in market niches, made up of consumers willing to pay premium prices for products with unique attributes and food produced in ways they support. For example, two-thirds of participants in a Better Homes and Gardens consumer panel said they would pay more for pork produced on small farms that treat animals humanely and are environmentally responsible.

The USDA Value Added Producer Grants Programs created by the 2002 farm bill funds efforts to build cooperatives and other initiatives to link those consumers with family farmers who have what they want. But congressional appropriators have cut over 60 percent of the $40 million in annual funding originally provided for the program.

In addition to pushing Congress to protect the funding for this program, we urge USDA to establish a Presidential Initiative that targets points to proposals that retain and enhance small and medium-sized farms and ranches through:

- opportunities to increase income and self employment in farming and ranching; benefiting the local economy through social and environmental improvements to the area;
- increasing diversification of agriculture and industry on the farm and within the local economy;
- and preserving productive farm and ranch lands.

This would be in keeping with the goals and outcomes identified by the purposes included in the Manager's report accompanying the 2002 farm bill.

A similar fate has met other programs designed to support entrepreneurial small and mid-size farms. The Initiative for Future Farm and Food Systems initially provided $18 million of grants annually for research and education to enhance the profitability and competitiveness of small and mid size farms – but 70 percent of those funds have been lost to appropriators.

The last farm bill also authorized funding for linking beginning farmers with retiring farmers and innovative research and education strategies to open the doors of opportunity to a new generation of farmers. But funding has been withheld. The next farm bill should change that.

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