Congress of the United States
Washington, DC 20515

October 18, 2011

Honorable Jeb Hensarling
Co-chair, Joint Select Committee on Deficit Reduction
129 Cannon House Office Building
Washington DC, 20515

Honorable Patty Murray
Co-chair, Joint Select Committee on Deficit Reduction
448 Russell Senate Office Building
Washington DC, 20510

Dear Representative Hensarling, Senator Murray, and Members of the Joint Select Committee on Deficit Reduction,

The Joint Select Committee on Deficit Reduction (the Committee) has been tasked with the challenge of issuing formal recommendations on reducing the deficit by between $1.2 and $1.5 trillion over the next ten years for Congress' consideration. Toward that end, you have benefited from a considerable number of ideas on how to attain that goal and will receive recommendations from Congressional standing committees. As Members of Congress that have long sought to reform taxpayer support for agriculture, we write to highlight federal subsidies for agriculture as spending ripe for immediate and significant reduction.

There is bipartisan unanimity in the sentiment that federal subsidies for agriculture should be reduced. During the debt ceiling debate that created the Deficit Reduction Committee, Senate Majority Leader Reid forwarded a plan that would have reduced agriculture spending by more than $10 billion over the next decade. Earlier this year, the House of Representatives approved a budget resolution that called for reducing farm subsidies in the commodity programs alone by $30 billion over ten years. The President's budget proposal sought to reduce agriculture subsidies by billions of dollars, while the Administration's recent spending reduction plan would reduce agriculture spending by $33 billion. This level of reduction in federal spending on agriculture mirrors the level reportedly considered during the earlier deficit reduction effort coordinated by Vice President Biden and matches the reported level of cuts that Speaker Boehner expected from the House Committee on Agriculture. Other congressional plans for reforming the farm safety net have suggested reforms garnering as much as $40 billion in taxpayer savings. This sentiment is also not limited to the executive and legislative branches. According to a comparison of deficit reductions plans assembled in the run-up to the debt ceiling debate, the Center for a Responsible Federal Budget found that reducing or reforming farm subsidies is a common thread in plans put forth from organizations across the political spectrum, including plans by the Heritage Foundation, Cato, the American Enterprise Institute, the Dominici-Rivlin Task Force, the National Taxpayers Union and USPIRG, and the Center for American Progress.

While agriculture interests have suggested that cuts to agriculture spending should not exceed $15-16 billion in the Committee's recommendations, this is based on an assessment of how farm subsidies are likely to fair in any sequestration triggered by Congress' inability to approve legislation with sufficient deficit reductions. We respectfully urge the Committee to see the Administration's recommended level of $33 billion as a minimum. In a symbol of how divorced federal agriculture policy is from reality, the Commodity Credit Corporation is charged with making $147 million in payments to Brazil for "technical assistance and capacity building" for Brazilian farmers so that we can continue to subsidize our own cotton farmers. At a time when agriculture exports have reached an all time high and net farm income has increased 31 percent in the past year, it is clear that we should significantly reduce federal income has increased 31 percent in the past year, it is clear that we should significantly reduce federal spending on agriculture. Toward the goal of making significant cuts to federal agriculture subsidies, we offer the following suggestions.

***End Direct Payments Outright***

If the Committee takes even a single action to reduce federal farm subsidies, it should eliminate the direct payment program and apply the savings to reducing the deficit. As you are aware, direct payments are annual subsidy payments made to producers or owners of land that has historically produced wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, other oilseeds, and peanuts. These fixed direct payments are not tied to current production or prices and require no commodity production on the land. Farmers and landowners have been receiving billions in taxpayer subsidies whether they farm the land or not, whether prices were high or low, or whether or not yields were great or poor. Created in the 1996 Freedom to Farm Act, Congress intended these subsidies to serve as a temporary transitional handout to farmers as they moved in a more market-oriented direction. Instead of expiring, Congress made direct payments permanent in 2002 and they have cost taxpayers more than $41 billion since then. Direct payments to agriculture typically average $5 billion a year - in the current climate of concern over deficit spending and the national debt they are impossible to defend.

Direct payments are a symbol of what's wrong with federal agriculture policy and the Committee should eliminate them outright. Direct payments have long been the focus of ridicule over wasteful farm subsidy programs, with stories surfacing about taxpayer handouts going to celebrity millionaires and Fortune 500 companies. In 2006, the *Washington Post* reported that $1.3 billion in direct payments since 2000 had gone to people who do no farming whatsoever. Bipartisan legislation calling for the elimination of direct payments has been introduced in the House and the President singled out the program for elimination specifically in his deficit reduction plan. In a clear signal of their indefensibility, even agriculture groups such as the Iowa Farm Bureau have called for the direct payments program to end. We urge the Committee to apply savings from ending direct payments toward achieving the Committee's goal: deficit reduction.

A recent Congressional Budget Office (CBO) preliminary score indicated that simply ending the direct payment program would yield $28.4 billion in savings over ten years. CBO noted that due to the interconnected nature of the countercyclical program and the direct payment program, ending direct payments would cause countercyclical program spending to increase by roughly $3 billion dollars over the same time period. Additionally, because elimination of direct payments would remove an existing disincentive to participate in the Average Crop Revenue Election (ACRE) program by removing a 20 percent surcharge on direct payments for ACRE participants, CBO estimates that federal spending on the ACRE program would also rise by roughly $14 billion over the next decade if the direct payment program were ended. Controlling for both these effects could save considerably more than the initial $28.4 billion from ending the direct payments program.

***Implement Effective Payment Limitation***

In addition to ending direct payments, we urge the Committee to include effective limitation on farm subsidy payments in your recommendations to Congress. Specifically, we urge the Committee to recommend that farm subsidy payments be limited to those with an adjusted gross income (AGI) of less than $250,000 and that the aggregate of agriculture subsidies any one farmer or entity can receive be capped at a minimum of $250,000 annually.

Rather than propping up struggling family farmers, farm subsidies predominantly go to the largest producers who earn the most money and need the subsidies the least. Over the last 15 years, almost three quarters of farm payments have gone to the top 10 percent of producers. The bottom 80 percent of recipients accounted for only slightly more than a tenth of the money. Under current law, recipients are entitled to receive farm subsidies so long as their AGI is less than $500,000 in non-farm AGI and $750,000 in farm AGI. Thus, recipients of federal agricultural subsidies can have an AGI of slightly less than $1,250,000 and still receive taxpayer handouts. Additionally, the amount of farm subsidy payments an entity can receive is unlimited. While the 2008 Farm Bill limited the amount of direct payments an agricultural entity can receive to $40,000 annually, and limited counter cyclical payments to $65,000 annually, there are no limits on market loan payments, loan deficiency payments, and commodity certificates and the payment limits that do exist can be doubled when the proprietor has a spouse.

An effective income limitation and payment cap would add a level of fiscal responsibility to federal agriculture support policy. Setting firm standards will help ensure that any new programs produced in the process of reauthorizing the Farm Bill will also be fiscally responsible. The combination of the strength of the agriculture sector and the pressing need to rein in federal spending makes these reforms all the more timely.

***Savings from Crop Insurance Reforms***

In addition to eliminating direct payments and instituting a reasonable income limitation and cap on farm subsidy payments, we urge the Committee to consider reforms to the federal crop insurance program. The $4 billion in savings achieved as a result of the renegotiation of the Standard Reinsurance Agreement, the agreement between the Department of Agriculture and the approved insurance providers, should not hide that program from the scrutiny of your Committee. Those savings were derived from commonsense reforms to address fraud and abuse concerns and out of the increased administration costs that that crop insurance providers were receiving due to dramatic spikes in crop prices. According to a Congressional Research Service report from December of 2010, the average total government cost of the crop insurance program has been $3.8 billion from 2006 through 2010 and "over the next 10 years, federal spending on crop insurance is projected to outpace spending on traditional commodity programs by about one-third." As a result, there remain ample opportunities for reasonable cost saving measures in the crop insurance program. For example, as part of his recently released spending reduction plan, the President recently suggested billions of dollars in crop insurance savings as a result of reducing the rate of return to insures to 12 percent, capping administrative costs at $900 million annually, and setting more accurately the premiums for catastrophic coverage. The Committee could also choose to place limits on the level of federal subsidies for crop insurance coverage, for example capping federal crop insurance premium subsidies at the 65 percent yield coverage level.

We appreciate your attention to those recommendations. We also would like to echo the concerns voiced by others with respect to the Committee taking on the challenge of writing the next Farm Bill reauthorization. We urge the Committee to balance its responsibility to report specific reforms that yield reductions in federal spending with respect for Congress' deliberative legislative process. The Committee is tasked with reducing the federal deficit, not reauthorizing or even creating additional programs, and to do so would be a significant overreach of its jurisdiction. We appreciate your consideration and are happy to provide any further information you may require related to our recommendations.

Sincerely,

Jeff Flake
JEFF FLAKE
Member of Congress

Earl Blumenauer
EARL BLUMENAUER
Member of Congress