National Rural Health Association

Issue Paper

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Farm Bill Reauthorization: Implications for the Health of Rural Communities

Background

The Farm Bill is up for five year reauthorization in 2007. The current bill includes more than just dollar support for agriculture. It is an inclusive bill which includes money for several aspects of urban as well as rural life including food and nutrition (School Lunch Programs, Women Infant and Children [WIC] and Head Start food and milk supply) and rural infrastructure development (high speed Internet connections; hospital and clinic construction; water; and sewer system construction). The United States has no explicit rural policy. The Farm Bill serves several aspects of such a policy.

The current (2002) Farm Bill includes ten titles.

- *Title I*. Commodity Programs: payments to growers of wheat, feed grains, cotton, rice, oil seeds.
- *Title II*. Conservation: payments to landowners to conserve farmland, wetlands, grasslands.

  Title III. Agricultural Trade and Aid: export credit guarantees, food aide to other countries.
- *Title IV*. Nutrition Programs: food stamps, WIC, school breakfast and lunch programs, senior farm share, emergency food programs.
- *Title V*. Farm Credit and Loan Programs: loans to "family size" farms.
- *Title VI*. Rural Development: water and waste facilities, telecommunications including telehealth, rural business assistance including hospital construction.
- *Title VII*. Research: Cooperative Extension, biosecurity, 4H, some distance education.
- *Title VIII*. Forestry: Programs of the U.S. Forest Service including "PILT", Payments In Lieu of Taxes, to state and local governments. (Overall PILT Program managed by the Department of Interior.)
- *Title IX*. Energy: Programs to encourage biobased energy development.
- *Title X*. Miscellaneous Provisions: Food safety, crop insurance, organic certification.

For more information of the 2002 Farm Bill, go to http://www.ers.usda.gov/Features/FarmBill/

The 2002 Farm Bill generates about $100 Billion per year in federal spending in the following categories: (*figures vary from year to year*).

Farm and Foreign Agriculture	$31.1 billion
Food and Nutrition	$45.4 billion
Natural Resources	$8.5 billion
Rural Development	$2.6 billion
Research	$2.5 billion
Marketing and Regulatory	$2.2 billion
Food Safety	$0.8 billion
Administration and Misc.	$0.5 billion

Those items directly affecting rural health are rural development, food and nutrition, and food safety. These compose nearly 50 percent of the Farm Bill. Rural Development includes building of rural infrastructure, usually roads and sewer disposal systems. Some rural development money is being used for hospital construction and telemedicine development. Regarding food and nutrition, the impact of funding in rural communities depends upon the use of the School Lunch program, WIC and Head Start food programs in rural settings as well as the dollars spent buying those commodities. These programs have both farm price support and public nutrition elements. Other programs have effects on rural economies and community viability.

Given the amount of dollars included in the 2002 Farm Bill, about $100 billion per year, it is a prime target for cutbacks in the reauthorization process as other federal needs emerge. The 2002 Farm Bill was passed when the U.S. had a budget surplus. Today, we have an enormous and growing deficit created by tax cuts, the Iraq war, and “acts of God.” It is anticipated that the Farm Bill of 2007 will undergo extreme political examination which may result in much lower payments and tightening of current limits.

Federal payments to farm owners are also under pressure from the World Trade Organization (WTO) and, secondarily, American exporters in other sectors. Some subsidies permit U.S. producers to sell their products on the world market at prices lower than would otherwise be possible. To the extent that such payments reduce export opportunities for another country, that country may bring a complaint against the United States before the WTO. If the complaint is decided in favor of the plaintiff country, it may take action against other U.S. exports up to the value of the settlement. For example, a settlement regarding cotton export subsidies might result in a judgment permitting a plaintiff country to disregard U.S. patents or copyrights up to the value of the award. Thus farm subsidy policy can directly impact the export business of Time-Warner or Microsoft. Therefore, nonagricultural export sectors such as entertainment and computer software industries may become involved in the Farm Bill reauthorization debate. Such tensions in the European Union have resulted in a modest shift of funding from direct crop subsidies into rural community and economic development. The current round of WTO negotiations, the “Doha Round,” recently collapsed over an impasse in the agricultural subsidy area . . . relatively minor compared to the scope of issues on the table, but politically sensitive in many WTO countries.

The reauthorization provides us with an opportunity to revisit not just the level of appropriations but also the purpose of the bill and specifically the role of government within this particular context — that is, what is the role of government? Is it to protect private property or is it to ensure equity and justice for all?

If the latter, then we should not allow the focus on subsidies to individuals to dominate the discussion because this focus may mask the real issue — that is the lack of equity and parity for rural areas in our nation. Do we need a new level of opportunity to do the new work needed? The Rural Policy Research Institute (“RUPRI”) points out that federal payments into rural areas tend to be to individuals (Social Security, welfare payments, etc.) whereas a greater proportion of funds for urban areas support infrastructure development (federal revenue sharing, mass transit, etc.). Federal payments per capita into rural counties average $200 less than to urban counties. Individual transfer payments are of value to the individual but don’t help meet community needs. (Chuck Fluharty’s presentation at NRHA Policy Institute, 2005) How can rural communities gain access to system support and development funding?

It should also be noted that a major fraction of commodity payments go to megafarms and agricultural corporations. Doeksen (Appendix 1) would point out that farm commodity payments, even to absentee and corporate owners, create farm jobs and are of value to rural communities where the farming takes place. Also, farm land values have come to include the value of commodity payments. The solvency of many rural banks is dependent on these land values. On the other hand, the Kansas City Federal Reserve points out that counties whose lands generate large commodity payments continue to lag in economic growth.

Rural Development Programs are highly utilized in many states. They provide a small amount of grant funding for hospital and clinic construction, and leverage much more through loan guarantees and interest rate subsidies. They help fund construction of a range of related health facilities including wellness centers, emergency medical services (EMS), and long-term care centers. Development funds support telemedicine development and a range of forms of rural economic development. Rural Development programs also have been used to support broadband construction for rural communities.

In the public run-up to reauthorization, the Department of Agriculture leadership seems to be focusing on the Rural Development provisions. This is interesting considering that this section accounts for less that three percent of the funds authorized in the 2002 bill. More particularly, several conferences and presentations have emphasized the opportunities related to renewable energy development, primarily local and regional plants manufacturing ethanol from corn. A second area of emphasis is rural broadband development in support of local economic development and commercial competitiveness.

Recommendations and Open Questions:

1. The reauthorization of the Farm Bill represents both a crisis and an opportunity for rural America. If reauthorization reflects the current law, it will include a wide range of complex issues, most of which will influence, directly or indirectly, rural communities and health care providers. *Recommendation*: NRHA members and staff should devote more attention to Farm Bill provisions than they have in previous reauthorization cycles.

2. $100 billion on the table—where will it go? World Trade Organization provisions are putting pressure on many current commodity payment programs. The federal deficit is huge. There will be pressure to cut programs. *Recommendation*: The NRHA should help policy makers understand the broad community impact of changes in various forms of commodity payments. If commodity payment dollars are cut or lost due to WTO or other reasons, a similar amount should be made available for other, "WTO-immune" forms of rural community benefits such as small business and tourism development or land and water conservation.

3. Many rural hospitals occupy obsolete and deteriorating buildings. Whether they receive cost reimbursement or prospectively set payment, many rural hospitals have little access to capital to remodel or replace their buildings. *Recommendation*: The NRHA Hospital Constituency Group, the State Office Council and perhaps others should study the potential for the Rural Development section of the Farm Bill to address this need, and develop a proposal and position.

4. Members of the State Office Council should ask the directors of Rural Development, USDA, to define the priorities for Rural Development in their respective states. *Recommendation*: This input, along with others, should be used to develop an advocacy position for the NRHA regarding Rural Development reauthorization.

5. Rural America waited approximately 40 years for electric service compared to urban communities. This lack of rural infrastructure development was finally resolved by the formation of the Rural Electrification Administration (REA). Will a similar approach be required to bring broadband internet access to disadvantaged rural communities and remote households? *Recommendation*: The NRHA should invite interested members to delve into this and related issues.

6. Over the past decade rural economic development has, arguably, lost its focus. The previous USDA-funded network of state and local development councils was built on a culture of competing for factories, often referred to as "smokestack chasing." Success consisted of attracting a foreign car manufacturing plant. There was much competition but few successes. The system was quietly defunded. *Recommendation*: The NRHA should invite members to form a group to consider new strategies for rural economic development which have been defined and developed here and in other countries. Examples include support for rural tourism, "agritourism," enterprise cluster and microenterprise development. A variation would be federal support for such public values as wildlife habitat and archeologic site preservation and other forms of land nurturance. Step two would be for the group to consider what federal legislation might be required to implement some of

these. How can we help rural America reach for a new potential which wouldn't make us so dependent on government and would allow us to control more of our own destiny? The farm bill could be the beginning of a new "credo" about the importance and role of rural America for our future and not only our past.

7. The federal government as a local taxpayer: The federal government is a major landowner in many counties, particularly, but not exclusively, in the West. Federal law requires the federal government to make "Payments in Lieu of Taxes," "PILT," to its host town, county and/or state governments. Our government is delinquent in paying its bills. The 2006 PILT appropriation request reduces the fraction of its bill that the federal government will pay from 47 percent to 36 percent of its obligation. *Recommendation*: The NRHA should recognize the impact this federal dereliction has on local services including health care, particularly public hospital districts which depend on local property tax revenue for support, and seek full funding of federal obligations for PILT. The PILT Program is managed by the Department of the Interior, not Agriculture. It pools payments from several departments including USDA, paying on behalf of the U.S. Forest Service. The PILT issue is not intrinsic to the Farm Bill but is linked to it.

8. The NRHA strives for the goal, "Healthy people in healthy rural communities." *Recommendation*: The NRHA should recognize that the Farm Bill is America's de facto rural policy. The association should begin a process of defining what it feels should be included in a national rural policy, and encouraging other rural organizations to join in the development of such a policy to be pushed forward before the 2012 Farm Bill reauthorization cycle. Themes that have been suggested for inclusion in this process include:

- •New approaches to rural business development (see item six above).
- •Support for rural infrastructure development perhaps paralleling federal revenue sharing with urban areas.
- •Broadband connectivity development and the REA model.
- •Emergency medical services development.
- •Community based and state-wide rural health cooperatives.
- •Food production and healthy people research.
- •Community impacts of proposed rural ownership and subsidy policies such as capping subsidy payments to a single recipient (Harkin proposal), regulating farm land ownership (Nebraska example).

Conclusion

The NRHA's effectiveness in advocacy depends on its recognition as a voice for rural communities rather than rural hospitals, doctors, health centers or other specific interest groups. Health care providers are rarely stronger than their communities. Reauthorization of the Farm Bill, America's nearest approximation to a rural policy, calls upon the NRHA to act upon its philosophy of valuing rural communities in all their complexity, to study new issues, to extend its scope of legislative interest and to enter into new working relationships.

APPENDIX

The 2007 Farm Bill and the NRHA
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The 2007 Farm Bill will be the primary source of federal legislation guiding the agriculture and rural development efforts over the period 2007 – 2012. A number of options have been discussed at various levels of government ranging from continuing/enhancing the current level of support to significantly reduce funding in several major programs. This brief seeks to provide a concise outline of the implications of the 2007 Farm Bill from the perspective of the National Rural Health Association (NRHA).

The NRHA is primarily concerned with improving the health and well-being of rural Americans. Hence, any legislation dealing with support for rural communities is of interest to them. Historically, payments from the Farm Bill to rural communities have taken several forms:[1]

- Commodity payments (payments for growing certain crops)
- Conservation payments (payments for reducing land use for preservation/restoration purposes)
- Disaster payments (payments when crop production is significantly below expected production)
- Rural Development initiatives (rural broadband access, business investment, etc.)

The 2007 budget proposed by President Bush early in 2006 cut spending on a number of farm programs. This included a 25% cut to the conservation program as part of a 5% overall reduction in all farm program payments (Looker, 2006). These cuts were criticized by the agriculture committee chairs of both the House and Senate. However, the collapse of the World Trade Organization (WTO) talks in July 2006 lead to speculation that there will be no overhauling of U.S. farm programs in 2007 (Quaid, 2006).

Early literature on the effect of farm program payments on a community focused on the infusion of income to rural farms, which in turn supported other rural businesses (Goldschmidt 1978; Marousek 1979). However, more recent studies have shown that commodity payments in and of themselves do not directly spur growth in rural communities (Baynard et al 2001, Morehart et al 2001, McGranahan and Sullivan 2005). In particular, Drabenstott (2005) notes that the counties that receive the largest farm payments have had weak job and population growth over the period from 1990 - 2002. This analysis also notes that the majority of payments are for commodity programs, in which farmers obtain payments for growing certain crops. The push in the largest crop sectors (corn, cotton, rice, wheat, dairy) is therefore to become the low-cost producer, which means attempting to take advantage of economies of scale by consolidating. More consolidation means fewer jobs for the agricultural services sector.

While these studies focused on why counties with large farm payments failed to grow, they failed to address the short-run "opportunity cost" of farm payments in rural areas. Economists describe opportunity costs as the next-best alternative, or the action an individual would take if their original action was not an option. Without the assistance of farm program payments, a large number of farmers may find it difficult to continue operating. These farmers would either end up migrating to another area, reducing the intensity with which they farm, or simply not farming at all. In any scenario, their actions have an impact on the rural community in which they live. This holds especially true for the "farm-dependent" counties throughout the U.S., where at least 20 percent of income is derived from farming.[2] While it is no secret that the reliance on agriculture has been reduced in most rural communities (Mishra, 2004), this is not the case for farm-dependent counties. Evidence from the-mid 1990s suggests that the volatility of farm income is reflected in shifts in total income growth of these counties (Gale, 2000). Thus, a reduction in farm payments to these counties would likely result in a drop in total income growth. Furthermore, even counties not classified as “farm-dependent” are greatly impacted by farm payments. Cartwright (2006) focused on the impact of the conservation portion of farm bill spending in Missouri, and found that the additional $45 million supplied to the state economy resulted in 910 jobs and $66.8 million in total economic output. Similarly, several county-level studies (Gonzalez et al, 2003) have shown that agricultural employment could decline by up to 30 percent if farm subsidies were eliminated.

Thus, there can be significant losses of rural income and employment due to the reduction of farm bill programs. These short-run losses are extremely troubling to organizations such as the NRHA. One of the values of the NRHA is that all Americans are entitled to an equitable level of health care. Dwindling levels of local jobs and income have been shown to have an impact on the availability of health care. In fact, a study by Rehnquist (2003) found that a low number of patients was the second-leading cause of rural hospital closings over the period 1990 – 2000.[3] Furthermore, Knapp et al (1999) and the Department of Health and Human Services (2000) have found that areas with lower levels of population density are less likely to have primary care providers and pharmacists, respectively. Thus, as jobs (and individuals) leave a rural community, a portion of the demand support for the local health sector leaves with them.

The positive benefits of the health sector in a rural community have been well documented, often comprising up to 20 percent of total employment and income (Doeksen, Johnson, and Willoughby 1997). However, the availability and vivacity of such services is affected by the population and viability of the local community. Policies that promote stabilization or enhancement of income and employment will best serve the health needs of a community. Reductions in farm program payments are therefore not seen as a favorable development from the viewpoint of the NRHA.

Notes:

[1.] Note that payments from “safety net” programs such as Food Stamps & TANF actually make up the largest portion of the Farm Bill, but there are few indicators of any potential cuts to these programs.

[2.] 556 such counties were identified by the USDA in 1989. An updated list would not include all of these original counties due to differences in farm income accounting and growth of non-farm income.

[3.] The number one reason for rural hospital closings was “business decisions” which included consolidation and mergers. Hence the top two reasons for hospital closings (accounting for two-thirds of all closings) both dealt with the lack of demand for their services in the local area.

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